
UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 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, 2005.**
- 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: 000-22739

Cal Dive International, Inc.

(Exact Name of Registrant as Specified in its Charter)

Minnesota
(State or Other Jurisdiction of
Incorporation or Organization)

95 — 3409686
(IRS Employer Identification Number)

400 N. Sam Houston Parkway E.
Suite 400
Houston, Texas 77060
(Address of Principal Executive Offices)

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

Indicate by check whether the registrant: (1) has filed all reports required to be filed by Section 13(b) or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or 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 whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act).

Yes No

At August 8, 2005 there were 38,768,827 shares of common stock, no par value, outstanding.

CAL DIVE INTERNATIONAL, INC.

INDEX

Part I. Financial Information

Item 1. Financial Statements

[Condensed Consolidated Balance Sheets — June 30, 2005 and December 31, 2004](#)

Condensed Consolidated Statements of Operations -

Page

1

<u>Three Months Ended June 30, 2005 and June 30, 2004</u>	2
<u>Six Months Ended June 30, 2005 and June 30, 2004</u>	3
<u>Condensed Consolidated Statements of Cash Flows — Six Months Ended June 30, 2005 and June 30, 2004</u>	4
<u>Notes to Condensed Consolidated Financial Statements</u>	5
<u>Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations</u>	17
<u>Item 3. Quantitative and Qualitative Disclosure About Market Risk</u>	26
<u>Item 4. Controls and Procedures</u>	27
<u>Part II. Other Information</u>	
<u>Item 1. Legal Proceedings</u>	27
<u>Item 4. Submission of Matters to a Vote of Security Holders</u>	27
<u>Item 6. Exhibits</u>	28
<u>Signatures</u>	29
<u>Amended and Restated Asset Purchase Agreement</u>	
<u>Independent Registered Public Accounting Firm's Acknowledgement Letter</u>	
<u>Certification Pursuant to Rule 13a-14a - CEO</u>	
<u>Certification Pursuant to Rule 13a-14a - CFO</u>	
<u>Section 1350 Certification by Owen Kratz, CEO</u>	
<u>Section 1350 Certification by A. Wade Pursell, CFO</u>	
<u>Report of Independent Registered Public Accounting Firm</u>	

CAL DIVE INTERNATIONAL, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
(in thousands)

	<u>June 30, 2005</u> (unaudited)	<u>December 31, 2004</u>
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 199,689	\$ 91,142
Accounts receivable —		
Trade, net of allowance for uncollectible accounts of \$479 and \$7,768	99,637	95,732
Unbilled revenue	25,248	18,977
Deferred income taxes	10,662	12,992
Other current assets	30,114	35,118
Total current assets	<u>365,350</u>	<u>253,961</u>
Property and equipment	1,097,223	861,281
Less — Accumulated depreciation	<u>(314,723)</u>	<u>(276,864)</u>
	782,500	584,417
Other assets:		
Equity investments in production facilities	153,779	67,192
Goodwill, net	82,811	84,193
Other assets, net	74,146	48,995
	<u>\$1,458,586</u>	<u>\$ 1,038,758</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 60,050	\$ 56,047
Accrued liabilities	89,694	75,502
Current maturities of long-term debt	7,332	9,613
Total current liabilities	<u>157,076</u>	<u>141,162</u>
Long-term debt	435,252	138,947
Deferred income taxes	151,441	133,777
Decommissioning liabilities	117,089	79,490
Other long term liabilities	9,757	5,090
Total liabilities	870,615	498,466
Convertible preferred stock	55,000	55,000
Commitments and contingencies		
Shareholders' equity:		
Common stock, no par, 120,000 shares authorized, 52,352 and 52,020 shares issued	225,734	212,608
Retained earnings	310,071	258,634
Treasury stock, 13,602 shares, at cost	(3,741)	(3,741)
Unearned compensation	(3,471)	—
Accumulated other comprehensive income	4,378	17,791
Total shareholders' equity	<u>532,971</u>	<u>485,292</u>
	<u>\$1,458,586</u>	<u>\$ 1,038,758</u>

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

CAL DIVE INTERNATIONAL, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(in thousands, except per share amounts)
(unaudited)

	Three months ended June 30,	
	2005	2004
Net Revenues:		
Marine contracting	\$ 98,941	\$ 66,418
Oil and gas production	<u>67,590</u>	<u>61,283</u>
	166,531	127,701
Cost of sales:		
Marine contracting	82,154	58,622
Oil and gas production	<u>31,958</u>	<u>27,664</u>
Gross profit	52,419	41,415
Selling and administrative expenses	<u>12,858</u>	<u>12,663</u>
Income from operations	39,561	28,752
Equity in earnings of production facilities investments	2,708	1,310
Net interest expense and other	913	<u>1,242</u>
Income before income taxes	41,356	28,820
Provision for income taxes	<u>14,779</u>	<u>10,228</u>
Net Income	26,577	18,592
Preferred stock dividends and accretion	550	384
Net income applicable to common shareholders	<u>\$ 26,027</u>	<u>\$ 18,208</u>
Earnings per common share:		
Basic	<u>\$ 0.67</u>	<u>\$ 0.48</u>
Diluted	<u>\$ 0.65</u>	<u>\$ 0.47</u>
Weighted average common shares outstanding:		
Basic	38,722	38,180
Diluted	40,981	39,452

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

CAL DIVE INTERNATIONAL, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(in thousands, except per share amounts)
(unaudited)

	Six months ended June 30,	
	2005	2004
Net Revenues:		
Marine contracting	\$195,130	\$131,938
Oil and gas production	<u>130,976</u>	<u>116,478</u>
	326,106	248,416
Cost of sales:		
Marine contracting	157,382	120,169
Oil and gas production	<u>64,432</u>	<u>55,090</u>
Gross profit	104,292	73,157
Gain on sale of assets	925	—
Selling and administrative expenses	<u>25,696</u>	<u>23,821</u>
Income from operations	79,521	49,336
Equity in earnings of production facilities investments	4,437	1,310
Net interest expense and other	<u>2,102</u>	<u>2,796</u>
Income before income taxes	81,856	47,850
Provision for income taxes	<u>29,319</u>	<u>15,248</u>
Net Income	52,537	32,602
Preferred stock dividends and accretion	<u>1,100</u>	<u>748</u>
Net income applicable to common shareholders	<u>\$ 51,437</u>	<u>\$ 31,854</u>
Earnings per common share:		
Basic	<u>\$ 1.33</u>	<u>\$ 0.84</u>
Diluted	<u>\$ 1.28</u>	<u>\$ 0.83</u>
Weighted average common shares outstanding:		
Basic	38,647	38,063
Diluted	40,925	39,357

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

CAL DIVE INTERNATIONAL, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)
(unaudited)

	Six Months Ended June 30,	
	2005	2004
Cash flows from operating activities:		
Net income	\$ 52,537	\$ 32,602
Adjustments to reconcile net income to net cash provided by operating activities —		
Depreciation and amortization	55,179	52,581
Asset impairment charge	790	—
Equity in (earnings) losses of production facilities investments, net of distributions	—	(1,310)
Amortization of deferred financing costs	550	215
Amortization of unearned compensation	397	—
Deferred income taxes	26,813	15,248
Gain on sale of assets	(925)	—
Changes in operating assets and liabilities:		
Accounts receivable, net	(10,847)	6,251
Other current assets	1,226	(1,153)
Accounts payable and accrued liabilities	17,311	12,345
Other noncurrent, net	(27,537)	(13,282)
Net cash provided by operating activities	<u>115,494</u>	<u>103,497</u>
Cash flows from investing activities:		
Capital expenditures	(214,345)	(20,776)
Investments in production facilities	(95,564)	(14,473)
Distributions from production facilities investments, net	9,163	—
Decrease (increase) in restricted cash	441	(4,259)
Proceeds from sales of property	2,150	—
Net cash used in investing activities	<u>(298,155)</u>	<u>(39,508)</u>
Cash flows from financing activities:		
Borrowings on Convertible Senior Notes	300,000	—
Sale of convertible preferred stock, net of transaction costs	—	30,000
Repayment of MARAD borrowings	(2,144)	(1,451)
Repayments on line of credit	—	(30,189)
Deferred financing costs	(8,013)	—
Repayments of term loan borrowings	—	(3,500)
Capital lease payments	(1,394)	(1,849)
Preferred stock dividends paid	(1,100)	(520)
Redemption of stock in subsidiary	(2,438)	(2,462)
Exercise of stock options, net	6,863	6,795
Net cash provided by (used in) financing activities	<u>291,774</u>	<u>(3,176)</u>
Effect of exchange rate changes on cash and cash equivalents	(566)	117
Net increase in cash and cash equivalents	108,547	60,930
Cash and cash equivalents:		
Balance, beginning of year	<u>91,142</u>	<u>6,378</u>
Balance, end of period	<u>\$ 199,689</u>	<u>\$ 67,308</u>

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

Cal Dive International, Inc. and Subsidiaries
Notes to Condensed Consolidated Financial Statements
(unaudited)

Note 1 — Basis of Presentation

The accompanying condensed consolidated financial statements include the accounts of Cal Dive International, Inc. and its majority-owned subsidiaries (collectively, “Cal Dive”, “CDI” or the “Company”). The Company accounts for its 50% interest in Deepwater Gateway, L.L.C. and its 20% interest in Independence Hub, LLC using the equity method of accounting as the Company does not have voting or operational control of these entities. In addition, beginning in the third quarter of 2005, the Company plans to account for its 40% interest in Offshore Technology Solutions Limited (“OTSL”) using the equity method of accounting (see Note 20). All material intercompany accounts and transactions have been eliminated. These condensed consolidated financial statements are unaudited, have been prepared pursuant to instructions for the Quarterly Report on Form 10-Q required to be filed with the Securities and Exchange Commission and do not include all information and footnotes normally included in annual financial statements prepared in accordance with generally accepted accounting principles.

Management has reflected all adjustments (which were normal recurring adjustments unless otherwise identified) that it believes are necessary for a fair presentation of the condensed consolidated balance sheets, results of operations and cash flows, as applicable. Operating results for the period ended June 30, 2005 are not necessarily indicative of the results that may be expected for the year ending December 31, 2005. The Company’s balance sheet as of December 31, 2004 included herein has been derived from the audited balance sheet as of December 31, 2004 included in the Company’s 2004 Annual Report on Form 10-K. These condensed consolidated financial statements should be read in conjunction with the annual consolidated financial statements and notes thereto included in the Company’s 2004 Annual Report on 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.

Note 2 — Recently Issued Accounting Principles

In December 2004, the Financial Accounting Standards Board (“FASB”) issued Statement of Financial Accounting Standards (“SFAS”) No. 123 (revised 2004) *Share-Based Payment* (“SFAS No. 123R”), which replaces SFAS No. 123, *Accounting for Stock-Based Compensation*, (“SFAS No. 123”) and supercedes APB Opinion No. 25, *Accounting for Stock Issued to Employees*. SFAS No. 123R requires all share-based payments to employees, including grants of employee stock options, to be recognized in the financial statements based on their fair values beginning with the first interim period in fiscal 2006, with early adoption encouraged. The pro forma disclosures previously permitted under SFAS No. 123 no longer will be an alternative to financial statement recognition. The Company is required to adopt SFAS No. 123R in the first quarter of fiscal 2006. Under SFAS No. 123R, the Company must determine the appropriate fair value model to be used for valuing share-based payments, the amortization method for compensation cost and the transition method to be used at date of adoption. The transition methods include prospective and retroactive adoption options. Under the retroactive option, prior periods may be restated either as of the beginning of the year of adoption or for all periods presented. The prospective method requires that compensation expense be recorded for all unvested stock options and restricted stock beginning with the first quarter of adoption of SFAS No. 123R as the requisite service is rendered on or after the required effective date, while the retroactive methods would record compensation expense for all unvested stock options and restricted stock beginning with the first period restated. The Company has not yet determined the method of adoption of SFAS No. 123R. The Company is evaluating the requirements of SFAS No. 123R and expects that the adoption of SFAS No. 123R will not have a material impact on the Company’s consolidated results of operations and earnings per share.

[Table of Contents](#)

Note 3 — Statement of Cash Flow Information

The Company defines cash and cash equivalents as cash and all highly liquid financial instruments with original maturities of less than three months. As of June 30, 2005, the Company had \$22.1 million of restricted cash included in other assets, net, all of which related to Energy Resource Technology, Inc. ("ERT"), a wholly owned subsidiary of the Company, escrow funds for decommissioning liabilities associated with the South Marsh Island 130 ("SMI 130") field acquisitions in 2002. Under the purchase agreement for those acquisitions, ERT is obligated to escrow 50% of production up to the first \$20 million of escrow and 37.5% of production on the remaining balance up to \$33 million in total escrow. Once the escrow reaches \$10 million, ERT may use the restricted cash for decommissioning the related fields. Additionally, \$7.5 million was included in restricted cash in other assets, net, at December 31, 2004 related to the Company's investment in Deepwater Gateway, L.L.C. The Company was required to escrow up to \$22.5 million related to its guarantee under the term loan agreement for Deepwater Gateway, L.L.C. The term loan of \$144 million related to Deepwater Gateway, L.L.C. was repaid in full in March 2005. As a result in March 2005, the escrow agreement was canceled and the \$7.5 million was released from restricted cash.

During the three and six months ended June 30, 2005, the Company made cash payments for interest charges, net of capitalized interest, of \$1.7 million and \$3.4 million respectively. During the three and six months ended June 30, 2004, the Company made cash payments for interest charges, net of capitalized interest, of \$438,000 and \$1.6 million, respectively.

During the three and six months ended June 30, 2005, the Company paid \$271,000 and \$1.2 million in income taxes. The Company paid no cash income taxes in the three and six months ended June 30, 2004.

Note 4 — Offshore Properties

The Company follows the successful efforts method of accounting for its interests in oil and gas properties. Under the successful efforts method, the costs of successful wells and leases containing productive reserves are capitalized. Costs incurred to drill and equip development wells, including unsuccessful development wells, are capitalized. Costs incurred relating to unsuccessful exploratory wells are expensed in the period the drilling is determined to be unsuccessful. In the first and second quarters of 2005, impairments and unsuccessful capitalized well work totaling \$4.4 million were expensed as a result of an analysis on certain properties. Further, the Company expensed \$4.5 million of purchased seismic data related to its offshore property acquisitions in the first quarter of 2005.

As an extension of ERT's well exploitation and PUD strategies, ERT agreed to participate in the drilling of an exploratory well (Tulane prospect) to be drilled in 2005 that targets reserves in deeper sands, within the same trapping fault system, of a currently producing well with estimated drilling costs of approximately \$15 million, of which \$4.1 million had been incurred through June 30, 2005. If the drilling is successful, ERT's share of the development cost is estimated to be an additional \$15 million. CDI's Marine Contracting assets would participate in this development.

In March 2005, ERT acquired a 30% working interest in a proven undeveloped field in Atwater Block 63 (Telemark) of the deepwater Gulf of Mexico for cash consideration and assumption of certain decommissioning liabilities.

In April 2005, ERT entered into a participation agreement to acquire a 50% working interest in the Devil's Island discovery (Garden Banks Block 344 E/2) in 2,300 feet water depth. This deepwater development is operated by Amerada Hess and will be drilled in 2005. The field will be developed via a subsea tieback to Baldpate Field (Garden Banks Block 260). Under the participation agreement, ERT will pay 100% of the drilling costs and a disproportionate share of the development costs to earn a 50% working interest in the field.

Table of Contents

Also in April 2005, ERT acquired a 37.5% working interest in the Bass Lite discovery (Atwater Blocks 182, 380, 381, 425 and 426) in 7,500 feet water depth along with varying interests in 50 other blocks of exploration acreage in the eastern portion of the Atwater lease protraction area from BHP Billiton. The Bass Lite discovery contains proved undeveloped gas reserves in a sand discovered in 2001 by the Atwater 426 #1 well.

As of June 30, 2005, the Company had spent \$17 million and had committed to an additional estimated \$35 million for development and drilling costs related to the above property transactions.

In June 2005, ERT acquired a mature property package on the Gulf of Mexico shelf from Murphy Exploration & Production Company — USA (“Murphy”), a wholly owned subsidiary of Murphy Oil Corporation. The acquisition cost to ERT included both cash (\$163.5 million) and the assumption of the abandonment liability from Murphy of approximately \$32.0 million. The acquisition represents essentially all of Murphy’s Gulf of Mexico Shelf properties consisting of eight operated and eleven non-operated fields. ERT estimates proved reserves of the acquisition to be approximately 75 BCF equivalent. Unaudited pro forma combined operating results of the Company and the Murphy acquisition for the three and six months ended June 30, 2005 and 2004, respectively, were as follows (in thousands, except per share data).

	Three Months Ended June 30,		Six Months Ended June 30,	
	2005	2004	2005	2004
Net revenues	\$179,868	\$144,172	\$355,839	\$281,018
Income before income taxes	43,340	30,595	86,414	51,338
Net income	27,867	19,746	55,500	34,869
Net income applicable to common shareholders	27,317	19,362	54,400	34,121
Earnings per common share:				
Basic	\$ 0.71	\$ 0.51	\$ 1.41	\$ 0.90
Diluted	\$ 0.68	\$ 0.50	\$ 1.36	\$ 0.89

Note 5 — Assets Held for Sale

In July 2005, the Company completed the sale of a certain Marine Contracting DP ROV Support vessel, the *Merlin*, for \$2.29 million in cash. The Company recorded an additional impairment of \$790,000 on the vessel in June 2005.

In March 2005, the Company completed the sale of certain Marine Contracting property and equipment for \$4.5 million. Proceeds from the sale consisted of \$100,000 cash and a \$4.4 million promissory note bearing interest at 6% per annum due in semi-annual installments beginning September 30, 2005. In addition to the asset sale, the Company entered into a five year services agreement with the purchaser whereby the Company has committed to provide the purchaser with a specified amount of services for its Gulf of Mexico fleet on an annual basis (\$8 million per year). The measurement period related to the services agreement begins with the twelve months ending June 30, 2006 and continues every six months until the contract ends on March 31, 2010. Further, the promissory note stipulates that should the Company not meet its annual services commitment the purchaser can defer its semi-annual principal and interest payment for six months. The Company determined that the estimated gain on the sale of approximately \$2.5 million should be deferred and recognized as the principal and interest payments are received from the purchaser over the course of the promissory note.

[Table of Contents](#)

Note 6 — Comprehensive Income

The components of total comprehensive income for the three and six months ended June 30, 2005 and 2004 were as follows (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2005	2004	2005	2004
Net Income	\$26,577	\$18,592	\$52,537	\$32,602
Foreign currency translation adjustment, net	(5,041)	(762)	(6,677)	1,208
Unrealized gain (loss) on commodity hedges, net	(3,683)	320	(6,736)	(452)
Total comprehensive income	<u>\$17,853</u>	<u>\$18,150</u>	<u>\$39,124</u>	<u>\$33,358</u>

The components of accumulated other comprehensive income are as follows (in thousands):

	June 30, 2005	December 31, 2004
Cumulative foreign currency translation adjustment, net	\$ 11,695	\$ 18,372
Unrealized loss on commodity hedges, net	(7,317)	(581)
Accumulated other comprehensive income	<u>\$ 4,378</u>	<u>\$ 17,791</u>

Note 7 — Hedging Activities

The Company's price risk management activities involve the use of derivative financial instruments to hedge the impact of market price risk exposures primarily related to the Company's oil and gas production. All derivatives are reflected in the Company's balance sheet at fair value. During 2004 and the first six months of 2005, the Company entered into various cash flow hedging swap and costless collar contracts to stabilize cash flows relating to a portion of the Company's expected oil and gas production. All of these qualified for hedge accounting. The aggregate fair value of the hedge instruments was a net liability of \$11.2 million as of June 30, 2005. The Company recorded approximately \$6.7 million of unrealized losses, net of taxes of \$3.6 million, during the first six months of 2005 in other comprehensive income, a component of shareholders' equity, as these hedges were highly effective. During the three and six months ended June 30, 2005, the Company reclassified approximately \$1.7 million and \$3.0 million, respectively, of losses from other comprehensive income to Oil and Gas Production revenues upon the sale of the related oil and gas production.

As of June 30, 2005, the Company had the following volumes under derivative contracts related to its oil and gas producing activities:

Production Period	Instrument Type	Average Monthly Volumes	Weighted Average Price
Crude Oil:			
July — December 2005	Collar	120 MBbl	\$40.00 - \$59.07
January — December 2006	Collar	75 MBbl	\$40.00 - \$65.80
January — December 2007	Collar	50 MBbl	\$40.00 - \$62.15
Natural Gas:			
July — December 2005	Collar	625,000 MMBtu	\$ 5.64 - \$9.15
January — December 2006	Collar	300,000 MMBtu	\$ 6.00 - \$9.40

[Table of Contents](#)[Note 8 — Foreign Currency](#)

The functional currency for the Company's foreign subsidiary Cal Dive International Limited is the applicable local currency (British Pound). Results of operations for this subsidiary are translated into U.S. dollars using average exchange rates during the period. Assets and liabilities of this foreign subsidiary are translated into U.S. dollars using the exchange rate in effect at the balance sheet date and the resulting translation adjustment, which were unrealized losses of \$5.0 million and \$6.7 million in the three and six months ended June 30, 2005, respectively, is included in accumulated other comprehensive income, a component of shareholders' equity. Beginning in 2004, deferred taxes have not been provided on foreign currency translation adjustments since the Company considers its undistributed earnings (when applicable) of its non-U.S. subsidiaries to be permanently reinvested. All foreign currency transaction gains and losses are recognized currently in the statements of operations. These amounts for the three and six months ended June 30, 2005, respectively, were not material to the Company's results of operations or cash flows.

Canyon Offshore, Inc. ("Canyon"), the Company's ROV subsidiary, has operations in the United Kingdom and Southeast Asia sectors. Canyon conducts the majority of its operations in these regions in U.S. dollars which it considers the functional currency. When currencies other than the U.S. dollar are to be paid or received, the resulting transaction gain or loss is recognized in the statements of operations. These amounts for the three and six months ended June 30, 2005, respectively, were not material to the Company's results of operations or cash flows.

[Note 9 — Earnings Per Share](#)

Basic earnings per share ("EPS") is computed by dividing the net income available to common shareholders by the weighted-average shares of outstanding common stock. The calculation of diluted EPS is similar to basic EPS except the denominator includes dilutive common stock equivalents and the income included in the numerator excludes the effects of the impact of dilutive common stock equivalents, if any. The computation of basic and diluted per share amounts for the Company were as follows (in thousands, except per share amounts):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2005	2004	2005	2004
Net income	\$26,577	\$18,592	\$52,537	\$32,602
Preferred stock dividends and accretion	(550)	(384)	(1,100)	(748)
Net income applicable to common shareholders	<u>\$26,027</u>	<u>\$18,208</u>	<u>\$51,437</u>	<u>\$31,854</u>
Weighted-average common shares outstanding:				
Basic	38,722	38,180	38,647	38,063
Effect of dilutive stock options	348	244	369	218
Effect of restricted shares	96	—	94	—
Effect of convertible preferred stock	1,815	1,028	1,815	1,076
Diluted	<u>40,981</u>	<u>39,452</u>	<u>40,925</u>	<u>39,357</u>
Basic Earnings Per Share:				
Net income	\$ 0.68	\$ 0.49	\$ 1.36	\$ 0.86
Preferred stock dividends and accretion	(0.01)	(0.01)	(0.03)	(0.02)
	<u>\$ 0.67</u>	<u>\$ 0.48</u>	<u>\$ 1.33</u>	<u>\$ 0.84</u>
Diluted Earnings Per Share:				
Net Income applicable to common shareholders	<u>\$ 0.65</u>	<u>\$ 0.47</u>	<u>\$ 1.28</u>	<u>\$ 0.83</u>

[Table of Contents](#)

Stock options to purchase approximately 0 and 124,000 shares for the three and six months ended June 30, 2004, respectively, were not dilutive and, therefore, were not included in the computations of diluted income per common share amounts. There were no antidilutive shares in the three and six months ended June 30, 2005. Net income for the diluted earnings per share calculation for the three and six months ended June 30, 2005 and 2004, respectively, was adjusted to add back the preferred stock dividends and accretion on the 1.8 million shares (2005), and 1.0 million shares and 1.1 million shares (2004), respectively. See "Convertible Senior Notes" in Note 13 for shares potentially issuable upon conversion of the Convertible Senior Notes.

