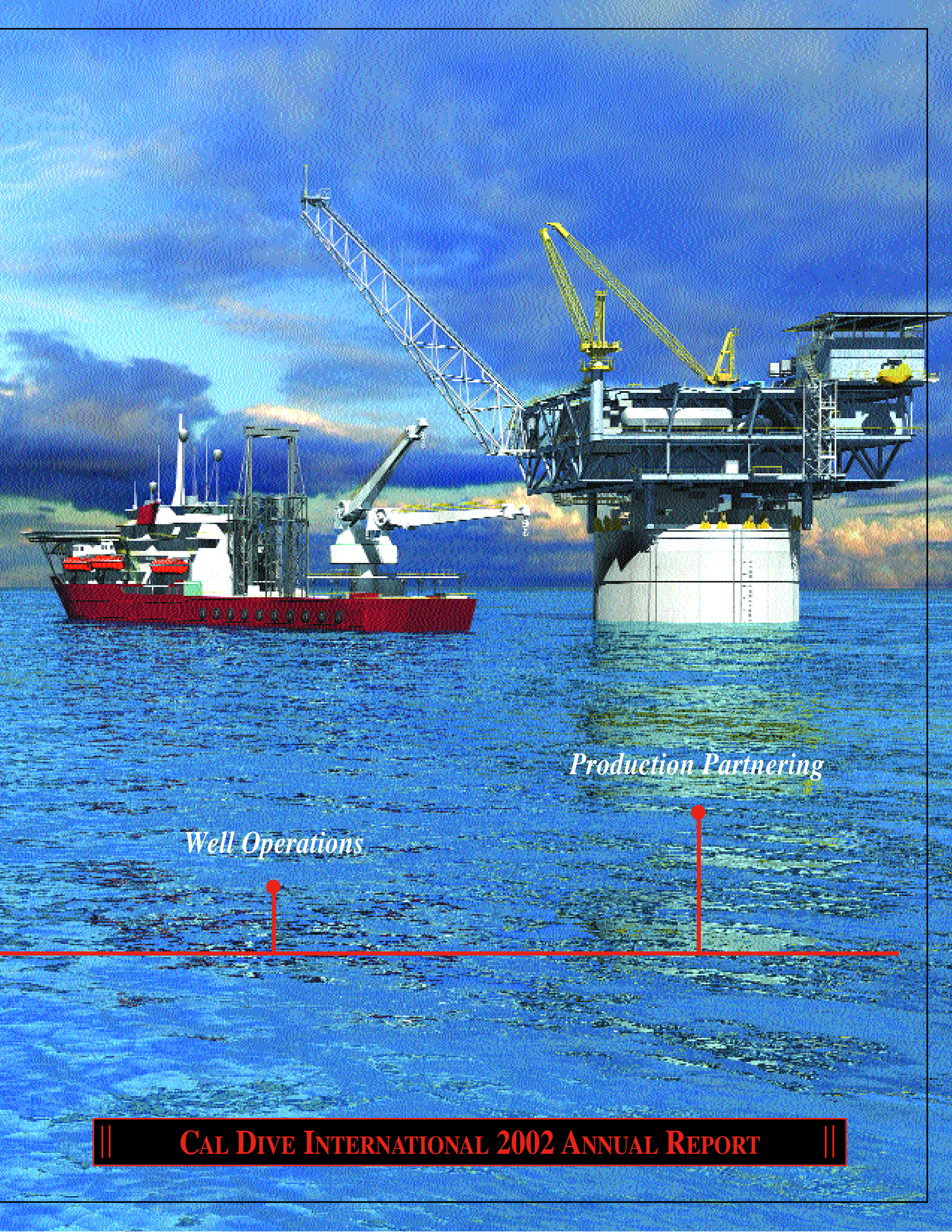


CAL DIVE INTERNATIONAL 2002 ANNUAL REPORT

CORPORATE PROFILE

Board of Directors:
Left to right: John Lovoi, Tony Tripodo, Bernard Duroc-Danner, Martin Ferron, Bill Transier,
Seated: Gordon Ahalt, Owen Kratz and Jim Nelson

Cal Dive International, Inc., (CDI) is a leading subsea contractor providing construction, well operations and decommissioning services from the shallowest to the deepest waters of the Gulf of Mexico and the North Sea. Foralmost fourdecades Cal Dive has developed a reputation for innovation which has kept the company on the leading edge of underwatertechnological developments. Production partnering, where CDI takes direct ownership in oil & gas reservoirs and related production facilities, enables the company to realize excellent returns while securing associated marine construction work. This unique integration of subsea contracting and oil & gas operations results in revenues and earnings that are more stable than traditional marine contractors who rely upon new construction awards.

