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

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# FORM 10-Q

(X) Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
for the quarterly period ended March 31, 1998

( ) Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the transition period from _____________ to ______________

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Commission File Number: 0-22739

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Cal Dive International, Inc.
(Exact Name of Registrant as Specified in its Charter)

| | |
|---|---|
| Minnesota | 95-3409686 |
| (State of Other Jurisdiction of Incorporation or Organization) | (I.R.S. Employer Identification Number) |

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

(281) 618-0400
(Registrants telephone number, Including area code)

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Indicate by check mark 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 [X]

At May 4, 1998 there were 14,544,831 shares of common stock, no par value outstanding.

CAL DIVE INTERNATIONAL, INC.
INDEX

# PART I. FINANCIAL STATEMENTS

## Item 1. Financial Statements

CAL DIVE INTERNATIONAL, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(IN THOUSANDS)

| | March 31, 1998 | Dec. 31, 1997 |
|---|---|---|
| ASSETS | (unaudited) | |
| CURRENT ASSETS: | | |
| Cash and cash equivalents | $ 11,171 | $ 13,025 |
| Accounts receivable -- | | |
| Trade, net of revenue allowance on gross amounts billed of $1,220 (unaudited) and $1,822 | 21,877 | 23,856 |
| Unbilled | 8,508 | 8,134 |
| Other current assets | 8,123 | 4,947 |
| Total current assets | 49,679 | 49,962 |
| PROPERTY AND EQUIPMENT | 100,245 | 89,499 |
| Less - Accumulated depreciation | (22,001) | (20,021) |
| | 78,244 | 69,478 |
| OTHER ASSETS: | | |
| Cash deposits restricted for salvage operations | 5,749 | 5,670 |
| Other assets, net | 6,635 | 490 |
| | $ 140,307 | $ 125,600 |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | |
| CURRENT LIABILITIES: | | |
| Accounts payable | $ 18,341 | $ 12,919 |
| Accrued liabilities | 5,552 | 7,514 |
| Income taxes payable | 1,516 | 602 |
| Total current liabilities | 25,409 | 21,035 |
| LONG-TERM DEBT | 0 | 0 |
| DEFERRED INCOME TAXES | 9,945 | 8,745 |
| DECOMMISSIONING LIABILITIES | 10,226 | 6,451 |
| COMMITMENTS AND CONTINGENCIES | | |
| SHAREHOLDERS' EQUITY: | | |
| Common stock, no par, 60,000 shares authorized, 21,355 and 21,345 shares issued and outstanding | 52,947 | 52,832 |
| Retained earnings | 45,531 | 40,288 |
| Treasury stock, 6,821 shares, at cost | (3,751) | (3,751) |
| Total shareholders' equity | 94,727 | 89,369 |
| | $ 140,307 | $ 125,600 |

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



CAL DIVE INTERNATIONAL, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS

(IN THOUSANDS, EXCEPT PER SHARE DATA)

| | Three Months Ended March 31, 1998 | 1997 |
|---|---|---|
| | (unaudited) | |
| NET REVENUES: | | |
| Subsea and salvage | $ 29,342 | $13,588 |
| Natural gas and oil production | 3,815 | 4,856 |
| | 33,157 | 18,444 |
| COST OF SALES: | | |
| Subsea and salvage | 20,394 | 10,780 |
| Natural gas and oil production | 2,200 | 2,241 |
| Gross profit | 10,563 | 5,423 |
| SELLING AND ADMINISTRATIVE EXPENSES: | | |
| Selling expenses | 317 | 362 |
| Administrative expenses | 2,523 | 1,854 |
| Total selling and administrative expenses | 2,840 | 2,216 |
| INCOME FROM OPERATIONS | 7,723 | 3,207 |
| OTHER INCOME AND EXPENSE: | | |
| Interest (income) expense, net | (222) | 318 |
| Other (income) expense, net | (120) | 13 |
| INCOME BEFORE INCOME TAXES | 8,065 | 2,876 |
| Provision for income taxes | 2,822 | 991 |
| NET INCOME | $ 5,243 | $ 1,885 |
| EARNINGS PER COMMON SHARE: | | |
| Basic | $ 0.36 | $ 0.17 |
| Diluted | $ 0.35 | $ 0.17 |
| WEIGHTED AVERAGE COMMON SHARES OUTSTANDING | | |
| Basic | 14,535 | 11,099 |
| Diluted | 15,000 | 11,272 |

