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OCEANEERING INTERNATIONAL INC

Form 10-Q

November 01, 2012

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 September 30, 2012

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: 1-10945

OCEANEERING INTERNATIONAL, INC.

(Exact name of registrant as specified in its charter)

Delaware

95-2628227

(State or other jurisdiction of
incorporation or organization)

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

11911 FM 529

77041

Houston, Texas

(Address of principal executive offices)

(Zip Code)

(713) 329-4500

(Registrant's telephone number, including area code)

Not Applicable

(Former name, former address and former fiscal year, if changed from 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 check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T 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 definitions of "large accelerated filer," "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 ☐

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

Yes ☐ No ☒

Number of shares of Common Stock outstanding as of October 26, 2012: 107,907,574

Oceaneering International, Inc.

Form 10-Q

Table of Contents

Part I Financial Information

Item 1. Financial Statements.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

Item 4. Controls and Procedures.

Part II Other Information

Item 1. Legal Proceedings.

Item 6. Exhibits.

Signatures

Index to Exhibits

Table of Contents

PART I – FINANCIAL INFORMATION

Item 1. Financial Statements.

OCEANEERING INTERNATIONAL, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

(in thousands, except share data)	September 30, 2012 (unaudited)	December 31, 2011
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 103,638	\$ 106,142
Accounts receivable, net of allowances for doubtful accounts of \$2,069 and \$594	669,843	549,812
Inventory	326,830	255,095
Other current assets	76,534	73,073
Total Current Assets	1,176,845	984,122
Property and Equipment, at cost	1,973,957	1,772,017
Less accumulated depreciation	984,601	878,709
Net Property and Equipment	989,356	893,308
Other Assets:		
Goodwill	356,728	333,471
Investments in unconsolidated affiliates	43,835	49,607
Other non-current assets	130,088	140,036
Total Other Assets	530,651	523,114
Total Assets	\$ 2,696,852	\$ 2,400,544
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities:		
Accounts payable	\$ 154,891	\$ 111,381
Accrued liabilities	398,005	335,161
Income taxes payable	62,457	54,833
Total Current Liabilities	615,353	501,375
Long-term Debt	120,000	120,000
Other Long-term Liabilities	227,263	221,207
Commitments and Contingencies		
Shareholders' Equity:		
Common Stock, par value \$0.25 per share; 180,000,000 shares authorized; 110,834,088 shares issued	27,709	27,709
Additional paid-in capital	210,959	202,619
Treasury stock; 2,926,514 and 2,799,118 shares, at cost	(84,062)	(71,700)
Retained earnings	1,579,848	1,426,525
Accumulated other comprehensive income	(218)	(27,191)
Total Shareholders' Equity	1,734,236	1,557,962
Total Liabilities and Shareholders' Equity	\$ 2,696,852	\$ 2,400,544
The accompanying Notes are an integral part of these Consolidated Financial Statements.		

OCEANEERING INTERNATIONAL, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME

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(unaudited)

	Three Months Ended Sep 30,		Nine Months Ended Sep 30,	
(in thousands, except per share data)	2012	2011	2012	2011
Revenue	\$ 734,217	\$ 602,208	\$ 2,001,655	\$ 1,618,466
Cost of services and products	563,348	449,112	1,546,325	1,240,453
Gross Profit	170,869	153,096	455,330	378,013
Selling, general and administrative expense	47,056	43,474	145,483	125,650
Income from Operations	123,813	109,622	309,847	252,363
Interest income	824	204	1,362	460
Interest expense	(1,282)	(387)	(3,083)	(746)
Equity earnings of unconsolidated affiliates	418	1,042	1,341	2,942
Other expense, net	(553)	(1,973)	(5,212)	(2,331)
Income before Income Taxes	123,220	108,508	304,255	252,688
Provision for income taxes	38,814	29,930	95,840	75,347
Net Income	\$ 84,406	\$ 78,578	\$ 208,415	\$ 177,341
Cash Dividends declared per Share	\$ 0.18	\$ 0.15	\$ 0.51	\$ 0.30
Basic Earnings per Share	\$ 0.78	\$ 0.73	\$ 1.93	\$ 1.64
Diluted Earnings per Share	\$ 0.78	\$ 0.72	\$ 1.92	\$ 1.63

The accompanying Notes are an integral part of these Consolidated Financial Statements.

