HELIX ENERGY SOLUTIONS GROUP INC
Form 10-Q
July 24, 2013

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

Form 10-Q

[X] Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the quarterly period ended June 30, 2013

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 001-32936
HELIX ENERGY SOLUTIONS GROUP, INC.
(Exact name of registrant as specified in its charter)

Minnesota (State or other jurisdiction of incorporation or organization)	95–3409686 (I.R.S. Employer Identification No.)
3505 West Sam Houston Parkway North Suite 400 Houston, Texas (Address of principal executive offices)	77043 (Zip Code)

(281) 618–0400
(Registrant's telephone number, including area code)

400 North Sam Houston Parkway East, Suite 400, Houston, Texas 77060
(Former address of principal executive offices)

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 (§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 the 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 [ ] (Do not check if a smaller reporting company)	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 [√]

As of July 19, 2013, 105,754,091 shares of common stock were outstanding.

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

HELIX ENERGY SOLUTIONS GROUP, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
(in thousands)

	June 30, 2013 (Unaudited)	December 31, 2012
ASSETS		
Current assets:		
Cash and cash equivalents	$ 513,527	$ 437,100
Accounts receivable:		
Trade, net of allowance for uncollectible accounts of $4,000 and $5,152, respectively	163,486	152,233
Unbilled revenue	32,020	26,992
Costs in excess of billing	1,508	6,848
Other current assets	63,579	96,934
Current assets of discontinued operations	—	84,000
Total current assets	774,120	804,107
Property and equipment	1,858,537	2,051,796
Less accumulated depreciation	(432,170)	(565,921)
Property and equipment, net	1,426,367	1,485,875
Other assets:		
Equity investments	162,839	167,599
Goodwill	61,750	62,935
Other assets, net	49,673	49,837
Non-current assets of discontinued operations	—	816,227
Total assets	$ 2,474,749	$ 3,386,580
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 91,836	$ 92,398
Accrued liabilities	100,091	161,514
Current maturities of long-term debt	5,247	16,607
Current liabilities of discontinued operations	—	182,527
Total current liabilities	197,174	453,046
Long-term debt	543,341	1,002,621
Deferred tax liabilities	288,596	359,237
Other non-current liabilities	19,838	5,025
Non-current liabilities of discontinued operations	—	147,237
Total liabilities	1,048,949	1,967,166
Commitments and contingencies		
Shareholders' equity:		
Common stock, no par, 240,000 shares authorized, 105,754 and 105,763 shares issued, respectively	932,899	932,742

Retained earnings	505,136	476,310
Accumulated other comprehensive loss	(37,797)	(15,667)
Total controlling interest shareholders' equity	1,400,238	1,393,385
Noncontrolling interest	25,562	26,029
Total equity	1,425,800	1,419,414
Total liabilities and shareholders' equity	$ 2,474,749	$ 3,386,580

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

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HELIX ENERGY SOLUTIONS GROUP, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(UNAUDITED)
(in thousands, except per share amounts)

	Three Months Ended June 30, 2013	2012
Net revenues	$232,178	$197,461
Cost of sales:		
Cost of sales	164,681	147,491
Impairments	—	21,532
Cost of sales	164,681	169,023
Gross profit	67,497	28,438
Loss on sale of assets	(1,085)	—
Selling, general and administrative expenses	(19,215)	(21,569)
Income from operations	47,197	6,869
Equity in earnings of investments	683	5,748
Net interest expense	(11,344)	(11,645)
Loss on early extinguishment of long-term debt	(646)	—
Other expense, net	(566)	(1,711)
Other income – oil and gas	1,282	—
Income before income taxes	36,606	(739)
Income tax provision (benefit)	8,577	(3,953)
Income from continuing operations	28,029	3,214
Income (loss) from discontinued operations, net of tax	(29)	42,216
Net income, including noncontrolling interests	28,000	45,430
Less net income applicable to noncontrolling interests	(789)	(789)
Net income applicable to Helix	$27,211	$44,641
Basic earnings per share of common stock:		
Continuing operations	$0.26	$0.02
Discontinued operations	0.00	0.40
Net income per common share	$0.26	$0.42
Diluted earnings per share of common stock:		
Continuing operations	$0.26	$0.02
Discontinued operations	0.00	0.40
Net income per common share	$0.26	$0.42
Weighted average common shares outstanding:		
Basic	105,046	104,563
Diluted	105,133	105,042

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HELIX ENERGY SOLUTIONS GROUP, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(UNAUDITED)
(in thousands, except per share amounts)