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



CAL DIVE INTERNATIONAL, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(IN THOUSANDS)

| | Three Months Ended March 31, 1998 | 1997 |
|---|---|---|
| | (unaudited) | |
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Net income | $ 5,243 | $ 1,885 |
| Adjustments to reconcile net income to net cash provided by operating activities -- | | |
| Depreciation and amortization | 1,996 | 1,845 |
| Deferred income taxes | 1,200 | 500 |
| Changes in operating assets and liabilities: | | |
| Accounts receivable, net | 1,605 | 9,215 |
| Other current assets | (3,176) | (685) |
| Accounts payable and accrued liabilities | 3,460 | (3,210) |
| Income taxes payable/receivable | 914 | 419 |
| Other non-current, net | (1,273) | 84 |
| Net cash provided by operating | | |

| | | |
|---|---|---|
| activities | 9,969 | 10,053 |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | |
| Capital expenditures | (6,789) | (3,017) |
| Investment in Aquatica, Inc. | (5,000) | 0 |
| Purchase of deposits restricted for salvage operations | (79) | (131) |
| Net cash used in investing activities | (11,868) | (3,148) |
| CASH FLOWS FROM FINANCING ACTIVITIES: | | |
| Exercise of stock options | 45 | 0 |
| Repayments of long-term debt | 0 | (6,000) |
| Net cash provided by (used in) financing activities | 45 | (6,000) |
| NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS | (1,854) | 905 |
| CASH AND CASH EQUIVALENTS: | | |
| Balance, beginning of period | 13,025 | 204 |
| Balance, end of period | $ 11,171 | $ 1,109 |

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



CAL DIVE INTERNATIONAL, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

NOTE 1 - BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES

The accompanying financial statements include the accounts of Cal Dive International, Inc. (Cal Dive or the Company) and its wholly owned subsidiaries, Energy Resource Technology, Inc. and Cal Dive Offshore, Ltd. All significant intercompany accounts and transactions have been eliminated. These financial statements are unaudited and 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 financial statements prepared in accordance with generally accepted accounting principles.

Management has reflected all adjustments (which were normal recurring adjustments) which it believes are necessary for a fair presentation of the consolidated balance sheets, results of operations, and cash flows, as applicable. Operating results for the periods ended March 31, 1998, are not necessarily indicative of the results that may be expected for the year ending December 31, 1998. These financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in the Company's Annual Report on Form 10-K.

NOTE 2 - INVESTMENT IN AQUATICA, INC.

In February 1998, CDI purchased a significant minority equity interest in Aquatica, Inc. for $5 million, in addition to a commitment to lend additional funds of up to $5 million to allow Aquatica to purchase vessels and fund other growth opportunities. Aquatica, Inc., headquartered in Lafayette, Louisiana, is a surface diving company founded in October 1997 with the acquisition of Acadiana Divers, a 15 year old surface diving company. Dependent upon various preconditions, as defined, the shareholders of Aquatica, Inc. have the right to convert their shares into Cal Dive shares at a ratio based on a formula which, among other things, values their interest in Aquatica, Inc. and must be accretive to Cal Dive shareholders. CDI will account for this investment on the equity basis of accounting for financial reporting purposes.

NOTE 3 - ACQUISITION OF OFFSHORE BLOCKS

In January 1998, ERT acquired interests in six blocks involving two separate fields (a 55% interest in East Cameron 231 and a 10% interest in East Cameron 353) from Sonat Exploration Company ("Sonat"). The properties were purchased in exchange for cash of $1 million, as well as assumption of Sonat's pro rata share of the related decommissioning liability.