OCEANEERING INTERNATIONAL, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(unaudited)

	Three Months Ended Sep 30,		Nine Months Ended Sep 30,	
(in thousands)	2012	2011	2012	2011
Net Income	\$ 84,406	\$ 78,578	\$ 208,415	\$ 177,341
Other comprehensive income, net of tax:				
Foreign currency translation adjustments	40,417	(41,543)	26,973	(12,896)
Total other comprehensive income	40,417	(41,543)	26,973	(12,896)
Total Comprehensive Income	\$ 124,823	\$ 37,035	\$ 235,388	\$ 164,445

The accompanying Notes are an integral part of these Consolidated Financial Statements.

OCEANEERING INTERNATIONAL, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(unaudited)

	Nine Months Ended Sep 30,	
(in thousands)	2012	2011
Cash Flows from Operating Activities:		
Net income	\$ 208,415	\$ 177,341

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Adjustments to reconcile net income to net cash provided by operating activities:

Depreciation and amortization	127,073	112,748	
Deferred income tax provision	9,474	283	
Gain on sales of property and equipment	(597	) (18,723)
Noncash compensation	12,414	9,092	
Distributions from unconsolidated affiliates greater than earnings	5,772	2,507	
Excluding the effects of acquisitions, increase (decrease) in cash from:			
Accounts receivable	(97,150	) (101,661)
Inventory	(71,735	) (17,986)
Other operating assets	(13,950	) 19,638	
Currency translation effect on working capital	2,957	(7,385)
Current liabilities	109,180	(28,844)
Other operating liabilities	(1,383	) (818)
Total adjustments to net income	82,055	(31,149)
Net Cash Provided by Operating Activities	290,470	146,192	
Cash Flows from Investing Activities:			
Purchases of property and equipment	(216,548	) (163,426)
Business acquisitions, net of cash acquired	(9,260	) (54,221)
Dispositions of property and equipment and equity investment	3,806	42,082	
Net Cash Used in Investing Activities	(222,002	) (175,565)
Cash Flows from Financing Activities:			
Net proceeds of revolving credit facility, including new loan costs	(1,045) —	
Excess tax benefits from stock-based compensation	4,523	255	
Cash dividends	(55,092	) (32,502)
Purchases of treasury stock	(19,358	) (17,491)
Net Cash Used in Financing Activities	(70,972	) (49,738)
Net Decrease in Cash and Cash Equivalents	(2,504	) (79,111)
Cash and Cash Equivalents—Beginning of Period	106,142	245,219	
Cash and Cash Equivalents—End of Period	\$103,638	\$166,108	

The accompanying Notes are an integral part of these Consolidated Financial Statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. SUMMARY OF MAJOR ACCOUNTING POLICIES

Basis of Presentation. We have prepared these unaudited consolidated financial statements pursuant to instructions for quarterly reports on Form 10-Q, which we are required to file with the Securities and Exchange Commission. These financial statements do not include all information and footnotes normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States

("U.S. GAAP"). These financial statements reflect all adjustments that we believe are necessary to present fairly our financial position at September 30, 2012 and our results of operations and cash flows for the periods presented. Except as otherwise disclosed herein, all such adjustments are of a normal and recurring nature. These financial statements should be read in conjunction with the consolidated financial statements and related notes included in our annual report on Form 10-K for the year ended December 31, 2011. The results for interim periods are not necessarily indicative of annual results.