	Six Months Ended June 30, 2013	Six Months Ended June 30, 2012
Net revenues	$429,607	$427,303
Cost of sales:		
Cost of sales	307,943	304,850
Impairments	1,600	21,532
Cost of sales	309,543	326,382
Gross profit	120,064	100,921
Loss on commodity derivative contracts	(14,113)	—
Loss on sale of assets	(1,085)	—
Selling, general and administrative expenses	(42,431)	(43,984)
Income from operations	62,435	56,937
Equity in earnings of investments	1,293	6,155
Net interest expense	(21,667)	(26,122)
Loss on early extinguishment of long-term debt	(3,528)	(17,127)
Other expense, net	(4,250)	(1,641)
Other income – oil and gas	4,100	—
Income before income taxes	38,383	18,202
Income tax provision (benefit)	9,020	(2,675)
Income from continuing operations	29,363	20,877
Income from discontinued operations, net of tax	1,029	91,069
Net income, including noncontrolling interests	30,392	111,946
Less net income applicable to noncontrolling interests	(1,566)	(1,578)
Net income applicable to Helix	$28,826	$110,368
Basic earnings per share of common stock:		
Continuing operations	$0.26	$0.18
Discontinued operations	0.01	0.87
Net income per common share	$0.27	$1.05
Diluted earnings per share of common stock:		
Continuing operations	$0.26	$0.18
Discontinued operations	0.01	0.87
Net income per common share	$0.27	$1.05
Weighted average common shares outstanding:		
Basic	105,039	104,547
Diluted	105,141	105,012

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

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HELIX ENERGY SOLUTIONS GROUP, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
(UNAUDITED)
(in thousands)

	Three Months Ended June 30,	
	2013	2012
Net income, including noncontrolling interests	$28,000	$45,430
Other comprehensive income (loss), net of tax:		
Unrealized gain (loss) on hedges arising during the period	(5,882)	27,411
Reclassification adjustments for (gain) loss included in net income	354	(7,903)
Income taxes on unrealized (gain) loss on hedges	1,935	(6,828)
Unrealized gain (loss) on hedges, net of tax	(3,593)	12,680
Foreign currency translation loss	(218)	(2,838)
Other comprehensive loss, net of tax	(3,811)	9,842
Comprehensive income (loss)	24,189	55,272
Less comprehensive income applicable to noncontrolling interests	(789)	(789)
Comprehensive income (loss) applicable to Helix	$23,400	$54,483

	Six Months Ended June 30,	
	2013	2012
Net income, including noncontrolling interests	$30,392	$111,946
Other comprehensive income (loss), net of tax:		
Unrealized gain (loss) on hedges arising during the period	(17,167)	6,093
Reclassification adjustments for (gain) loss included in net income	504	(7,819)
Income taxes on unrealized loss on hedges	5,832	604
Unrealized loss on hedges, net of tax	(10,831)	(1,122)
Foreign currency translation gain (loss)	(11,299)	1,314
Other comprehensive loss, net of tax	(22,130)	192
Comprehensive income (loss)	8,262	112,138
Less comprehensive income applicable to noncontrolling interests	(1,566)	(1,578)
Comprehensive income (loss) applicable to Helix	$6,696	$110,560

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

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HELIX ENERGY SOLUTIONS GROUP, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)
(in thousands)

	Six Months Ended June 30, 2013	Six Months Ended June 30, 2012
Cash flows from operating activities:		
Net income, including noncontrolling interests	$30,392	$111,946
Adjustments to reconcile net income, including noncontrolling interests to net cash provided by operating activities:		
Income from discontinued operations	(1,029)	(91,069)
Depreciation and amortization	49,692	47,388
Asset impairment charge	—	14,590
Amortization of deferred financing costs	2,824	3,292
Stock-based compensation expense	5,473	3,658
Amortization of debt discount	2,557	4,776
Deferred income taxes	16,058	21,624
Excess tax from stock-based compensation	(383)	657
Loss on sale of assets	1,085	—
Loss on early extinguishment of debt	3,528	17,127
Unrealized loss and ineffectiveness on derivative contracts, net	638	149
Changes in operating assets and liabilities:		
Accounts receivable, net	(19,702)	64,420
Other current assets	15,479	(19,571)
Income tax payable	(56,454)	1,083
Accounts payable and accrued liabilities	(35,081)	(22,072)
Oil and gas asset retirement costs	(5,950)	(19,241)
Other noncurrent, net	(7,117)	(19,940)
Net cash provided by (used in) operating activities	2,010	118,817
Net cash provided by (used in) discontinued operations	(30,503)	102,203
Net cash provided by (used in) operating activities	(28,493)	221,020
Cash flows from investing activities:		
Capital expenditures	(102,383)	(115,779)
Distributions from equity investments, net	4,567	2,045
Proceeds from sale of assets	108,250	—
Net cash provided by (used in) investing activities	10,434	(113,734)
Net cash provided by (used in) discontinued operations	582,965	(31,668)
Net cash provided by (used in) investing activities	593,399	(145,402)
Cash flows from financing activities:		
Early extinguishment of Senior Unsecured Notes	—	(209,500)
Borrowings under revolving credit facility	47,617	100,000
Repayment of revolving credit facility	(147,617)	—
Issuance of Convertible Senior Notes due 2032	—	200,000
Repurchase of Convertible Senior Notes due 2025	(3,487)	(143,945)
Proceeds from term loan	—	100,000