Note 10 — Stock Based Compensation Plans

The Company uses the intrinsic value method of accounting to account for its stock-based compensation programs. Accordingly, no compensation expense is recognized when the exercise price of an employee stock option is equal to the common share market price on the grant date. The following table reflects the Company's pro forma results if the fair value method had been used for the accounting for these plans (in thousands, except per share amounts):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2005	2004	2005	2004
Net income applicable to common shareholders:				
As Reported	\$26,027	\$18,208	\$51,437	\$31,854
Stock-based employee compensation cost, net of tax	<u>(464)</u>	<u>(631)</u>	<u>(797)</u>	<u>(1,147)</u>
Pro Forma	<u>\$25,563</u>	<u>\$17,577</u>	<u>\$50,640</u>	<u>\$30,707</u>
Earnings per common share:				
Basic, as reported	\$ 0.67	\$ 0.48	\$ 1.33	\$ 0.84
Stock-based employee compensation cost, net of tax	<u>(0.01)</u>	<u>(0.02)</u>	<u>(0.02)</u>	<u>(0.03)</u>
Basic, pro forma	<u>\$ 0.66</u>	<u>\$ 0.46</u>	<u>\$ 1.31</u>	<u>\$ 0.81</u>
Diluted, as reported	\$ 0.65	\$ 0.47	\$ 1.28	\$ 0.83
Stock-based employee compensation cost, net of tax	<u>(0.01)</u>	<u>(0.02)</u>	<u>(0.02)</u>	<u>(0.03)</u>
Diluted, pro forma	<u>\$ 0.64</u>	<u>\$ 0.45</u>	<u>\$ 1.26</u>	<u>\$ 0.80</u>

For the purposes of pro forma disclosures, the fair value of each option grant is estimated on the date of grant using the Black-Scholes option pricing model with the following weighted average assumptions used: expected dividend yields of 0 percent; expected lives ranging from three to ten years; risk-free interest rate assumed to be approximately 4.0 percent in 2004 and expected volatility to be approximately 56 percent in 2004. There have been no stock option grants in 2005. The fair value of shares issued under the Employee Stock Purchase Plan was based on the 15 percent discount received by the employees. The weighted average per share fair value of the options granted during the first six months of 2004 was \$17.59. The estimated fair value of the options is amortized to pro forma expense over the vesting period.

On January 3, 2005, the Company granted certain key executives and selected management employees 94,000 restricted shares under the Incentive Plan. The shares vest 20% per year for a five year period. The market value (based on the quoted price of the common stock on the date of grant) of the restricted shares was \$39.12 per share, or \$3.7 million, at the date of the grant and will be recorded as unearned compensation, a component of shareholders' equity. This amount will be charged to expense over the respective vesting period. Amortization of unearned compensation totaled \$204,000 and \$397,000 in the three and six months ended June 30, 2005, respectively.

[Table of Contents](#)**Note 11 — Equity Investments in Production Facilities**

In June 2002, CDI, along with Enterprise Products Partners L.P. (“Enterprise”), formed Deepwater Gateway, L.L.C. to design, construct, install, own and operate a tension leg platform (“TLP”) production hub primarily for Anadarko Petroleum Corporation’s *Marco Polo* field discovery in the Deepwater Gulf of Mexico. CDI’s share of the construction costs was approximately \$120 million, all of which had been incurred as of December 31, 2004. The Company’s investment in Deepwater Gateway, L.L.C. totaled \$119.3 million as of June 30, 2005. In August 2002, the Company, along with Enterprise, completed a non-recourse project financing for this venture. In accordance with terms of the term loan, Deepwater Gateway, L.L.C. had the right to repay the principal amount plus any accrued interest due under its term loan at any time without penalty. Deepwater Gateway, L.L.C. repaid in full its term loan in March 2005. The Company and Enterprise made equal cash contributions (\$72 million each) to Deepwater Gateway, L.L.C. to fund the repayment. Further, the Company received cash distributions from Deepwater Gateway, L.L.C. totaling \$13.6 million in the first six months of 2005.

In December 2004, CDI acquired a 20% interest in Independence Hub, LLC (“Independence”), an affiliate of Enterprise. Independence will own the “Independence Hub” platform to be located in Mississippi Canyon block 920 in a water depth of 8,000 feet. CDI’s investment in Independence was \$34.4 million at June 30, 2005, and its total investment is expected to be approximately \$77 million. Further, CDI is party to a guaranty agreement with Enterprise to the extent of CDI’s ownership in Independence. The agreement states, among other things, that CDI and Enterprise guarantee performance under the Independence Hub Agreement between Independence and the producers group of exploration and production companies up to \$397.5 million, plus applicable attorneys’ fees and related expenses. CDI has estimated the fair value of its share of the guarantee obligation to be immaterial at June 30, 2005 based upon the extremely remote possibility of payments being made under the performance guarantee.

Note 12 — Business Segment Information (in thousands)

	June 30, 2005		December 31, 2004	
Identifiable Assets —				
Marine contracting	\$	860,732	\$	742,483
Oil and gas production		444,075		229,083
Production facilities equity investments		153,779		67,192
Total		\$1,458,586		\$ 1,038,758
		Three Months Ended June 30,		Six Months Ended June 30,
		2005		2004
Income (loss) from operations -				
Marine contracting	\$	8,901	\$	(396)
Oil and gas production		30,660		29,148
Total		\$ 39,561		\$ 28,752
Equity in earnings of production facilities investments	\$	2,708	\$	1,310

Included in identifiable assets for Marine Contracting at June 30, 2005 was \$199.6 million of unrestricted cash.

During the three and six months ended June 30, 2005, the Company derived \$18.0 million and \$48.7 million, respectively, of its revenues from the U.K. sector utilizing \$137.0 million of its total assets in this region. During the three and six months ended June 30, 2004, the Company derived \$22.0 million

[Table of Contents](#)

and \$34.7 million, respectively, of its revenues from the U.K. sector utilizing \$116.1 million of its total assets in this region. The majority of the remaining revenues were generated in the U.S. Gulf of Mexico.

Note 13 — Long-Term Debt

Convertible Senior Notes

On March 30, 2005, the Company issued \$300 million of 3.25% Convertible Senior Notes due 2025 (“Convertible Senior Notes”) at 100% of the principal amount to certain qualified institutional buyers. The Company also incurred financing costs of approximately \$8.0 million (included in other assets, net) which will be amortized over the life of the debt agreement. The Convertible Senior Notes are convertible into cash and, if applicable, shares of the Company’s common stock based on an initial conversion rate, subject to adjustment, of 15.56 shares of CDI common stock per \$1,000 of principal amount of the Convertible Senior Notes. This ratio results in an initial conversion price of approximately \$64.27 per share. The Company may redeem the Convertible Senior Notes on or after December 20, 2012. Beginning with the period commencing on December 20, 2012 to June 14, 2013 and for each six-month period thereafter, in addition to the stated interest rate of 3.25% per annum, the Company will pay contingent interest of 0.25% of the market value of the Convertible Senior Notes if, during specified testing periods, the average trading price of the Convertible Senior Notes exceeds 120% or more of the principal value. In addition, holders of the Convertible Senior Notes may require the Company to repurchase the notes at 100% of the principal amount on each of December 15, 2012, 2015, and 2020, and upon certain events.

The Convertible Senior Notes can be converted prior to the stated maturity under the following circumstances:

- during any fiscal quarter (beginning with the quarter ended March 31, 2005) if the closing sale price of CDI’s common stock for at least 20 trading days in the period of 30 consecutive trading day ending on the last trading day of the preceding fiscal quarter exceeds 120% of the conversion price on that 30th trading day (i.e. \$77.12 per share);
- upon the occurrence of specified corporate transactions; or
- if the Company has called the Convertible Senior Notes for redemption and the redemption has not yet occurred.

In connection with any conversion, the Company will satisfy its obligation to convert the Convertible Senior Notes by delivering to holders in respect of each \$1,000 aggregate principal amount of notes being converted a “settlement amount” consisting of:

- (1) cash equal to the lesser of \$1,000 and the conversion value, and
- (2) to the extent the conversion value exceeds \$1,000, a number of shares equal to the quotient of (A) the conversion value less \$1,000, divided by (B) the last reported sale price of CDI’s common stock for such day.

The conversion value means the product of (1) the conversion rate in effect (plus any applicable additional shares resulting from an adjustment to the conversion rate) or, if the Convertible Senior Notes are converted during a registration default, 103% of such conversion rate (and any such additional shares), and (2) the average of the last reported sale prices of CDI’s common stock for the trading days during the cash settlement period.

Shares underlying the Convertible Senior Notes were not included in the calculation of diluted earnings per share because the Company’s share price as of June 30, 2005, was below the conversion price of approximately \$64.27 per share. As a result, there would be no premium over the principal amount, which is paid in cash, so no shares would be issued on conversion. The maximum number of shares of

Table of Contents

common stock which may be issued upon conversion of the Convertible Senior Notes is 6,651,885. In addition to the 6,651,885 shares of common stock registered, the Company registered an indeterminate number of shares of common stock issuable upon conversion of the Convertible Senior Notes by means of an antidilution adjustment of the conversion price pursuant to the terms of the Convertible Senior Notes. Proceeds from the offering have or will be used for general corporate purposes including a capital contribution of \$72 million made in March 2005 to Deepwater Gateway, L.L.C. to enable it to repay its term loan and \$163.5 million related to the ERT acquisition of the Murphy properties in June 2005. Additional proceeds will be used for identifiable capital expenditures and potential acquisitions.

MARAD Debt

At June 30, 2005, \$134.3 million was outstanding on the Company's long-term financing for construction of the *Q4000*. This U.S. Government guaranteed financing is pursuant to Title XI of the Merchant Marine Act of 1936 which is administered by the Maritime Administration ("MARAD Debt"). The MARAD Debt is payable in equal semi-annual installments which began in August 2002 and matures 25 years from such date. The MARAD Debt is collateralized by the *Q4000*, with CDI guaranteeing 50% of the debt, and bears interest at a rate which currently floats at a rate approximating AAA Commercial Paper yields plus 20 basis points (approximately 3.23% as of June 30, 2005). CDI has paid MARAD guarantee fees for this debt which adds approximately 50 basis points per annum of interest expense. For a period up to ten years from delivery of the vessel in April 2002, CDI has the ability to lock in a fixed rate. In accordance With the MARAD Debt agreements, CDI is required to comply with certain covenants and restrictions, including the maintenance of minimum net worth, working capital and debt-to-equity requirements. As of June 30, 2005, the Company was in compliance with these covenants.

Revolving Credit Facility

In August 2004, the Company entered into a four-year, \$150 million revolving credit facility with a syndicate of banks, with Bank of America, N.A. as administrative agent and lead arranger. The amount available under the facility may be increased to \$250 million at any time upon the agreement of the Company and the existing or additional lenders. The credit facility is secured by the stock in certain Company subsidiaries and contains a negative pledge on assets. The facility bears interest at LIBOR plus 75-175 basis points depending on Company leverage and contains financial covenants relative to the Company's level of debt to EBITDA, as defined in the credit facility, fixed charge coverage and book value of assets coverage. As of June 30, 2005, the Company was in compliance with these covenants and there was no outstanding balance under this facility.

Scheduled maturities of Long-term Debt and Capital Lease Obligations outstanding as of June 30, 2005 were as follows (in thousands):

	MARAD Debt	Convertible Senior Notes	Revolver	Capital Leases	Total
Less than one year	\$ 4,386	\$ —	\$ —	\$ 2,946	\$ 7,332
One to two years	4,518	—	—	2,598	7,116
Two to Three years	4,655	—	—	2,556	7,211
Three to four years	4,795	—	—	217	5,012
Four to five years	4,940	—	—	—	4,940
Over five years	<u>110,973</u>	<u>300,000</u>	<u>—</u>	<u>—</u>	<u>410,973</u>
Long-term debt	134,267	300,000	—	8,317	442,584
Current maturities	<u>(4,386)</u>	<u>—</u>	<u>—</u>	<u>(2,946)</u>	<u>(7,332)</u>
Long-term debt, less current maturities	<u>\$129,881</u>	<u>\$300,000</u>	<u>\$ —</u>	<u>\$ 5,371</u>	<u>\$435,252</u>

Table of Contents

The Company had unsecured letters of credit outstanding at June 30, 2005 totaling approximately \$3.7 million. These letters of credit primarily guarantee various contract bidding and insurance activities.

In June 2004, the Deepwater Gateway, L.L.C. construction loan, excluded from the Company's long-term debt, was converted to a term loan. The term loan was collateralized by substantially all of Deepwater Gateway, L.L.C.'s assets and was non-recourse to the Company except for the balloon payment due at the end of the term. In March 2005, the term loan was repaid in full by Deepwater Gateway, L.L.C. and the term loan agreement was canceled.

Deferred financing costs of \$19.2 million (\$3.6 million of which was accrued at June 30, 2005 due upon the Company locking in a fixed rate of interest on the MARAD Debt) related to the Convertible Senior Notes, the MARAD Debt and the revolving credit facility, respectively, are being amortized over the life of the respective agreements and are included in other assets, net, as of June 30, 2005.

The Company capitalized interest totaling \$514,000 and \$587,000 during the three and six months ended June 30, 2005, respectively. The Company capitalized interest totaling \$0 and \$243,000 during the three and six months ended June 30, 2004, respectively. The Company incurred interest expense of \$4.1 million and \$5.5 million during the three and six months ended June 30, 2005, respectively, and \$1.0 million and \$2.1 million during the three and six months ended June 30, 2004, respectively.

Note 14 — Income Taxes

The effective tax rate of 36% in the three and six months ended June 30, 2005 was comparable to the effective rate in second quarter 2004 and was higher than the effective tax rate of 32% in the first six months of 2004. The effective tax rate was lower in the first six months of 2004 primarily due to the income tax provision benefit recorded in the first quarter of 2004 of \$1.7 million, offset by interest expense of \$430,000, to report the impact of research and development credits resulting from the conclusion of the Internal Revenue Service examination of the Company's income tax returns for 2001 and 2002.

Note 15 — Commitments and Contingencies

The Company is involved in various routine legal proceedings, primarily involving claims for personal injury under the General Maritime Laws of the United States and the Jones Act as a result of alleged negligence. In addition, the Company from time to time incurs other claims, such as contract disputes, in the normal course of business. In that regard, in 1998, one of the Company's subsidiaries entered into a subcontract with Seacore Marine Contractors Limited ("Seacore") to provide the *Sea Sorceress* to a Coflexip subsidiary in Canada ("Coflexip"). Due to difficulties with respect to the sea and soil conditions, the contract was terminated and an arbitration to recover damages was commenced. A preliminary liability finding has been made by the arbitrator against Seacore and in favor of the Coflexip subsidiary. The Company was not a party to this arbitration proceeding. Seacore and Coflexip settled this matter prior to the conclusion of the arbitration proceeding with Seacore paying Coflexip \$6.95 million CDN. Seacore has initiated an arbitration proceeding against Cal Dive Offshore Ltd. ("CDO"), a subsidiary of Cal Dive, seeking contribution of one-half of this amount. One of the grounds in the preliminary findings by the arbitrator is applicable to CDO, and CDO holds substantial counterclaims against Seacore.

Although the above discussed matters may have the potential for additional liability, the Company believes the outcome of all such matters and proceedings will not have a material adverse effect on its consolidated financial position, results of operations or cash flows.

During 2002, the Company engaged in a large construction project offshore Trinidad and, in late September of that year, supports engineered by a subcontractor failed resulting in over a month of

Table of Contents

downtime for two of CDI's vessels. Management believed under the terms of the contract the Company was entitled to indemnification for the contractual stand-by rate for the vessels during their downtime. The customer had disputed these invoices along with certain other change orders. In May 2004, the Company and its customer settled certain elements of the dispute. The remaining elements were settled in March 2005 with no material effect on the Company's financial position, results of operations or cash flows.

Note 16 — Canyon Offshore

In January 2002, CDI purchased Canyon, a supplier of remotely operated vehicles (ROVs) and robotics to the offshore construction and telecommunications industries. In connection with the acquisition, the Company committed to purchase the redeemable stock in Canyon at a price to be determined by Canyon's performance during the years 2002 through 2004 from continuing employees at a minimum purchase price of \$13.53 per share (or \$7.5 million). The Company also agreed to make future payments relating to the tax impact on the date of redemption, whether or not employment continued. As they are employees, any share price paid in excess of the \$13.53 per share will be recorded as compensation expense. These remaining shares were classified as long-term debt in the accompanying balance sheet and have been adjusted to their estimated redemption value at each reporting period based on Canyon's performance. In March 2005, the Company purchased the final one-third of the redeemable shares at the minimum purchase price of \$13.53 per share. Consideration included approximately \$337,000 of contingent consideration relating to tax gross-up payments paid to the Canyon employees in accordance with the purchase agreement. This gross-up amount was recorded as goodwill in the period paid.

Note 17 — Convertible Preferred Stock

On January 8, 2003, CDI completed the private placement of \$25 million of a newly designated class of cumulative convertible preferred stock (Series A-1 Cumulative Convertible Preferred Stock, par value \$0.01 per share) that is convertible into 833,334 shares of Cal Dive common stock at \$30 per share. The preferred stock was issued to a private investment firm. Subsequently in June 2004, the preferred stockholder exercised its existing right and purchased \$30 million in additional cumulative convertible preferred stock (Series A-2 Cumulative Convertible Preferred Stock, par value \$0.01 per share). In accordance with the January 8, 2003 agreement, the \$30 million in additional preferred stock is convertible into 982,029 shares of Cal Dive common stock at \$30.549 per share. In the event the holder of the convertible preferred stock elects to redeem into Cal Dive common stock and Cal Dive's common stock price is below the conversion prices, unless the Company has elected to settle in cash, the holder would receive additional shares above the 833,334 common shares (Series A-1 tranche) and 982,029 common shares (Series A-2 tranche). The incremental shares would be treated as a dividend and reduce net income applicable to common shareholders.

The preferred stock has a minimum annual dividend rate of 4%, subject to adjustment, payable quarterly in cash or common shares at Cal Dive's option. CDI paid these dividends in 2005 and 2004 on the last day of the respective quarter in cash. The holder may redeem the value of its original and additional investment in the preferred shares to be settled in common stock at the then prevailing market price or cash at the discretion of the Company. In the event the Company is unable to deliver registered common shares, CDI could be required to redeem in cash.

The proceeds received from the sales of this stock, net of transaction costs, have been classified outside of shareholders' equity on the balance sheet below total liabilities. Prior to the conversion, common shares issuable will be assessed for inclusion in the weighted average shares outstanding for the Company's diluted earnings per share using the if converted method based on the lower of the Company's share price at the beginning of the applicable period or the applicable conversion price (\$30.00 and \$30.549).

[Table of Contents](#)

Note 18 — Related Party Transactions

In April 2000, ERT acquired a 20% working interest in *Gunnison*, a Deepwater Gulf of Mexico prospect of Kerr-McGee Oil & Gas Corp. Financing for the exploratory costs of approximately \$20 million was provided by an investment partnership (OKCD Investments, Ltd. or “OKCD”), the investors of which include current and former CDI senior management, in exchange for a revenue interest that is an overriding royalty interest of 25% of CDI’s 20% working interest. Production began in December 2003. Payments to OKCD from ERT totaled \$6.7 million and \$13.2 million in the three and six months ended June 30, 2005, respectively, and \$4.9 million and \$7.7 million in the three and six months ended June 30, 2004, respectively.

Note 19 — Acquisitions

In a bankruptcy auction held in June 2005, CDI was the high bidder for seven vessels, including the *Midnight Express*, and a portable saturation system for approximately \$85 million, subject to the terms of an amended and restated asset purchase agreement, executed in May 2005, with Torch Offshore, Inc. and its wholly owned subsidiaries, Torch Offshore, L.L.C. and Torch Express, L.L.C. This transaction is subject to regulatory approval, including completion of a review pursuant to a Second Request from the U.S. Department of Justice. Furthermore, the unsecured creditors committee of Torch has appealed the order permitting the sale of the assets to the Fifth Circuit of Appeals; however, as there is not a stay in place, if the transaction closes prior to a ruling by the appeals court, the appeal will be rendered moot and the parties will seek to have the appeal dismissed as moot. This transaction is expected to close in third quarter of 2005.

Also in April 2005, the Company agreed to acquire the diving and shallow water pipelay assets of Stolt Offshore that currently operate in the waters of the Gulf of Mexico (GOM) and Trinidad for \$125 million in cash. The transaction includes: seven diving support vessels; two diving and pipelay vessels (the *Seaway Kestrel* and the *DLB 801*); a portable saturation diving system; various general diving equipment and Louisiana operating bases at the Port of Iberia and Fourchon. The transaction, which requires regulatory approval, including completion of a review pursuant to a Second Request from the U.S. Department of Justice, is expected to close in the third quarter of 2005.

Note 20 — Subsequent Events

In July 2005, the Company acquired a 40% minority ownership interest in OTSL in exchange for the Company’s DP DSV, *Witch Queen*. The Company plans to account for its \$7.0 million minority investment in OTSL under the equity method of accounting as the Company does not have voting or operational control of OTSL. In addition, the Company has certain rights and guarantee obligations of up to \$3.5 million under the OTSL shareholder agreement. The estimated fair value of the guarantee obligations was deemed immaterial by CDI at June 30, 2005 due to the extremely remote possibility of payments being made by CDI under the guarantee. However, the Company will continue to monitor these particular rights and obligations on an ongoing basis. The Company is expected to make an additional pro rata capital contribution of approximately \$1.4 million to OTSL in the third quarter of 2005.

Further, in conjunction with its investment in OTSL, the Company entered into a one year, \$1.5 million working capital loan, bearing interest at 6% per annum, with OTSL. The unsecured affiliate loan was committed to by the Company at June 30, 2005, but cash did not transfer to OTSL until July 1, 2005. Interest is due quarterly beginning September 30, 2005 with a lump sum principal payment due to the Company on June 30, 2006.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

FORWARD-LOOKING STATEMENTS AND ASSUMPTIONS

This Quarterly Report on Form 10-Q includes certain statements that may be deemed "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. Forward-looking statements and assumptions in this Form 10-Q that are not statements of historical fact involve risks and assumptions that could cause actual results to vary materially from those predicted, including among other things, unexpected delays and operational issues associated with turnkey projects, the price of crude oil and natural gas, offshore weather conditions, change in site conditions, and capital expenditures by customers. The Company strongly encourages readers to note that some or all of the assumptions upon which such forward-looking statements are based are beyond the Company's ability to control or estimate precisely, and may in some cases be subject to rapid and material change. For a complete discussion of risk factors, we direct your attention to our Annual Report on Form 10-K for the year ended December 31, 2004, filed with the Securities and Exchange Commission.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Our discussion and analysis of our financial condition and results of operations are based upon our consolidated financial statements. We prepare these financial statements in conformity with accounting principles generally accepted in the United States. As such, we are required to make certain estimates, judgments and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the periods presented. We base our estimates on historical experience, available information and various other assumptions we believe to be reasonable under the circumstances. These estimates may change as new events occur, as more experience is acquired, as additional information is obtained and as our operating environment changes. There have been no material changes or developments in authoritative accounting pronouncements or in our evaluation of the accounting estimates and the underlying assumptions or methodologies that we believe to be Critical Accounting Policies and Estimates as disclosed in our Form 10-K for the year ended December 31, 2004.