Cal Dive offers a world class fleet of dynamically positioned (DP) vessels to the marine contracting markets. Having the largest fleet of permanently deployed DP vessels in the Gulf of Mexico provides customers the redundancy essential for large, technically challenging Deepwater projects. Well Ops Inc. engineers, manages and conducts well construction, intervention and decommissioning operations utilizing two dedicated vessels, the *Q4000* in the Gulf of Mexico and the MSV *Seawell* in the North Sea. The scheduling flexibility afforded by the CDI fleet and the entrepreneurial drive of CDI employees have enabled the company to excel in the GOM spot market on the Outer Continental Shelf. Cal Dive is a major provider of saturation diving services in the "mid-water" Gulf (300 to 1000 feet) while Aquatica, Inc., has established a leading position in the shallow water market from the shore to 300 fsw. Cal Dive is also a leading salvage contractor, offering customers a number of options to address decommissioning obligations in the most cost-efficient manner.

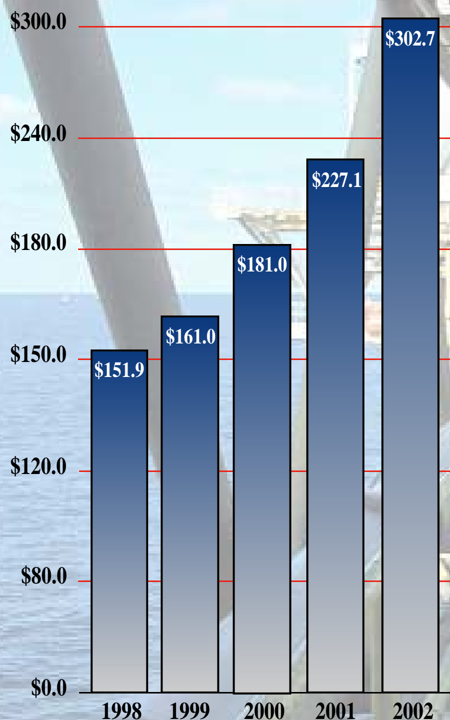
The company introduced its production partnering concept in 1992 with formation of Energy Resource Technology, Inc. (ERT), a wholly-owned subsidiary that acquires and operates mature and non-core offshore properties. We took the ERT model into the Deepwater with our working interest in *Gunnison*, a development that is on track to commence production in early 2004. Ownership of the tension leg platform that will process production at *Marco Polo* signals an expansion of a DeepwaterHub strategy designed to generate solid returns from facilityownership and development of surrounding fields.

CDI has established a corporate culture in which environment, health and safety (EHS) at work are embraced as core business values. Our goal is people going home safely, with zero incidents and no harm to the environment.

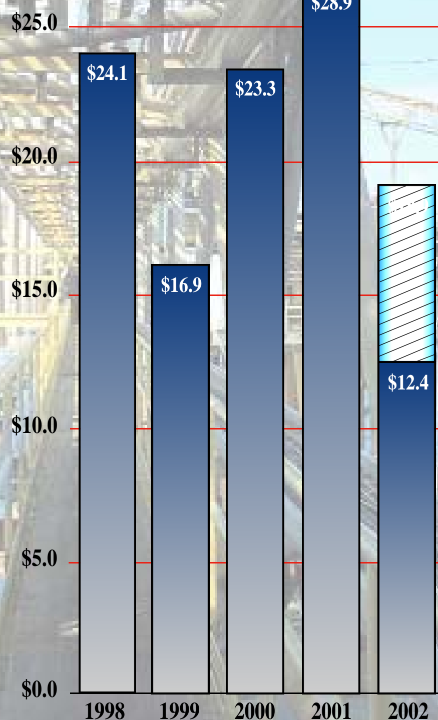
Headquartered in Houston, Texas, Cal Dive is publicly traded on NASDAQ under the symbol CDIS.