Principles of Consolidation. The consolidated financial statements include the accounts of Oceaneering International, Inc. and our 50% or more owned and controlled subsidiaries. We also consolidate entities that are determined to be variable interest entities if we determine that we are the primary beneficiary; otherwise, we account for these entities using the equity method of accounting. We use the equity method to account for our investments in unconsolidated affiliated companies of which we own an equity interest of between 20% and 50% and as to which we have significant

influence, but not control, over operations. All significant intercompany accounts and transactions have been eliminated.

Use of Estimates. The preparation of financial statements in conformity with U.S. GAAP requires that our management make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expense during the reporting period. Actual results could differ from those estimates.

Reclassifications. Certain amounts from prior periods have been reclassified to conform with the current year presentation.

Accounts Receivable – Allowances for Doubtful Accounts. We determine the need for allowances for doubtful accounts using the specific identification method. We do not generally require collateral from our customers.

Property and Equipment. We provide for depreciation of property and equipment on the straight-line method over their estimated useful lives. We charge the costs of repair and maintenance of property and equipment to operations as incurred, while we capitalize the costs of improvements that extend asset lives or functionality. Upon the disposition of property and equipment, the related cost and accumulated depreciation accounts are relieved and any resulting gain or loss is included as an adjustment to cost of services and products.

We capitalize interest on assets where the construction period is anticipated to be more than three months. We capitalized no interest in the nine-month periods ended September 30, 2012 and 2011. We do not allocate general administrative costs to capital projects.

Business Acquisitions. We account for business combinations using the acquisition method of accounting, and we allocate the acquisition price to the assets acquired and liabilities assumed based on their fair market values at the date of acquisition.

On December 20, 2011, we purchased AGR Field Operations Holdings AS and subsidiaries (collectively, "AGR FO"), which we believe is Norway's largest asset integrity management service provider on offshore production platforms, onshore facilities, and pipelines, for \$220 million. AGR FO employs subsea technology to perform internal and external inspections of subsea hardware. AGR FO also has a substantial operating presence in Australia, where it operates and maintains offshore and onshore oil and gas production facilities for customers, provides subsea engineering services and operates an offshore logistics supply base.

We have accounted for this acquisition by allocating the purchase price to the assets acquired and liabilities assumed based on their estimated fair values at the date of acquisition. Our goodwill associated with the acquisition, all nondeductible for income tax purposes, was initially valued at \$165 million, and other intangible assets were initially valued at \$32 million. This purchase price allocation is preliminary and based on information currently available to us, and is subject to change when we obtain final asset and liability valuations. The results of AGR FO's operations are included in our consolidated statements of income from the date of acquisition. Generally, AGR FO's Norwegian assets and operations are in our Asset Integrity segment and its Australian assets and operations are in our Subsea Projects segment.

On December 27, 2011, we purchased Mechanica AS, a design and fabrication company specializing in remotely operated subsea tools for the offshore oil and gas industry, for \$17 million. We have accounted for this acquisition by allocating the purchase price to the assets acquired and liabilities assumed based on their estimated fair values at the date of acquisition. Our goodwill associated with the acquisition, all nondeductible for income tax purposes, was \$9 million, and other intangible assets were \$5 million. This purchase price allocation is preliminary and based on information currently available to us, and is subject to change when we obtain final asset and liability valuations. The results of operations of Mechanica AS are included in our consolidated statements of income from the date of acquisition. These operations are in our Subsea Products segment.

In January 2012, we acquired Metacor Holdings Limited and subsidiaries, which specialize in offshore coating maintenance analysis, for \$9 million. We have accounted for this acquisition by allocating the purchase price to the assets acquired and liabilities assumed based on their estimated fair values at the date of acquisition. This purchase price allocation is preliminary and based on information currently available to us, and is subject to change when we

obtain final asset and liability valuations. The results of operations of Metacor Holdings Limited and subsidiaries are included in our consolidated statements of income from the date of acquisition. These operations are in our Asset Integrity business segment.