Repayment of term loans	(367,181)	(2,750)
Repayment of MARAD borrowings	(2,529)	(2,409)
Deferred financing costs	(10,932)	(6,485)
Distributions to noncontrolling interest	(2,033)	—
Repurchases of common stock	(5,562)	(7,510)
Excess tax from stock-based compensation	383	(657)
Exercise of stock options, net and other	(186)	372
Net cash provided by (used in) financing activities	(491,527)	27,116
Effect of exchange rate changes on cash and cash equivalents	3,048	304
Net increase in cash and cash equivalents	76,427	103,038
Cash and cash equivalents:		
Balance, beginning of year	437,100	546,465
Balance, end of period	$513,527	$649,503

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

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HELIX ENERGY SOLUTIONS GROUP, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

Note 1 — Basis of Presentation and Recent Accounting Standards

The accompanying condensed consolidated financial statements include the accounts of Helix Energy Solutions Group, Inc. and its wholly- and majority-owned subsidiaries (collectively, "Helix" or the "Company"). Unless the context indicates otherwise, the terms "we," "us" and "our" in this report refer collectively to Helix and its wholly- and majority-owned subsidiaries. All material intercompany accounts and transactions have been eliminated. These unaudited condensed consolidated financial statements have been prepared pursuant to instructions for the Quarterly Report on Form 10-Q required to be filed with the Securities and Exchange Commission (the "SEC"), and do not include all information and footnotes normally included in annual financial statements prepared in accordance with U.S. generally accepted accounting principles.

The accompanying condensed consolidated financial statements have been prepared in conformity with U.S. generally accepted accounting principles ("U.S. GAAP") and are consistent in all material respects with those applied in our 2012 Annual Report on Form 10-K ("2012 Form 10-K"). The preparation of these financial statements requires us to make estimates and judgments that affect the amounts reported in the financial statements and the related disclosures. Actual results may differ from our estimates. Management has reflected all adjustments (which were normal recurring adjustments unless otherwise disclosed herein) that it believes are necessary for a fair presentation of the condensed consolidated balance sheets, statements of operations, statements of comprehensive income (loss), and statements of cash flows, as applicable. The operating results for the three- and six-month periods ended June 30, 2013 are not necessarily indicative of the results that may be expected for the year ending December 31, 2013. Our balance sheet as of December 31, 2012 included herein has been derived from the audited balance sheet as of December 31, 2012 included in our 2012 Form 10-K. These unaudited condensed consolidated financial statements should be read in conjunction with the annual audited consolidated financial statements and notes thereto included in our 2012 Form 10-K.

Certain reclassifications were made to previously reported amounts in the condensed consolidated financial statements and notes thereto to make them consistent with the current presentation format. The most significant of these reclassifications are associated with our discontinued operations. As noted in Note 2, we exited our oil and gas business in February 2013 upon the sale of our former wholly-owned subsidiary, Energy Resource Technology GOM, Inc. ("ERT").

In February 2013, the FASB issued ASU No. 2013-02, Comprehensive Income (Topic 220): Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income ("ASU 2013-02"). ASU 2013-02 requires companies to provide information about the amounts that are reclassified out of accumulated other comprehensive income either by the respective line items of net income or by cross-reference to other required disclosures. This guidance is effective prospectively for fiscal years beginning after December 15, 2012. We adopted ASU 2013-02 on January 1, 2013. The adoption of this guidance did not have any material impact on our consolidated financial statements. We have presented the information required by the guidance in Note 16.