RESULTS OF OPERATIONS

Comparison of Three Months Ended June 30, 2005 and 2004

Revenues. During the three months ended June 30, 2005, the Company's revenues increased 30% to \$166.5 million compared to \$127.7 million for the three months ended June 30, 2004. Of the overall \$38.8 million increase, \$32.5 million was generated by the Marine Contracting segment due to improved market conditions for marine contracting services, specifically improved contract rates and utilization rates for the segment.

Oil and Gas Production revenue for the three months ended June 30, 2005 increased \$6.3 million, or 10%, to \$67.6 million from \$61.3 million during the comparable prior year period. Production decreased 12% (8.9 Bcfe for the three months ended June 30, 2005 compared to 10.0 Bcfe in the second quarter of 2004) primarily due to natural decline in the Company's Shelf properties production. The average realized natural gas price of \$7.32 per Mcf, net of hedges in place, during the second quarter of 2005 was 16% higher than the \$6.32 per Mcf realized in the comparable prior year quarter while average realized oil prices, net of hedges in place, increased 39% to \$45.96 per barrel compared to \$32.97 per barrel realized during the second quarter of 2004.

Gross Profit. Gross profit of \$52.4 million for the second quarter of 2005 represented a 27% increase compared to the \$41.4 million recorded in the comparable prior year period with the Marine Contracting segment contributing 82% of the increase. Marine Contracting gross profit increased \$9.0 million to \$16.8 million, for the three months ended June 30, 2005, from \$7.8 million in the prior year period. Most divisions within Marine Contracting achieved higher gross profit due to improved market

[Table of Contents](#)

conditions (i.e. overall improved contract rates and utilization rates for the segment), except for the Well Ops division due to downtime as a result of regulatory drydocks during the second quarter of 2005 for both the *Seawell* and the *Q4000*. Oil and Gas Production gross profit increased \$2.0 million, up 6% from the year ago quarter, due to higher commodity prices.

Gross margins of 31 % in the second quarter of 2005 were 1 point worse than the 32% in the prior year period. Marine Contracting margins increased 5 points to 17% for the three months ended June 30, 2005, from 12% in the comparable prior year quarter, due to the factors noted above. Partially offsetting the Marine Contracting increase was a non-cash asset impairment charge of \$790,000 on certain equipment held for sale and subsequently disposed of in July 2005. In addition, margins in the Oil and Gas Production segment decreased 2 points to 53% for the three months ended June 30, 2005 from 55% in the year ago quarter, due primarily to a charge of \$2.8 million for the write off of remaining basis in a property which ceased production during the second quarter of 2005.

Selling & Administrative Expenses. Selling and administrative expenses of \$12.9 million for the second quarter of 2005 were slightly higher than the \$12.7 million incurred in the second quarter of 2004. Selling and administrative expenses were 8% of revenues for the second quarter of 2005 compared with 10% in the second quarter of 2004.

Equity in Earnings of Production Facilities Investments. Equity in earnings of the Company's 50% investment in Deepwater Gateway, L.L.C. increased to \$2.7 million in the second quarter of 2005 compared with \$1.3 million in the comparable prior year period. The increase was attributable to the demand fees which commenced following the March 2004 mechanical completion of the *Marco Polo* tension leg platform, owned by Deepwater Gateway, L.L.C., as well as production tariff charges which commenced in the third quarter of 2004 as *Marco Polo* began producing.

Other (Income) Expense. The Company reported other expense of \$913,000 in the second quarter of 2005 compared to other expense of \$1.2 million in the second quarter of 2004. Net interest expense of \$664,000 in the second quarter of 2005 was lower than the \$1.1 million incurred in the second quarter of 2004. Interest expense in the second quarter of 2005 was approximately \$4.1 million, offset by approximately \$2.8 million of interest income, resulting primarily from the proceeds of the Company's \$300 million Convertible Senior Notes offering in March 2005 and capitalized interest of approximately \$514,000.

Income Taxes. Income taxes increased to \$14.8 million in the second quarter of 2005 compared to \$10.2 million in the comparable prior year period primarily due to increased profitability. The effective rate was 36% in both second quarter 2005 and 2004, respectively.

Net Income. Net income of \$26.0 million in the second quarter of 2005 was \$7.8 million greater than the comparable period in 2004 as a result of factors described above.

Comparison of Six Months Ended June 30, 2005 and 2004

Revenues. During the six months ended June 30, 2005, the Company's revenues increased 31% to \$326.1 million compared to \$248.4 million for the six months ended June 30, 2004. Of the overall \$77.7 million increase, \$63.2 million was generated by the Marine Contracting segment due to improved market conditions for marine contracting services.

Oil and Gas Production revenue for the six months ended June 30, 2005 increased \$14.5 million, or 12%, to \$131.0 million from \$116.5 million during the comparable prior year period. Production decreased 11% (17.8 Bcfe for the six months ended June 30, 2005 compared to 20.0 Bcfe in the first six months of 2004) primarily due to natural decline in the Company's Shelf properties production. The average realized natural gas price of \$6.96 per Mcf, net of hedges in place, during the first six months of 2005 was 17% higher than the \$5.97 per Mcf realized in the comparable prior year period while average realized oil prices, net of hedges in place, increased 41% to \$45.03 per barrel compared to \$31.85 per barrel realized during the first six months of 2004.

[Table of Contents](#)

Gross Profit. Gross profit of \$104.3 million for the first six months of 2005 represented a 43% increase compared to the \$73.2 million recorded in the comparable prior year period with the Marine Contracting segment contributing 83% of the increase. Marine Contracting gross profit increased \$26.0 million to \$37.7 million, for the six months ended June 30, 2005, from \$11.8 million in the prior year period. All divisions within Marine Contracting achieved higher gross profit due to improved market conditions (i.e. overall improved contract rates and utilization rates for the segment). Oil and Gas Production gross profit increased \$5.2 million, up 8% from the first six months of 2004, due to higher commodity prices.

Gross margins of 32% in the first six months of 2005 were 3 points better than the 29% in the first six months of 2004. Marine Contracting margins increased 10 points to 19% for the six months ended June 30, 2005, from 9% in the comparable prior year period, due to the factors noted above. In addition, margins in the Oil and Gas Production segment decreased 2 points to 51% for the six months ended June 30, 2005 from 53% in the comparable prior year period, due primarily to impairment analysis on certain properties which resulted in \$4.4 million of impairments and expensed well work and \$4.5 million of expensed seismic data purchased for ERT's offshore property acquisitions.

Gain of Sale of Assets. The Company's ROV division, Canyon Offshore, sold an ROV in the first quarter of 2005 and recognized a \$925,000 gain on the sale.

Selling & Administrative Expenses. Selling and administrative expenses of \$25.7 million for the first six months of 2005 were \$1.9 million higher than the \$23.8 million incurred in the first six months of 2004 due to higher profitability which led to higher incentive compensation costs. Selling and administrative expenses were 8% of revenues for the first six months of 2005 compared with 10% in the comparable prior year period.

Equity in Earnings of Production Facilities Investments. Equity in earnings of the Company's 50% investment in Deepwater Gateway, L.L.C. increased to \$4.4 million in the first six months of 2005 compared with \$1.3 million in the comparable prior year period. The increase was attributable to the demand fees which commenced following the March 2004 mechanical completion of the *Marco Polo* tension leg platform, owned by Deepwater Gateway, L.L.C., as well as production tariff charges which commenced in the third quarter of 2004 as *Marco Polo* began producing.

Other (Income) Expense. The Company reported other expense of \$2.1 million in the first six months of 2005 compared to other expense of \$2.8 million in the first six months of 2004. Net interest expense of \$2.0 million in the first six months of 2005 was lower than the \$2.5 million incurred in the first six months of 2004. Interest expense in the first six months of 2005 was approximately \$5.5 million, offset by approximately \$2.8 million of interest income resulting primarily from the proceeds of the Company's \$300 million Convertible Senior Notes offering in March 2005 and capitalized interest of approximately \$587,000.

Income Taxes. Income taxes increased to \$29.3 million in the first six months of 2005 compared to \$15.2 million in the comparable prior year period primarily due to increased profitability. The effective tax rate of 36% in the first six months of 2005 was higher than the effective tax rate of 32% in the prior year period primarily due to the benefit recognized by the Company for its research and development credits in the first quarter of 2004, as a result of the conclusion of the Internal Revenue Service examination of the Company's income tax returns for 2001 and 2002.

Net Income. Net income of \$51.4 million in the first six months of 2005 was \$19.6 million greater than the comparable period in 2004 as a result of factors described above.

LIQUIDITY AND CAPITAL RESOURCES

Total debt as of June 30, 2005 was \$442.6 million comprised primarily of \$300 million of Convertible Senior Notes which mature in 2025 and \$134.3 million of MARAD debt which matures in 2027. See further discussion below under “Financing Activities”. In addition, the Company had \$199.6 million of unrestricted cash as of June 30, 2005. Subject to regulatory approval, these funds will be utilized for the previously announced acquisitions of certain assets of Stolt Offshore and Torch Offshore.

Hedging Activities. The Company’s price risk management activities involve the use of derivative financial instruments to hedge the impact of market price risk exposures primarily related to the Company’s oil and gas production. All derivatives are reflected in the Company’s balance sheet at fair value.

During 2004 and the first six months of 2005, the Company entered into various cash flow hedging swap and costless collar contracts to stabilize cash flows relating to a portion of the Company’s expected oil and gas production. All of these qualified for hedge accounting. The aggregate fair value of the hedge instruments was a net liability of \$11.2 million as of June 30, 2005. The Company recorded approximately \$6.7 million of unrealized losses, net of taxes of \$3.6 million, during the first six months of 2005 in other comprehensive income, a component of shareholders’ equity, as these hedges were highly effective. During the three and six months ended June 30, 2005, the Company reclassified approximately \$1.7 million and \$3.0 million, respectively, of losses from other comprehensive income to Oil and Gas Production revenues upon the sale of the related oil and gas production.

Operating Activities. Net cash provided by operating activities was \$115.5 million during the six months ended June 30, 2005, compared to \$103.5 million generated during the first six months of 2004, due primarily to an increase in profitability (\$19.8 million) and an increase in accounts payable and accrued liabilities due primarily in increased royalty and hedge liability accruals. Cash flow from operations was negatively impacted by an increase in trade accounts receivable of approximately \$17.1 million due primarily to increased revenues in the Marine Contracting and Oil and Gas Production segments. Further, cash flow from operations was negatively impacted by over \$20 million of cash used to fund regulatory drydocking activity in the first six months of 2005.

Investing Activities. We incurred \$214.3 million of capital acquisitions and expenditures during the first six months of 2005 compared to \$20.8 million during the comparable prior year period. Included in the capital acquisitions and expenditures during the first six months of 2005 was \$163.5 million for the Murphy properties acquisition by ERT, \$34.8 million for ERT well exploitation programs and further *Gunnison* field development, \$6.3 million for Canyon Offshore ROV and trencher systems, and approximately \$8.2 million for vessel upgrades on certain Marine Contracting vessels. Included in the capital expenditures during the first six months of 2004 was \$5.5 million for the purchase of our intervention riser system installed on the Q4000 and \$11.3 million for ERT well exploitation programs and further *Gunnison* field development.

During the first six months of 2005, the Company invested \$95.6 million in its Production Facilities segment which consists of our investments in Deepwater Gateway, L.L.C. and Independence Hub, LLC. In June 2002, CDI, along with Enterprise Products Partners L.P. (“Enterprise”), formed Deepwater Gateway, L.L.C. (a 50/50 venture accounted for by CDI under the equity method of accounting) to design, construct, install, own and operate a TLP production hub primarily for Anadarko Petroleum Corporation’s *Marco Polo* field discovery in the Deepwater Gulf of Mexico. The Company’s investment in Deepwater Gateway, L.L.C. totaled \$119.3 million as of June 30, 2005. Included in the investment account was capitalized interest and insurance paid by the Company totaling approximately \$2.5 million. In August 2002, the Company along with Enterprise, completed a non-recourse project financing for this venture. In accordance with terms of the term loan of \$144 million, Deepwater Gateway, L.L.C. had the right to repay the principal amount plus any accrued interest due under its term loan at any time without penalty. Deepwater Gateway, L.L.C. repaid in full its term loan in March 2005. The Company and Enterprise made equal cash contributions (\$72 million each) to Deepwater Gateway, L.L.C. to fund the repayment. Upon repayment of the

[Table of Contents](#)

term loan, the Company's \$7.5 million of restricted cash was released from escrow and the escrow agreement was terminated. Further, the Company received cash distributions from Deepwater Gateway, L.L.C. totaling \$13.6 million in the first six months of 2005.

In December 2004, CDI acquired a 20% interest (accounted for by CDI under the equity method of accounting) in Independence Hub, LLC ("Independence"), an affiliate of Enterprise. Independence will own the "Independence Hub" platform to be located in Mississippi Canyon block 920 in a water depth of 8,000 feet. CDI's investment was \$34.4 million as of June 30, 2005, and its total investment is expected to be approximately \$77 million. Further, CDI is party to a guaranty agreement with Enterprise to the extent of CDI's ownership in Independence. The agreement states, among other things, that CDI and Enterprise guarantee performance under the Independence Hub Agreement between Independence and the producers group of exploration and production companies up to \$397.5 million, plus applicable attorneys' fees and related expenses. CDI has estimated the fair value of its share of the guarantee obligation to be immaterial at June 30, 2005 based upon the extremely remote possibility of payments being made under the performance guarantee.

As of June 30, 2005, the Company had \$22.1 million of restricted cash, included in other assets, net in the accompanying condensed consolidated balance sheet, all of which related to ERT's escrow funds for decommissioning liabilities associated with the SMI 130 field acquisitions in 2002. Under the purchase agreement for the acquisitions ERT is obligated to escrow 50% of production up to the first \$20 million and 37.5% of production on the remaining balance up to \$33 million in total escrow. Once the escrow reaches \$10 million, ERT may use the restricted cash for decommissioning the related fields.

In March 2005, Canyon Offshore sold an ROV for \$2.1 million in cash and recognized a gain on the sale totaling \$925,000.

In April 2000, ERT acquired a 20% working interest in *Gunnison*, a Deepwater Gulf of Mexico prospect of Kerr-McGee Oil & Gas Corp. Financing for the exploratory costs of approximately \$20 million was provided by an investment partnership (OKCD Investments, Ltd. or "OKCD"), the investors of which include current and former CDI senior management, in exchange for a revenue interest that is an overriding royalty interest of 25% of CDI's 20% working interest. Production began in December 2003. Payments to OKCD from ERT totaled \$13.2 million and \$7.7 million in the first six months of 2005 and 2004, respectively.

As an extension of ERT's well exploitation and PUD strategies, ERT agreed to participate in the drilling of an exploratory well (Tulane prospect) to be drilled in 2005 that targets reserves in deeper sands, within the same trapping fault system, of a currently producing well with estimated drilling costs of approximately \$15 million, of which \$4.1 million had been incurred through June 30, 2005. If the drilling is successful, ERT's share of the development cost is estimated to be an additional \$15 million. CDI's Marine Contracting assets would participate in this development.

In March 2005, ERT acquired a 30% working interest in a proven undeveloped field in Atwater Block 63 (Telemark) of the deepwater Gulf of Mexico for cash consideration and assumption of certain decommissioning liabilities.

In April 2005, ERT entered into a participation agreement to acquire a 50% working interest in the Devil's Island discovery (Garden Banks Block 344 E/2) in 2,300 feet water depth. This deepwater development is operated by Amerada Hess and will be drilled in 2005. The field will be developed via a subsea tieback to Baldpate Field (Garden Banks Block 260). Under the participation agreement, ERT will pay 100% of the drilling costs and a disproportionate share of the development costs to earn 50% working interest in the field.

Also in April 2005, ERT acquired a 37.5% working interest in the Bass Lite discovery (Atwater Blocks 182, 380, 381, 425 and 426) in 7,500 feet water depth along with varying interests in 50 other blocks of exploration acreage in the eastern portion of the Atwater lease protraction area from BHP Billiton. The Bass Lite discovery contains proved undeveloped gas reserves in a sand discovered in 2001 by the Atwater 426 #1 well.

[Table of Contents](#)

As of June 30, 2005, the Company had spent \$17 million and had committed to an additional estimated \$35 million for development and drilling costs related to the above property transactions.

In a bankruptcy auction held in June 2005, CDI was the high bidder for seven vessels, including the *Midnight Express*, and a portable saturation system for approximately \$85 million, subject to the terms of an amended and restated asset purchase agreement, executed in May 2005, with Torch Offshore, Inc. and its wholly owned subsidiaries, Torch Offshore, L.L.C. and Torch Express, L.L.C. This transaction is subject to regulatory approval, including completion of a review pursuant to a Second Request from the U.S. Department of Justice. Furthermore, the unsecured creditors committee of Torch has appealed the order permitting the sale of the assets to the Fifth Circuit of Appeals; however, as there is not a stay in place, if the transaction closes prior to a ruling by the appeals court, the appeal will be rendered moot and the parties will seek to have the appeal dismissed as moot. This transaction is expected to close in third quarter of 2005.

Also in April 2005, the Company agreed to acquire the diving and shallow water pipelay assets of Stolt Offshore that currently operate in the waters of the Gulf of Mexico (GOM) and Trinidad for \$125 million in cash. The transaction includes: seven diving support vessels; two diving and pipelay vessels (the *Seaway Kestrel* and the *DLB 801*), a portable saturation diving system; various general diving equipment and Louisiana operating bases at the Port of Iberia and Fourchon. The transaction, which requires regulatory approval, including completion of a review pursuant to a Second Request from the U.S. Department of Justice, is expected to close in the third quarter of 2005.

In June 2005, ERT acquired a mature property package on the Gulf of Mexico shelf from Murphy Exploration & Production Company — USA (“Murphy”), a wholly owned subsidiary of Murphy Oil Corporation. The acquisition cost to ERT included both cash (\$163.5 million) and the assumption of the abandonment liability from Murphy of approximately \$32.0 million. The acquisition represents essentially all of Murphy’s Gulf of Mexico Shelf properties consisting of eight operated and eleven non-operated fields. ERT estimates proved reserves of the acquisition to be approximately 75 BCF equivalent.

In July 2005, the Company acquired a 40% minority ownership interest in OTSL in exchange for the Company’s DP DSV, *Witch Queen*. The Company plans to account for its \$7.0 million minority investment in OTSL under the equity method of accounting as the Company does not have voting or operational control of OTSL. In addition, the Company has certain rights and guarantee obligations of up to \$3.5 million under the OTSL shareholder agreement. The estimated fair value of the guarantee obligations was deemed immaterial by CDI at June 30, 2005 due to the extremely remote possibility of payments being made by CDI under the guarantee. However, the Company will continue to monitor these particular rights and obligations on an ongoing basis. The Company is expected to make an additional pro rata capital contribution of approximately \$1.4 million to OTSL in the third quarter of 2005.

Further, in conjunction with its investment in OTSL, the Company entered into a one year, \$1.5 million working capital loan, bearing interest at 6% per annum, with OTSL. The unsecured affiliate loan was committed to by the Company at June 30, 2005, but cash did not transfer to OTSL until July 1, 2005. Interest is due quarterly beginning September 30, 2005 with a lump sum principal payment due to the Company on June 30, 2006.

Financing Activities. We have financed seasonal operating requirements and capital expenditures with internally generated funds, borrowings under credit facilities, the sale of equity and project financings.

Convertible Senior Notes

On March 30, 2005, the Company issued \$300 million of 3.25% Convertible Senior Notes due 2025 (“Convertible Senior Notes”) at 100% of the principal amount to certain qualified institutional buyers. The Company also incurred financing costs of approximately \$8.0 million (included in other assets, net, in the accompanying condensed consolidated balance sheet) which will be amortized over the life of the debt agreement. The Convertible Senior Notes are convertible into cash and, if applicable, shares of the Company’s common stock based on an initial conversion rate, subject to adjustment, of 15.56 shares of CDI common stock per \$1,000 of principal amount of the Convertible Senior Notes. This ratio results in an initial conversion price of approximately \$64.27 per share. The Company may redeem the Convertible Senior Notes on or after

Table of Contents

December 20, 2012. Beginning with the period commencing on December 20, 2012 to June 14, 2013 and for each six-month period thereafter, in addition to the stated interest rate of 3.25% per annum, the Company will pay contingent interest of 0.25% of the market value of the Convertible Senior Notes if, during specified testing periods, the average trading price of the Convertible Senior Notes exceeds 120% or more of the principal value. In addition, holders of the Convertible Senior Notes may require the Company to repurchase the notes at 100% of the principal amount on each of December 15, 2012, 2015, and 2020, and upon certain events.

The Convertible Senior Notes can be converted prior to the stated maturity under the following circumstances:

- during any fiscal quarter (beginning with the quarter ended March 31, 2005) if the closing sale price of CDI's common stock for at least 20 trading days in the period of 30 consecutive trading day ending on the last trading day of the preceding fiscal quarter exceeds 120% of the conversion price on that 30th trading day (i.e. \$77.12 per share);
- upon the occurrence of specified corporate transactions; or
- if the Company has called the Convertible Senior Notes for redemption and the redemption has not yet occurred.

In connection with any conversion, the Company will satisfy its obligation to convert the Convertible Senior Notes by delivering to holders in respect of each \$1,000 aggregate principal amount of notes being converted a "settlement amount" consisting of:

- (1) cash equal to the lesser of \$1,000 and the conversion value, and
- (2) to the extent the conversion value exceeds \$1,000, a number of shares equal to the quotient of (A) the conversion value less \$1,000, divided by (B) the last reported sale price of CDI's common stock for such day.

The conversion value means the product of (1) the conversion rate in effect (plus any applicable additional shares resulting from an adjustment to the conversion rate) or, if the Convertible Senior Notes are converted during a registration default, 103% of such conversion rate (and any such additional shares), and (2) the average of the last reported sale prices of CDI's common stock for the trading days during the cash settlement period.

Shares underlying the Convertible Senior Notes were not included in the calculation of diluted earnings per share because the Company's share price as of June 30, 2005, was below the conversion price of approximately \$64.27 per share. As a result, there would be no premium over the principal amount, which is paid in cash, so no shares would be issued on conversion. The maximum number of shares of common stock which may be issued upon conversion of the Convertible Senior Notes is 6,651,885. In addition to the 6,651,885 shares of common stock registered, the Company registered an indeterminate number of shares of common stock issuable upon conversion of the Convertible Senior Notes by means of an antidilution adjustment of the conversion price pursuant to the terms of the Convertible Senior Notes. Proceeds from the offering have or will be used for general corporate purposes including a capital contribution of \$72 million (made in March 2005) to Deepwater Gateway, L.L.C. to enable it to repay its term loan and \$163.5 million related to the ERT acquisition of the Murphy properties in June 2005. Additional proceeds will be used for identifiable capital expenditures and potential acquisitions.