FINANCIAL HIGHLIGHTS

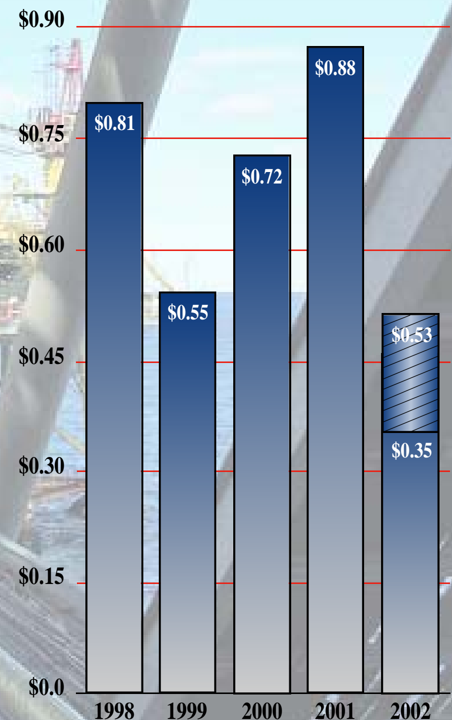
Revenue In Millions



Net Income In Millions



Diluted Earnings Per Share



Tax affected impact of litigation and contract reserves of $10 million

GLOSSARY

BCFe (BCF): Billions of cubic feet of natural gas equivalent.

Deepwater: Waterdepths beyond 1,000 feet.

Dive Support Vessel (DSV): Subsea services are performed with the use of specially constructed vessels which serve as an operational base for divers, ROVs and customized underwaterconstruction equipment.

Dynamic Positioning (DP): Satellite based global positioning systems ensure the proper counteraction to wind, current and wave forces, thereby enabling the vessel to stay in position without the use of anchors.

EHS: Environment, Health and Safety programs that protect the environment, safeguard employee health and eliminate injuries.

E&P: Companies involved in oil and gas exploration and production activities.

EPIC: Fixed price contract covering engineering, procurement, installation and construction.

FSW: Waterdepth in feet of salt water.

Gulf of Mexico: Referred to in this report as Gulf, DeepwaterGulf orGOM.

Life of Field Service: Includes services performed on facilities, trees and pipelines from the beginning to the economic end of the life of an oil field, including installation, inspection, maintenance, repair, contract operations, well intervention, recompletion and abandonment.

MBbl: When describing oil, refers to 1,000 barrels containing 42 gallons each.

MCF: Thousands of cubic feet of natural gas.

MSV: Multi service vessel capable of performing a variety of marine construction and well operations tasks.

Minerals Management Service (MMS): The government regulatory body having responsibility forUnited States waters in the GOM.

Outer Continental Shelf (OCS): Areas in the GOM from the shore to 1,000 feet of water.

Peer Group: Global Industries, Ltd. (GLBL), Horizon Offshore, Inc. (HOFF), McDermott International, Inc. (MDR), Oceaneering International, Inc. (OII), Stolt Offshore SA (SOSA), Technip-Coflexip (TKP) and Torch Offshore, Inc. (TORC).

Proved Undeveloped Reserves (PUD): Proved undeveloped oil and gas reserves that are expected to be recovered from a new well on undrilled acreage, or from existing wells where a relatively majorexpenditure is required for recompletion.

Remotely Operated Vehicle (ROV): Robotic vehicles used to complement, support and increase the efficiency of diving and subsea operations and for tasks beyond the capability of manned diving operations.

ROCE: "Return on Capital Employed" is the amount, expressed as a percentage, earned on a company's total capital (shareholders' equity plus long-term debt). It is calculated by dividing tax affected earnings before interest and dividends by total capital.

