

GLOBAL INDUSTRIES LTD

Form 10-Q

August 06, 2009

Table of Contents

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D. C. 20549
FORM 10-Q**

**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE SECURITIES
EXCHANGE ACT OF 1934**

For the quarterly period ended June 30, 2009

OR

**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE SECURITIES
EXCHANGE ACT OF 1934**

For the transition period from _____ to _____

**Commission File Number: 0-21086
Global Industries, Ltd.**

(Exact name of registrant as specified in its charter)

Louisiana

(State or other jurisdiction of
incorporation or organization)

72-1212563

(I.R.S. Employer Identification No.)

**8000 Global Drive
Carlyss, Louisiana**

(Address of principal executive offices)

70665

(Zip Code)

(337) 583-5000

(Registrant's telephone number, including area code)

None

(Former name, former address and former fiscal year, if changes 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 NO

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

YES NO

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

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

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

YES NO

The number of shares of the registrant's common stock outstanding as of August 4, 2009, was 113,875,971.

Global Industries, Ltd.
Table of Contents

	Page
<u>PART I FINANCIAL INFORMATION</u>	
<u>Item 1. Financial Statements</u>	3
<u>Report of Independent Registered Public Accounting Firm</u>	3
<u>Condensed Consolidated Balance Sheets (Unaudited)</u>	4
<u>Condensed Consolidated Statements of Operations (Unaudited)</u>	5
<u>Condensed Consolidated Statements of Cash Flows (Unaudited)</u>	6
<u>Notes to Condensed Consolidated Financial Statements (Unaudited)</u>	7
<u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	22
<u>Item 3. Quantitative and Qualitative Disclosures About Market Risk</u>	32
<u>Item 4. Controls and Procedures</u>	33
<u>PART II OTHER INFORMATION</u>	
<u>Item 1. Legal Proceedings</u>	34
<u>Item 1A. Risk Factors</u>	34
<u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u>	34
<u>Item 4. Submission of Matters to a Vote of Security Holders</u>	35
<u>Item 6. Exhibits</u>	36
<u>Signature</u>	37
<u>EX-10.1</u>	
<u>EX-10.2</u>	
<u>EX-10.3</u>	
<u>EX-15.1</u>	
<u>EX-31.1</u>	
<u>EX-31.2</u>	
<u>EX-32.1</u>	
<u>EX-32.2</u>	

Table of Contents

PART I FINANCIAL INFORMATION

Item 1. Financial Statements.

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Shareholders of Global Industries, Ltd.

We have reviewed the accompanying condensed consolidated balance sheet of Global Industries, Ltd. and subsidiaries (the Company) as of June 30, 2009, and the related condensed consolidated statements of operations for the three-month and six-month periods ended June 30, 2009 and 2008, and cash flows for the six-month periods ended June 30, 2009 and 2008. These interim financial statements are the responsibility of the Company's management.

We conducted our reviews in accordance with standards of the Public Company Accounting Oversight Board (United States). A review of interim financial information consists principally of applying analytical procedures and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with standards of the Public Company Accounting Oversight Board (United States), the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our reviews, we are not aware of any material modifications that should be made to such condensed consolidated interim financial statements for them to be in conformity with accounting principles generally accepted in the United States of America.

We have previously audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheet of Global Industries, Ltd. and subsidiaries as of December 31, 2008, and the related consolidated statements of operations, shareholders' equity, and cash flows for the year then ended prior to retrospective adjustment for the adoption of FASB Staff Position (FSP) APB 14-1 *Accounting for Convertible Debt Instruments That May be Settled In Cash upon Conversion (Including Partial Cash Settlement)* (not presented herein); and in our report dated February 27, 2009, we expressed an unqualified opinion on those consolidated financial statements. We also audited the adjustments described in Note 10 that were applied to retrospectively adjust the December 31, 2008 consolidated balance sheet of Global Industries, Ltd. and subsidiaries (not presented herein). In our opinion, such adjustments are appropriate and have been properly applied to the previously issued consolidated balance sheet in deriving the accompanying retrospectively adjusted condensed consolidated balance sheet as of December 31, 2008.

/s/ DELOITTE & TOUCHE LLP

August 6, 2009

Houston, Texas

Table of Contents

GLOBAL INDUSTRIES, LTD.
CONDENSED CONSOLIDATED BALANCE SHEETS
(In thousands)

	June 30 2009 <i>(Unaudited)</i>	December 31 2008 <i>As adjusted</i> <i>(Note 10)</i>
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 374,343	\$ 287,669
Restricted cash	1,139	94,516
Accounts receivable net of allowance of \$1,395 for 2009 and \$12,070 for 2008	167,163	180,018
Unbilled work on uncompleted contracts	137,200	86,011
Contract costs incurred not yet recognized	5,545	11,982
Deferred income taxes	2,356	7,223
Assets held for sale	7,171	2,181
Prepaid expenses and other	46,125	44,585
 Total current assets	 741,042	 714,185
 Property and Equipment, net	 647,829	 599,078
 Other Assets		
Marketable securities long-term	41,035	42,375
Accounts receivable long-term	22,609	22,246
Deferred charges, net	58,838	70,573
Goodwill	37,388	37,388
Other	2,926	3,508
 Total other assets	 162,796	 176,090
 Total	 \$ 1,551,667	 \$ 1,489,353
 LIABILITIES AND SHAREHOLDERS EQUITY		
Current Liabilities		
Current maturities of long term debt	\$ 3,960	\$ 3,960
Accounts payable	226,031	207,239
Employee-related liabilities	21,159	26,113
Income taxes payable	45,197	38,649
Accrued interest payable	5,738	5,613
Advance billings on uncompleted contracts	7,018	4,609
Accrued anticipated contract losses	9,122	35,055
Other accrued liabilities	8,808	12,053
 Total current liabilities	 327,033	 333,291

Long-Term Debt	292,089	289,966
Deferred Income Taxes	62,034	64,020
Other Liabilities	13,466	13,266

Commitments and Contingencies**Shareholders Equity**

Common stock, \$0.01 par value, 150,000 shares authorized, and 120,022 and 119,650 shares issued at June 30, 2009 and December 31, 2008, respectively	1,200	1,197
Additional paid-in capital	511,557	509,345
Retained earnings	459,664	394,699
Treasury stock at cost, 6,130 shares	(105,038)	(105,038)
Accumulated other comprehensive loss	(10,338)	(11,393)
Total shareholders equity	857,045	788,810
Total	\$ 1,551,667	\$ 1,489,353

See Notes to Condensed Consolidated Financial Statements.