MARAD Debt

The MARAD debt is payable in equal semi-annual installments which began in August 2002 and matures 25 years from such date. We made one payment during each of the six months ended June 30, 2005 and 2004 totaling \$2.1 million and \$1.5 million, respectively. The MARAD Debt is collateralized by the *Q4000*, with Cal Dive guaranteeing 50% of the debt, and bears an interest rate which currently floats at a rate

[Table of Contents](#)

approximating AAA Commercial Paper yields plus 20 basis points (approximately 3.23% as of June 30, 2005). CDI has paid MARAD guarantee fees for this debt which add approximately 50 basis points per annum of interest expense. For a period up to ten years from delivery of the vessel in April 2002, the Company has the ability to lock in a fixed rate. In accordance with the MARAD Debt agreements, we are required to comply with certain covenants and restrictions, including the maintenance of minimum net worth, working capital and debt-to-equity requirements. As of June 30, 2005, we were in compliance with these covenants.

Revolving Credit Facility

The Company had a \$70 million revolving credit facility originally due in February 2005. This facility was collateralized by accounts receivable and certain of the Company's Marine Contracting vessels. This facility was cancelled and terminated in August 2004 and replaced by the \$150 million revolving credit facility described below.

In August 2004, the Company entered into a four year, \$150 million revolving credit facility with a syndicate of banks, with Bank of America, N.A. as administrative agent and lead arranger. The amount available under the facility may be increased to \$250 million at any time upon the agreement of the Company and existing or additional lenders. The credit facility is secured by the stock in certain Company subsidiaries and contains a negative pledge on assets. The facility bears interest at LIBOR plus 75-175 basis points depending on Company leverage and contains financial covenants relative to the Company's level of debt to EBITDA, as defined in the credit facility, fixed charge coverage and book value of assets coverage. As of June 30, 2005, the Company was in compliance with these covenants and there was no outstanding balance under this facility.

Other

The Company had a \$35 million term loan facility which was obtained to assist CDI in funding its portion of the construction costs of the spar for the *Gunnison* field. The loan was repaid in full in August 2004 and the loan agreement was subsequently cancelled and terminated.

On January 8, 2003, CDI completed the private placement of \$25 million of a newly designated class of cumulative convertible preferred stock (Series A-1 Cumulative Convertible Preferred Stock, par value \$0.01 per share) that is convertible into 833,334 shares of Cal Dive common stock at \$30 per share. The preferred stock was issued to a private investment firm. Subsequently in June 2004, the preferred stockholder exercised its existing right and purchased \$30 million in additional cumulative convertible preferred stock (Series A-2 Cumulative Convertible Preferred Stock, par value \$0.01 per share). In accordance with the January 8, 2003 agreement, the \$30 million in additional preferred stock is convertible into 982,029 shares of Cal Dive common stock at \$30.549 per share. In the event the holder of the convertible preferred stock elects to redeem into Cal Dive common stock and Cal Dive's common stock price is below the conversion prices, unless the Company has elected to settle in cash, the holder would receive additional shares above the 833,334 common shares (Series A-1 tranche) and 982,029 common shares (Series A-2 tranche). The incremental shares would be treated as a dividend and reduce net income applicable to common shareholders. The preferred stock has a minimum annual dividend rate of 4%, subject to adjustment, payable quarterly in cash or common shares at Cal Dive's option. CDI paid these dividends in 2005 and 2004 on the last day of the respective quarter in cash. The holder may redeem the value of its original and additional investment in the preferred shares to be settled in common stock at the then prevailing market price or cash at the discretion of the Company. In the event the Company is unable to deliver registered common shares, CDI could be required to redeem in cash.

During the first six months of 2005 and 2004, we made payments of \$1.4 million and \$1.8 million respectively, on capital leases relating to Canyon. The only other financing activity during the six months ended June 30, 2005 and 2004 involved the exercise of employee stock options (\$6.9 million and \$6.8 million, respectively).

In January 2002, CDI purchased Canyon, a supplier of remotely operated vehicles (ROVs) and robotics to the offshore construction and telecommunications industries. In connection with the

[Table of Contents](#)

acquisition, the Company committed to purchase the redeemable stock in Canyon at a price to be determined by Canyon's performance during the years 2002 through 2004 from continuing employees at a minimum purchase price of \$13.53 per share (or \$7.5 million). The Company also agreed to make future payments relating to the tax impact on the date of redemption, whether or not employment continued. As they are employees, any share price paid in excess of the \$13.53 per share will be recorded as compensation expense. These remaining shares were classified as long-term debt in the accompanying balance sheet and have been adjusted to their estimated redemption value at each reporting period based on Canyon's performance. In March 2005 the Company purchased the final one-third of the redeemable shares at the minimum purchase price of \$13.53 per share (\$2.4 million). Consideration included approximately \$337,000 of contingent consideration relating to tax gross-up payments paid to the Canyon employees in accordance with the purchase agreement. This gross-up amount was recorded as goodwill in the period paid.

The following table summarizes our contractual cash obligations as of June 30, 2005 and the scheduled years in which the obligations are contractually due (in thousands):

	Total (A)	Less Than 1 Year	1-3 Years	3-5 Years	More than 5 Years
Convertible Senior Notes	\$300,000	\$ —	\$ —	\$ —	\$300,000
MARAD debt	134,267	4,386	9,173	9,735	110,973
Revolving debt	—	—	—	—	—
Capital leases	8,317	2,946	5,154	217	—
Acquisition of businesses (B)	—	—	—	—	—
Investments in Independence Hub, LLC	42,600	31,950	10,650	—	—
Drilling and development costs	35,000	35,000	—	—	—
Operating leases	15,729	7,041	2,604	1,779	4,305
Total cash obligations	\$535,913	\$81,323	\$27,581	\$11,731	\$415,278

(A) Excludes guarantee of performance related to the construction of the Independence Hub platform under Independence Hub, LLC (estimated to be immaterial at June 30, 2005) and unsecured letters of credit outstanding at June 30, 2005 totaling \$3.7 million. These letters of credit primarily guarantee various contract bidding and insurance activities.

(B) In April 2005, the Company announced that it had reached agreement (subject to certain regulatory approvals) to acquire certain assets of Stolt Offshore for approximately \$125 million. In addition, the Company reached an agreement with Torch Offshore, Inc. (subject to bankruptcy court and certain creditor approvals) to acquire certain assets for \$85 million. If successful, these acquisitions would close in 2005.

In addition, in connection with our business strategy, we regularly evaluate acquisition opportunities (including additional vessels as well as interest in offshore natural gas and oil properties). We believe internally generated cash flow, borrowings under existing credit facilities and use of project financings along with other debt and equity alternatives will provide the necessary capital to meet these obligations and achieve our planned growth.

[Table of Contents](#)

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK

The Company is currently exposed to market risk in three major areas: interest rates, commodity prices and foreign currency exchange rates.

Interest Rate Risk

Because approximately 30% of the Company's debt at June 30, 2005 was based on floating rates, changes in interest would, assuming all other things equal, have a minimal impact on the fair market value of the debt instruments, but every 100 basis points move in interest rates would result in \$1.3 million of annualized interest expense or savings, as the case may be, to the Company.

Commodity Price Risk

The Company has utilized derivative financial instruments with respect to a portion of 2005 and 2004 oil and gas production to achieve a more predictable cash flow by reducing its exposure to price fluctuations. The Company does not enter into derivative or other financial instruments for trading purposes.

As of June 30, 2005, the Company has the following volumes under derivative contracts related to its oil and gas producing activities:

Production Period	Instrument Type	Average Monthly Volumes	Weighted Average Price
Crude Oil:			
July — December 2005	Collar	120 MBbl	\$40.00 - \$59.07
January — December 2006	Collar	75 MBbl	\$40.00 - \$65.80
January — December 2007	Collar	50 MBbl	\$40.00 - \$62.15
Natural Gas:			
July — December 2005	Collar	625,000 MMBtu	\$ 5.64 - \$9.15
January — December 2006	Collar	300,000 MMBtu	\$ 6.00 - \$9.40

Changes in NYMEX oil and gas strip prices would, assuming all other things being equal, caused the fair value of these instruments to increase or decrease inversely to the change in NYMEX prices.

Foreign Currency Exchange Rates

Because we operate in various oil and gas exploration and production regions in the world, we conduct a portion of our business in currencies other than the U.S. dollar (primarily with respect to Cal Dive International Limited). The functional currency for Cal Dive International Limited is the applicable local currency (British Pound). Although the revenues are denominated in the local currency, the effects of foreign currency fluctuations are partly mitigated because local expenses of such foreign operations also generally are denominated in the same currency. The impact of exchange rate fluctuations during each of the three and six months ended June 30, 2005 and 2004, respectively, did not have a material effect on reported amounts of revenues or net income.

Assets and liabilities of Cal Dive International Limited are translated using the exchange rates in effect at the balance sheet date, resulting in translation adjustments that are reflected in accumulated other comprehensive income in the shareholders' equity section of our balance sheet. Approximately 10% of our assets are impacted by changes in foreign currencies in relation to the U.S. dollar. We recorded unrealized losses of \$5.0 million and \$6.7 million, respectively, to our equity account in the three and six months ended June 30, 2005 and (losses) gains of \$(762,000) and \$1.2 million, respectively, to our equity account in the three and six months ended June 30, 2004. Beginning in 2004, deferred taxes

[Table of Contents](#)

have not been provided on foreign currency translation adjustments since the Company considers its undistributed earnings (when applicable) of its non-U.S. subsidiaries to be permanently reinvested.

Canyon Offshore, the Company's ROV subsidiary, has operations in the United Kingdom and Southeast Asia sectors. Canyon conducts the majority of its operations in these regions in U.S. dollars which it considers the functional currency. When currencies other than the U.S. dollar are to be paid or received, the resulting transaction gain or loss is recognized in the statements of operations. These amounts for the three and six months ended June 30, 2005 and 2004, respectively, were not material to the Company's results of operations or cash flows.

ITEM 4. CONTROLS AND PROCEDURES

The Company's management, with the participation of the Company's principal executive officer (CEO) and principal financial officer (CFO), evaluated the effectiveness of the Company's disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) promulgated under the Securities Exchange Act of 1934, as amended (the "Exchange Act")) as of the end of the fiscal quarter ended June 30, 2005. Based on this evaluation, the CEO and CFO have concluded that the Company's disclosure controls and procedures were effective as of the end of the fiscal quarter ended June 30, 2005 to ensure that information that is required to be disclosed by the Company in the reports it files or submits under the Exchange Act is (i) recorded, processed, summarized and reported, within the time periods specified in the SEC's rules and forms and (ii) accumulated and communicated to the Company's management, as appropriate, to allow timely decisions regarding required disclosure. There were no changes in the Company's internal control over financial reporting that occurred during the fiscal quarter ended June 30, 2005 that have materially affected, or are reasonable likely to materially affect, the Company's internal control over financial reporting.

Part II. Other Information

ITEM 1. LEGAL PROCEEDINGS

See Part I, Item I, Note 15 to the Condensed Consolidated Financial Statements, which is incorporated herein by reference.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

The Annual Meeting of Shareholders of the Company was held on May 10, 2005, in Houston, Texas, for the purpose of electing three Class I directors. Proxies for the meeting were solicited pursuant to Section 14(a) of the Securities Exchange Act of 1934, and there was no solicitation in opposition to management's solicitations.

Each of the Class I directors nominated by the Board of Directors and listed in the proxy statement was elected with votes as follows:

Nominee	Shares For	Shares Withheld
Gordon F. Ahalt	37,398,763	1,392,182
Martin R. Ferron	37,854,943	936,002
Anthony Tripodo	36,756,827	2,034,118

The term of office of each of the following directors continued after the meeting:

Bernard Duroc-Danner
Owen Kratz
John V. Lovoi
T. William Porter, III
William L. Transier

[Table of Contents](#)

ITEM 6. EXHIBITS

Exhibit 2.1 — Asset Purchase Agreement by and between Cal Dive International, Inc., as Buyer, and Stolt Offshore Inc. and S&H Diving LLC, as Sellers, dated April 11, 2005, incorporated by reference to Exhibit 10.1 to the Current Report on Form 8-K, filed by registrant with the Securities and Exchange Commission on April 13, 2005

Exhibit 2.2 — Amended and Restated Asset Purchase Agreement by and between Cal Dive International, Inc., as Buyer, and Torch Offshore, Inc., Torch Offshore, L.L.C., and Torch Express, L.L.C., as Sellers, executed on June 9, 2005

Exhibit 3.1 — 2005 Amended and Restated Articles of Incorporation of Cal Dive International, Inc. incorporated by reference to Exhibit 3.1 to the Form S-3 Registration Statement filed by registrant with the Securities and Exchange Commission on May 26, 2005 (Reg. No. 333-125276)

Exhibit 3.2 — Second Amended and Restated By-Laws of registrant, incorporated by reference to Exhibit 3.1 to the Current Report on Form 8-K, filed by registrant with the Securities and Exchange Commission on May 12, 2005

Exhibit 10.1 — Cal Dive International, Inc. 2005 Long Term Incentive Plan incorporated by reference to Exhibit 10.1 to the Current Report on Form 8-K, filed by registrant with the Securities and Exchange Commission on May 12, 2005

Exhibit 15.1 — Independent Registered Public Accounting Firm's Acknowledgement Letter

Exhibit 31.1 — Certification Pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934 by Owen Kratz, Chief Executive Officer

Exhibit 31.2 — Certification Pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934 by A. Wade Pursell, Chief Financial Officer

Exhibit 32.1 — Section 1350 Certification by Owen Kratz, Chief Executive Officer

Exhibit 32.2 — Section 1350 Certification by A. Wade Pursell, Chief Financial Officer

Exhibit 99.1 — Report of Independent Registered Public Accounting Firm

Signatures

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

CAL DIVE INTERNATIONAL, INC.

Date: August 9, 2005

By: /s/ Owen Kratz
Owen Kratz, Chairman
and Chief Executive Officer

Date: August 9, 2005

By: /s/ A. Wade Pursell
A. Wade Pursell, Senior Vice President
and Chief Financial Officer

[Table of Contents](#)

Exhibit Index

- Exhibit 2.1 — Asset Purchase Agreement by and between Cal Dive International, Inc., as Buyer, and Stolt Offshore Inc. and S&H Diving LLC, as Sellers, dated April 11, 2005, incorporated by reference to Exhibit 10.1 to the Current Report on Form 8-K, filed by registrant with the Securities and Exchange Commission on April 13, 2005
- Exhibit 2.2 — Amended and Restated Asset Purchase Agreement by and between Cal Dive International, Inc., as Buyer, and Torch Offshore, Inc., Torch Offshore, L.L.C., and Torch Express, L.L.C., as Sellers, executed on June 9, 2005
- Exhibit 3.1 — 2005 Amended and Restated Articles of Incorporation of Cal Dive International, Inc. incorporated by reference to Exhibit 3.1 to the Form S-3 Registration Statement filed by registrant with the Securities and Exchange Commission on May 26, 2005 (Reg. No. 333-125276)
- Exhibit 3.2 — Second Amended and Restated By-Laws of registrant, incorporated by reference to Exhibit 3.1 to the Current Report on Form 8-K, filed by registrant with the Securities and Exchange Commission on May 12, 2005
- Exhibit 10.1 — Cal Dive International, Inc. 2005 Long Term Incentive Plan incorporated by reference to Exhibit 10.1 to the Current Report on Form 8-K, filed by registrant with the Securities and Exchange Commission on May 12, 2005
- Exhibit 15.1 — Independent Registered Public Accounting Firm’s Acknowledgement Letter
- Exhibit 31.1 — Certification Pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934 by Owen Kratz, Chief Executive Officer
- Exhibit 31.2 — Certification Pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934 by A. Wade Pursell, Chief Financial Officer
- Exhibit 32.1 — Section 1350 Certification by Owen Kratz, Chief Executive Officer
- Exhibit 32.2 — Section 1350 Certification by A. Wade Pursell, Chief Financial Officer
- Exhibit 99.1 — Report of Independent Registered Public Accounting Firm

AMENDED AND RESTATED

ASSET PURCHASE AGREEMENT

by and between

CAL DIVE INTERNATIONAL, INC.,

as Buyer,

and

TORCH OFFSHORE, INC.,

TORCH OFFSHORE L.L.C.,

and

TORCH EXPRESS, L.L.C.,

as Sellers

June 9, 2005

TABLE OF CONTENTS

Article I DEFINITIONS	2
Article II PURCHASE AND SALE OF SUBJECT ASSETS; THE CLOSING	10
2.1 Sale and Purchase	10
2.2 Excluded Assets	10
2.3 Assumption of Liabilities	10
2.4 Excluded Liabilities	11
2.5 The Closing	12
Article III PURCHASE PRICE; SECURITY DEPOSIT	12
3.1 Purchase Price	12
3.2 Security Deposit	12
Article IV CLOSING DELIVERIES	13
4.1 Closing Deliveries of Sellers	13
4.2 Closing Deliveries of Buyer	14
Article V REPRESENTATIONS OF BUYER	14
5.1 Organization, Power and Status of Buyer	14
5.2 Authorization, Enforceability, Execution and Delivery	14
5.3 No Conflicts; Laws and Consents; No Default	15
5.4 Financing	15
Article VI REPRESENTATIONS OF SELLERS	15
6.1 Organization, Power and Status of Seller	15
6.2 Authorization, Enforceability, Execution and Delivery	16
6.3 No Conflicts; Laws and Consents; No Default	16
6.4 Taxes	16
6.5 Property; Title; Sufficiency	17
6.6 Legal Proceedings	18
6.7 Compliance with Laws; Permits	18
6.8 Environmental Matters	19
6.9 Assumed Contracts	20
Article VII SURVIVAL; EXCLUSION OF WARRANTIES; NO ASSUMPTION OF LIABILITIES; EMPLOYEES	21
7.1 Survival	21

7.2 Exclusion of Warranties	21
7.3 No Assumption of Liabilities	21
7.4 No Obligation for Employees	21
Article VIII CONDITIONS TO CLOSING	22
8.1 Buyer's Conditions Precedent	22
8.2 Sellers' Conditions Precedent	23
Article IX SELLERS' BANKRUPTCY	23
9.1 Procedure for Approval of Transaction	23
9.2 Condition to Closing Relating to Bankruptcy	27
Article X COVENANTS; TRANSFER OF TITLE AND DELIVERY OF VESSELS	27
10.1 Covenants with Respect to Conduct Prior to Closing	27
10.2 Transfer of Title	29
10.3 Inspections and Due Diligence	29
10.4 Notices; Time and Place of Delivery	29
10.5 Buyer Responsibilities Upon Delivery	29
10.6 Delivery Procedure	29
10.7 Spares, etc	29
Article XI TAXES	29
11.1 Responsibility for Taxes	29
11.2 Cooperation on Tax Matters	30
11.3 Preparation of Allocation Schedule	30
Article XII DISPUTE RESOLUTION; SERVICE; GOVERNING LAW	31
12.1 Dispute Resolution; Service of Process; Waiver of Jury Trial	31
12.2 Governing Law	32
Article XIII TERMINATION	32
13.1 Termination	32
13.2 Procedure Upon Termination	33
13.3 Effect of Termination	33
Article XIV MISCELLANEOUS PROVISIONS	34
14.1 Amendments and Waivers	34
14.2 Severability	34
14.3 Notices	34
14.4 Captions	36

14.5 No Partnership	36
14.6 Counterparts; Delivery by Facsimile	36
14.7 General Interpretive Principles	36
14.8 Punitive, Consequential, and Special Damages	36
14.9 Further Assurances	37
14.10 Entire Agreement	37
14.11 Finders or Broker's Fees	37
14.12 Binding Effect; Assignment	37
14.13 Publicity	37

Sellers' Schedules

Schedule 6.3(a) —	Conflicts
Schedule 6.4 —	Taxes
Schedule 6.5(b) —	Licensed Software
Schedule 6.6 —	Legal Proceedings
Schedule 6.7(a) —	Compliance with Laws
Schedule 6.7(b) —	Permits
(i)	
Schedule 6.7(b) —	Exceptions to Permits
(ii)	
Schedule 6.8 —	Environmental Matters
Schedule 9.1(e) —	Break-Up Fee Assets Allocations

Exhibits

Exhibit A-1	Break-Up Fee Assets
Exhibit A-2	Additional Assets
Exhibit A-3	Excluded Vessels and Equipment
Exhibit B	Patents
Exhibit C	Form of Bill of Sale
Exhibit D	Form of Assignment and Assumption Agreement
Exhibit E	Form of Patent Assignment
Exhibit F	Form of Power of Attorney
Exhibit G	Form of Protocol of Delivery and Acceptance

AMENDED AND RESTATED ASSET PURCHASE AGREEMENT

THIS AMENDED AND RESTATED ASSET PURCHASE AGREEMENT (this "Agreement") is entered into as of June 9, 2005, by and between Cal Dive International, Inc., a Minnesota corporation ("Buyer"), and Torch Offshore, Inc., a Delaware corporation ("Torch"), Torch Offshore, L.L.C., a Delaware limited liability company ("Offshore"), and Torch Express, L.L.C., a Louisiana limited liability company ("Express", with Torch and Offshore, each a "Seller" and collectively, "Sellers"). Buyer and each Seller are sometimes individually referred to as a "Party" and collectively as the "Parties."

WITNESSETH:

WHEREAS, the Parties entered into an Asset Purchase Agreement, dated as of April 1, 2005 (the "Original Agreement"), in order to provide for the purchase of certain assets and properties of the Sellers by Buyer;

WHEREAS, the Original Agreement was amended and restated pursuant to the Amended and Restated Asset Purchase Agreement, dated as of May 2, 2005 (as amended, modified and supplemented prior to the date hereof, the "Prior Restatement") to reflect agreed amendments, modifications and supplements to the Original Agreement, and the Prior Restatement was further specifically amended, modified and supplemented by a letter agreement dated as of May 5, 2005;

WHEREAS, the Parties desire to further amend and restate the Original Agreement and the Prior Restatement in entirety to reflect and provide for the application of the terms and conditions set forth in this Agreement;

WHEREAS, Sellers are the owners of (i) the six (6) marine vessels and the related and associated assets thereto that are described on Exhibit A-1 hereto and (ii) the one (1) marine vessel and the related and associated assets thereto that are described on Exhibit A-2 hereto (such vessels and assets as described in Exhibit A-1 and Exhibit A-2 collectively comprising the "Subject Assets");

WHEREAS, on January 7, 2005 (the "Petition Date"), Torch, Offshore and Express petitioned the United States Bankruptcy Court for the Eastern District of Louisiana for relief under chapter 11 of title 11 of the United States Code (which such proceedings are being jointly administered under Case No. 05-10137 ("B")); and

WHEREAS, Sellers desire to sell, transfer and assign to Buyer or its designated Affiliate or Affiliates, and Buyer desires to (or to cause its designated Affiliate or Affiliates to) acquire from Sellers, all of the Subject Assets, all as more specifically provided herein;

In consideration of the mutual covenants and agreements herein contained, and of other valuable consideration, the receipt of which is hereby acknowledged, the Parties hereby agree as follows:

**ARTICLE I
DEFINITIONS**

The following terms employed in this Agreement have the meanings set forth as follows:

“Action” means any action, motion, application, complaint, hearing, investigation, petition, suit or other proceeding, whether in law or in equity, or before any arbitrator or Governmental Authority.

“Additional Assets” means that vessel and the related and associated assets thereto described on Exhibit A-2.

“Affiliate” means, with respect to any Person, any other Person that, directly or indirectly through one or more intermediaries, controls, or is controlled by, or is under common control with, such Person, and the term “control” (including the terms “controlled by” and “under common control with”) means the possession, directly or indirectly, of the power to direct or cause the direction of the management and policies of such Person, whether through ownership of voting securities, by contract or otherwise

“Agreement” has the meaning set forth in the Preamble.