Goodwill and Intangible Assets. In September 2011, the Financial Accounting Standards Board ("FASB") issued an update regarding goodwill impairment testing. Under the update, an entity has the option to first assess qualitative factors to determine whether the existence of events or circumstances leads to a determination that it is more likely than not that the fair value of a reporting unit is less than its carrying amount. Our reporting units are the operating units one level below our business segments, except for ROVs and Asset Integrity, which are tested as single reporting units. If, after assessing the totality of events or circumstances, an entity determines it is more likely than not that the fair value of a reporting unit is no less than its carrying amount, performing the two-step impairment test is unnecessary. However, if an entity concludes otherwise, then it is required to perform the first step of the two-step impairment test. We adopted this update in 2011. The provisions of the update have not had a material effect on our financial position or results of operations. The only changes in our reporting units' goodwill during the periods presented are from business acquisitions, as discussed above, and currency exchange rate changes.

Intangible assets, primarily acquired in connection with business combinations, include trade names, intellectual property and customer relationships and are being amortized over their estimated useful lives.

New Accounting Standards. In June 2011, the FASB issued an update, which was amended in December 2011, to allow an entity the option to present the total of comprehensive income, the components of net income, and the components of other comprehensive income in either a single continuous statement of comprehensive income or two separate but consecutive statements. Under either option, an entity is required to present each component of net income along with total net income, each component of other comprehensive income along with a total for other comprehensive income, and a total amount for comprehensive income. These updates eliminate the option to present the components of other comprehensive income as part of the statement of changes in stockholders' equity. These updates do not change the items that are required to be reported in other comprehensive income or when an item of other comprehensive income must be reclassified to net income and is required to be applied retrospectively. We adopted these updates in 2011. We are reporting the total of comprehensive income, the components of net income, and the components of other comprehensive income in two separate consecutive statements.

In May 2011, the FASB issued an update relating to the convergence of U.S. GAAP and International Financial Reporting Standards. This update defines certain requirements for measuring fair value and for disclosing information about fair value measurements. This update is applied prospectively and was effective for us January 1, 2012. The provisions of this update have not had a material effect on our financial position or results of operations, and we have included the required disclosures in these Notes to Consolidated Financial Statements.

2. INVESTMENTS IN UNCONSOLIDATED AFFILIATES

Our investments in unconsolidated affiliates consisted of the following:

(in thousands)	Sep 30, 2012	Dec 31, 2011
Medusa Spar LLC	\$43,744	\$49,480
Other	91	127
	\$43,835	\$49,607

In 2003, we purchased a 50% equity interest in Medusa Spar LLC for \$43.7 million. Medusa Spar LLC owns a 75% interest in a production spar platform in the U.S. Gulf of Mexico. Medusa Spar LLC's revenue is derived from processing oil and gas production for a fee based on the volumes processed through the platform (throughput). Medusa Spar LLC financed its acquisition of its 75% interest in the production spar platform using approximately 50% debt and 50% equity from its equity holders. The debt was repaid in 2008. We believe our maximum exposure to loss from our investment in Medusa Spar LLC is our \$44 million investment. Medusa Spar LLC is a variable interest entity. We are not the primary beneficiary of Medusa Spar LLC, since we do not own a controlling interest, nor do we manage the operations of the asset it owns. As we are not the primary beneficiary, we are accounting for our investment in Medusa Spar LLC under the equity method of accounting. Our 50% share of the underlying equity of the net assets of Medusa Spar LLC is equal to its carrying value. The following are condensed 100% statements of

operations of Medusa Spar LLC.

	Three Months Ended Sep 30,		Nine Months Ended Sep 30,	
(in thousands)	2012	2011	2012	2011
Medusa Spar LLC				
Condensed Statements of Operations				
Revenue	\$ 3,251	\$ 4,499	\$ 9,929	\$ 13,130
Depreciation	(2,369)	) (2,369	) (7,108	) (7,108
General and Administrative	(18	) (18	) (55	) (54
Net Income	\$ 864	\$ 2,112	\$ 2,766	\$ 5,968

3. INVENTORY

Our inventory consisted of the following:

(in thousands)	Sep 30, 2012	Dec 31, 2011
Inventory for remotely operated vehicles	\$156,080	\$135,297
Other inventory, primarily raw materials	170,750	119,798
Total	\$326,830	\$255,095

Inventory is valued at lower of cost or market. We determine cost using the weighted-average method.