Saturation Diving (Sat): Sat diving, required forwork in water depths greater than 300 feet, involves divers working from special chambers for extended periods at a pressure equivalent to the depth of the work site.

Spar: Floating production facility anchored to the sea bed with catenary mooring lines.

Stranded Field: Smaller reservoirthat standing alone may not justify the economics of a host production facility and/orinfrastructure connection.

Tension Leg Platform (TLP): A floating Deepwater compliant structure designed for offshore hydrocarbon production.

TRIR: Total recordable incidence rate, a safety performance benchmark used by the federal government (OSHA).

Ultra-Deepwater: Waterdepths beyond 4,000 fsw.

To Our Shareholders

2002 marked a year of transition for your company. We completed an aggressive, three year capital spending plan which added $450 million in Deepwater assets and $300 million in an expansion of our oil and gas business. In the process, Cal Dive has evolved from a relatively small, regional Gulf of Mexico contractor to the operator of the fourth largest Deepwater fleet in the world. The capability and technology embodied in our fleet of dynamically positioned construction and well operations vessels put CDI on an equal footing with any competitor. As we brought the new assets on line during the year, equipment start up issues, crew training, operational procedures and safety methodologies all had to mesh together. These technically challenging projects would not have been possible for any contractor in years passed. Elsewhere in this report is a chronological listing of all that we accomplished during the year (see 2002 Highlights). We also scored well relative to primary corporate goals (see Box Score). The shipyard focus had a price, however, as we were unable to convert these positive developments to an acceptable return for our shareholders.

The year was unique in the annals of the energy industry as high commodity prices failed to generate much in the way of offshore construction activity. Other external factors also played a significant role in 2002: The potential Iraq war created much uncertainty; the telecom market collapsed after we acquired Canyon Offshore; UK tax increases slowed demand in the North Sea; and weaknesses in international markets prompted foreign competitors to bring DP vessels into the Gulf. Unsettled construction market conditions such as these historically have created an environment in which Cal Dive excels. However, we reacted slowly to delays in the anticipated increase in Deepwater demand.

In the Deepwater market we are dealing with fewer, much larger customers who demand top quality, safety and reliability. The excess offshore capacity which presently exists has swung the leverage pendulum far to the side of the producer, with some contractors accepting margin and contract risk for the sake of utilization. The charge taken in the fourth quarter demonstrates that we were not completely immune from these trends in 2002. The work scope of the offshore Trinidad job represented one of the most challenging projects tackled in the western hemisphere. That we successfully completed this work is a tribute to the capability of two new vessels, the *Q4000* and the *Eclipse*, and the efforts of the Cal Dive personnel. In years gone by the value received by the client and the intent of the contract terms in this situation would have been sufficient for a resolution in which both parties were kept whole and treated fairly.

On a brighter note, the Cal Dive marine contracting and diving services provided on the Outer Continental Shelf quietly turned in another solid year. Hurricane *Lili* repair work enabled each of the Shelf vessels to achieve targeted returns in a market considerably softer than expected for the first three quarters of the year. In addition, our oil and gas production arm, Energy Resource Technology, turned in a performance nothing short of spectacular.

It is at these points in the downcycle of marine construction that the viability of the Cal Dive business model can best be appreciated. We do not claim to have any crystal ball as to when Deepwater demand will fully absorb the existing worldwide supply of DP vessels. Rather, our corporate strategy has us well positioned for three trends that we are confident will develop. Those trends and corresponding CDI strategies are as follows:

- More Subsea Trees: Creation of Well Ops Inc.
- More Mature Properties: ERT property acquisitions
- More Small Reservoirs: Deepwater Hub and PUD or "stranded fields" initiatives

With respect to subsea trees, we achieved a first-in competitive advantage during 2002 with the introduction of the *Q4000* and the acquisition of Technip-Coflexip's Well Operations business in the UK. Our strategy related to mature properties and small reservoirs is embodied in production partnering.