“Approval Order” means a Final Order or Final Orders of the Bankruptcy Court, in form and substance reasonably acceptable to Buyer that, among other things, (i) approves, pursuant to sections 363(b) and 363(f) of the Bankruptcy Code, (A) the execution, delivery and performance by Sellers of this Agreement, and the other instruments and agreements contemplated hereby, (B) the sale of the Subject Assets free and clear of any and all Liens (other than Permitted Exceptions) to Buyer on the terms set forth herein, and (C) the performance by each of Sellers and Buyer of its respective obligations under this Agreement; and (ii) finds that Buyer is a “good faith” purchaser within the meaning of section 363(m) of the Bankruptcy Code, and which such Order or Orders shall be in full force and effect and shall not have been modified or amended in any respect.

“Assumed Liabilities” has the meaning set forth in Section 2.3.

“Auction” means the Bankruptcy Court auction for the Subject Assets held in accordance with the Scheduling Order.

“Bankruptcy Case” means Sellers’ chapter 11 cases currently pending before the Bankruptcy Court as jointly administered under Case No. 05-10137 (“B”).

“Bankruptcy Code” means Title 11 of the United States Code, as heretofore and hereafter amended, and codified as 11 U.S.C. section 101, et seq., or any successor statute, and applicable federal and local rules of bankruptcy procedure thereunder.

“Bankruptcy Court” means the United States Bankruptcy Court for the Eastern District of Louisiana or any other court having jurisdiction over the Bankruptcy Case.

“Bidding Procedures” has the meaning ascribed to such term in the Scheduling Order.

“Break-Up Fee” has the meaning set forth in Section 9.1(e)(i).

“Break-Up Fee Assets” means those vessels and the related and associated assets thereto described Exhibit A-1.

“Business Day” means any day of the year on which national banking institutions in New York, New York, Houston, Texas and New Orleans, Louisiana are open to the public for conducting business and are not required or authorized to close.

“Buyer” has the meaning set forth in the Preamble.

“Classification Society” or “Class” means that “classification society” or “class” referred to in Exhibit A.

“Closing” has the meaning set forth in Section 2.5.

“Closing Date” has the meaning set forth in Section 2.5.

“Code” means the Internal Revenue Code of 1986, as amended.

“Competing Transaction” means any sale or other disposition of all or a portion of the Break-Up Fee Assets to a Person other than Buyer.

“Contract” means any contract, agreement, indenture, note, bond, loan, instrument, lease, commitment or other arrangement or agreement, whether written or oral.

“Credit Bid” means a bid by either Regions Bank or Export Development Canada for purchase of all or any portion of the Break-Up Fee Assets pursuant to Section 363(k) of the Bankruptcy Code providing that the sole consideration for such purchase shall be claims of such bidder against the Sellers and their estates.

“Cure Amount” means the aggregate of all cure amounts described in Section 9.1(h) and approved by the Bankruptcy Court pursuant to section 365(b) of the Bankruptcy Code.

“Cure Payment” means: (i) if the Cure Amount is equal to or less than One Million Dollars (\$1,000,000), the Cure Amount; or (ii) if the Cure Amount is in excess of One Million Dollars (\$1,000,000), an amount equal to (a) One Million Dollars (\$1,000,000) *plus* (b) an amount equal to fifty percent (50%) of the amount by which the Cure Amount exceeds One Million Dollars (\$1,000,000).

“Employee” means any individual who is employed by Sellers in connection with the operation of the Subject Assets, including, without limitation, any individual who is hired prior to the Closing Date in respect of the operation of the Subject Assets after the date hereof.

“Environmental Costs and Liabilities” means, with respect to any Person, all liabilities, obligations, responsibilities, Remedial Actions, losses, damages, punitive damages, consequential damages, treble damages, costs and expenses (including all reasonable fees, disbursements and expenses of counsel, experts and consultants and costs of investigation and feasibility studies), fines, penalties, sanctions and interest incurred as a result of any claim or demand by any other Person or in response to any violation of Environmental Law, whether known or unknown, accrued or contingent, whether based in contract, tort, implied or express warranty, strict liability or criminal or civil statute, to the extent based upon, related to, or arising under or pursuant to any applicable Environmental Law or applicable Environmental Permit (including an order or agreement with any Governmental Authority or other Person under an applicable Environmental Law), violation of applicable Environmental Law or a Release or threatened Release of Hazardous Materials.

“Environmental Law” means any applicable international, transnational, foreign, federal, state or local statute, regulation, ordinance, rule of common law or other legal requirement as now in effect in any way relating to the protection of human health and safety from Hazardous Materials, the environment or natural resources, including, without limitation, the Comprehensive Environmental Response, Compensation and Liability Act (42 U.S.C. § 9601 et seq.), the Hazardous Materials Transportation Act (49 U.S.C. App. § 1801 et seq.), the Resource Conservation and Recovery Act (42 U.S.C. § 6901 et seq.), the Clean Water Act (33 U.S.C. § 1251 et seq.), the Clean Air Act (42 U.S.C. § 7401 et seq.) the Toxic Substances Control Act (15 U.S.C. § 2601 et seq.), the Federal Insecticide, Fungicide, and Rodenticide Act (7 U.S.C. § 136 et seq.) (to the extent it regulates Hazardous Materials), and the Occupational Safety and Health Act (29 U.S.C. § 651 et seq.), as each has been or may be amended and the regulations promulgated pursuant thereto.

“Environmental Permit” means any Permit required by applicable Environmental Laws for the ownership, use or operation of the Subject Assets.

“Escrow Agent” means JPMorgan Chase Bank, N.A.

“Escrow Agreement” has the meaning set forth in Section 3.2(a); provided, however, that any reference in such Escrow Agreement to the “Asset Purchase Agreement, dated as of April 1, 2005” or the “Purchase Agreement” shall be deemed for all purposes thereof to be a reference to this Agreement (and the amendment and restatement effected herein).

“Equipment” means all furniture, fixtures, furnishings, equipment (including all SAT systems and support equipment), improvements and other tangible personal property owned by Sellers for the use of the Vessels and located on the Vessels or located at the Sellers’ Dulac, Louisiana, fabrication yard, including all artwork, desks, chairs, tables, Hardware, copiers, telephone lines and numbers, telecopy machines and other telecommunication equipment and miscellaneous furnishings and supplies and, without limitation, with respect to any Vessel (i) said Vessel’s machinery, engines, lay installation equipment, towers, reels, cranes, tensioners, spares, motors, generators, riggings, attachments, accessories, fixtures, replacement parts, consumables, fuel, oil, and all other appurtenances associated with the Vessels, whether located on the Vessels or at shore based facilities; (ii) all surveys, inspection records, safety logs and

maintenance and navigation records, vessel logs, engineering logs, documents relating to Class and as-built and design drawings relating to each of the Vessels; (iii) all owner's and operator's manuals related to, or used or usable by each of the Vessels; (iv) all construction and diving equipment including, but not limited to, chambers, hydraulic units, hydraulic tools, tool compressors, dive compressors, jet pumps, positive displacement pumps, centrifugal pumps, dive hoses, video equipment, recorders, welding equipment, engines, jet hoses, air tools and hand tools whether located at shore-based facilities or on the Vessels; and (v) all equipment used to support loading and unloading the Vessels, including, without limitation, cranes, fork lifts, cherry pickers, conex boxes, supply baskets, trucks, trailers, and vans whether located at shore-base facilities or on the Vessels.

"Excluded Assets" means all property and assets of Sellers other than the Subject Assets, including, without limitation, those vessels and related equipment described on Exhibit A-3 hereto, the accounts receivable of Sellers and any Contracts, choses in action or other legal or equitable rights of Sellers and their bankruptcy estates other than the Warranties and the Purchased Contracts.

"Excluded Liabilities" has the meaning set forth in Section 2.4.

"Expense Reimbursement" has the meaning set forth in Section 9.1(e)(ii).

"Express" has the meaning set forth in the Preamble.

"Final Order" means a judgment, order or decree of the relevant Governmental Authority that has not been reversed, stayed, enjoined, set aside, annulled, vacated or suspended and, with respect to any judgment, order or decree of the Bankruptcy Court, any waiting period prescribed by Law before the transactions contemplated hereby may be consummated has expired.

"Governmental Approval" means any authorization, consent, approval, license, franchise, ruling, permit, tariff, rate, certification, exemption, filing or registration by or with any Governmental Authority relating to the ownership of the Subject Assets or to the execution, delivery or performance of this Agreement, including without limitation any applicable consents and approvals required under the HSR Act.

"Governmental Authority" means any international or transnational regulatory or administrative authority, any national, state or local government, or any political subdivision or instrumentality thereof, and any entity exercising executive, legislative, judicial, regulatory or administrative functions of or pertaining to government and any other Governmental Authority with authority over Buyer or Sellers, the operation of the Vessels or any of the other Subject Assets.

"Hardware" means any and all computer and computer-related hardware, including, but not limited to, computers, file servers, facsimile servers, scanners, color printers, laser printers and networks.

“Hazardous Material” means any substance, material or waste that is listed, classified, or otherwise regulated under or pursuant to any applicable Environmental Law as “hazardous,” “toxic,” “pollutant,” “contaminant,” “radioactive,” or words of similar meaning or effect, including, without limitation, petroleum and its by-products, asbestos, polychlorinated biphenyls, radon, and urea formaldehyde insulation.

“HSR Act” means the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended, and the rules and regulations promulgated thereunder.

“Indebtedness” of any Person means, without duplication, (i) the principal of and premium (if any) in respect of (A) indebtedness of such Person for money borrowed and (B) indebtedness evidenced by notes, debentures, bonds or other similar instruments for the payment of which such Person is responsible or liable; (ii) all obligations of such Person issued or assumed as the deferred purchase price of property, all conditional sale obligations of such Person and all obligations of such Person under any title retention agreement; (iii) all obligations of such Person under leases required to be capitalized in accordance with generally accepted accounting principles; (iv) all obligations of such Person for the reimbursement of any obligor on any letter of credit, banker’s acceptance or similar credit transaction; (v) the liquidation value of all redeemable preferred stock of such Person; (vi) all obligations of the type referred to in clauses (i) through (v) of any Persons for the payment of which such Person is responsible or liable, directly or indirectly, as obligor, guarantor, surety or otherwise, including guarantees of such obligations; and (vii) all obligations of the type referred to in clauses (i) through (vi) of other Persons secured by any Lien on any property or asset of such Person (whether or not such obligation is assumed by such Person).

“Inventory” means all inventory of Sellers, including all merchandise, raw materials, supplies and other tangible personal property, used or held for use in connection with the operation of the Vessels.

“Knowledge” means actual knowledge, after reasonable inquiry, of the officers of the Party being held responsible for such knowledge.

“Law” means any applicable international or transnational, foreign, federal, state or local law (including common law), statute, rule, regulation, ordinance, order, code, treaty or other legally binding requirement, in effect now or as of the Closing Date, including any judicial or administrative order, consent decree or judgment.

“Legal Proceeding” means any judicial, administrative or arbitral actions, suits, proceedings (public or private) or claims or any proceedings by or before a Governmental Authority.

“Liability” means any debt, loss, damage, adverse claim (including claims as defined in the Bankruptcy Code), liability, royalty, deficiency or obligation (whether direct or indirect, known or unknown, asserted or unasserted, absolute or contingent, accrued or unaccrued, liquidated or unliquidated, or due or to become due, and whether in contract, tort, strict liability or otherwise), and including all costs and expenses relating thereto.

“Licensed Software” means Software formally licensed to any of the Sellers via a written license agreement governing the terms of use of said Software and which is material for the use and operation, or prospective use and operation, of the Subject Assets.

“Lien” means any mortgage, lien (statutory or other, and including all “Liens” defined in the Bankruptcy Code), pledge, security interest or interest of ownership, encumbrance, deed of trust, hypothecation, assignment for security, claim, lease, charge, option, right of first refusal, easement, servitude, proxy, voting trust or agreement, transfer restriction or deposit arrangement or other security agreement or adverse claim to ownership of the Vessels or the other Subject Assets of any kind or nature whatsoever, whether recorded or unrecorded.

“Material Adverse Effect” means (i) a material adverse effect on the condition, utilization or value of the Subject Assets or (ii) a material adverse effect on the ability of Sellers to consummate the transactions contemplated by this Agreement or perform their obligations under this Agreement.

“Offshore” has the meaning set forth in the preamble.

“Order” means any order, injunction, judgment, decree, ruling, writ, assessment or arbitration award of a Governmental Authority, including, without limitation, any order entered by the Bankruptcy Court in the Bankruptcy Case.

“Outside Date” has the meaning set forth in Section 13.1(c).

“Patents” means the patents and patent applications listed on Exhibit B attached hereto and made a part hereof.

“Permitted Exceptions” means (i) all defects, exceptions, restrictions, easements, rights of way and encumbrances disclosed in policies of title insurance which have been made available to Buyer; (ii) statutory liens for current Taxes, assessments or other governmental charges not yet delinquent or the amount or validity of which is being contested in good faith by appropriate proceedings provided an appropriate reserve is established therefor; (iii) mechanics’, carriers’, workers’, repairers’ and similar Liens arising or incurred in the ordinary course of business that are not material to the operations and condition of the Subject Assets so encumbered and that are not resulting from a breach, default or violation by any Seller of any Contract or Law; (iv) zoning, entitlement and other land use and environmental regulations of any Governmental Authority provided that such regulations have not been violated; and (v) such other imperfections in title, charges, easements, restrictions and encumbrances which do not materially detract from the value of or materially interfere with the present use of any Subject Assets subject thereto or affected thereby.

“Permit” means any approval, authorization, consent, license, permit, franchise, certificate or Order of a Governmental Authority, or any waiver of the foregoing, necessary or appropriate for the operation and present use of the Subject Assets or for the transfer of the Subject Assets.

“Person” means an individual, a partnership, a corporation, a joint venture, an unincorporated association, a joint-stock company, a trust, a limited liability company, or other entity or a Governmental Authority or any agency or political subdivision thereof.

“Petition Date” has the meaning assigned to such term in the recitals of this Agreement.

“Prior Restatement” has the meaning assigned to such term in the recitals of this Agreement.

“Protocol of Delivery and Acceptance” has the meaning set forth in Section 10.6.

“Purchase Price” has the meaning set forth in Section 3.1.

“Purchased Contracts” means those Contracts identified under the heading “Purchased Contracts” on Exhibit A-1 hereto, which such Contracts shall comprise a part of and be included in the Subject Assets, but only to the extent that such Contracts are:

- (i) executory contracts or unexpired leases that are able to be assumed and assigned by Sellers under applicable Law; and
- (ii) relate to goods or services that are necessary, required or reasonably appropriate for the use, maintenance and operation of the Subject Assets;

provided, however, that the “Purchased Contracts” shall be “None” in the event that the *M/V Midnight Express* is not included among the vessels that Buyer purchases from Sellers and, in such event, the Buyer shall have no obligation for any payment of any cure amounts with respect to those Contracts identified under the heading “Purchased Contracts” on Exhibit A-1 hereto.

“Release” means any release, spill, emission, leaking, pumping, injection, deposit, disposal, discharge, dispersal, or leaching of Hazardous Material into the environment.

“Remedial Action” means all actions to (i) clean up, remove, treat or in any other way address any Release of Hazardous Material; (ii) prevent the threatened Release of any Hazardous Material so it does not endanger or threaten to endanger public health or welfare or the environment; (iii) perform pre-remedial studies and investigations or post-remedial monitoring and care associated with a Release of Hazardous Material; or (iv) correct a condition of noncompliance with applicable Environmental Laws.

“Sale Hearing” means the hearing to be conducted by the Bankruptcy Court to consider approval and entry of the Approval Order.

“Sale Motion” means the motion or motions of Sellers filed with the Bankruptcy Court on April 6, 2005 seeking approval and entry of the Approval Order and scheduling of the Sale Hearing, with any modifications, amendments or supplements thereto that are reasonably acceptable to Buyer.

“Scheduling Hearing” means the hearing scheduled and conducted by the Bankruptcy Court on April 27, 2005 and subsequent thereto to consider approval of the Break-Up Fee and Expense Reimbursement, and issuance of the Scheduling Order.

“Scheduling Motion” means the motion of Sellers filed with the Bankruptcy Court on April 6, 2005 seeking setting of the Scheduling hearing and approval of the Scheduling Order, with any modifications, amendments or supplements thereto that are reasonably acceptable to Buyer.

“Scheduling Order” means that certain Order (A) Approving Bidding Procedures for Submission and Acceptance of Competing Bids, and Under Certain Circumstances, Payment of a Break-Up Fee and Expense Reimbursement to Cal Dive International, Inc.; (B) Scheduling Bidding Deadline, Auction Date and Sale Hearing Date; (C) Establishing Procedure for Determining Cure Amounts; and (D) Fixing Notice Procedures and Approving Form of Notice, as approved and entered by the Bankruptcy Court on May 6, 2005, and any amendments, modifications or supplements thereto that are reasonably acceptable to Buyer.

“Security Deposit” has the meaning set forth in Section 3.2.

“Seller” and “Sellers” have the meanings set forth in the preamble.

“Software” means computer software programs, whether in source code, object code or human readable form; provided, however, that Software does not include any (i) computer software program that is subject to “shrink-wrap” license or “click-through” agreements, or (ii) computer software program that is commercially available to the general consuming public in exchange for a license or purchase fee of Five Thousand Dollars (\$5,000.00) or less.

“Subject Assets” have the meaning set forth in the recitals to this Agreement. In the interest of clarity, the Subject Assets do not include the Excluded Assets.

“Tax” or “Taxes” means (i) any and all federal, state, local or foreign taxes, charges, fees, imposts, levies or other assessments, including, without limitation, all net income, gross receipts, capital, sales, use, ad valorem, value added, transfer, franchise, profits, inventory, capital stock, license, withholding, payroll, employment, social security, unemployment, excise, severance, stamp, occupation, property and estimated taxes, customs duties, fees, assessments and charges of any kind whatsoever, and (ii) all interest, penalties, fines, additions to tax or additional amounts imposed by any Taxing Authority in connection with any item described in clause (i), and (iii) any liability in respect of any items described in clauses (i) and/or (ii) payable by reason of contract, assumption, transferee liability, operation of law, Treasury Regulation section 1.1502-6(a) (or any predecessor or successor thereof of any analogous or similar provision under law) or otherwise.

“Taxing Authority” means the IRS and any other Governmental Authority responsible for the administration of any Tax.

“Tax Return” means any return, report or statement required to be filed with respect to any Tax (including any attachments thereto, and any amendment thereof) including, but not

limited to, any information return, claim for refund, amended return or declaration of estimated Tax, and including, where permitted or required, combined, consolidated or unitary returns for any group of entities that includes the Sellers, any of their respective subsidiaries, or any of their respective Affiliates.

“Termination Date” has the meaning set forth in Section 13.1.

“Torch” has the meaning set forth in the preamble.

“Transaction” means the purchase, sale and assignment of the Subject Assets, along with any other transactions contemplated in this Agreement or related thereto.

“Transferred Permits” means the respective Permits listed on Exhibits A-1 and A-2 attached hereto and made a part hereof, which such Permits are a part of, and included in, the Subject Assets.

“Vessels” means the respective marine vessels identified on Exhibits A-1 and A-2 attached hereto and made a part hereof.

“Warranty” any warranty, representation or guaranty of any Person other than Sellers (including, without limitation, any supplier, manufacturer or contractor), whether express or implied, or for the design, quality, condition, merchantability, seaworthiness or fitness for a particular purpose, with respect to the design, manufacture, assembly, repair, maintenance, delivery or installation of Subject Assets, or services rendered thereon or in connection therewith, by any such Person.

ARTICLE II PURCHASE AND SALE OF SUBJECT ASSETS; THE CLOSING

2.1 Sale and Purchase. On the terms and subject to the conditions set forth in this Agreement, at the Closing, Sellers shall sell, transfer, convey, assign and deliver to Buyer, and Buyer shall (or shall cause its designated Affiliate to) purchase, acquire and accept from Sellers, all of the Sellers’ right, title and interest in, to and under the Subject Assets, free and clear of Liens except for Permitted Exceptions.

2.2 Excluded Assets. Nothing herein contained shall be deemed to sell, transfer, assign or convey the Excluded Assets to Buyer, and Sellers shall retain all right, title and interest to, in and under the Excluded Assets.

2.3 Assumption of Liabilities. On the terms and subject to the conditions set forth in this Agreement, at the Closing, Buyer shall (or shall cause its designated Affiliate or Affiliates to) assume, effective as of the Closing, all Liabilities of Sellers under the Purchased Contracts and Transferred Permits that arise out of or relate to performance thereunder or use and operation of the Subject Assets in respect thereof from and after the Closing Date (collectively, the “Assumed Liabilities”).

2.4 Excluded Liabilities. Buyer will not assume or be liable for any Excluded Liabilities. “Excluded Liabilities” shall mean all Liabilities arising out of, relating to or otherwise in respect of the ownership, use or operation of the Subject Assets on or before the Closing Date and, other than the Assumed Liabilities, all other Liabilities of Sellers (whether known or unknown or asserted or unasserted as of the Closing Date and irrespective of when any claim in respect thereof shall be made), including, without limitation, the following Liabilities:

- (a) all Liabilities in respect of any and all products sold and services performed by Sellers on or before the Closing Date;
- (b) all Environmental Costs and Liabilities to the extent arising out of, relating to or otherwise in respect of the ownership, use or operation of the Subject Assets (or any condition thereon) on or before the Closing Date, including, without limitation, any (i) Release or continuing Release (if existing as of the Closing) of any Hazardous Material, regardless of by whom or (ii) any noncompliance with applicable Environmental Laws;
- (c) all Liabilities arising out of, relating to or with respect to (i) the employment or performance of services, or termination of employment or services by Sellers or any of its Affiliates of any Person on or before the Closing Date, (ii) workers’ compensation claims relating to the Sellers or the use and operation of the Subject Assets on or before the Closing Date, irrespective of whether such claims are made prior to or after the Closing or (iii) any employee benefit plan of Sellers or any of their respective Affiliates or subsidiaries;
- (d) all Liabilities arising out of, under or in connection with Contracts that are not Purchased Contracts and, with respect to Purchased Contracts, Liabilities (other than in respect of the payment of the Cure Payment in accordance with Section 4.2(b)) in respect of any performance, obligations, breach by or default accruing under such Contracts with respect to any period prior to Closing;
- (e) all Liabilities arising out of, under or in connection with any Indebtedness of Sellers;
- (f) all Liabilities for (i) Taxes of Seller, (ii) Taxes that relate to the Subject Assets or the Assumed Liabilities for taxable periods (or portions thereof) ending on or before the Closing Date, and (iii) payments under any Tax allocation, sharing or similar agreement (whether oral or written);
- (g) all Liabilities in respect of any pending or threatened Legal Proceeding, or any claim arising out of, relating to or otherwise in respect of (i) the ownership, use or operation of the Subject Assets to the extent such Legal Proceeding or claim relates to such ownership, use or operation on or prior to the Closing Date, or (ii) any Excluded Asset;
- (h) any and all Liabilities of Sellers that are discharged pursuant to Section 1141(d)(1) of the Bankruptcy Code or any Order of the Bankruptcy Court; and

(i) any and all Liabilities of Sellers other than Assumed Liabilities, the collection of which has been permanently enjoined by an Order of the Bankruptcy Court or by any applicable provision of the Bankruptcy Code (including, without limitation, Section 524 of the Bankruptcy Code).