4. DEBT

Long-term Debt consisted of the following:

(in thousands)	Sep 30, 2012	Dec 31, 2011
Revolving credit facility	\$120,000	\$120,000
Long-term Debt	\$120,000	\$120,000

On January 6, 2012, we entered into a new credit agreement with a group of banks (the "2012 Credit Agreement"). The 2012 Credit Agreement provides for a five-year, \$300 million revolving credit facility. Subject to certain conditions, the aggregate commitments under the facility may be increased by up to \$200 million by obtaining additional commitments from existing and/or new lenders. Borrowings under the facility may be used for working capital and general corporate purposes. The facility is scheduled to expire on January 6, 2017. Revolving borrowings under the facility bear interest at an adjusted base rate or the Eurodollar Rate (as defined in the agreement), at our option, plus an applicable margin. Depending on our debt to capitalization ratio, the applicable margin varies: (1) in the case of adjusted base rate advances, from 0.125% to 0.750%; and (2) in the case of eurodollar advances, from 1.125% to 1.750%. The adjusted base rate is the greater of (1) the per annum rate established by administrative agent as its prime rate, (2) the federal funds rate plus 0.50% and (3) the one-month Eurodollar Rate plus 1%.

Due to the short maturity of the associated interest rate periods, the carrying value of our debt under the 2012 Credit Agreement approximates its fair value. Our debt is classified as Level 2 in the fair value hierarchy (inputs other than quoted prices in active markets for similar assets and liabilities that are observable or can be corroborated by observable market data for substantially the full term for the assets or liabilities).

The 2012 Credit Agreement contains various covenants which we believe are customary for agreements of this nature, including, but not limited to, restrictions on the ability of each of our restricted subsidiaries to incur unsecured debt, as well as restrictions on our ability and the ability of each of our restricted subsidiaries to incur secured debt, grant liens, make certain investments, make distributions, merge or consolidate, sell assets, enter into transactions with affiliates and enter into certain restrictive agreements. We are also subject to an interest coverage ratio and a debt to capitalization ratio. The 2012 Credit Agreement includes customary events and consequences of default.

5. COMMITMENTS AND CONTINGENCIES

Litigation. Various actions and claims are pending against us, most of which are covered by insurance. Although we cannot predict the ultimate outcome of these matters, we believe the ultimate liability, if any, that may result from these actions and claims will not materially affect our results of operations, cash flow or financial position.

Financial Instruments and Risk Concentration. In the normal course of business, we manage risks associated with foreign exchange rates and interest rates through a variety of strategies, including the use of hedging transactions. As a matter of policy, we do not use derivative instruments unless we have an underlying exposure.

Other financial instruments that potentially subject us to concentrations of credit risk are principally cash and cash equivalents and accounts receivable. The carrying values of cash and cash equivalents approximate their fair value due to the short maturity of those instruments. Accounts receivable are generated from a broad group of customers, primarily from within the energy industry, which is our major source of revenue. Due to their short-term nature, carrying values of our accounts receivable and accounts payable approximate fair market value.

In October 2012, we collected \$25 million against our past due receivable from a customer in Angola. Subsequent to this cash collection, our balance due from this customer, net of the remaining discount originally recorded on the receivable in 2011, is approximately \$3 million. We classified the entire amount of \$28 million, which is net of the remaining discount, in accounts receivable on our balance sheet at September 30, 2012.