Table of Contents

GLOBAL INDUSTRIES, LTD.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(In thousands, except per share data)

(Unaudited)

	Three Months Ended		Six Months Ended	
	June 30		June 30	
	2009	2008	2009	2008
		<i>As</i>		<i>As</i>
		<i>adjusted</i>		<i>adjusted</i>
		<i>(Note 10)</i>		<i>(Note 10)</i>
Revenues	\$ 294,827	\$ 300,543	\$ 564,292	\$ 602,008
Cost of operations	229,656	292,707	453,754	539,842
Gross profit	65,171	7,836	110,538	62,166
Loss (gain) on asset disposals and impairments	(3,715)	151	(8,523)	(2,012)
Selling, general and administrative expenses	16,689	24,961	36,560	48,000
Operating income (loss)	52,197	(17,276)	82,501	16,178
Interest income	618	3,470	1,192	10,233
Interest expense	(3,729)	(2,711)	(7,222)	(7,937)
Other income (expense), net	4,492	(2,489)	6,570	(1,632)
Income (loss) before taxes	53,578	(19,006)	83,041	16,842
Income tax expense (benefits)	7,645	(4,874)	18,077	4,864
Net income (loss)	\$ 45,933	\$ (14,132)	\$ 64,964	\$ 11,978
Earnings (Loss) Per Common Share				
Basic	\$ 0.40	\$ (0.12)	\$ 0.57	\$ 0.10
Diluted	\$ 0.40	\$ (0.12)	\$ 0.57	\$ 0.10
Weighted Average Common Shares Outstanding				
Basic	112,521	114,260	112,459	113,954
Diluted	114,500	114,260	114,319	116,384

See Notes to Condensed Consolidated Financial Statements.

Table of Contents

GLOBAL INDUSTRIES, LTD.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

(Unaudited)

	Six Months Ended	
	June 30	
	2009	2008
		<i>As adjusted</i>
		<i>(Note 10)</i>
Cash Flows From Operating Activities		
Net income	\$ 64,964	\$ 11,978
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation and non-stock-based amortization	31,264	24,314
Stock-based compensation expense	3,446	6,648
Provision for doubtful accounts	2,512	5,494
Gain on sale or disposal of property and equipment	(9,481)	(2,012)
Derivative (gain) loss	(483)	422
Loss on asset impairments	958	
Deferred income taxes	1,296	(15,552)
Excess tax benefits from stock-based compensation	(17)	(4,019)
Changes in operating assets and liabilities		
Accounts receivable, unbilled work, and contract costs	(34,773)	(127,317)
Prepaid expenses and other	(451)	(12,504)
Accounts payable, employee-related liabilities, and other accrued liabilities	(20,131)	30,240
Deferred dry-docking costs incurred	(5,256)	(42,070)
Net cash provided by (used in) operating activities	33,848	(124,378)
Cash Flows From Investing Activities		
Proceeds from the sale of assets	27,080	6,250
Additions to property and equipment	(65,480)	(177,422)
Purchase of marketable securities		(49,296)
Sale of marketable securities		101,404
Decrease in (additions to) restricted cash	93,377	(11)
Net cash provided by (used in) investing activities	54,977	(119,075)
Cash Flows From Financing Activities		
Repayment of long-term debt	(1,980)	(1,980)
Proceeds from sale of common stock, net		8,609
Repurchase of common stock	(155)	(2,194)
Additions to deferred charges	(33)	(88)
Excess tax benefits from stock-based compensation	17	4,019
Net cash provided by (used in) financing activities	(2,151)	8,366

Cash and cash equivalents

Increase (decrease)	86,674	(235,087)
Beginning of period	287,669	723,450
End of period	\$ 374,343	\$ 488,363

Supplemental Disclosures

Interest paid, net of amounts capitalized	\$ 5,219	\$ 6,229
Income taxes paid	\$ 8,327	\$ 28,117
Property and equipment additions included in accounts payable	\$ 42,047	\$ 11,741

See Notes to Condensed Consolidated Financial Statements.

Table of Contents

Notes to Condensed Consolidated Financial Statements (Unaudited)

1. General

Basis of Presentation

The accompanying unaudited Condensed Consolidated Financial Statements include the accounts of Global Industries, Ltd. and its subsidiaries (Company, we, us, or our).

In the opinion of our management, all adjustments (such adjustments consisting of a normal and recurring nature) necessary for a fair presentation of the operating results for the interim periods presented have been included in the unaudited Condensed Consolidated Financial Statements. Operating results for the period ended June 30, 2009, are not necessarily indicative of the results that may be expected for the year ending December 31, 2009. These financial statements should be read in conjunction with our audited Consolidated Financial Statements and related notes thereto included in our Annual Report on Form 10-K for the year ended December 31, 2008.

We have evaluated all subsequent events through August 6, 2009, the date the financial statements were issued.

All \$ represent U.S. Dollars.

Recent Accounting Pronouncements

SFAS 168. In June 2009, the FASB issued SFAS No. 168, *The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles* (SFAS 168). SFAS 168 establishes the FASB Accounting Standards Codification™ (Codification) as the single source of authoritative, nongovernmental GAAP (other than guidance issued by the SEC). The Codification does not change GAAP; it introduces a new structure for organizing GAAP and limits the hierarchy to two levels authoritative and nonauthoritative. The Codification is effective for interim or annual financial periods ending after September 15, 2009. We will adopt the Codification beginning on July 1, 2009 and the adoption will not have a material impact on our consolidated financial statements.