2.5 The Closing. The closing of the purchase and sale of the Subject Assets (the "Closing") will take place at a time agreed by the Parties, during normal business hours at the offices of Heller, Draper, Hayden, Patrick & Horn, L.L.C. in New Orleans, Louisiana, or at such other venue as Sellers and Buyer mutually agree. The Parties shall use all reasonable efforts to cause the Closing to occur on the date no later than three (3) Business Days following the date on which all conditions to Closing hereunder are satisfied or waived (other than such conditions that by their nature are to be satisfied at the Closing, but subject to the satisfaction or waiver of such conditions), unless another time or date, or both, are agreed to in writing by the Parties. The date on which the Closing shall be held is referred to in this Agreement as the "Closing Date".

ARTICLE III PURCHASE PRICE; SECURITY DEPOSIT

3.1 Purchase Price. The consideration to be given and paid by Buyer to Sellers for the Subject Assets shall be: (a) with respect to the Break-Up Fee Assets, (i) the assumption of the Assumed Liabilities relating to the Break-Up Fee Assets and (ii) Eighty Million Four Hundred and Fifty Thousand Dollars (\$80,450,000.00) in cash (the "Break-Up Fee Assets Purchase Amount") and (b) with respect to the Additional Assets, (i) the assumption of the Assumed Liabilities relating to the Additional Assets and (ii) Two Million Five Hundred and Fifty Thousand Dollars (\$2,550,000) in cash (collectively with the Break-Up Fee Assets Purchase Amount, the "Purchase Price").

3.2 Security Deposit.

(a) On April 6, 2005, Buyer deposited with Escrow Agent, in its capacity as escrow agent pursuant to that certain Escrow Agreement, dated as of April 6, 2005, among Buyer, Sellers and Escrow Agent (the "Escrow Agreement"), the sum of Four Million Six Hundred Thousand Dollars (\$4,600,000) (the "Security Deposit"). Pursuant to the Escrow Agreement, the Security Deposit plus any interest or other amount accrued thereon shall either (i) be applied as a deposit towards the Purchase Price as provided in Section 4.2(b), or (ii) be returned to Buyer in the event that this Agreement is terminated pursuant to Sections 13.1(a), (b), (c), (d), (f) or (g) (in each such case, such return shall be authorized and completed as soon as practicably possible after the occurrence of such termination), or (iii) be paid to Sellers in the event that this Agreement is terminated by Sellers pursuant to Section 13.1(h).

(b) Upon payment of the Security Deposit to Sellers as provided under Section 3.2(a)(iii), Buyer shall be fully released and discharged from any liability or obligation under or resulting from this Agreement and Sellers shall not have any other remedy or cause of action under or relating to this Agreement or any applicable Law.

**ARTICLE IV
CLOSING DELIVERIES**

4.1 Closing Deliveries of Sellers. On the Closing Date, in exchange for the payment of the Purchase Price and the assumption of the Assumed Liabilities, each of the Sellers, as applicable, shall execute and deliver the following to Buyer:

- (a) a certificate evidencing resolutions of the Board of Directors (or commensurate authority) of each of the Sellers, certified by the Secretary or other appropriate officer or agent of such Seller, duly authorizing the execution, delivery and performance of this Agreement and the other transaction documents;
- (b) a bill of sale to each of the Vessels in a form recordable in the country in which such Vessel is presently documented, duly notarially attested transferring such Vessel;
- (c) for each of the Vessels, a current Abstract of Title or Certificate of Ownership and Encumbrances issued by the appropriate Governmental Authorities showing the current record owners of the respective Vessel and stating that the respective Vessel is free from any registered Liens;
- (d) for each of the Vessels, a counterpart executed by Seller of the Protocol of Delivery and Acceptance confirming the date and time of delivery of the respective Vessel from the Seller to Buyer;
- (e) one or more bills of sale in the form of Exhibit C hereto for all of the other assets comprising a part of the Subject Assets;
- (f) an assignment and assumption agreement in the form of Exhibit D hereto;
- (g) duly executed assignments for the Patents, each substantially in the form attached hereto as Exhibit E;
- (h) a duly executed power of attorney in the form of Exhibit F hereto;
- (i) a certified copy of the Approval Order;
- (j) an affidavit of non-foreign status that complies with Section 1445 of the Code (acknowledging and certifying that the transactions contemplated hereby are exempt from withholding under such section of the Code);
- (k) any additional documents reasonably required by the appropriate Governmental Authority for the purpose of re-documenting Buyer's ownership of the Vessels, provided Buyer notifies Sellers of any such documents as soon as possible after the date of this Agreement;
- (l) evidence, in a form and substance satisfactory to the Buyer (or its designated Affiliate), of the payment, on or prior to the Closing Date, by the Sellers in

respect of the Purchased Contracts the cure amount to the non-Seller parties to the Purchased Contracts (which, in the aggregate, shall be the Cure Amount), with such payment being made prior to the assignment of such Purchased Contracts from Sellers to Buyer (or its designated Affiliate); and

(m) and such other instruments of transfer in a form and substance satisfactory to Buyer (or its designated Affiliate) necessary to transfer and vest in Buyer (or its designated Affiliate) all of the Sellers' right, title and interest in and to the Subject Assets in accordance with the terms of this Agreement.

4.2 Closing Deliveries of Buyer. On the Closing Date, in exchange for the transfer, assignment, conveyance and delivery of Subject Assets by Sellers to Buyer, Buyer shall execute and deliver the following to Sellers:

- (a) a certificate evidencing resolutions (or commensurate authority) of the Board of Directors of Buyer, certified by the Secretary or other appropriate officer or agent of Buyer, duly authorizing the execution, delivery and performance of this Agreement and the other transaction documents;
- (b) an amount equal to (i) the Purchase Price *less* the Security Deposit plus any interest or other amounts accrued thereon, *plus* (ii) the Cure Payment, payable by wire transfer to an account specified in writing by Sellers;
- (c) for each of the Vessels, a counterpart executed by Buyer of the Protocol of Delivery and Acceptance confirming the date and time of delivery of the respective Vessel from Seller to Buyer; and
- (d) an assignment and assumption agreement in the form of Exhibit D hereto.

ARTICLE V REPRESENTATIONS OF BUYER

Buyer hereby represents and warrants to Sellers that:

5.1 Organization, Power and Status of Buyer. Buyer is an entity duly formed, validly existing and in good standing under the laws of the State of Minnesota.

5.2 Authorization, Enforceability, Execution and Delivery. Buyer has all necessary corporate power and authority to execute, deliver and perform its obligations under this Agreement and each other related document to which it is a party. The execution, delivery and performance by Buyer of this Agreement have been duly authorized by all necessary corporate action on behalf of Buyer. This Agreement has been duly executed and delivered by Buyer and (assuming the due authorization, execution and delivery by the other parties hereto and thereto) this Agreement and each such other document related to this Agreement to which Buyer is a party constitute legal, valid and binding obligations, enforceable against it in accordance with their terms, except as such enforceability (i) may be limited by applicable bankruptcy, insolvency, reorganization, moratorium and other similar laws affecting the enforcement of

creditors' rights and remedies generally and (ii) is subject to general principles of equity (regardless of whether enforceability is considered in a proceeding in equity or at law).

5.3 No Conflicts; Laws and Consents; No Default.

(a) Except as set forth on Schedule 5.3(a), neither the execution, delivery and performance of this Agreement nor the consummation of the Transaction nor performance of or compliance with the terms and conditions hereof will conflict with, or result in any violation of or default (with or without notice or lapse of time, or both) under, or give rise to any increased, additional, accelerated or guaranteed rights or entitlements of any Person under, or result in the creation of any Liens upon of the Subject Assets under any provision of (i) any Law applicable to Buyer or (ii) any document to which Buyer is a party, except for any such conflict, violation, default, rights or entitlements that would not have a material adverse effect upon Buyer's ability to perform its obligations under this Agreement.

(b) No consent, waiver, approval, order, permit or authorization of, or declaration or filing with, or notification to, any Person or Governmental Authority is required on the part of Buyer in connection with the execution and delivery of this Agreement or the consummation of the Transaction or the compliance by Buyer with any of the provisions hereof, except for compliance with any requirements (if applicable) of the HSR Act and those set forth on Schedule 5.3(b) hereto or such consents, waivers, approvals, orders, permits or authorizations, declarations, filings or notifications that the failure to obtain or make would not, individually or in the aggregate, have a material adverse effect on the ability of Buyer to consummate the transactions contemplated by this Agreement.

5.4 Financing. Buyer has on the date hereof and will have sufficient available funds to pay the Purchase Price and the Cure Payment in cash at Closing in accordance with Section 4.2 hereof, and all fees and expenses required to be paid by Buyer in connection with the Transaction. Buyer's obligations to make any payments under this Agreement shall not be subject to receipt of new financing by Buyer.

**ARTICLE VI
REPRESENTATIONS OF SELLERS**

Sellers, jointly and severally, hereby represent and warrant to Buyer that:

6.1 Organization, Power and Status of Seller. Each Seller is (i) a legal entity duly formed, validly existing and in good standing under the laws of the state of its organization or incorporation, and (ii) duly authorized, to the extent necessary, to do business in each jurisdiction where the character of its properties or the nature of its activities makes such qualification necessary, except for any failure to be so qualified that would not, individually or in the aggregate, have a Material Adverse Effect. Each Seller has all requisite corporate power and authority to own and operate the property it purports to own and to carry on its business as now being conducted and as proposed to be conducted in respect of the applicable Subject Assets.

6.2 Authorization, Enforceability, Execution and Delivery. Each Seller has all necessary organizational power and authority to execute and deliver and, subject to the entry of the Approval Order, perform its obligations under this Agreement and each other related document to which it is a party. The execution and delivery of this Agreement and the related documents to which a Seller is a party and the consummation of the transactions contemplated hereby and thereby have been duly authorized by all necessary organizational action on the part of the Sellers. This Agreement has been, and, subject to the entry of the Approval Order, each of the related documents to which a Seller is a party will be at or prior to the Closing, duly and validly executed and delivered by such Seller which is a party thereto and (assuming the due authorization, execution and delivery by the other Parties hereto and thereto and the entry of the Approval Order) this Agreement and each such other document related to this Agreement to which a Seller is a party constitute its legal, valid and binding obligations, enforceable against it in accordance with their terms, except as such enforceability (i) may be limited by applicable bankruptcy, insolvency, reorganization, moratorium and other similar laws affecting the enforcement of creditors' rights and remedies generally, and (ii) is subject to general principles of equity (regardless of whether enforceability is considered in a proceeding in equity or at law).

6.3 No Conflicts; Laws and Consents; No Default.

(a) Except as set forth on Schedule 6.3(a), and subject to the entry of the Approval Order, neither the execution, delivery and performance of this Agreement nor the consummation of the Transaction nor performance of or compliance with the terms and conditions hereof will conflict with, or result in any violation of or default (with or without notice or lapse of time, or both) under, or give rise to or result in the creation of any Liens upon the Subject Assets under any provision of (i) any Law applicable to Sellers or the Subject Assets, (ii) any Contract or Permit to which any of the Sellers is a party or by which any of the Subject Assets are bound, or (iii) any Order of any Governmental Authority applicable to any Seller or by which any of the properties or assets of any Seller (including, without limitation, the Subject Assets) are bound, except for any such conflict, violation, default, rights or entitlements that that would not have a Material Adverse Effect. Each Seller is in compliance in all material respects with and not in default under any and all Laws applicable to such Seller and the Subject Assets, the terms and provisions of this Agreement or any other related documents to which such Seller is a party.

(b) No consent, waiver, approval, order, permit or authorization of, or declaration or filing with, or notification to, any Person or Governmental Authority is required on the part of any Seller in connection with the execution and delivery of this Agreement or the consummation of the Transaction or the compliance by any Seller with any of the provisions hereof, except for compliance with the applicable requirements of the Approval Order, the Scheduling Order and the HSR Act or such consents, waivers, approvals, orders, permits or authorizations, declarations, filings or notifications that the failure to obtain or make would not, individually or in the aggregate, have a Material Adverse Effect.

6.4 Taxes. Except as set forth in Schedule 6.4, each Seller has filed, or caused to be filed, and shall, as of the Closing, have filed, or cause to be filed, all material Tax Returns that

are required to have been filed by it with the appropriate Taxing Authority in any jurisdiction with respect to the Subject Assets, and has paid, or caused to be paid, and shall, as of the Closing, have paid, or caused to be paid, all Taxes shown to be due and payable on such Tax Returns and all other Taxes and assessments payable by it with respect to the Subject Assets, to the extent the same have become due and payable, but excluding any Taxes which would not subject, either on or prior to the Closing Date or after the Closing Date, the Subject Assets to imminent forfeiture or sale or result in the imposition of any Lien thereon. There are no Liens for Taxes upon the Subject Assets, except for Liens arising as a matter of Law relating to current Taxes not yet due. None of the Sellers is a foreign person within the meaning of Section 1445 of the Code. Each Seller has provided to Buyer copies of any written inquiry of any Governmental Authority received since December 31, 2001, that raises any issue which, by application of the same principles, would reasonably be expected to affect the Tax treatment of the Subject Assets in any taxable period (or portion thereof) ending after the Closing Date. No power of attorney with respect to any Tax matter is currently in force with respect to the Subject Assets that would, in any manner, bind, obligate or restrict Buyer. None of the Sellers has executed or entered into any agreement with, or obtained any consents or clearances from, any Taxing Authority, or has been subject to any ruling guidance specific to any of the Sellers, that would be binding on Buyer for any taxable period (or portion thereof) ending after the Closing Date.

6.5 Property: Title: Sufficiency.

(a) Sellers represent that they respectively own and have good and marketable title to the Subject Assets and that they shall, subject to the terms and conditions hereof, deliver at the Closing the Subject Assets to Buyer or its designee. Since March 1, 2005, there has not been any damage, destruction or loss, whether or not covered by insurance, with respect to the Subject Assets and there otherwise has not been any event, change, occurrence or circumstance that, in each case, has had or could reasonably be expected to have a Material Adverse Effect. Except as may be set forth on Exhibit A-1 or Exhibit A-2, Sellers represent that there is no equipment or inventory material in the use and operation of the Subject Assets other than such equipment and inventory located on the Vessels or located at the Sellers' Dulac, Louisiana, fabrication yard.

(b) Exhibit B sets forth a true, correct and complete list of all Patents and Schedule 6.5(b) sets forth a true, correct and complete list of all Licensed Software. The Patents and the Licensed Software comprise all material intellectual property rights owned by or licensed to Sellers necessary or appropriate for the use and operation of the Subject Assets as used or operated by Sellers prior to April 1, 2005. Except as set forth in Schedule 6.5(b), or as would not, individually or in the aggregate, reasonably be expected to have a Material Adverse Effect, Torch owns, has the exclusive right to use, sell, license and dispose of, and has the exclusive right to bring actions for the infringement of its Patents and has not licensed its Patents to any other Person other than Offshore and Express. Except as set forth in Schedule 6.5(b), or as would not, individually or in the aggregate, reasonably be expected to have a Material Adverse Effect, each Seller has a valid license to use its Licensed Software, assuming that the respective licensor thereof has valid title thereto or a

valid license for such Licensed Software and has the right to license such Licensed Software to such Seller (and such Seller has not received notice that any such licensor does not have valid title thereto or a valid license or that the licensor is not permitted to license such Licensed Software). Except as would not, individually or in the aggregate, reasonably be expected to have a Material Adverse Effect, none of the Sellers has received from any Person in the past two years any notice, charge, complaint, claim or assertion that any patent, registered trademark or registered copyright is being interfered with, infringed upon or misappropriated in any manner in connection with the ownership, use and operation of the Subject Assets. Except as would not, individually or in the aggregate, reasonably be expected to have a Material Adverse Effect, none of the Sellers or, to the Knowledge of the Sellers, any agent, attorney or representative thereof, has sent to any Person in the past two years, or otherwise communicated to any Person, any notice, charge, complaint, claim or other assertion of any present, impending or threatened infringement by, misappropriation of, or other conflict with, any of the Patents by such other Person and, to the Knowledge of Sellers, no such infringement, misappropriation, conflict or act of unfair competition is occurring or threatened. Except set forth in Schedule 6.5(b), or as would not, individually or in the aggregate, reasonably be expected to have a Material Adverse Effect, the consummation of the Transaction contemplated hereby will not result in the loss or impairment of Buyer's right to own or use any of the Patents or the Licensed Software. None of the Sellers has granted any license or sublicense of any rights under or with respect to any Patents except to Offshore and Express.

(c) Except as would not, individually or in the aggregate, reasonably be expected to have a Material Adverse Effect, none of the Sellers has committed any act or failed to commit any act, which would result in, and there has been no occurrence which would give rise to or form the basis of, any rejection, renunciation, denial or refusal by any other applicable Person of any Warranty or any Action in respect thereof.

6.6 Legal Proceedings. Except as set forth on Schedule 6.6 or arising in or related to the Bankruptcy Case, there is no Legal Proceeding filed and pending or, to the Knowledge of any Seller, threatened against any Seller, or to which any Seller is otherwise a party before any Governmental Authority, except any such Legal Proceeding as could not reasonably be expected to have a Material Adverse Effect. Except as set forth on Schedule 6.6, none of the Sellers is subject to any Order that could reasonably be expected to have a Material Adverse Effect.

6.7 Compliance with Laws; Permits.

(a) Except to the extent set forth in Schedule 6.7(a):

(i) each of the Sellers is in compliance with all Laws of any Governmental Authority applicable to their respective operations or assets (including the Subject Assets), except where such non-compliance could not reasonably be expected to have a Material Adverse Effect;

(ii) Sellers have not received any written or other notice of or been charged with the violation of any Laws that could reasonably be expected to have a Material Adverse Effect and, to the Knowledge of each Seller, there are no facts or circumstances which could reasonably be expected to form the basis for any such violation that would have a Material Adverse Effect; and

(iii) to the Knowledge of each Seller, none of the Sellers or the Subject Assets is under investigation with respect to a material violation of any applicable Laws.

(b) Schedule 6.7(b)(i) of this Agreement contains a true, correct and complete list of all Permits which are material to the ownership and operation of the Subject Assets as presently owned and operated. Except as described in Schedule 6.7(b)(ii), or as would not, individually or in the aggregate, reasonably be expected to have a Material Adverse Effect, to the Knowledge of the Sellers, all Permits set forth therein (i) are valid and subsisting and in full force and effect and (ii) are transferable to Buyer either without any further action by Sellers, or with such further action by Sellers as it otherwise permitted by Law and required under this Agreement, including without limitation, Section 14.9 hereof, and none of Sellers is in default or material violation, and no event has occurred which, with notice or the lapse of time or both, would reasonably be expected to constitute a default or violation, in any material respect of any term, condition or provision of any Permit to which it is a party, to which any of the Subject Assets is subject or bound and, to the Knowledge of each Seller, there are no facts or circumstances which could reasonably be expected to form the basis for any such default or violation that would have a Material Adverse Effect and no suspension, cancellation or termination of any of such Permits is threatened or pending.

6.8 Environmental Matters. Except as set forth in Schedule 6.8 hereto:

(a) the operations of Sellers, with respect to the Subject Assets, are in material compliance with all applicable Environmental Laws, which material compliance includes obtaining, maintaining in good standing and complying in all material respects with all applicable Environmental Permits necessary to operate the Subject Assets and no action or proceeding is pending or, to the Knowledge of any Seller, threatened to revoke, modify in any material respect or terminate any such Environmental Permit, and, to the Knowledge of any Seller, no facts, circumstances or conditions currently exist that could reasonably be expected to adversely affect such continued material compliance with applicable Environmental Laws and applicable Environmental Permits or require material capital expenditures to achieve or maintain such continued material compliance with applicable Environmental Laws and applicable Environmental Permits;

(b) with respect to the Subject Assets, none of the Sellers is the subject of any outstanding written order or Contract with any Governmental Authority or Person respecting (i) Environmental Laws, (ii) Remedial Action or (iii) any Release of a Hazardous Material, or for which a Seller has material, outstanding liabilities;

(c) no claim has been filed and is pending, or to the Knowledge of any Seller, threatened against any Seller or the Subject Assets, alleging, with respect to the Subject Assets, that a Seller or any of its Subject Assets is in material violation of any applicable Environmental Law or any applicable Environmental Permit or has any material liability under any applicable Environmental Law;

(d) to the Knowledge of Sellers, no facts, circumstances or conditions exist with respect to the Subject Assets that could reasonably be expected to result in Buyer incurring material Environmental Costs or Liabilities either before or after Closing for pre-closing events or conditions other than those that are generally incurred in the ordinary course (without material violation of applicable Environmental Law) by Sellers;

(e) to the Knowledge of Sellers, there are no investigations of the Subject Assets pending or threatened which could reasonably be expected to lead to the imposition of any material Environmental Costs or Liabilities on the Subject Assets or material Liens under applicable Environmental Law on the Subject Assets;

(f) to the Knowledge of Sellers, the Transaction contemplated hereunder is not one for which an applicable Environmental Law requires the consent of or advance filings with any Governmental Authority with jurisdiction over the Subject Assets and environmental matters; and

(g) Sellers have provided to Buyer all material audits, studies, reports, analyses, and results of investigations of matters regulated by applicable Environmental Laws that have been performed since January 1, 2003 with respect to the Subject Assets and that are in Sellers' possession.

6.9 Assumed Contracts.

(a) On March 31, 2005, Sellers provided to Buyer (via email) a list entitled "Torch Relevant Contracts" which contains a true, complete and correct list of all Contracts conforming to the descriptions set forth below in this Section 6.9(a) to which any Seller is a party which relates to the Subject Assets, copies of each of which have been delivered or otherwise made available to Buyer: (i) any Contract relating to the use or operation of, or limiting or restricting in any material manner the use or operation of, the Subject Assets, (ii) Contracts relating to incurrence, assumption or guarantee of any Indebtedness imposing a Lien on any of the Subject Assets; (iii) any Contract providing warranties for, or relating to the furnishing or receipt of services for, any Subject Assets, and (iv) any power of attorney (irrevocable or otherwise) to any Person for any purpose relating to the Subject Assets or the ownership, use or operation thereof.

(b) Upon payment of the Cure Amount, (i) each Purchased Contract will continue to be in full force and effect and constitute the entire agreement by and between or among the parties thereto, (ii) after giving effect to a Final Order approving the assumption of the Purchased Contracts, each Purchased Contract shall continue to be legal, valid, binding, enforceable and in full force and effect on identical terms following the consummation of the Transaction contemplated by this Agreement, subject to applicable bankruptcy, insolvency, fraudulent conveyance, reorganization, moratorium and similar laws affecting creditors' rights and remedies generally, and subject, as to enforceability, to general principles of equity, (iii) after giving effect to a Final Order approving the assumption of the Purchased Contracts, no Purchased Contract prohibits or requires the consent of any Person to the assignment to and assumption by Buyer or its designee of such Purchased Contract, (iv) no party to any Purchased Contract has, to the

Knowledge of the Sellers, repudiated any provision thereof, and (v) no Seller who is a party to any Purchased Contract is in breach or default, and to the Knowledge of each Seller, no other party to any Purchased Contract is in breach or default, and to the Knowledge of Sellers no event has occurred which, with notice or lapse of time, would constitute a breach or default or permit termination, modification or acceleration thereunder (other than any such breaches or defaults which shall be cured pursuant to Order of the Bankruptcy Court).