The Cal Dive business model is unique because our oil and gas operations provide a countercyclical hedge. 2002 was a year of dramatic achievement in this area as we more than tripled our base of mature properties, funded the *Gunnison* and *Marco Polo* Deepwater developments, and proved the viability of our PUD model. These achievements provide unusual earnings visibility for 2003 and 2004 and represent a safety net with respect to the timing of the contracting recovery. Each investment is designed to secure work for CDI vessels with a goal of growing production partnering requirements to 40% of fleet utilization over time.

We often are asked how to value the company given the mix of oil and gas profitability. CDI production partnering success reflects the fact that we provide a service to our customers that scrupulously avoids three aspects of the E&P business. We do not engage in exploratory drilling, acquire undeveloped leasehold interests, nor do we attempt to replace reserves and production annually. This strategy has enabled ERT to deliver a return on capital that far exceeds those of E&P companies and marine contractors.

2002 Box Score

Goals	*Grade*	*Comments*
Shareholder Return: Deliver return on invested capital of 10%.	*C*	5% in 2002 was below the five-year average of 12%.
Deepwater Contracting: Generate $50 million of revenue outside GOM.	*B*	$62 million or 55% of DP fleet revenues were derived offshore Mexico, Trinidad and Brazil.
Well Operations: Gain client acceptance of *Q4000* in Well Ops mode.	*B*	*Q4000* performed well on *Troika* and P&A projects. Acquisition of Well Ops (UK) added engineering and MSV *Seawell*.
Shelf Contracting: Reduce reliance upon a single customer.	*A*	Achieved revenue and margin goals by broadening customer base.
Production Contracting: Add 40 BCFe through purchases/revision and capitalize on PUD opportunities.	*A+*	Added total of 76 BCFe while proving the PUD model at East Cameron 374.
Safety: Reduce TRIR (Total Recordable Incidence Rate) to 2.00.	*C+*	2.49 was consistent with 2001 even though total man-hours increased by 20% and we introduced new DP vessels to the fleet.

While disappointed with 2002 financial results, we are well positioned to achieve our market objectives. Cal Dive is financially sound. We are finally out of the shipyards and the integration of recent acquisitions is essentially complete. Shelf Contracting, Well Ops UK and ERT are all performing well. We have added two new independent Board members, John Lovoi and Tony Tripodo, who bring to CDI the extensive industry experience and financial backgrounds so necessary in today's environment. We have not only the security of earnings and cash flow coming from our *Gunnison* and *Marco Polo* investments in 2004, but also significant earnings leverage in our contracting fleet. We know what we are capable of at Cal Dive with our vision focused upon reaping the harvest of our aggressive capital spending growth plan.

With this in mind we have set the following corporate goals for 2003:

- SHAREHOLDER RETURN: Deliver a ROCE of 10%.
- DEEPWATER CONTRACTING: Improve gross profit margins to 15%.
- WELL OPS: 500 days of combined *Q4000* and *Seawell* utility.
- SHELF OPERATIONS: Match prior year financial results.
- OIL & GAS: Achieve 30 BCFe of production.
- SAFETY: Reduce TRIR to less than 2.0.

Respectfully submitted,

Owen E. Kratz
Chairman
Chief Executive Officer

Martin Ferron
President
Chief Operating Officer

S. James Nelson, Jr.
Vice Chairman

DEEPWATER CONTRACTING

In the past three years we have aggressively built a world-class DP fleet which now provides the entire spectrum of Deepwater construction and robotic services. While each vessel targets a specific market niche, the common denominator is CDI's focus upon "jewelry" work, tying subsea trees and manifolds on the ocean floor back to a host platform. In assembling our fleet, we specifically avoided asset-intensive markets such as major pipelay and heavy lift services, and we have no interest in becoming an *EPIC* contractor. We are simply not willing to accept the risk of giving a fixed price up front for engineering, procurement, installation and construction work to be performed over several years, with much of it provided by third parties.

Throughout our history, Cal Dive has excelled as a subcontractor providing specialized subsea construction vessels to prime contractors. As a result, companies that many would consider competitors, Technip-Coflexip for example, are among our best customers. This has historically resulted in higher DP vessel utilization than other marine contractors.

Our ability to consistently work DP vessels in areas outside of the U.S. Gulf in 2002 enabled revenues of $122 million to exceed the business plan. Utilization of 82% was very close to last year's record of 87% even though we added three new vessels and elected to take several out of service in the third quarterforaccelerated regulatory inspections.