SFAS 165. In May 2009, the FASB issued SFAS No. 165, *Subsequent Events* (SFAS 165). SFAS 165 establishes general standards of accounting for and disclosures of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. SFAS 165 is effective for interim or annual financial periods ending after June 15, 2009. We adopted SFAS 165 beginning April 1, 2009. The adoption of SFAS 165 did not have a material impact on our financial statements. See Note 1 for disclosures required by this statement.

In April 2009, the FASB issued three FASB Staff Positions (FSP) intended to provide additional application guidance and enhanced disclosures regarding fair value measurements and impairments of securities. These FSPs are effective for interim and annual reporting periods ending after June 15, 2009. We adopted these standards on a prospective basis beginning April 1, 2009. The adoption of these standards did not have a material impact on our consolidated results of operations and financial condition.

FSP FAS 157-4, *Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That are Not Orderly,* provides guidance for determining fair values when there is no active market or where the price inputs being used represent distressed sales.

FSP FAS 115-2 and FAS 124-2, *Recognition and Presentation of Other-Than-Temporary Impairments* provides additional guidance to provide greater clarity about the credit and noncredit component of an other

than temporary impairment event and to improve presentation and disclosure of other than temporary impairments in the financial statements.

FSP FAS 107-1 and APB 28-1, *Interim Disclosures about Fair Value of Financial Instruments*, amends FASB Statement No. 107, *Disclosures about Fair Value of Financial Instruments*, to require disclosures about the fair value of financial instruments in interim as well as annual financial statements. This FSP also amends APB Opinion No. 28, *Interim Financial Reporting*, to require those disclosures in all interim financial statements.

Table of Contents

SFAS 161. In March 2008, the FASB issued SFAS No. 161, *Disclosures about Derivative Instruments and Hedging Activities* (SFAS 161). SFAS 161 requires specific disclosures regarding the location and amounts of derivative instruments in our financial statements, how derivative instruments and related hedged items are accounted for, and how derivative instruments and related hedged items affect our financial position, financial performance, and cash flows. SFAS 161 is effective for financial statements issued, and for fiscal years and interim periods, beginning after November 15, 2008. We adopted SFAS 161 beginning January 1, 2009. See Note 4 for disclosures required by SFAS 161.

FSP APB 14-1. In May 2008, the FASB issued FSP APB No. 14-1, *Accounting for Convertible Debt Instruments That May Be Settled in Cash upon Conversion (Including Partial Cash Settlement)* (FSP APB 14-1), which changed the accounting for our 2.75% Senior Convertible Debentures (Debentures) due 2027. The FSP requires cash settled convertible debt to be separated into debt and equity components at issuance and a value to be assigned to each. The value assigned to the debt component is the estimated fair value of similar bonds without the conversion feature. The difference between the bond cash proceeds and this estimated fair value is recorded as a debt discount and amortized to interest expense over the life of the bond. Although FSP APB 14-1 has no impact on our actual past or future cash flows, it requires us to record a material increase in non-cash interest expense as the debt discount is amortized. FSP APB 14-1 became effective for us beginning January 1, 2009 and is applied retrospectively to all periods presented. See Note 10 for disclosures required by this FSP.

FSP EITF 03-6-1. In June 2008, the FASB issued FSP EITF 03-6-1, *Determining Whether Instruments Granted in Share-Based Payment Transactions Are Participating Securities* (FSP EITF 03-6-1). This FSP addresses whether instruments granted in share-based payment transactions are participating securities prior to vesting and, therefore, need to be included in computing earnings per share under the two-class method described in SFAS No. 128, *Earnings Per Share*". This FSP is applied retrospectively for financial statements issued for fiscal years beginning after December 15, 2008. We adopted FSP EITF 03-6-1 retrospectively beginning January 1, 2009. See Note 16 for disclosure of the financial statement impact from implementation of this FSP.

2. Restricted Cash

As a result of operating performance through June 30, 2009, the interim cash collateralization period related to the November 2008 waiver and amendment of our Revolving Credit Facility has ended and previously restricted cash representing cash collateral for outstanding letters of credit and bank guarantees was released from restriction. See Note 10 for a discussion of this development. At June 30, 2009, \$1.1 million restricted cash was comprised of cash deposits related to foreign currency exchange arrangements. Restrictions with respect to these deposits will remain in effect until we terminate the associated foreign currency arrangement.

3. Marketable Securities

As of June 30, 2009, we held \$42.4 million at par value in auction rate securities which are variable rate bonds tied to short-term interest rates with maturities up to 30 years. Auction rate securities have interest rate resets through a Dutch auction at predetermined short intervals. Interest rates generally reset every 7-49 days. The coupon interest rate for these securities ranged from 0.5% to 1.2%, on a tax exempt basis for the three months ended June 30, 2009.

Our investments in auction rate securities were issued by municipalities and state education agencies. The auction rate securities issued by state education agencies represent pools of student loans for which repayment is substantially guaranteed by the U.S. government under the Federal Family Education Loan Program. All of our investments in auction rate securities have at least a double A rating. As of June 30, 2009, the par value of auction rate securities issued by state education agencies was \$30.0 million and the par value of auction rate securities issued by municipalities was \$12.4 million.

Auctions for our auction rate securities continue to fail in 2009. An auction failure, which is not a default in the underlying debt instrument, occurs when there are more sellers than buyers at a scheduled interest rate auction date. This results in a lack of liquidity for these securities, even though debt service continued to occur. During the six

Table of Contents

months ended June 30, 2009, we continued to earn and receive scheduled interest on these securities. Based on the lack of current market liquidity, we classify these securities as non-current.