ARTICLE VII
SURVIVAL; EXCLUSION OF WARRANTIES;
NO ASSUMPTION OF LIABILITIES; EMPLOYEES

7.1 Survival. The representations and warranties made by Buyer and Sellers under this Agreement and of each Party in any certificate delivered hereunder, respectively, shall not survive beyond the Closing Date or a termination of this Agreement.

7.2 Exclusion of Warranties. The Subject Assets will be sold and delivered and taken over "AS IS, WHERE IS," on the Closing Date by Buyer without any warranty or representation by Sellers whatsoever, express or implied, as to the design, quality, condition, merchantability or seaworthiness, or as to the fitness of the Vessels or the Equipment for any particular purpose or trade, and the bills of sale referred to in Section 4.1(b) shall so provide. Except as provided in Section 14.9, after the Closing, Sellers shall have no obligation with respect to the Subject Assets. Buyer's execution of the Protocol of Delivery and Acceptance shall be conclusive evidence of Buyer's acceptance of the condition of the Vessels and the other Subject Assets.

7.3 No Assumption of Liabilities. Other than with respect to the Assumed Liabilities, Buyer will not assume, and hereby expressly disclaims any assumption of, any Indebtedness, Liabilities or obligations (absolute or contingent) of any kind of Sellers, including but not limited to (i) accounts payable, (ii) Indebtedness of Sellers for money borrowed, (iii) Taxes of Sellers or relating to ownership, use or operation of the Subject Assets on or prior to the Closing Date, (iv) claims, litigation, Liabilities or obligations arising out of or relating to the operations of Sellers, (v) Liabilities or obligations of any kind in respect of any past or present stockholders, directors, officers, employees or consultants of Sellers, whether under any contract or agreement, pursuant to any pension plan or employee benefit plan or welfare plan, or otherwise, (vi) Liabilities or obligations relating to recapture or any depreciable deduction, and/or (vii) any other Liabilities or obligations of or relating to Sellers or any of their Affiliates or related entities in any manner whatsoever.

7.4 No Obligation for Employees. Buyer may offer employment to any Employee without restriction by the Sellers. Sellers shall be responsible for any Employee who is not offered employment and for complying with any applicable notice or other requirements of applicable Law with respect to termination of employees and layoffs. In addition, Sellers shall be responsible for satisfying any employee benefit obligations relating to employment of Employees on and prior to the Closing Date. Nothing in this Section 7.4 shall be deemed to impose upon Buyer any Liabilities or responsibilities regarding individuals who do not become employees of Buyer pursuant to offers of employment to Employees, including, without limitation, Liabilities or responsibilities for (i) pension, retirement, profit-sharing, savings,

medical, dental, disability income, continuing health coverage benefits, life insurance or accidental death benefits, whether insured or self-insured, whether funded or unfunded, (ii) workers' compensation (both long term and short term) benefits, whether insured or self-insured, whether or not accruing or based upon exposure to conditions prior to the date of this Agreement or for claims incurred or for disabilities commencing prior to the Closing Date, or (iii) severance benefits. None of the Parties intend to create any rights or obligations for employment and no past, present or future employees of Sellers or Buyer shall be treated as third-party beneficiaries of this Section 7.4.

ARTICLE VIII CONDITIONS TO CLOSING

8.1 Buyer's Conditions Precedent. In addition to the condition set forth in Section 9.2 hereof, Buyer's obligation to consummate the transactions contemplated by this Agreement, including, without limitation, to accept the Subject Assets from Sellers and to pay the Purchase Price in accordance with Article III of this Agreement, is subject to fulfillment on or before the Closing Date, of each the following conditions precedent:

- (a) all Governmental Approvals that are required to be obtained in connection with the execution, delivery and performance of this Agreement and the related documents have been obtained and are in effect at Closing, including, without limitation, that, if applicable, the waiting period under the HSR Act shall have expired or early termination shall have been granted;
- (b) all consents, waivers and approvals from all Governmental Authorities, third parties and such other entities, as necessary for the consummation of the Transaction shall have been obtained and Buyer shall have received copies thereof;
- (c) Sellers shall have performed and complied in all respects with all obligations and agreements required in this Agreement to be performed or complied with by it prior to the Closing Date, including, without limitation, the transfer, conveyance, assignment and delivery to Buyer of the Subject Assets free and clear of all Liens (other than Permitted Exceptions);
- (d) Sellers' representations and warranties in Article VI of this Agreement that are qualified as to materiality or by the term "Material Adverse Effect" shall be true and correct in all respects as of the Closing and any such representations and warranties that are not so qualified shall be true and correct in all material respects as of the Closing as though made at and as of the Closing (or if made as of a specified date, only as of such date);
- (e) Sellers have completed all deliveries they are required to make under Section 4.1;
- (f) there shall not have occurred since the date hereof and be continuing as of the Closing Date any Material Adverse Effect;

(g) there shall not be in effect any Order by a Governmental Authority of competent jurisdiction restraining, enjoining or otherwise prohibiting the consummation of the transactions contemplated hereby;

(h) the Scheduling Order shall be a Final Order; and

(i) Sellers have complied in all material respects with their obligations under paragraphs (a) through (j) of Section 9.1 of this Agreement.

8.2 Sellers' Conditions Precedent. In addition to the condition set forth in Section 9.2 hereof, Sellers' obligation to consummate the transactions contemplated by this Agreement, including, without limitation, to sell, transfer, assign, convey and deliver the Subject Assets to Buyer at Closing is subject to fulfillment on or before the Closing Date, of each of the following conditions precedent:

(a) all Governmental Approvals that are required to be obtained in connection with the execution, delivery and performance of this Agreement and the related documents have been obtained and are in effect at Closing, including, without limitation, that, if applicable, the waiting period under the HSR Act shall have expired or early termination shall have been granted;

(b) all consents, waivers and approvals from all Governmental Authorities, third parties and such other entities, as necessary for the consummation of the Transaction shall have been obtained;

(c) Buyer's representations and warranties in Article V of this Agreement that are qualified as to materiality shall be true and correct in all respects as of the Closing and any such representations and warranties that are not so qualified shall be true and correct in all material respects as of the Closing as though made at and as of the Closing (or if made as of a specified date, only as of such date);

(d) Buyer has paid Sellers the amounts required under Sections 4.2(b) of this Agreement; and

(e) Buyer has made the other deliveries required under Section 4.2 of this Agreement.

ARTICLE IX SELLERS' BANKRUPTCY

9.1 Procedure for Approval of Transaction.

(a) Filing of Appropriate Motions; Provision of Notice. On April 6, 2005, Sellers filed with the Bankruptcy Court (i) the Sale Motion, seeking entry of the Approval Order and (ii) the Scheduling Motion, seeking entry of the Scheduling Order. Buyer agrees that it will promptly take such actions as are reasonably requested by Sellers to assist in obtaining the Approval Order and the Scheduling Order, including furnishing affidavits or other documents or information for filing with the Bankruptcy

Court for the purposes, among others, of providing necessary assurances of performance by Buyer under this Agreement and demonstrating that Buyer is a “good faith” purchaser under Section 363(m) of the Bankruptcy Code. In the event the entry of the Approval Order or the Scheduling Order shall be appealed, Sellers and Buyer shall each use its commercially reasonable efforts to defend such appeal. Sellers shall give notice of the Sale Motion, Scheduling Motion and Sale Hearing as reasonably requested by Buyer and required by the Bankruptcy Code or applicable Bankruptcy Rules.

(b) Scheduling Motion. Sellers requested the scheduling of the Scheduling Hearing on April 27, 2005 and such hearing was commenced on such date.

(c) Scheduling Order. The Bankruptcy Court entered the Scheduling Order on May 6, 2005.

(d) Back-Up Bidder. Provided a Competing Transaction fails to close and this Agreement has not been terminated, Buyer shall remain obligated to consummate the Transaction for a period of sixty (60) days after the Bankruptcy Court enters an Order authorizing the Competing Transaction; provided Sellers seek to obtain such Order authorizing the Competing Transaction within fourteen (14) days of the date on which the Auction concludes; and provided, further, that Buyer shall not be obligated under this Section 9.1(d) if the Bankruptcy Court enters an Order approving a sale of all or any portion of the Subject Assets pursuant to a Credit Bid.

(e) Break-Up Fee and Expense Reimbursement. If, following the entry of the Scheduling Order, this Agreement is terminated (i) by Sellers pursuant to Section 13.1(b) or by Buyer pursuant to Sections 13.1(c) or (g) or (ii) by either Party pursuant to Section 13.1(f), Sellers agree to pay to Buyer:

(i) a break up fee, as applicable, and the amount of which, as determined as follows (the “Break-Up Fee”):

- (A) if such termination is pursuant or due to, or arises because of, the entry of an Order approving a sale of all of the Break-Up Fee Assets pursuant to a Credit Bid, an amount equal to \$400,000; or
- (B) if such termination is pursuant or due to, or arises because of, (I) the entry of an Order approving a sale of all (other than as described in subclause (A) above) or any portion of the Break-Up Fee Assets to any Person other than the Buyer, including, without limitation, any sale pursuant to a Credit Bid for a purchase of any (but not all) Break-Up Fee Assets, or any such sale shall occur (without the entry of an Order) or (II) the Sellers shall determine to retain (and not sell) all or any portion of the Break-Up Fee Assets, an amount equal to (x) \$1,878,500 *times* a percentage allocation to such Break-Up Fee Assets (as set forth on Schedule 9.1(e)) that are determined to be retained by the Sellers or for which a sale to any Person other than Buyer is approved or occurs, other than a sale

pursuant to a Credit Bid for the purchase of any (but not all) Break-Up Fee Assets, *plus* (y) \$400,000 *times* a percentage allocation to such Break-Up Fee Assets (as set forth on Schedule 9.1(e)) for which a sale is approved or occurs pursuant to a Credit Bid for the purchase of any (but not all) Break-Up Fee Assets; and

(ii) a reimbursement amount in respect of the reasonable expenses of outside counsel in connection with drafting, negotiating and performing this Agreement and fees and other reasonable expenses incurred in connection herewith (including, without limitation, any filing fees (including with respect to the HSR Act), or other amounts seeking the approvals necessary and appropriate to consummate the Transaction) (the “Expense Reimbursement”), as applicable, and the amount of which, as determined as follows:

- (A) if such termination is pursuant or due to, or arises because of, the circumstance described in Section 9.1(e)(i)(A) above, then there shall not be any reimbursement of such expenses;
- (B) if such termination is pursuant or due to, or arises because of, the circumstances described in Section 9.1(e)(i)(B) above, an amount equal to \$500,000 *times* a percentage allocation to such Break-Up Fee Assets (as set forth on Schedule 9.1(e)) that are determined to be retained by the Sellers or for which a sale to any Person other than Buyer is approved or occurs, excluding any sale approved or occurring pursuant to a Credit Bid for the purchase of any (but not all) Break-Up Fee Assets; provided, however, that such amount shall be further limited to the amount of such reasonable expenses that are actually incurred by the Buyer.

The combined amount of the Break-Up Fee and Expense Reimbursement, as applicable and as determined in accordance with the foregoing of this Section 9.1(e), shall be payable by Sellers as a superpriority administrative expense claim (and, in the case of the Break-Up Fee, shall be payable by Sellers without the need for further application or request filed with the Bankruptcy Court) to Buyer in cash, by wire transfer of immediately available funds to an account designated by Buyer. In the event the Break-Up Fee and Expense Reimbursement (if any) become payable because the Sellers determine to retain (and not sell) all of the Break-Up Fee Assets, Sellers shall pay to Buyer the Break-Up Fee and Expense Reimbursement on the earlier of (A) the effective date of any chapter 11 plan confirmed in the Bankruptcy Case, or (B) one (1) year after the Petition Date. In the event the Break-Up Fee and Expense Reimbursement (if any) become payable because of the sale of all or any portion of the Break-Up Fee Assets (including as part of a Competing Transaction or a sale of Break-Up Fee Assets pursuant to a Credit Bid) to any Person other than Buyer or Sellers determine to retain (and not sell) any portion (but not all) of the Break-Up Fee Assets, Sellers shall pay to Buyer the applicable Break-Up Fee and Expense Reimbursement contemporaneously with the first consummation of a Competing Transaction or other applicable sale of the Break-Up Fee Assets or any portion thereof. The combined Break-Up Fee and Expense Reimbursement

shall be paid in recognition of the substantial costs incurred by Buyer in evaluating the Transaction, negotiating this Agreement, and otherwise devoting its time, attention and resources to closing the Transaction. Upon payment of the applicable Break-Up Fee, Sellers shall be fully released and discharged from any liability or obligation under or resulting from this Agreement and Buyer shall not have any other remedy or cause of action under or relating to this Agreement or any applicable Law.

(f) Sale Motion. Sellers have filed the Sale Motion seeking entry of the Approval Order and deadlines for filing and serving objections and responses to the relief requested in the Sale Motion, and as part of such filing Sellers requested that the Sale Hearing occur on or about June 8, 2005.

(g) Proposal and Submission of Approval Order. Simultaneously with their submission of the Sale Motion, Sellers proposed and submitted the Approval Order to the Bankruptcy Court for execution at the Sale Hearing, and such submission will be amended and modified pursuant to, and to reflect the terms of this Agreement on or prior to such date that is five (5) Business Days before the date scheduled for the Sale Hearing. The amended and modified form of Approval Order shall be submitted to Buyer for its review (and shall be subject to its reasonable approval) prior to the filing of same with the Bankruptcy Court.

(h) Assumption of Executory Contracts and Unexpired Leases. Sellers will assume and assign to Buyer the Purchased Contracts at the Closing. Sellers requested as part of the Sale Motion that Sellers be granted authority to file with the Bankruptcy Court and serve on all non-Seller parties to the Purchased Contracts notice of Sellers' intent to assume and assign that party's Contract, with such notice to be served no later than twenty (20) days before the Sale Hearing. The cure amount for the Purchased Contracts to be assumed shall be included in that party's notice. Sellers have further requested that the non-Seller party have until eight (8) days before the Sale Hearing to object to the cure amount listed, and must state in its objection with specificity what the proper cure amount should be and provide sufficient documentation in support thereof. If no objection is timely received, Sellers shall request that the Bankruptcy Court set the cure amount as the amount listed in the notice.

(i) Cooperation. Buyer and Sellers shall cooperate in filing and prosecuting the Sale Motion and obtaining entry of the Approval Order.

(j) Solicitation of Bidders. Except as otherwise consistent with the Bidding Procedures, the Scheduling Order or any other Order of the Bankruptcy Court, Sellers shall not, and shall cause their respective employees, officers, directors, representatives and agents not to, solicit or initiate discussions or negotiations with any Person (other than Buyer) with respect to the Subject Assets (or any portion thereof) or a Competing Transaction without the written consent of Buyer. Notwithstanding the foregoing, nothing contained herein shall prohibit the Sellers or their respective employees, officers, directors, representatives and agents from providing information to any Person in response to unsolicited inquiries regarding a potential Competing Transaction.

9.2 Condition to Closing Relating to Bankruptcy. In addition to the conditions to Closing set forth in Sections 8.1 and 8.2 of this Agreement, the Closing shall be subject to the satisfaction of the condition that the Bankruptcy Court shall have entered the Approval Order, and such order shall be a Final Order.

**ARTICLE X
COVENANTS;
TRANSFER OF TITLE AND DELIVERY OF VESSELS**

10.1 Covenants with Respect to Conduct Prior to Closing. During the period from the date hereof through the Closing Date, the Sellers and Buyer covenant and agree as follows:

(a) Access. Each Seller agrees that, prior to the Closing Date, Buyer shall be entitled, through its officers, employees and representatives (including, without limitation, its legal advisors and accountants), to make such investigation of the Subject Assets and Assumed Liabilities and related properties of Sellers as it reasonably requests and deems necessary or appropriate for the purposes of familiarizing itself with and evaluating the Subject Assets and Assumed Liabilities or obtaining any necessary and appropriate Permits for the transactions contemplated by this Agreement, and the Buyer shall be permitted to make extracts and copies of such information. Any such investigation and examination shall be conducted under reasonable circumstances, and Sellers shall cooperate fully therein. No investigation by Buyer prior to or after the date of this Agreement shall diminish or obviate any of the representations, warranties, covenants or agreements of Sellers contained herein. In order that Buyer may have full opportunity to make such physical and diligence review, examination or investigation as it may reasonably request of the Subject Assets, Sellers shall cause the officers, employees, consultants, agents, accountants, attorneys and other representatives of Sellers to cooperate fully with such representatives in connection with such review and examination. Without limiting the generality of the foregoing, Buyer shall be entitled to conduct or cause to be conducted at or on the Subject Assets such surveys, tests and inspections, including, environmental inspections and tests, as Buyer shall deem necessary or useful in connection with its acquisition of such Subject Assets.

(b) Operation of Subject Assets. Except as otherwise expressly provided by this Agreement or with the prior written consent of Buyer, Sellers shall own, use and operate the Subject Assets only in the ordinary course of business consistent with past practice of Sellers after the Petition Date and preserve such assets in their current condition (ordinary wear and tear excepted), shall comply in all material respects with all applicable Laws in regard to the Subject Assets and Assumed Liabilities, shall not take any action which would adversely affect the ability of the Parties to consummate the transactions contemplated by this Agreement, shall not introduce any material change with respect to the operation of the Subject Assets, in each case, other than in the ordinary course of business of Sellers after the Petition Date or enter into any transaction or enter into, modify or renew any Contract relating to the Subject Assets that is not in the ordinary course of business of Sellers after the Petition Date, and shall not agree to do anything prohibited by this Section 10.1(b) or anything that would make any of the

representations and warranties of the Sellers in this Agreement untrue or incorrect in any material respect.

(c) Consents. Sellers shall use their best efforts, and Buyer shall cooperate with Sellers, to obtain at the earliest practicable date all consents and approvals required to consummate the transactions contemplated by this Agreement.

(d) Governmental Approvals. In addition to the matters to be presented to the Bankruptcy Court under Section 9.1 hereof, as promptly as practical after the date of this Agreement, each Seller shall make all filings required by applicable Law to be made by it in order to consummate the transactions contemplated by this Agreement. Sellers and Buyer have heretofore caused to be made such filings (and Buyer has paid the filing fees) under the HSR Act and such Parties requested earlier termination of the waiting period thereunder. All documents required to be filed by any Seller with any Governmental Authority in connection with this Agreement or the transactions contemplated by this Agreement will comply in all material respects with the provisions of applicable Law. Each Seller and Buyer agree to cooperate and use their best efforts to obtain all (and will immediately prepare all registrations, filings and applications, requests and notices preliminary to obtaining all) Governmental Approvals, Orders and Permits that may be necessary or which may be reasonably requested by Buyer to consummate the transactions contemplated by this Agreement, including, without limitation, notifying foreign, state and local agencies that have issued Permits to any Seller or one or more of its employees of the consummation of the transactions contemplated hereby; provided, however, that, notwithstanding anything to the contrary provided herein, neither Buyer nor any of its Affiliates shall be required in connection with obtaining such Governmental Approvals (i) to hold separate (including by trust or otherwise) or divest any of its businesses, product lines or assets, or any of the Subject Assets, (ii) to agree to any limitation on the operation or conduct of its business and operations or the Subject Assets, or (iii) to waive any of the conditions to this Agreement set forth in Section 8.1.

(e) Notification of Certain Matters. Sellers shall give prompt written notice to Buyer of, (i) the occurrence, or failure to occur, of any event that would be likely to cause any representation or warranty of such Seller contained in this Agreement to be untrue or inaccurate in any material respect at any time from the date of this Agreement to the Closing Date, (ii) any failure of any Seller, as the case may be, to comply with or satisfy, in any material respect, any covenant, condition or agreement to be complied with or satisfied by it under this Agreement, (iii) the occurrence of any fact or condition after the date of this Agreement that would be reasonably likely to cause or constitute a breach of any representation or warranty had such representation or warranty been made at the time of the occurrence, or such Seller's discovery of, such fact or condition, (iv) any fact or condition of which Seller obtains knowledge which has had or could reasonably be expected to have or result in a Material Adverse Effect, and (v) the occurrence of any event that may make the satisfaction of the conditions set out in Article VIII impossible or unlikely. No such notification shall affect the representations or warranties of the Sellers or the conditions to their respective obligations hereunder.

10.2 Transfer of Title. Title and risk of loss of or damage to the respective Subject Assets will pass from Sellers to Buyer at the time appearing on the applicable Protocol of Delivery and Acceptance (provided for in Section 10.6) which shall be the time of Closing.

10.3 Inspections and Due Diligence. On or prior to the date hereof, Buyer has inspected and accepted each Vessel's classification records.

10.4 Notices; Time and Place of Delivery.

(a) Sellers shall prepare the Subject Assets for delivery in due course and in time for the Closing, and shall keep Buyer well informed of the state of readiness for delivery of the Subject Assets.

(b) Sellers shall deliver the Vessels at a safe and accessible berth or anchorage at the Port of New Orleans, Louisiana or such other location to be determined by the Parties. The Equipment, Inventory and other Subject Assets (other than the Vessels) shall be delivered at its location at the time of the Closing, which location Sellers shall notify to Buyer in advance of the Closing.

10.5 Buyer Responsibilities Upon Delivery. Immediately upon delivery, Buyer shall have and assume all responsibility and liability as to any tugboats or other boats or related equipment necessary to secure the Vessels at their berths or transfer the Vessels to other berths at Buyer's choice. Buyer will secure all necessary arrangements and approvals through the U.S. Coast Guard, Port of New Orleans, Louisiana or other appropriate governmental or regulatory authority regarding the berthing or transfer of the Vessels upon delivery by Sellers.

10.6 Delivery Procedure. Sellers shall deliver the Vessels and Equipment to a duly authorized representative of Buyer who shall execute and deliver to Sellers a "Protocol of Delivery and Acceptance" in the form attached hereto as Exhibit G, which shall evidence the delivery of the respective Vessel to Buyer.

10.7 Spare, etc. Forwarding charges for spare parts and spare equipment, if any, shall be for Buyer's account. Captain's, officers' and crew's personal belongings including the slop chest are excluded from the Transaction.

ARTICLE XI TAXES

11.1 Responsibility for Taxes.

(a) In accordance with Section 1146(c) of the Bankruptcy Code, the making or delivery of any instrument of transfer, including the filing of any deed or other document of transfer to evidence, effectuate or perfect the rights, transfers and interests contemplated by this Agreement, shall be in connection with the Approval Order and as such shall be free and clear of any and all transfer Tax, stamp Tax or similar Taxes; provided, however, that if any such Taxes are due in connection with the transactions contemplated herein, Buyer, on the one hand, and Sellers, on the other hand, shall each pay one-half of the amount of any such Taxes and they shall pay such amount in a timely

manner. The instruments transferring the Subject Assets to Buyer shall contain the following endorsement:

“Because this instrument has been authorized pursuant to an Order of the United States Bankruptcy Court for the Eastern District of Louisiana, in connection with a plan of reorganization of the Grantor, it is exempt from transfer taxes, stamp taxes or similar taxes pursuant to 11 U.S.C. Section 1146(c)”.

(b) Except as otherwise provided in this Section 11.1(b), Sellers shall bear all property and ad valorem tax liabilities with respect to the Subject Assets if the Lien or assessment date arises prior to the Closing Date irrespective of the reporting and payment dates of such Taxes. All ad valorem and other real property Taxes, personal property Taxes, or ad valorem obligations and similar recurring Taxes and fees on the Subject Assets for taxable periods beginning before, and ending after, the Closing Date, shall be prorated between Buyer, on the one hand, and Sellers, on the other hand, as of 12:01 a.m., New York time, on the Closing Date. With respect to Taxes described in this Section 11.1(b), Seller shall timely file all Tax Returns due before the Closing Date with respect to such Taxes and Buyer shall prepare and timely file all Tax Returns due after the Closing Date with respect to such Taxes. If one Party remits to the appropriate Taxing Authority payment for Taxes, which are subject to proration under this Section 11.1(b) and such payment includes the other Party’s share of such Taxes, such other party shall promptly reimburse the remitting party for its share of such Taxes.