While we achieved our revenue goal, gross profit was only 30% of target as we broke even or lost money on two large projects. Late delivery of the *Intrepid* forced us to subcontract the lay portion of a large Deepwaterjob and pushed critical path work into the difficult winter months where we had weather exposure.

While the project offshore Trinidad was not a financial success, the sheer size, dimensions and mass would normally have required an expensive heavy lift spread. We set a 65 x 65 x 20-foot-tall manifold weighing 400 tons using the *Q4000* multi-purpose tower. The *Q4000* also deployed a 48-inch-diameter, 300-foot-long spool piece weighing 200 tons, and four other 48-inch spool pieces. *Eclipse* divers completed the commissioning by making 216 separate bell runs.

During 2002 we continued a string of significant Deepwater construction tasks in the U.S. Gulf:

- *Boomvang/Nansen*: 6-inch flexible risers, umbilical flying lead and manifold installations (*Q4000*, *Intrepid* and *Uncle John*, 3,400 fsw).

- *Madison/Marshall*: Jumper/flying lead replacement (*Uncle John*, 4,960 fsw).
- *King Kong*: Jumper and flying lead installation (*Q4000*, 4,700 fsw).
- *Navajo*: Installed riser, 6-inch pipeline and umbilicals (*Intrepid*, 3,700 fsw).
- *Falcon*: Manifold installation and jumper metrology (*Intrepid*, 3,450 fsw).

The heavy lift capacity of the *Q4000* was also demonstrated offshore Brazil as it was more cost effective for the customer to mobilize our vessel than employ a heavy lift barge spread in the area.

The acquisition of Canyon Offshore added 16 ROV systems and four trenching units together with 245 personnel in offices located in Houston, Aberdeen and Singapore. During June the company took delivery of the newbuild *Northern Canyon* in the North Sea and successfully operated the *Merlin* in the U.S. Gulf throughout the year. 2002 operations were disappointing as revenues of $37.5 million and breakeven operations were considerably below plan. The shortfall was due to a variety of factors: Deepwater industry activity and fleet utilization were lower than expected; Canyon encountered significant technical challenges as it introduced newly designed ROV systems to market; and we learned the hard way that bankruptcy trumped long-term contracts with telecommunications companies.

We hope for significantly improved results in 2003 as Canyon has negotiated three-year Master Service and Frame Agreements to provide worldwide robotic services to Technip-Coflexip and trenching services for that company's installation activities in Norway. This work will commence in the third quarter upon delivery of three new Triton XLS ROV systems and a state-of-the-art T750 horsepower trenching unit.

There may also be a light at the end of the Deepwater tunnel as 14 tension-leg platforms and spars are under construction and scheduled for installation late in 2003 and early the following year. This will double the number of host structures in the Gulf and should spawn a significant increase in the subsea tieback work Cal Dive targets. Until these new host structures are in place, we expect that the challenges which have beset the Deepwater market will continue. As a result, we have identified the following Deepwater Contracting goals for 2003:

- *Uncle John*: Secure a five-year contract in Mexican waters.
- Process Improvement: Improve DP fleet gross profit margins to 15%.
- Canyon: Improve revenues and margins by 50%.

WELL OPERATIONS

In the mid 1960s, our predecessor, California Divers, pioneered the first use of mixed-gas diving as the offshore industry moved beyond 250 feet in the Santa Barbara Channel and created the subsea market. Over the last four decades the company has grown by targeting an unoccupied market niche and exploiting a "first-in" advantage. Another such opportunity is emerging as an estimated 380 subsea trees were installed in 2002 versus a combined total of 1,250 in the prior eight years. The numberof trees presently on order and forecast suggests that well over 2,000 trees will be installed in the Gulf during the years 2003 through 2007. Currently there is no cost-effective solution for life-of-field subsea well services as expensive drill rigs perform all such activities. $250 million, or more than half of the new CDI Deepwater assets, target this market niche.