Auction Rate Securities issued by State Education Agencies In November 2008, we accepted an auction rate security rights agreement (the Settlement) with UBS Financial Services, Inc. (UBS) that permits us to sell, or put, our auction rate securities issued by state education agencies back to UBS at par value at any time during the period from June 30, 2010 through July 2, 2012. We expect to put these auction rate securities back to UBS on June 30, 2010, the earliest date allowable under the settlement, if not sold prior to that date. We reclassified these auction rate securities to trading securities. Consequently, we will be required to assess the fair value of the Settlement and these auction rate securities and record changes in earnings each period until the Settlement is exercised and the securities are redeemed. As of June 30, 2009, we reassessed the fair value of auction rate securities covered under the Settlement and recognized an other-than-temporary impairment charge of \$1.1 million for the first six months of 2009. However, as we will be permitted to put these securities back to UBS at par, we recognized an offsetting \$1.1 million gain on the fair value assessment of the Settlement for the first six months of 2009. Although the Settlement represents the right to sell the securities back to UBS at par, we will be required to periodically assess the economic ability of UBS to meet that obligation in assessing the fair value of the Settlement.

Auction Rate Securities issued by Municipalities Of our \$12.4 million investment in auction rate securities issued by municipalities, \$11.6 million are not covered under the Settlement and remain classified as available for sale and are carried at fair value with any unrealized gains and losses recorded in Other Comprehensive Income. We concluded the fair value of these auction rate securities issued by municipalities at June 30, 2009 was \$10.3 million, a decline of \$1.3 million from par value. The decline in fair value has been assessed as temporary and has been recorded as an unrealized loss in accumulated other comprehensive income (loss), net of tax of \$0.5 million. We will continue to monitor the market for auction rate securities and consider its impact, if any, on fair value of the remaining investment through disposition.

4. *Derivatives*

We use forward contracts to manage our exposure in foreign currency rates. Our outstanding forward foreign currency contracts at June 30, 2009 are used to hedge cash flows for long-term charter payments on two multi-service vessels denominated in Norwegian Kroners and certain purchase commitments related to the construction of the Global 1200 in Singapore that are denominated in Singapore Dollars.

The Norwegian Kroner forward contracts are accounted for as cash flow hedges with the effective portion of unrealized gains and losses recorded in accumulated other comprehensive income (loss) and reclassified into earnings in the same period or periods during which the hedged transaction affects earnings. As of June 30, 2009 and December 31, 2008, there was \$0.5 million and \$2.4 million of unrealized losses, net of tax, in accumulated other comprehensive income (loss), respectively. Included in the June 30, 2009 total loss is approximately \$0.2 million of net unrealized losses which are expected to be realized in earnings during the twelve months following June 30, 2009. As of December 31, 2008, these contracts were in a loss position and included in Other Accrued Liabilities and Other Liabilities, long-term on the Condensed Consolidated Balance Sheets, valued at \$2.0 million and \$1.7 million respectively. As of June 30, 2008, these contracts were in a loss position and included in Other Accrued Liabilities and Other Liabilities, long-term on the Condensed Consolidated Balance Sheets, valued at \$0.4 million and \$0.4 million, respectively.

During the second quarter of 2009, we entered into two forward contracts to purchase 18.9 million Singapore Dollars to hedge certain purchase commitments in the first quarter of 2010 related to the construction of the Global 1200 in Singapore. We have not elected hedge treatment for these contracts. Consequently, changes in the fair value of these instruments are recorded in earnings. For the three months ended June 30, 2009, we recorded

\$0.5 million in gains related to these two contracts. As of June 30, 2009, the fair value of these contracts was \$0.5 million and is included in Prepaid Expenses and Other on the Condensed Consolidated Balance Sheets.

5. *Fair Value of Financial Instruments*

Under SFAS 157, fair value is defined as the price that would be received to sell an asset or paid to transfer a liability (i.e. exit price) in an orderly transaction between market participants at the measurement date. SFAS 157 establishes a hierarchy for inputs used in measuring fair value that maximizes the use of observable inputs and

Table of Contents

minimizes the use of unobservable inputs by requiring that the most observable inputs be used when available. The hierarchy for inputs is categorized into three levels based on the reliability of inputs as follows:

Level 1 Observable inputs such as quoted prices in active markets.

Level 2 Inputs (other than quoted prices in active markets) that are either directly or indirectly observable.

Level 3 Unobservable inputs which require management's best estimate of what market participants would use in pricing the asset or liability.

Assets measured at fair value on a recurring basis are categorized in the table below based upon the lowest level of significant input to the valuations.

Fair Value Measurements at June 30, 2009*(In thousands)*

Description	Total	Level 1	Level 2	Level 3
Cash equivalents	\$ 132,965	\$ 132,965	\$	\$
Marketable securities	41,035			41,035
Derivative contracts	(268)		(268)	
Total	\$ 173,732	\$ 132,965	\$ (268)	\$ 41,035

Financial instruments classified as Level 3 in the fair value hierarchy represent auction rate securities and the related put option in which management has used at least one significant unobservable input in the valuation model.

Due to the lack of observable market quotes on our auction rate securities portfolio, we utilize a valuation model that relies on Level 3 inputs including market, tax status, credit quality, duration, recent market observations and overall capital market liquidity. The valuation of our auction rate securities is subject to uncertainties that are difficult to predict. Factors that may impact our valuation include changes to credit ratings of the securities as well as to the underlying assets supporting those securities, rates of default of the underlying assets, underlying collateral value, discount rates, counterparty risk and ongoing strength and quality of market credit and liquidity.