6. EARNINGS PER SHARE, SHARE-BASED COMPENSATION AND SHARE REPURCHASE PLAN

Earnings Per Share. The table that follows presents our computation of weighted average basic and diluted shares outstanding, which we use in our earnings per share calculations. For each period presented, our net income allocable to both common shareholders and diluted common shareholders is the same as our net income in our consolidated statements of income.

(in thousands)	Three Months Ended Sep 30,		Nine Months Ended Sep 30,	
	2012	2011	2012	2011
Basic shares outstanding	107,905	108,310	108,052	108,400
Effect of restricted stock units	595	618	585	714
Diluted shares outstanding	108,500	108,928	108,637	109,114

We had been paying a quarterly cash dividend of \$0.15 per share to our common shareholders since the second quarter of 2011. In April 2012, our Board of Directors increased our quarterly dividend to \$0.18 per share, commencing with the dividend paid in June 2012. Our latest \$0.18 per share quarterly dividend was declared in October 2012 and is payable in December 2012.

Share-Based Compensation. We have no outstanding stock options and no future share-based compensation to be recognized pursuant to stock option grants.

We grant restricted units of our common stock to certain of our key executives, key employees and Chairman of the Board. We also grant shares of restricted stock to our other non-employee directors. The restricted units granted to our key executives and key employees generally vest in full on the third anniversary of the award date, conditional on continued employment. The restricted unit grants, including those granted to our Chairman, can vest pro rata over three years, provided the individual meets certain age and years-of-service requirements. The grants to our other non-employee directors vest in full on the first anniversary of the award date, conditional upon continued service as a director.

For each of the restricted stock units granted in 2010 through 2012, at the earlier of three years after grant or at termination of employment or service, the grantee will be issued a share of our common stock for each common stock unit vested. As of September 30, 2012 and December 31, 2011, totals of 1,042,990 and 1,090,850 shares of restricted

stock or restricted stock units were outstanding. Each grantee of shares of restricted stock is deemed to be the record owner of those shares during the restriction period, with the right to vote and receive any dividends on those shares. The restricted stock units outstanding have no voting or dividend rights.

We estimate that stock-based compensation cost not yet recognized related to shares of restricted stock or restricted stock units, based on their grant-date fair values, was \$17.6 million at September 30, 2012. This expense is being recognized on a staged-vesting basis over three years for awards attributable to individuals meeting certain age and years-of-service requirements, and on a straight-line basis over the applicable vesting period of one or three years for the other awards.

Share Repurchase Plan. In February 2010, our Board of Directors approved a plan to repurchase up to 12 million shares of our common stock. Through September 30, 2012, under this plan, we had repurchased 3.1 million shares of our common stock for \$86 million, including 400,000 shares for \$19 million during the nine-month period ended September 30, 2012.

7. INCOME TAXES

During interim periods, we provide for income taxes based on our current estimated annual effective tax rate using assumptions as to (1) earnings and other factors that would affect the tax provision for the remainder of the year and (2) the operations of foreign branches and subsidiaries that are subject to local income and withholding taxes. We conduct business through several foreign subsidiaries and, although we expect our consolidated operations to be profitable, there is no assurance that profits will be earned in entities or jurisdictions that have net operating loss carryforwards available. The primary difference between our effective tax rate of 31.5% in the nine-month periods ended September 30, 2012 and 2011 and the federal statutory rate of 35% reflects our intention to indefinitely reinvest in certain of our international operations. Therefore, we do not provide for U.S. taxes on a portion of our foreign earnings. Our tax rate for the nine-month period ended September 30, 2011 differed from 31.5% due to the discrete tax benefit of \$4.9 million we recognized, primarily attributable to amending prior years' U.S. federal income

Table of Contents

tax returns to reflect a broader interpretation of our revenue eligible for certain deductions allowable for oil and gas construction activities. In the three- and nine-month periods ended September 30, 2011, we also tax effected the \$18 million gain on the sale of the Ocean Legend at the U.S. federal statutory tax rate of 35%.