NOTE 4 - CHANGE IN ACCOUNTING POLICY

Effective January 1, 1998, the Company changed its method of accounting for regulatory (U.S. Coast Guard, American Bureau of Shipping and Det Norske Veritas) related drydock inspection and certification expenditures. This change was made due to the significant changes in the composition of the Company's fleet which has been expanded to include more sophisticated dynamically positioned vessels that are capable of working in the deepwater Gulf of Mexico, a key to Cal Dive's operating strategy. The change also coincides with the first time these vessels were due for drydock inspection and certification since being acquired by CDI. The Company previously expensed inspection and certification costs as incurred; however, effective January 1, 1998, such expenditures will be capitalized and amortized over the 30-month period between regulatory mandated drydock inspections and certification. This predominant industry practice provides better matching of expenses with the period benefited (i.e., certification to operate the vessel for a 30-month period between required drydock inspections and to meet bonding and insurance coverage requirements). This change had an $800,000 positive impact on net income, or $0.05 per share, in the Company's first quarter 1998 consolidated financial statements. The cumulative effect of this change in accounting principle is immaterial to the Company's consolidated financial statements taken as a whole.



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 may contain or incorporate by reference certain forward-looking statements, including by way of illustration and not of limitation, statements relating to liquidity, margins, the Company's business strategy, plans for future operations, and the industry conditions. 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 changes. Accordingly, evaluation of future prospects of the Company must be made with caution when relying on forward-looking information.

RESULTS OF OPERATIONS

COMPARISON OF THREE MONTHS ENDED MARCH 31, 1998 AND 1997

REVENUES. During the three months ended March 31, 1998, the Company's revenues increased 80% to $33.2 million compared to $18.4 million for the three months ended March 31, 1997 with the Subsea and Salvage segment contributing all of the increase. The majority of the increase was due to increased demand for services provided by CDI's DP vessels, particularly the UNCLE JOHN which contributed nearly half of the increase compared to the first quarter of 1997 when the vessel was out of service for six weeks to have its derrick installed. The chartering of the MARIANOS during the three months ended March 31, 1998 contributed $3.9 million as the vessel filled in while the WITCH QUEEN was in drydock for scheduled maintenance. During the first three months of 1998 an increased level of customer emergency repairs created strong demand for the 4-Point moored saturation vessels (CAL DIVERS I AND II). As a result, total vessel utilization days were 574 for the CDI fleet in the first quarter of 1998, an increase of 34% over the same period of the prior year.

Natural gas and oil production revenue for the three months ended March 31, 1998 declined 21% to $3.8 million from $4.9 million during the comparable prior year period due to a decrease in average gas prices realized in the first quarter of 1998. Production of 1.5 Bcf for the three months ended March 31,1998 was virtually unchanged from first quarter 1997 levels.

GROSS PROFIT. Gross profit of $10.6 million for the first quarter of 1998 nearly doubled the $5.4 million gross profit recorded in the comparable prior year period with the UNCLE JOHN providing over half of the increase. The remainder of the increase is due mainly to the aforementioned stronger demand in 1998 for services provided by the 4-Point saturation vessels and to the impact of a change in the method of accounting for regulatory related drydock inspection and certification expenditures. The Company previously expensed such amounts as incurred; however, effective January 1, 1998, such expenditures will be capitalized and amortized over the 30-month period between regulatory mandated drydock inspections which is consistent with industry-wide practice. The impact of this change on CDI's gross profit for the first quarter of 1998 was to increase the results by approximately $1.2 million. Subsea and Salvage margins increased from 21% in the three months ended March 31, 1997, to 27% (after deducting the impact of the accounting change) in the three months ended March 31, 1998 due mainly to the factors mentioned above.



Natural gas and oil production gross profit decreased from $2.6 million in the first quarter of 1997 to $1.6 million for the three months ended March 31, 1998, due mainly to the decrease in average gas prices.