11.2 Cooperation on Tax Matters. Buyer and Sellers shall furnish or cause to be furnished to each other, as promptly as practicable, such information and assistance relating to the Subject Assets and the Assumed Liabilities as is reasonably necessary for the preparation and filing of any Tax Return, claim for refund or other required or optional filings relating to Tax matters, for the preparation for any Tax audit, for the preparation for any Tax protest, for the prosecution or defense of any suit or other proceeding relating to Tax matters.

11.3 Preparation of Allocation Schedule.

(a) Not later than sixty (60) days after the Closing Date, Buyer shall prepare and deliver to Sellers copies of Form 8594 and any required exhibits thereto (the “Asset Acquisition Statement”) allocating the total consideration paid to Sellers hereunder among the Subject Assets. Buyer shall prepare and deliver to Sellers from time to time revised copies of the Asset Acquisition Statement (the “Revised Statements”) so as to report any matters on the Asset Acquisition Statement that need updating (including purchase price adjustments, if any). The total consideration paid by Buyer for the Subject Assets shall be allocated in accordance with the Asset Acquisition Statement or, if applicable, the last Revised Statements, provided by Buyer to Sellers, and all income Tax Returns and reports filed by Buyer and Sellers shall be prepared consistently with such allocation.

(b) The Asset Acquisition Statement, however, shall not be inconsistent with any final determination by the Bankruptcy Court, made in its sole discretion after notice

to all parties in interest, concerning the values of the Subject Assets. Any such determination by the Bankruptcy Court will govern the allocation of the total consideration paid to Sellers hereunder among the Subject Assets for all purposes.

**ARTICLE XII
DISPUTE RESOLUTION; SERVICE; GOVERNING LAW**

12.1 Dispute Resolution; Service of Process; Waiver of Jury Trial.

(a) If any dispute should arise in connection with the interpretation and fulfillment of this Agreement, the dispute will be brought in the United States Bankruptcy Court for the Eastern District of Louisiana or such other court as may have jurisdiction over the Bankruptcy Case; provided, however, that if the Bankruptcy Court refuses to accept jurisdiction over any such dispute, then each Party hereto hereby irrevocably submits to and accepts for itself and its properties, generally and unconditionally, the non-exclusive jurisdiction of and service of process pursuant to the laws of the State of New York and the rules of its courts, waives any defense of *forum non conveniens* and agrees to be bound by any judgment rendered thereby arising under or out of in respect of or in connection with this Agreement or obligation hereunder. Each Party further irrevocably designates and appoints the individual identified in or pursuant to Section 14.3 hereof to receive notices on its behalf, as its agent to receive on its behalf service of all process in any such Action before any Governmental Authority, such service being hereby acknowledged to be effective and binding service in every respect. A copy of any such process so served shall be mailed by registered mail to each party at its address provided in Section 14.3; provided, that unless otherwise provided by applicable Law, any failure to mail such copy shall not affect the validity of the service of such process. If any agent so appointed refuses to accept service, the designating party hereby agrees that service of process sufficient for personal jurisdiction in any action against it in the applicable jurisdiction may be made by registered or certified mail, return receipt requested, to its address provided in Section 14.3. Each party hereby acknowledges that such service shall be effective and binding in every respect. Nothing herein shall affect the right to serve process in any other manner permitted by Law or shall limit the right of any party to bring any action or proceeding against the other party in any other jurisdiction if the Bankruptcy Court refuses to accept jurisdiction. Nothing herein shall limit or otherwise affect any choice of Law or choice of venue made by any Seller and Buyer in any other agreement to which they are both a party.

(b) THE PARTIES HEREBY IRREVOCABLY AND UNCONDITIONALLY WAIVE, TO THE FULLEST EXTENT PERMITTED BY APPLICABLE LAW, ANY RIGHT THAT THEY MAY HAVE TO TRIAL BY JURY OF ANY CLAIM OR CAUSE OF ACTION, OR IN ANY LEGAL PROCEEDING, DIRECTLY OR INDIRECTLY BASED UPON OR ARISING OUT OF THIS AGREEMENT OR THE TRANSACTIONS CONTEMPLATED BY THIS AGREEMENT (WHETHER BASED ON CONTRACT, TORT, OR ANY OTHER THEORY). EACH PARTY (i) CERTIFIES THAT NO REPRESENTATIVE, AGENT, OR ATTORNEY OF ANY OTHER PARTY HAS REPRESENTED, EXPRESSLY OR OTHERWISE, THAT SUCH OTHER PARTIES WOULD NOT, IN THE EVENT OF

LITIGATION, SEEK TO ENFORCE THE FOREGOING WAIVER AND (ii) ACKNOWLEDGES THAT IT AND THE OTHER PARTIES HAVE BEEN INDUCED TO ENTER INTO THIS AGREEMENT BY, AMONG OTHER THINGS, THE MUTUAL WAIVERS AND CERTIFICATIONS IN THIS SECTION.

12.2 Governing Law. This Agreement shall be governed by and construed in accordance with the Bankruptcy Code and, to the extent not inconsistent with the Bankruptcy Code, the internal laws of the State of New York, without giving effect to any choice of law or conflicting provision or rule (whether of the State of New York or any other jurisdiction) that would cause the laws of any jurisdiction other than New York to be applied. In furtherance of the foregoing, the law of the State of New York will control the interpretation and construction of this Agreement, even if under such jurisdiction's choice of law or conflict of laws analysis, the substantive law of some other jurisdiction would ordinarily apply.

ARTICLE XIII TERMINATION

13.1 Termination. This Agreement may be terminated at any time at or before the Closing (the "Termination Date"), as follows:

(a) in writing, by mutual consent of the Parties;

(b) at the election of Sellers, on or after June 30, 2005 if the Closing shall not have occurred by the close of business on such date; provided that Sellers are not in material default of their obligations hereunder; and provided further, however, that if the Closing shall not have occurred by the close of business on June 30, 2005 due solely to the failure of the Bankruptcy Court to enter the Approval Order and all other conditions to the obligations of Buyer to close hereunder that are capable of being fulfilled by June 30, 2005 shall have been so fulfilled or waived (other than those conditions that, by their terms, cannot be satisfied until Closing), then Sellers may not terminate this Agreement under this subsection prior to July 31, 2005;

(c) at the election of Buyer, on or after the earlier (such earlier date, the "Outside Date") of:

(i) June 30, 2005, if the Closing has not occurred by such date and an Order authorizing a Competing Transaction has not been entered by such date; and

(ii) sixty (60) days after entry of an Order authorizing a Competing Transaction;

provided, that, in each case, Buyer is not in material default of its obligations under this Agreement; provided, further, however, that if the Closing shall not have occurred by June 30, 2005 due solely to the failure of the Bankruptcy Court to enter the Approval Order (other than as a result of Sellers' failure to prosecute the Sale Motion and/or timely pursue entry of the Approval Order) and all other conditions to the obligations of Seller to close hereunder that are capable of being fulfilled by June 30, 2005 shall have been so

fulfilled or waived (other than those conditions that, by their terms, cannot be satisfied until Closing), then Buyer shall not have the right to terminate this Agreement under clause (i) above prior to July 31, 2005. If the Bankruptcy Court has entered an Approval Order approving the Transaction prior to June 30, 2005, but such Order has not become a Final Order by June 30, 2005, Buyer may not terminate this Agreement under clause (i) above until the date that is ten (10) Business Days after the Approval Order becomes a Final Order. If the date for termination under this subsection (c) shall have been extended to July 31, 2005 due to the failure of the Bankruptcy Court to enter the Approval Order on or before June 30, 2005, and the Bankruptcy Court shall then have entered the Approval Order on or prior to July 31, 2005, then Buyer shall not be permitted to terminate this Agreement until the later of (x) July 31, 2005 and (y) after the date that immediately follows the date on which the Approval Order becomes a Final Order;

(d) by Sellers, on the one hand, or Buyer, on the other hand, if there shall be any applicable Law (including, without limitation, a nonappealable Final Order of a Governmental Authority of competent jurisdiction) restraining, enjoining or otherwise prohibiting the consummation of the Transaction;

(e) [intentionally omitted];

(f) without further notice or action, by Buyer or Sellers upon the consummation of a Competing Transaction;

(g) by Buyer, so long as Buyer is not then in material breach of its obligations under this Agreement, if there shall have been a material breach by any of Sellers of any representation, warranty, covenant or agreement of any Seller set forth in this Agreement resulting in a Material Adverse Effect, in each case such that the conditions set forth in Section 8.1 would not be satisfied and such breach (i) cannot be cured by the Outside Date or (ii) has not been cured within thirty (30) days of the date on which the applicable Seller receives written notice thereof from Buyer; or

(h) by Sellers, so long as no Seller is then in material breach of its obligations under this Agreement, if there shall have been a material breach by the Buyer of any representation, warranty, covenant or agreement of Buyer set forth in this Agreement, in each case such that the conditions set forth in Section 8.2 would not be satisfied and such breach (i) cannot be cured by the Outside Date or (ii) has not been cured within thirty (30) days of the date on which the Buyer receives written notice thereof from Sellers.

13.2 Procedure Upon Termination. In the event of termination and abandonment by Buyer or Sellers, or both, pursuant to Section 13.1 hereof, except as provided in Section 13.1(f) (in which case no notice shall be required), written notice thereof shall forthwith be given to the other Party or Parties, and this Agreement shall terminate, and the purchase of the Subject Assets hereunder shall be abandoned, without further action by Buyer or Sellers.

13.3 Effect of Termination. In the event that this Agreement is validly terminated as provided herein, then each of the Parties shall be relieved of their duties and obligations arising

under this Agreement after the date of such termination and such termination shall be without liability to Buyer or Sellers; provided, however, that the rights and obligations of the Parties set forth in Sections 3.2, 9.1(e), 14.13 and this Section 13.3 shall survive any such termination and shall be enforceable hereunder; provided, further, however, that nothing in this Section 13.3 shall relieve Buyer or Sellers of any liability for any willful breach of its obligations under this Agreement in any material respect.

ARTICLE XIV MISCELLANEOUS PROVISIONS

14.1 Amendments and Waivers. This Agreement may be amended and any provision hereof may be waived from time to time only by written agreement signed by the Parties. No action taken pursuant to this Agreement, including without limitation, any investigation by or on behalf of any Party, shall be deemed to constitute a waiver by the Party taking such action of compliance with any representation, warranty, covenant or agreement contained herein. The waiver by any Party hereto of a breach of any provision of this Agreement shall not operate or be construed as a further or continuing waiver of such breach or as a waiver of any other or subsequent breach. No failure on the part of any party to exercise, and no delay in exercising, any right, power or remedy hereunder shall operate as a waiver thereof, nor shall any single or partial exercise of such right, power or remedy by such Party preclude any other or further exercise thereof or the exercise of any other right, power or remedy. All remedies hereunder are cumulative and are not exclusive of any other remedies provided by law.

14.2 Severability. If any provision of this Agreement is held to be in conflict with any Law or is otherwise held to be unenforceable for any reason whatsoever, such circumstances shall not have the effect of rendering the provision in question inoperative or unenforceable in any other case or circumstance, or of rendering any other provision or provisions herein contained invalid, inoperative or unenforceable to any extent whatsoever. The invalidity of any one or more phrases, sentences, clauses or sections of this Agreement shall not affect the remaining portions of this Agreement, or any part thereof, so long as the economic or legal substance of the transactions contemplated hereby is not affected in any manner materially adverse to any Party.

14.3 Notices. Unless otherwise provided in this Agreement, any notice permitted or required hereunder must be in writing and shall be deemed given (i) when personally delivered (with confirmation of receipt), (ii) one Business Day following the day sent by overnight delivery service (with written confirmation of receipt), (iii) upon written confirmation of receipt after being sent by United States registered or certified mail, postage prepaid, or (iv) when sent by telecopy (provided that the telecopy is confirmed by written transmission), addressed as follows:

If to Buyer to:

Cal Dive International, Inc.
c/o Martin R. Ferron, President
400 N. Sam Houston Parkway E.
Suite 400
Houston, Texas 77060
Telecopier: (281) 618-0500

with a copy to:

Weil, Gotshal & Manges LLP
c/o Alfredo R. Pérez
700 Louisiana, Suite 1600
Houston, Texas 77002
Telecopier: (713) 224-9511

If to Sellers to:

Torch Offshore, Inc.
c/o David Phelps, Chief Restructuring Advisor
Telecopier: (877) 711-6966
c/o Robert Fulton, Manager
Telecopier: (504) 367-8605
401 Whitney Avenue, Suite 400
Gretna, Louisiana 70056

with a copy to:

Bridge Associates, LLC
c/o Anthony Schnelling
747 3rd Avenue, Suite 32A
New York, New York 10017
Telecopier: (212) 207-9294

Raymond James & Associates
c/o Raj Singh
250 Park Avenue, 2nd Floor
New York, New York 10077
Telecopier: (212) 297-5613

King & Spalding LLP
c/o George B. South III
1185 Avenue of the Americas
New York, New York 10036
Telecopier: (212) 556-2222

Any purported notice by e-mail shall be without effect. All notices required under this Agreement should specifically state that this is a “Notice pursuant to Section 14.3 of the Torch Asset Purchase Agreement.”

14.4 Captions. The provision of a Table of Contents, the division of this Agreement into Articles, Sections and other subdivisions and the insertion of headings are for convenience of reference only and shall not affect or be utilized in construing or interpreting this Agreement. All references in this Agreement to any “Section” are to the corresponding Section of this Agreement unless otherwise specified.

14.5 No Partnership. Nothing herein contained shall be deemed or construed to create a partnership or joint venture between the Parties.

14.6 Counterparts; Delivery by Facsimile. This Agreement may be executed in any number of counterparts and by different parties hereto on separate counterparts, each of which shall be deemed to be an original. Such counterparts shall constitute one and the same agreement. This Agreement, and any amendments hereto, to the extent signed and delivered by means of a facsimile machine, shall be treated in all manner and respects as an original Contract and shall be considered to have the same binding legal effects as if it were the original signed version thereof delivered in person. At the request of any party hereto or to any such Contract, each other party hereto or thereto shall re-execute original forms thereof and deliver them to all other parties. No party hereto or to any such Contract shall raise the use of a facsimile machine to deliver a signature or the fact that any signature or Contract was transmitted or communicated through the use of a facsimile machine as a defense to the formation of a Contract and each such party forever waives any such defense.

14.7 General Interpretive Principles. Except as otherwise expressly provided or unless the context otherwise requires, the defined terms in this Agreement shall include the plural as well as the singular, and the use of any gender herein shall be deemed to include any other gender. When calculating the period of time before which, within which or following which any act is to be done or step taken pursuant to this Agreement, the date that is the reference date in calculating such period shall be excluded. If the last day of such period is a non-Business Day, the period in question shall end on the next succeeding Business Day. Any reference in this Agreement to \$ shall mean U.S. dollars. The Exhibits and Schedules to this Agreement are hereby incorporated and made a part hereof and are an integral part of this Agreement. All Exhibits and Schedules annexed hereto or referred to herein are hereby incorporated in and made a part of this Agreement as if set forth in full herein. Any capitalized terms used in any Schedule or Exhibit but not otherwise defined therein shall be defined as set forth in this Agreement. The words such as “herein,” “hereinafter,” “hereof,” and “hereunder” refer to this Agreement as a whole and not merely to a subdivision in which such words appear unless the context otherwise requires. The word “including” or any variation thereof means “including, without limitation” and shall not be construed to limit any general statement that it follows to the specific or similar items or matters immediately following it.

14.8 Punitive, Consequential, and Special Damages. Under no circumstances shall either Party be liable to the other for any punitive, consequential, or special damages.

14.9 Further Assurances. Sellers and Buyer agree to take all necessary action and to deliver or cause to be delivered at Closing and at such other times thereafter any such additional certificates, documents or instruments as either of them may reasonably request for the purposes of carrying out this Agreement and the transactions contemplated hereby. Without limitation of the foregoing, from time to time following the Closing, Sellers and Buyer shall, and shall cause their respective Affiliates to, execute, acknowledge and deliver all such further conveyances, notices, assumptions, releases and acquaintances and such other instruments, and shall take such further actions, as may be necessary or appropriate to assure fully to Buyer and its respective successors or assigns, all of the properties, rights, titles, interests, estates, remedies, powers and privileges intended to be conveyed to Buyer under this Agreement and to assure fully to Sellers and its successors and assigns, the assumption of the liabilities and obligations intended to be assumed by Buyer under this Agreement, and to otherwise make effective the transactions contemplated hereby.

14.10 Entire Agreement. This Agreement, including any Exhibits and Schedules attached hereto, constitutes the entire understanding and agreement among the parties with respect to the subject matter of this Agreement, and supersedes all prior and contemporaneous agreements and understandings, inducements, or conditions, express or implied, oral or written, except as contained in this Agreement. Except as specifically set forth herein, this Agreement is not dependent upon the existence of any other agreement.

14.11 Finders or Broker's Fees. With the exception of their respective financial advisors, Bridge Associates LLC and Raymond James & Associates, each of Buyer (on the one hand), and Sellers (on the other hand), represents and warrants that neither it nor any of its respective affiliates has dealt with any broker or finder in connection with any of the transactions contemplated by this Agreement, and no broker or other person is entitled to any commission or finder's fee in connection with any of these transactions. Each party shall bear the fees and expenses of its respective financial advisors; except as contemplated by the provisions relating to the Expense Reimbursement.

14.12 Binding Effect: Assignment. This Agreement shall be binding upon and inure to the benefit of the Parties and their respective successors and permitted assigns. Nothing in this Agreement shall create or be deemed to create any third party beneficiary rights in any Person not a party to this Agreement. No assignment of this Agreement or of any rights or obligations hereunder may be made by any Seller or Buyer (by operation of law or otherwise) without the prior written consent of the other Parties hereto and any attempted assignment without the required consents shall be void; provided, however, that Buyer may assign this Agreement and any or all rights or obligations hereunder (including, without limitation, Buyer's rights to purchase the Subject Assets) to any Affiliate of Buyer or any Person from which it has borrowed money; provided, further, that in the event of any such assignment, Buyer shall not be relieved of its obligations hereunder. Upon any such permitted assignment, the references in this Agreement to Buyer shall also apply to any such assignee unless the context otherwise requires.

14.13 Publicity. Neither any Seller nor Buyer shall issue any press release or public announcement concerning this Agreement or the transactions contemplated hereby without obtaining the prior written approval of the other Parties hereto, which approval will not be unreasonably withheld or delayed, except to the extent that a particular action is required by

applicable Law or by the applicable rules of any stock exchange on which Buyer or Seller lists securities, provided that, to the extent required by applicable Law, the party intending to make such release shall use its best efforts consistent with such applicable Law to consult with the other party with respect to the text thereof.

IN WITNESS WHEREOF both parties have hereunto placed their signatures on the day and year first written above.

SELLERS:

TORCH OFFSHORE, INC.

/s/ ROBERT E. FULTON

Robert E. Fulton
Chief Financial Officer

TORCH OFFSHORE L.L.C.
TORCH EXPRESS L.L.C.

/s/ ROBERT E. FULTON

Robert E. Fulton
Chief Financial Officer

BUYER:

CAL DIVE INTERNATIONAL, INC.

/s/ MARTIN R. FERRON

Martin R. Ferron
President and COO

**INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM'S
ACKNOWLEDGEMENT LETTER**

August 8, 2005

To the Board of Directors and Shareholders
of Cal Dive International, Inc.:

We are aware of the incorporation by reference in the Registration Statements on Form S-3 (Nos. 333-10341 and 333-125276) and Form S-8 (Nos. 333-58817, 333-50289, 333-50202 and 333-126248) of Cal Dive International, Inc. of our report dated August 8, 2005 relating to the unaudited condensed consolidated interim financial statements of Cal Dive International, Inc. that are included in its Form 10-Q for the quarter ended June 30, 2005.

Very truly yours,

/s/ ERNST & YOUNG LLP

Houston, Texas

SECTION 302 CERTIFICATION

I, Owen Kratz, the Principal Executive Officer of Cal Dive International, Inc., certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Cal Dive International, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors:
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 9, 2005

/s/ OWEN KRATZ

Owen Kratz
Chairman and Chief Executive Officer

Section 302 Certification

SECTION 302 CERTIFICATION

I, A. Wade Pursell, the Principal Financial Officer of Cal Dive International, Inc., certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Cal Dive International, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors:
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 9, 2005

/s/ A. WADE PURSELL

A. Wade Pursell
Senior Vice President and Chief Financial Officer

Section 302 Certification

**CERTIFICATION OF CHIEF EXECUTIVE OFFICER
PURSUANT TO 18 U.S.C. §1350,
AS ADOPTED PURSUANT TO
§906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the accompanying Quarterly Report of Cal Dive International, Inc. ("CDIS") on Form 10-Q for the period ended June 30, 2005, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Owen Kratz, Chairman and Chief Executive Officer of CDIS, hereby certify pursuant to 18 U.S.C. §1350, as adopted pursuant to §906 of the Sarbanes-Oxley Act of 2002, that to the best of my knowledge:

- (1) the Report fully complies with the requirements of section 13(a) of the Securities Exchange Act of 1934; and
- (2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of CDIS.

Date: August 9, 2005

/s/ OWEN KRATZ
Owen Kratz
Chairman and Chief Executive Officer

Section 906 Certification

**CERTIFICATION OF CHIEF FINANCIAL OFFICER
PURSUANT TO 18 U.S.C. §1350,
AS ADOPTED PURSUANT TO
§906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the accompanying Quarterly Report of Cal Dive International, Inc. ("CDIS") on Form 10-Q for the period ended June 30, 2005, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, A. Wade Pursell, Senior Vice President and Chief Financial Officer of CDIS, hereby certify pursuant to 18 U.S.C. §1350, as adopted pursuant to §906 of the Sarbanes-Oxley Act of 2002, that to the best of my knowledge:

- (1) the Report fully complies with the requirements of section 13(a) of the Securities Exchange Act of 1934; and
- (2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of CDIS.

Date: August 9, 2005

/s/ A. WADE PURSELL

A. Wade Pursell
Senior Vice President and Chief Financial Officer

Section 906 Certification

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Shareholders of
Cal Dive International, Inc.:

We have reviewed the condensed consolidated balance sheet of Cal Dive International, Inc. and Subsidiaries as of June 30, 2005, and the related condensed consolidated statements of operations for the three-month and six-month periods ended June 30, 2005 and 2004, and the condensed consolidated statements of cash flows for the six-month periods ended June 20, 2005 and 2004. These financial statements are the responsibility of the Company's management.

We conducted our review in accordance with the 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 the standards of the Public Company Accounting Oversight Board, 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 review, we are not aware of any material modifications that should be made to the condensed consolidated financial statements referred to above for them to be in conformity with U.S. generally accepted accounting principles.

We have previously audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheet of Cal Dive International, Inc. and Subsidiaries as of December 31, 2004, and the related consolidated statements of operations, shareholders' equity, and cash flows for the year then ended, not presented herein, and in our report dated March 11, 2005, we expressed an unqualified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying condensed consolidated balance sheet as of December 31, 2004, is fairly stated, in all material respects, in relation to the consolidated balance sheet from which it has been derived.

/s/ ERNST & YOUNG LLP

Houston, Texas
August 8, 2005