The following tables present a reconciliation of activity for such securities:

Changes in Level 3 Financial Instruments*(In thousands)*

	Three Months Ended		Six Months Ended	
	June 30		June 30	
	2009	2008	2009	2008
Balance at beginning of period	\$ 41,384	\$ 34,805	\$ 42,375	\$ 48,800
Purchases, issuances, and settlements				(13,050)
Unrealized gain (loss)	(349)	38	(1,340)	(907)
Transfers in and/or out of Level 3		7,125		7,125
Balance at end of period	\$ 41,035	\$ 41,968	\$ 41,035	\$ 41,968

We adopted SFAS 157, as amended, on a prospective basis beginning January 1, 2009 for our non-financial assets and liabilities. Our non-financial assets and liabilities at June 30, 2009 recorded at fair value were our assets held for sale. To assess the fair value of assets held for sale, we use a valuation model that relies on Level 3 inputs including market data of recent sale of similar vessels, our prior experience in the sale of similar assets,

and price of third party offers for the asset. Assets measured at fair value on a nonrecurring basis are categorized in the table below based upon the lowest level of significant input to the valuations.

Table of Contents

Fair Value Measurements at June 30, 2009
(In thousands)

Description	Total	Level 1	Level 2	Level 3	Total Gains (Losses)
Assets held for sale	\$ 7,171	\$	\$	\$ 7,171	\$
Total	\$ 7,171	\$	\$	\$ 7,171	\$

6. Receivables

Receivables are presented in the following balance sheet accounts: (1) accounts receivable, (2) accounts receivable long term, (3) unbilled work on uncompleted contracts, and (4) contract costs incurred not yet recognized. Accounts receivable are stated at net realizable value, and the allowances for uncollectible accounts were \$1.4 million and \$12.1 million at June 30, 2009 and December 31, 2008, respectively. Accounts receivable at June 30, 2009 and December 31, 2008 included \$9.6 million and \$0.1 million, respectively, of retainage, which represents the short-term portion of amounts not immediately collectible due to contractually specified requirements. Accounts receivable long term at June 30, 2009 and December 31, 2008 represented amounts related to retainage which were not expected to be collected within the next twelve months.

Receivables also include claims and unapproved change orders of \$58.8 million at June 30, 2009 and \$28.6 million at December 31, 2008. These claims and change orders are amounts due for extra work or changes in the scope of work on certain projects.

Costs and Estimated Earnings on Uncompleted Contracts

	June 30 2009	December 31 2008
	<i>(In thousands)</i>	
Costs incurred and recognized on uncompleted contracts	\$ 1,017,926	\$ 738,496
Estimated earnings	17,817	(19,411)
Costs and estimated earnings on uncompleted contracts	1,035,743	719,085
Less: Billings to date	(918,125)	(653,373)
	117,618	65,712
Plus: Accrued revenue ⁽¹⁾	14,228	15,770
Less: Advance billing on uncompleted contracts	(1,664)	(80)
	\$ 130,182	\$ 81,402
Included in accompanying balance sheets under the following captions:		
Unbilled work on uncompleted contracts	\$ 137,200	\$ 86,011
Advance billings on uncompleted contracts	(7,018)	(4,609)
	\$ 130,182	\$ 81,402

- (1) Accrued revenue represents unbilled amounts receivable related to work performed on projects for which the percentage of completion method is not applicable.

7. *Asset Disposal and Impairments and Assets Held for Sale*

Due to escalating costs for dry-docking services, escalating repair and maintenance costs for aging vessels, increasing difficulty in obtaining certain replacement parts, and declining marketability of certain vessels, we decided to forego dry-docking or refurbishment of certain vessels and to sell or permanently retire them from

Table of Contents

service. Consequently, we recognized gains and losses on the disposition of certain vessels, and non-cash impairment charges on the retirement of other vessels. Each asset was analyzed using an undiscounted cash flow analysis and valued at the lower of carrying value or net realizable value.

Net Gains and (Losses) on Asset Disposal consisted of the following:

Segment	Description of Asset	Three Months Ended June 30		Six Months Ended June 30	
		2009	2008	2009	2008
<i>(In thousands)</i>					
North America Subsea	One DSV in 2009 and Other	\$ 205	\$	\$ 5,067	\$ (96)
Latin America	Other		(147)	(11)	(176)
West Africa	Two cargo barges and one DSV	788		788	
Asia Pacific	One DLB and Other	3,428	(3)	3,428	(8)
Middle East	One DSV in 2008 and Other in 2009 and 2008	235	(1)	235	2,292
Corporate	Other	(26)		(26)	
		\$ 4,630	\$ (151)	\$ 9,481	\$ 2,012

Losses on Asset Impairments consisted of the following:

Segment	Description of Asset	Three Months Ended June 30		Six Months Ended June 30	
		2009	2008	2009	2008
<i>(In thousands)</i>					
North America Subsea	One DSV and Three Dive Systems	\$ 725	\$	\$ 768	\$
Latin America	One DSV	190		190	
		\$ 915	\$	\$ 958	\$

We follow the criteria of SFAS No. 144, *Accounting for the Impairment or Disposal of Long-lived Assets* for recording our long-lived assets held for sale. Long-lived assets held for sale are carried at the lower of the asset's carrying value or net realizable value and depreciation ceases.

Assets Held for Sale consisted of the following:

Segment	Description of Asset	June 30 2009 <i>(In thousands)</i>	Description of Asset	December 31 2008 <i>(In thousands)</i>
North America Subsea	None	\$	One DSV and Dive System	\$ 749
West Africa	One DLB and One DSV	6,677	One DSV	1,000
Asia Pacific	Other	494	None	
Middle East	None		One DLB	432

\$ 7,171

\$ 2,181

12

Table of Contents**8. Property and Equipment**

The components of property and equipment, at cost, and the related accumulated depreciation are as follows:

	June 30 2009	December 31 2008
	<i>(In thousands)</i>	
Land	\$ 6,322	\$ 6,322
Facilities and equipment	179,710	179,650
Marine vessels	476,222	535,042
Construction in progress	292,568	208,827
Total property and equipment	954,822	929,841
Less: Accumulated depreciation	(306,993)	(330,763)
Property and equipment, net	\$ 647,829	\$ 599,078

Expenditures for property and equipment and items that substantially increase the useful lives of existing assets are capitalized at cost and depreciated. Routine expenditures for repairs and maintenance are expensed as incurred. We capitalized \$3.5 million and \$1.3 million of interest costs for the three months ended June 30, 2009 and 2008, respectively. We capitalized \$6.6 million and \$2.7 million of interest costs for the six months ended June 30, 2009 and 2008, respectively. Except for major construction vessels that are depreciated on the units-of-production (UOP) method over estimated vessel operating days, depreciation is provided utilizing the straight-line method over the estimated useful lives of the assets. The UOP method is based on vessel utilization days and more closely correlates depreciation expense to vessel revenue. In addition, the UOP method provides for a minimum depreciation floor in periods with nominal vessel use. In general, if we applied only a straight-line depreciation method instead of the UOP method, less depreciation expense would be recorded in periods of high utilization and revenues, and more depreciation expense would be recorded in periods of low vessel utilization and revenues.