SELLING & ADMINISTRATIVE EXPENSES. Selling and administrative expenses were 8.6% of first quarter 1998 revenues, an improvement from 12% in the comparable prior year period. Such expenses for the three months ended March 31, 1998 were $2.8 million as compared to $2.2 million in the comparable prior year period. The increase was due mainly to the addition of new personnel to support the Company's Deepwater strategy and growth in its base business.

NET INTEREST. The Company reported net interest income of $222,000 for the three months ended March 31, 1998 in contrast to net interest expense of $318,000 for the three months ended March 31, 1997. This improvement was due to the repayment of all outstanding debt with proceeds from its initial public offering of Common Stock in July 1997.

INCOME TAXES. Income taxes increased to $2.8 million for the three months ended March 31, 1998, compared to $1.0 million in the comparable prior year period due to increased profitability.

NET INCOME. Net income of $5.2 million for the three months ended March 31, 1998 was $3.4 million, or 178%, more than the comparable period in 1997 as a result of factors described above. The above-mentioned accounting change increased CDI's net income for the first quarter of 1998 by approximately $800,000.

LIQUIDITY AND CAPITAL RESOURCES

The Company has historically funded its operating activities principally from internally generated cash flow. The Company completed an initial public offering of common stock on July 7, 1997, with the sale of 2,875,000 shares generating net proceeds to the Company of approximately $39.5 million, net of underwriting discounts and issuance costs. The proceeds were used to fund capital expenditures during 1997, and to repay all outstanding long-term indebtedness. As of March 31, 1998, the Company had $24.3 million of working capital (including $11.2 million of cash on hand) and no debt outstanding after funding the acquisition of two vessels in late 1997(SEA SORCERESS AND MERLIN), ERT's purchase of offshore properties and the equity investment in Aquatica. Additionally, CDI has approximately $37.0 million available under a Revolving Credit Agreement. The Company has had, and anticipates having additional discussions with third parties regarding possible asset acquisitions (including natural gas and oil properties and vessels). However, the Company can give no assurance that any such transaction can be completed.

OPERATING ACTIVITIES. Net cash provided by operating activities was virtually unchanged at $10.0 million in the three months ended March 31, 1998, as compared to the first quarter of 1997. Increased profitability during the first quarter of 1998 offset significant accounts receivable collections during the first quarter of 1997. Accounts payable increased $5.4 million at March 31, 1998 as compared to December 31, 1997 due mainly to significant accruals during March 1998 for various capital projects (including an upgrade of the SEA SORCERESS in preparation for the Terra Nova project and costs associated with placing the MERLIN in service).

INVESTING ACTIVITIES. The Company incurred $6.8 million of capital expenditures during the first quarter of 1998 compared to $3.0 million during the comparable prior year period. In January 1998, ERT acquired interests in six blocks involving two separate fields from Sonat Exploration Company for $1.0 million and assumption of Sonat's pro rata share of the related decommissioning liability. The remaining balance relates to costs associated with placing the MERLIN in service and additions to the SEA SORCERESS in preparation for the

Terra Nova project. The Company incurred capital expenditures of $2.1 million in the first quarter of 1997 related to



the installation of a derrick on the UNCLE JOHN. In February 1998, the Company purchased a significant minority equity investment in Aquatica, Inc. (a surface diving company) for $5.0 million, in addition to a commitment to lend additional funds of $5.0 million to allow Aquatica to purchase vessels and fund other growth opportunities.

FINANCING ACTIVITIES. The Company was debt free throughout the first quarter of 1998. Excess cash funds, which averaged $13.3 million, were invested in U.S. Government securities which yielded approximately 5.5%. During the first two quarters of 1997, the Company repaid $5.0 million, net of its borrowings under the Revolving Credit Agreement with Fleet Capital Corporation and in the third quarter repaid the remaining $20.0 million outstanding with proceeds from its initial public offering.

CAPITAL COMMITMENTS. The Company does not have any material commitments for capital expenditures for the next year. However, as discussed previously, in connection with its business strategy, management expects the Company to acquire or build additional vessels as well as buy additional natural gas and oil properties.