Note 2 — Company Overview

Contracting Services Operations

We are an international offshore energy company that provides specialty services to the offshore energy industry, with a focus on growing our well intervention and robotics operations. We seek to provide services and methodologies that we believe are critical to developing offshore reservoirs and maximizing production economics. Our "life of field" services are segregated into four disciplines: well intervention, robotics, subsea construction and production facilities. We have disaggregated our contracting services operations into two reportable segments: Contracting Services and Production Facilities. Our Contracting Services segment includes well intervention, robotics and subsea construction operations (see below for disclosure regarding the dispositions of our remaining subsea construction vessels and related assets). Our Production Facilities business includes our majority ownership of the Helix Producer I ("HP I") vessel as well as our equity investments in Deepwater Gateway, L.L.C. ("Deepwater Gateway") and Independence Hub, LLC ("Independence Hub") (Note 6). It also includes the Helix Fast Response System ("HFRS"), which includes access to our Q4000 and HP I vessels.

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In October 2012, we entered into an agreement to sell our two remaining pipelay vessels, the Caesar and Express, and other related pipelay equipment for a total sales price of $238.3 million. In June 2013, we completed the sale of the Caesar and related equipment for $138.3 million which included $30 million of funds deposited with us at the time the agreement was entered into (Note 3). We used $80.1 million of the after-tax proceeds from the sale of the Caesar to reduce our indebtedness under our former credit agreement (Note 7) and we are investing the remainder in our continuing operations, including supporting the expansion of our well intervention and robotics operations. This sale resulted in a loss of $1.1 million that is reflected in “Loss on sale of assets” in the accompanying condensed consolidated statement of operations. In July 2013, we completed the sale of the Express for $100 million, including the remaining $20 million of deposited funds. A gain of approximately $15.5 million will be recorded on the sale of the Express in the third quarter of 2013. We also entered into an agreement to sell our spoolbase and adjoining property at Ingleside, Texas to the same group of companies that purchased the Caesar and Express. The facility and adjoining property is being leased to the purchaser during the second half of 2013 and the sale is expected to close in January 2014. The total sales price is $45 million, payable over 3.5 years. At the time the agreement was signed, we received a $5 million deposit which is only refundable under limited circumstances.

Discontinued Operations

In December 2012, we announced a definitive agreement for the sale of ERT. On February 6, 2013, we sold ERT for $624 million plus consideration in the form of overriding royalty interests in ERT’s Wang well and certain other of its future exploration prospects. As a result, we have presented the assets and liabilities included in the sale of ERT and the historical operating results of our former Oil and Gas segment as discontinued operations in the accompanying condensed consolidated financial statements. See Note 4 for additional information regarding our discontinued oil and gas operations and Note 7 regarding the use of a portion of the sale proceeds to reduce our indebtedness under our former credit agreement.

Note 3 — Details of Certain Accounts

Other current assets consist of the following (in thousands):

	June 30, 2013	December 31, 2012
Other receivables	$ 1,810	$ 1,086
Prepaid insurance	351	11,999
Other prepaids	11,832	11,751
Spare parts inventory	4,694	2,480
Income tax receivable	158	14,201
Current deferred tax assets	35,533	43,942
Derivative assets	—	5,946
Other	9,201	5,529
Total other current assets	$ 63,579	$ 96,934

Other assets, net, consist of the following (in thousands):

	June 30, 2013	December 31, 2012
Deferred dry dock expenses, net	$ 18,418	$ 22,704
Deferred financing costs, net	28,610	24,338

Intangible assets with finite lives, net	514	491
Other	2,131	2,304
Total other assets, net	$ 49,673	$ 49,837

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Accrued liabilities consist of the following (in thousands):

	June 30, 2013	December 31, 2012
Accrued payroll and related benefits	$ 37,346	$ 51,561
Current asset retirement obligations	2,739	2,898
Unearned revenue	8,326	6,137
Billing in excess of cost	2,126	6,445
Accrued interest	16,424	17,451
Derivative liability (Note 16)	2,376	16,266
Taxes payable excluding income tax payable	6,080	5,164
Pipelay assets sale deposit (Note 2)	20,000	50,000
Other	4,674	5,592
Total accrued liabilities	$ 100,091	$ 161,514

Note 4 — Oil and Gas Properties

Results of Discontinued Operations

The following summarized financial information relates to ERT, which is reported as "Income from discontinued operations, net of tax" in the accompanying condensed consolidated statements of operations:

		Periods Ended June 30,	
	Six Months 2013 (1)	Three Months 2012	Six Months 2012
Revenues	$ 48,847	$ 149,933	$ 328,018
Costs:			
Production (lifting) costs	16,017	40,247	77,269
Exploration expenses	3,514	1,092	1,846
Depreciation, depletion, amortization and accretion	1,226	39,730	87,572
Proved property impairment and abandonment	(152)	4,077	7,317
Loss on sale of oil and gas properties	—	236	1,714
Gain on commodity derivative contracts	—	(10,069)	(7,730)
Selling, general and administrative expenses	1,229	3,002	6,283
Net interest expense and other (2)	2,732	6,973	14,250
Total costs	24,566	85,288	188,521
Pretax income from discontinued operations	24,281	64,645	139,497
Income tax provision	8,499	22,429	48,428
Income from operations of discontinued operations	15,782	42,216	91,069
Loss on sale of business, net of tax	(14,753)	—	—
Income from discontinued operations, net of tax	$ 1,029	$ 42,216	$ 91,069

(1) Results for 2013 primarily reflect the operating results from January 1, 2013 through February 6, 2013 when ERT was sold. There were no material results of operations for ERT during the three-month period ended June 30, 2013.

(2)

Net interest expense of $2.7 million for the six-month period ended June 30, 2013, and $6.8 million and $14.0 million for the three- and six-month periods ended June 30, 2012, respectively, was allocated to ERT primarily based on interest associated with indebtedness directly attributed to the substantial oil and gas acquisition made in 2006. This includes interest related to debt required to be paid upon the disposition of ERT.

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Note 5 — Statement of Cash Flow Information

We define cash and cash equivalents as cash and all highly liquid financial instruments with original maturities of three months or less. The following table provides supplemental cash flow information (in thousands):

	Six Months Ended June 30, 2013	Six Months Ended June 30, 2012
Interest paid, net of interest capitalized	$ 20,403	$ 39,259
Income taxes paid	$ 49,981	$ 23,054

Total non-cash investing activities for the six-month periods ended June 30, 2013 and 2012 included $10.7 million and $37.8 million, respectively, of accruals for property and equipment capital expenditures.

Note 6 — Equity Investments

As of June 30, 2013, we had two investments that we account for using the equity method of accounting: Deepwater Gateway and Independence Hub, both of which are included in our Production Facilities segment.

Deepwater Gateway, L.L.C. In June 2002, we, along with Enterprise Products Partners L.P. ("Enterprise"), formed Deepwater Gateway, each with a 50% interest, to design, construct, install, own and operate a tension leg platform production hub primarily for Anadarko Petroleum Corporation's Marco Polo field in the Deepwater Gulf of Mexico. Our investment in Deepwater Gateway totaled $88.5 million and $91.4 million as of June 30, 2013 and December 31, 2012, respectively (including capitalized interest of $1.3 million at June 30, 2013 and December 31, 2012).

Independence Hub, LLC. In December 2004, we acquired a 20% interest in Independence Hub, an affiliate of Enterprise. Independence Hub owns the "Independence Hub" platform located in Mississippi Canyon Block 920 in a water depth of 8,000 feet. Our investment in Independence Hub was $74.4 million and $76.2 million as of June 30, 2013 and December 31, 2012, respectively (including capitalized interest of $4.4 million and $4.6 million at June 30, 2013 and December 31, 2012, respectively).

We received the following distributions from our equity investments (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
Deepwater Gateway	$2,000	$1,250	$3,500	$3,400
Independence Hub	1,200	600	2,360	4,800
Total	$3,200	$1,850	$5,860	$8,200

As disclosed in our 2012 Form 10-K, in the first quarter of 2012, we recorded losses totaling $3.8 million associated with our investment in an Australian joint venture, including a $3.0 million fee paid in connection with our exit from the joint venture. In April 2012, we paid this fee and received approximately $3.7 million of proceeds for our pro rata portion (50%) of the value of certain of the net assets on hand at the time of our exit. These proceeds were recorded as income in our equity in earnings in the accompanying condensed consolidated statements of operations. We are no longer a participant in this joint venture.

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Note 7 — Long-Term Debt

Scheduled maturities of long-term debt outstanding as of June 30, 2013 are as follows (in thousands):

	Senior Unsecured Notes (1)	MARAD Debt	2032 Notes (2)	Total
Less than one year	$—	$5,247	$—	$5,247
One to two years	—	5,508	—	5,508
Two to three years	274,960	5,783	—	280,743
Three to four years	—			