9. Deferred Dry-Docking Costs

We utilize the deferral method to capitalize vessel dry-docking costs and to amortize the costs to the next dry-docking. Such capitalized costs include regulatory required steel replacement, direct costs for vessel mobilization and demobilization and rental of dry-docking facilities and services. Crew costs may also be capitalized when employees perform all or a part of the required dry-docking. Any repair and maintenance costs incurred during the dry-docking period are expensed.

The below table presents dry docking costs incurred and amortization for all periods presented:

	Three Months Ended June 30		Six Months Ended June 30	
	2009	2008	2009	2008
	<i>(In thousands)</i>		<i>(In thousands)</i>	
Net book value at beginning of period	\$ 57,816	\$ 44,588	\$ 61,552	\$ 30,734
Additions for the period	2,720	25,481	5,256	42,070
Reclassifications to assets held for sale	(4,914)		(4,914)	
Amortization expense for the period	(5,084)	(3,129)	(11,356)	(5,864)
Net book value at end of period	\$ 50,538	\$ 66,940	\$ 50,538	\$ 66,940

Table of Contents**10. Long-Term Debt**

The components of long-term debt are as follows:

	June 30 2009	December 31 2008 <i>As adjusted</i>
	<i>(In thousands)</i>	
Senior convertible debentures due 2027, 2.75%	\$ 232,689	\$ 228,586
Title XI bonds due 2025, 7.71%	63,360	65,340
Revolving credit facility		
Total long-term debt	296,049	293,926
Less: Current maturities	3,960	3,960
Long-term debt less current maturities	\$ 292,089	\$ 289,966

The fair value of our Senior Convertible Debentures based on quoted market prices was approximately \$141.7 million and \$113.6 million at June 30, 2009 and December 31, 2008, respectively. The fair value of our Title XI bonds based on quoted market prices, was \$78.1 million and \$88.1 million at June 30, 2009 and December 31, 2008, respectively.

Senior Convertible Debentures

On January 1, 2009 we retrospectively implemented FSP APB No. 14-1 which changes the accounting treatment of our Senior Convertible Debentures. This FSP requires cash settled convertible debt to be separated into debt and equity components at issuance and a value to be assigned to each. The value assigned to the debt component is the estimated fair value of similar bonds without the conversion feature. The difference between the bond cash proceeds and this estimated fair value is recorded as a debt discount and amortized to interest expense over the life of the bond. The adoption of FSP APB 14-1 resulted in increased net loss and decreased net income of \$0.7 million and \$1.4 million, or \$0.01 per share for the three-month and six-month periods ended June 30, 2008, respectively. The net income for the three and six month periods ended June 30, 2009 were not materially impacted by the implementation of FSP APB No. 14-1.

At December 31, 2008, the following line items on our Condensed Consolidated Balance Sheet were affected by the application of FSP APB No. 14-1 (*in thousands*):

	As Originally Reported	As Adjusted	Effect of Change
ASSETS			
Property and Equipment, net	\$593,522	\$599,078	\$ 5,556
Deferred charges, net	72,370	70,573	(1,797)
LIABILITIES AND SHAREHOLDERS EQUITY			
Long-Term Debt	\$386,380	\$289,966	\$(96,414)
Deferred Income Taxes	28,941	64,020	35,079
Additional paid-in capital	441,105	509,345	68,240
Retained earnings	397,845	394,699	(3,146)

The Debentures are convertible into cash, and if applicable, into shares of our common stock, or under certain circumstances and at our election, solely into our common stock, based on a conversion rate of 28.1821 shares per \$1,000 principal amount of Debentures, which represents an initial conversion price of \$35.48 per share. As of June 30, 2009, the Debentures if-converted value does not exceed the Debentures principal of \$325 million.

Table of Contents

The adjusted components of our Debentures are as follows:

	June 30 2009	December 31 2008
	<i>(In thousands)</i>	
Principal amount of debt component	\$ 325,000	\$ 325,000
Less: Unamortized debt discount	92,311	96,414
Carrying amount of debt component	\$ 232,689	\$ 228,586
Debt discount on issuance	\$ 107,261	\$ 107,261
Less: Issuance costs	2,249	2,249
Deferred income tax	36,772	36,772
Carrying amount of equity component	\$ 68,240	\$ 68,240

Although FSP APB 14-1 has no impact on our actual past or future cash flows, it requires us to record a material increase in non-cash interest expense as the debt discount is amortized. The table below presents adjusted Debentures interest expense:

	Three Months Ended June 30		Six Months Ended June 30	
	2009	2008	2009	2008
	<i>(In thousands)</i>		<i>(In thousands)</i>	
Contractual interest coupon, 2.75%	\$ 2,234	\$ 2,234	\$ 4,468	\$ 4,468
Amortization of debt discount	2,064	1,918	4,103	3,811
Total Debentures interest expense	\$ 4,298	\$ 4,152	\$ 8,571	\$ 8,279
Effective interest rate	7.5%	7.5%	7.5%	7.5%

Revolving Credit Facility

Our Revolving Credit Facility provides a borrowing capacity of up to \$150.0 million. As of June 30, 2009, we had no borrowings against the facility and \$75.8 million of letters of credit outstanding thereunder. As a result of operating performance, we did not meet the minimum fixed charge coverage ratio under the facility at September 30, 2008. On November 7, 2008, we amended our Revolving Credit Facility to temporarily require us to cash-collateralize letters of credit and bank guarantees. During the interim cash collateralization period, no borrowings, letters of credit, or bank guarantees unsecured by cash were available to us under the Revolving Credit Facility. As a result of our operating performance through June 30, 2009, the interim cash collateralization period has ended, as requirements to release this restricted cash collateral were satisfied. We also have a \$16.0 million short-term credit facility at one of our foreign locations. At June 30, 2009, we had \$0.2 million cash overdrafts reflected in accounts payable, \$8.4 million of letters of credit outstanding, and \$7.4 million of credit availability under this particular credit facility.