IMPACT OF YEAR 2000 ISSUE

The Company has assessed what computer software will require modification or replacement so that its computer systems will properly utilize dates beyond December 31, 1999. The Company has purchased, and is presently implementing, a new project management accounting system which is Year 2000 compliant. This system, which fully integrates all of its modules, will provide project managers and accounting personnel with up-to-date information enabling them to better control jobs in addition to providing benefits inventory control and planned vessel maintenance. This implementation will be completed during 1998. Accordingly, the Company believes that with this conversion, the Year 2000 issue will be resolved in a timely manner and presently does not believe that the cost to become Year 2000 compliant will have a material adverse effect on the Company's consolidated financial statements. Finally, CDI's vessel computer DP systems are dependent on government satellites and the government has not yet confirmed that they have solved Year 2000 data problems.



## PART II. OTHER INFORMATION

Item 1. Legal Proceedings

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 Jones Act as a result of alleged negligence. The Company believes that the outcome of all such proceedings would not have a material adverse effect on its consolidated financial position, results of operations or net cash flows.

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits -

Exhibit 18 - Letter from Arhtur Andersen LLP regarding change in accounting principle.

Exhibit 27 - Financial Data Schedule. (Exhibit 27 is being submitted as an exhibit only in the electronic format of this Quarterly Report on Form 10-Q being submitted to the Securities and Exchange Commission.)

(b) Reports on Form 8-K - None.



## 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: May 4, 1998 | By: /s/ S. JAMES NELSON<br>S. James Nelson, Executive<br>Vice President and Chief<br>Financial Officer |
| Date: May 4, 1998 | By: /s/ A. WADE PURSELL<br>A. Wade Pursell, Vice<br>President-Finance and<br>Chief Accounting Officer |

EXHIBIT 18.1

March 25, 1998

Cal Dive International, Inc.
400 N. Sam Houston Parkway E., Suite 400
Houston, Texas 77060

Gentlemen:

This letter is written to meet the requirements of Regulation S-K calling for a letter from a registrant's independent accountants whenever there has been a change in accounting principle or practice.

We have been informed that, effective January 1, 1998, the Company changed its method of accounting for regulatory (U.S. Coast Guard, American Bureau of Shipping and Det Norske Veritas) related drydock inspection and certification expenditures. This change was made due to the significant changes in the composition of the Company's fleet which has been expanded to include more sophisticated dynamically positioned vessels that are capable of working in the deepwater Gulf of Mexico, a key to Cal Dive's operating strategy. The change also coincides with the first time these vessels were due for drydock inspection and certification since being acquired by CDI. The Company previously expensed inspection and certification costs as incurred; however, effective January 1, 1998, such expenditures will be capitalized and amortized over the 30-month period between regulatory mandated drydock inspections and certification. This predominant industry practice provides better matching of expenses with the period benefited (i.e., certification to operate the vessel for a 30-month period between required drydock inspections and to meet bonding and insurance coverage requirements).

A complete coordinated set of financial and reporting standards for determining the preferability of accounting principles among acceptable alternative principles has not been established by the accounting profession. Thus, we cannot make an objective determination of whether the change in accounting described in the preceding paragraph is to a preferable method. However, we have reviewed the pertinent factors, including those related to financial reporting, in this particular case on a subjective basis, and our opinion stated below is based on our determination made in this manner.



We are of the opinion that the Company's change in method of accounting is to an acceptable alternative method of accounting, which, based upon the reasons stated for the change and our discussions with you, is also preferable under the circumstances in this particular case. In arriving at this opinion, we have relied on the business judgment and business planning of your management.

We have not audited the application of this change to the financial statements of any period subsequent to December 31, 1997. Further, we have not examined and do not express any opinion with respect to your financial statements for the three months ended March 31, 1998.

Very truly yours,

/s/ ARTHUR ANDERSEN LLP

<ARTICLE> 5

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