We recognize the benefit for a tax position if the benefit is more likely than not to be sustainable upon audit by the applicable taxing authority. If this threshold is met, the tax benefit is then measured and recognized at the largest amount that is greater than 50% likely of being realized upon ultimate settlement.

We account for any applicable interest and penalties on uncertain tax positions as a component of our provision for income taxes on our financial statements. Including associated foreign tax credits and penalties and interest, we have accrued a net total of \$5.1 million in the caption "other long-term liabilities" on our balance sheet for unrecognized tax benefits at September 30, 2012. All additions or reductions to those liabilities affect our effective income tax rate in the periods of change.

We do not believe that the total of unrecognized tax benefits will significantly increase or decrease in the next 12 months.

We conduct our international operations in a number of locations that have varying laws and regulations with regard to income and other taxes, some of which are subject to interpretation. Our management believes that adequate provisions have been made for all taxes that will ultimately be payable, although final determination of tax liabilities may differ from our estimates.

Our tax returns are subject to audit by taxing authorities in multiple jurisdictions. These audits often take years to complete and settle. The following lists the earliest tax years open to examination by tax authorities where we have significant operations:

Jurisdiction	Periods
United States	2009
United Kingdom	2009
Norway	2002
Angola	2007
Nigeria	2006
Brazil	2007
Australia	2009
Canada	2009

8. BUSINESS SEGMENT INFORMATION

We are a global oilfield provider of engineered services and products, primarily to the offshore oil and gas industry, with a focus on deepwater applications. Through the use of our applied technology expertise, we also serve the defense and aerospace industries. Our Oil and Gas business consists of Remotely Operated Vehicles ("ROVs"), Subsea Products, Subsea Projects and Asset Integrity. Our ROV segment provides submersible vehicles operated from the surface to support offshore oil and gas exploration, development and production activities. Our Subsea Products segment supplies a variety of built-to-order specialty subsea hardware. Our Subsea Projects segment provides multiservice vessels, oilfield diving and support vessel operations, which are used primarily in inspection, maintenance and repair and installation activities, and a mobile offshore production system, through a 50% interest in an entity which holds a 75% interest in the system. With the acquisition of AGR FO in December 2011, we also operate and maintain offshore and onshore oil and gas production facilities, provide subsea engineering services, and operate an offshore logistics supply base in Australia. Our Asset Integrity segment provides asset integrity management and assessment services and nondestructive testing and inspection. Our Advanced Technologies business provides project management, engineering services and equipment for applications in non-oilfield markets. Unallocated Expenses are those not associated with a specific business segment. These consist of expenses related to

our incentive and deferred compensation plans, including restricted stock and bonuses, as well as other general expenses, including corporate administrative expenses.

There are no differences in the basis of segmentation or in the basis of measurement of segment profit or loss from those used in our consolidated financial statements for the year ended December 31, 2011.

Table of Contents

The table that follows presents Revenue and Income from Operations by business segment for each of the periods indicated.

(in thousands)	Three Months Ended			Nine Months Ended	
	Sep 30, 2012	Sep 30, 2011	Jun 30, 2012	Sep 30, 2012	Sep 30, 2011
Revenue					
Oil and Gas					
Remotely Operated Vehicles	\$ 224,649	\$ 200,927	\$ 208,802	\$ 627,422	\$ 554,352
Subsea Products	215,617	220,107	191,783	579,481	573,225
Subsea Projects	101,719	49,912	90,448	264,843	122,214
Asset Integrity	113,588	71,633	113,660	320,704	199,751
Total Oil and Gas	655,573	542,579	604,693	1,792,450	1,449,542
Advanced Technologies	78,644	59,629	67,852	209,205	168,924
Total	\$ 734,217	\$ 602,208	\$ 672,545	\$ 2,001,655	\$ 1,618,466
Income from Operations					
Oil and Gas					
Remotely Operated Vehicles	\$ 66,724	\$ 60,054	\$ 64,168	\$ 187,825	\$ 165,605
Subsea Products	50,841	41,489			