11. Commitments and Contingencies**Commitments**

Construction and Purchases in Progress The estimated cost to complete capital expenditure projects in progress at June 30, 2009 was approximately \$289.1 million, which primarily represents expenditures for construction of the *Global 1200* and *Global 1201*, our new generation derrick/pipeline vessels. This amount includes aggregate

commitments of 76.5 million Singapore Dollars (or \$52.6 million as of June 30, 2009) and 10.5 million (or \$14.8 million as of June 30, 2009). During the second quarter of 2009, we entered into two forward contracts to purchase 18.9 million Singapore Dollars to hedge certain of these purchase commitments.

Off Balance Sheet Arrangements In the normal course of our business activities, and pursuant to agreements or upon obtaining such agreements to perform construction services, we provide guarantees, bonds, and letters of credit to customers, vendors, and other parties. At June 30, 2009, the aggregate amount of these outstanding bonds was

15

Table of Contents

\$47.3 million, which are scheduled to expire between July 2009 and June 2010, and the aggregate amount of outstanding letters of credit was \$80.0 million, which are due to expire between July 2009 and September 2010.

Contingencies

During the fourth quarter of 2007, we received a payroll tax assessment for the years 2005 through 2007 from the Nigerian Revenue Department in the amount of \$23.2 million. The assessment alleges that certain expatriate employees, working on projects in Nigeria, were subject to personal income taxes, which were not paid to the government. We filed a formal objection to the assessment on November 12, 2007. We do not believe these employees are subject to the personal income tax assessed; however, based on past practices of the Nigerian Revenue Department, we believe this matter will ultimately have to be resolved by litigation. We do not expect the ultimate resolution to have a material adverse effect on our future operating results.

During 2008, we received an additional assessment from the Nigerian Revenue Department in the amount of \$40.4 million for tax withholding related to third party service providers. The assessment alleges that taxes were not withheld from third party service providers for the years 2002 through 2006 and remitted to the Nigerian government. We have filed an objection to the assessment. We do not expect the ultimate resolution to have a material adverse effect on our future operating results.

We have one unresolved issue related to an Algerian tax assessment that we received on February 21, 2007. The remaining amount in dispute is approximately \$10.4 million of alleged value added tax for the years 2004 and 2005. We are contractually indemnified by our client for the full amount of the assessment that remains in dispute. We continue to engage outside tax counsel to assist us in resolving the tax assessment.

In June 2007, we announced that we were conducting an internal investigation of our West Africa operations, focusing on the legality, under the U.S. Foreign Corrupt Practices Act (FCPA) and local laws, of one of our subsidiary s reimbursement of certain expenses incurred by a customs agent in connection with shipments of materials and the temporary importation of vessels into West African waters. The Audit Committee of our Board of Directors has engaged outside legal counsel to lead the investigation.

At this stage of the internal investigation, we are unable to predict what conclusions, if any, the Securities and Exchange Commission (SEC) will reach, whether the U.S. Department of Justice will open a separate investigation to investigate this matter, or what potential remedies these agencies may seek. If the SEC or Department of Justice determines that violations of the FCPA have occurred, they could seek civil and criminal sanctions, including monetary penalties, against us and certain of our employees, as well as changes to our business practices and compliance programs, any of which could have a material adverse effect on our business and financial condition. In addition, such actions, whether actual or alleged, could damage our reputation and ability to do business. Further detecting, investigating, and resolving these matters is expensive and consumes significant time and attention of our senior management.

As of the date of this Quarterly Report on Form 10-Q (Quarterly Report) we have concluded all projects in West Africa and have curtailed our operations in the region. We will continue to seek prospects in the area and could return in the future.

Notwithstanding the ongoing internal investigation, we have concluded that certain changes to our compliance program would provide us with greater assurance that we are in compliance with the FCPA and its record-keeping requirements. We have a long-time published policy requiring compliance with the FCPA and broadly prohibiting any improper payments by us to foreign or domestic officials, as well as training programs for our employees. Since the commencement of the internal investigation, we have adopted, and may adopt additional, measures intended to enhance our compliance procedures and ability to audit and confirm our compliance. Additional measures also may be required once the investigation concludes.

We have concluded that it is premature for us to make any financial reserve for any potential liabilities that may result from these activities.

Table of Contents

In addition to the previously mentioned legal matters, we are a party to legal proceedings and potential claims arising in the ordinary course of business. We do not believe that these matters arising in the ordinary course of business will have a material impact on our financial statements in future periods.

12. Comprehensive Income (Loss)

Other Comprehensive Income (Loss) The differences between net income and comprehensive income for each of the comparable periods presented are as follows.

	Three Months Ended		Six Months Ended	
	June 30		June 30	
	2009	2008	2009	2008
	<i>(In thousands)</i>			
Net income (loss)	\$ 45,933	\$ (14,132)	\$ 64,964	\$ 11,978
Unrealized gain (loss) on derivatives	1,451	(726)	2,964	1,036
Unrealized gain (loss) on auction rate securities	(349)	38	(1,340)	(907)
Deferred tax benefit (expense)	(386)	243	(568)	(115)
Comprehensive income (loss)	\$ 46,649	\$ (14,577)	\$ 66,020	\$ 11,992

Accumulated Other Comprehensive Income (Loss) A roll-forward of the amounts included in accumulated other comprehensive income (loss), net of taxes, is shown below.

	Accumulated	Forward	Auction	Accumulated
		Foreign		
	Translation	Currency	Rate	Comprehensive
	Adjustment	Contracts	Securities	Income
	<i>(In thousands)</i>			
Balance at December 31, 2008	\$ (8,978)	\$ (2,415)	\$	\$ (11,393)
Change in value		1,212	(871)	341
Reclassification to earnings		714		714
Balance at June 30, 2009	\$ (8,978)	\$ (489)	\$ (871)	\$ (10,338)

The amount of accumulated translation adjustment included in accumulated other comprehensive income (loss) relates to prior translations of subsidiaries whose functional currency was not the U.S. Dollar. The amount of gain (loss) on forward foreign currency contracts included in accumulated other comprehensive income (loss) hedges our exposure to changes in Norwegian Kroners for commitments of long-term vessel charters. The amount of loss on auction rate securities relates to a temporary decline in the fair value of certain investments that lack current market liquidity. See also Note 3 for further discussion on auction rate securities.

13. Stock-Based Compensation

Pursuant to Statement of Financial Accounting Standards No. 123(R), *Share-Based Payment*, companies must recognize the cost of employee services received in exchange for awards of equity instruments based on the grant-date fair value of those awards.

The table below sets forth the total amount of stock-based compensation expense for the three and six months ended June 30, 2009 and 2008.

Table of Contents

	Three Months Ended June 30		Six Months Ended June 30	
	2009	2008	2009	2008
	<i>(In thousands)</i>			
Stock-based compensation expense				
Stock options	\$ 155	\$ 782	\$ 457	\$ 1,558
Time-based restricted stock	1,070	2,232	2,593	4,020
Performance shares and units	247	690	396	1,070
Total stock-based compensation expense	\$ 1,472	\$ 3,704	\$ 3,446	\$ 6,648

14. Other Income (Expense), net

Components of other income (expense), net are as follows:

	Three Months Ended June 30		Six Months Ended June 30	
	2009	2008	2009	2008
	<i>(In thousands)</i>			
Foreign exchange rate gain (loss)	\$ 4,148	\$ (2,231)	\$ 4,352	\$ (2,236)
Derivative contract gain (loss)	484	(135)	484	588
Insurance settlement			978	
Other	(140)	(123)	756	16
Total	\$ 4,492	\$ (2,489)	\$ 6,570	\$ (1,632)

15. Income Taxes

Our effective tax rate for the three and six months ended June 30, 2009 was 14.3% and 21.8%, respectively, compared to 25.6% and 28.9% for the three and six months ended June 30, 2008, respectively. The decrease in our effective tax rate was primarily due to increased earnings in foreign jurisdictions with deemed profit tax regimes and utilization of losses not previously tax benefitted.

16. Earnings Per Share

Basic earnings per share (EPS) is computed by dividing earnings (loss) attributed to common shareholders during the period by the weighted average number of shares of common stock outstanding during each period. Diluted EPS is computed by dividing net income (loss) during the period by the weighted average number of shares of common stock that would have been outstanding assuming the issuance of dilutive potential common stock as if outstanding during the reporting period, net of shares assumed to be repurchased using the treasury stock method.

We retrospectively implemented FSP EITF 03-6-1 on January 1, 2009 which addresses whether instruments granted in share-based payment transactions are participating securities prior to vesting and, therefore, need to participate in computing earnings per share under the two-class method described in SFAS No. 128, *Earnings Per Share*. Our non-vested restricted stock awards contain nonforfeitable rights to dividends and consequently are included in computation of basic earnings per share. For the three months ended June 30, 2008, 1.2 million non-vested restricted shares participated in the net loss reported for that period with no consequential impact to basic or diluted earnings per share. For the six months ended June 30, 2008, 1.4 million non-vested restricted shares participated in net income reported for that period resulting in a reduction in basic earnings per share of

\$0.01 and no impact on diluted earnings per share. For the three months ended June 30, 2009, 1.4 million non-vested restricted shares participated in the net income reported for that period resulting in a reduction in basic earnings per share of \$0.01 and no impact on diluted earnings per share. For the six months ended June 30, 2009, 1.3 million non-vested restricted shares participated in net income reported for that period resulting in a reduction in basic earnings per share of \$0.01 and no impact on diluted earnings per share.

The following table presents information necessary to calculate earnings (loss) per share of common stock for the three and six months ended June 30, 2009 and 2008.

Table of Contents

	Three Months Ended June 30		Six Months Ended June 30	
	2009	2008	2009	2008
	<i>(In thousands, except per share data)</i>			
Basic EPS:				
Net income (loss)	\$ 45,933	\$ (14,132)	\$ 64,964	\$ 11,978
Less (earnings) loss attributed to shareholders of non-vested restricted stock	(546)	143	(751)	(144)
Earnings (loss) attributed to common shareholders	\$ 45,387	\$ (13,989)	\$ 64,213	\$ 11,834
Weighted-average shares outstanding basic	112,521	114,260	112,459	113,954
Basic earnings (loss) per common share	\$ 0.40	\$ (0.12)	\$ 0.57	\$ 0.10
Diluted EPS:				
Earnings (loss) attributable to common shareholders-basic	\$ 45,387	\$ (13,989)	\$ 64,213	\$ 11,834
Add earnings (loss) attributable to shareholders of non-vested restricted stock	546	(143)	751	144
Earnings (loss) attributable to common shareholders-diluted	\$ 45,933	\$ (14,132)	\$ 64,964	\$ 11,978
Weighted average shares outstanding basic	112,521	114,260	112,459	113,954
Effect of dilutive securities:				
Restricted stock	1,355		1,315	