We established a new wholly-owned subsidiary, Well Ops Inc., to provide the offshore industry with a single, comprehensive resource to support well operations. The keys to this new market are two purpose-built vessels: the semi-submersible *Q4000* in the Gulf of Mexico and the MSV *Seawell* in the North Sea. The competitive advantages of these CDI vessels are lower operating costs, quicker mobilization to the worksite, and the ability to maximize productive time by performing a broad range of tasks forintervention, construction, inspection, repair and maintenance. We now offer customers multiple technologies: the Subsea Intervention Lubricator (SIL) technology developed in the UK and riser-based intervention with the *Q4000* in the Americas.

The *Q4000* is the first newbuild vessel specifically designed fortasks to 10,000 fsw. In addition to the Alstom DP3 system, the vessel has a uniquely designed Huisman 600-ton derrick with active and passive heave compensation. Specific well ops features include: 12,000 barrel fluid capacity, Hydralift automated pipe handling equipment, a derrick equipped with electric top drive and a variable deck load exceeding 4,400 metric tons.

We have targeted 2005 as a period when well operations demand should reach a level that will provide meaningful utilization for the *Q4000*. Accordingly, the vessel was also designed to multi-task, with unique construction features to provide utilization in the interim and to help relieve the workload of our other semi-submersible, the *Uncle John*. While much of the *Q4000* activity in 2002 was in construction, we did successfully tackle our first plugging and abandonment job and performed extremely well on the high-profile *Troika* project without an OSHA recordable incident.

During the year our Well Ops group selected, hired and trained a permanent, specialized, well operations crew for the *Q4000*. That crew completed the commissioning of the vessel's pipe handling system, gas safety system, and other live well and drilling specific equipment. This equipment was used on behalf of Petrobras during the decommissioning of a temporarily abandoned well in 550 fsw. On that location it demonstrated the type of cost-effective services it could provide for the estimated 500 to 700 temporarily abandoned wells in the Gulf of Mexico. A rigid riser was connected to the well and coiled tubing used to drill 110 feet of cement to allow access to the lower casing annuli. Other than the *Q4000*, only a drilling rig could have performed this work.

Following an extensive audit and vessel evaluation, BP contracted for the *Q4000* to perform a subsurface safety valve repair on a producing well in the *Troika* field at 2,700 fsw. BP had never used a work platform other than a drilling rig for live well intervention in the Gulf. Among other tasks, the operation required installation of a pressure-activated subsurface control valve. Once installed, the well was flowed to insure the pressure settings were correct, then it was returned to production.

In July, Cal Dive acquired the Well Operations Business Unit of Technip-Coflexip, which included the MSV *Seawell*, assignment of current client and vendor contracts, and the engineering, project management and specialized personnel of this division. Over the past decade, the *Seawell* has demonstrated life-of-field capabilities, having provided intervention and abandonment services for more than 400 North Sea wells. Her established market position is reflected in 305 days of average annual utilization during the last eight years with an average of 190 days of well ops work each year.

The UK operations had an excellent third quarter as the *Seawell* operated at almost full utility on three major projects, generating revenues of $16 million and margins just shy of 30%. However, changes in the British tax law resulted in a major customer canceling a scheduled 40-day well ops project in October. That cancellation together with winter weather in the North Sea and scheduled downtime to overhaul engines resulted in utilization of only 40% and revenues of just $5.4 million in the fourth quarter.

Specific Well Operations goals for 2003:

- BRAND NAME: Establish Well Ops name recognition worldwide.
- WELL OPS UK: Achieve *Seawell* utility of 280 days.
- *Q4000*: Secure an annual utilization commitment from a major customer.

SHELF CONTRACTING

2002 marked the 27th year that Cal Dive has provided marine construction and manned diving services on the Outer Continental Shelf. The number of mobile rigs under contract is a primary driver of OCS construction work as the drilling of a successful well typically produces work for Cal Dive in the following 6 to 18 months. After the industry ran at almost full capacity of 180 to 190 rigs in the first half of 2001, the rig count fell below 130 units and remained there throughout 2002. Much to the surprise of virtually all industry observers, high natural gas prices failed to prompt any movement in the rig count.

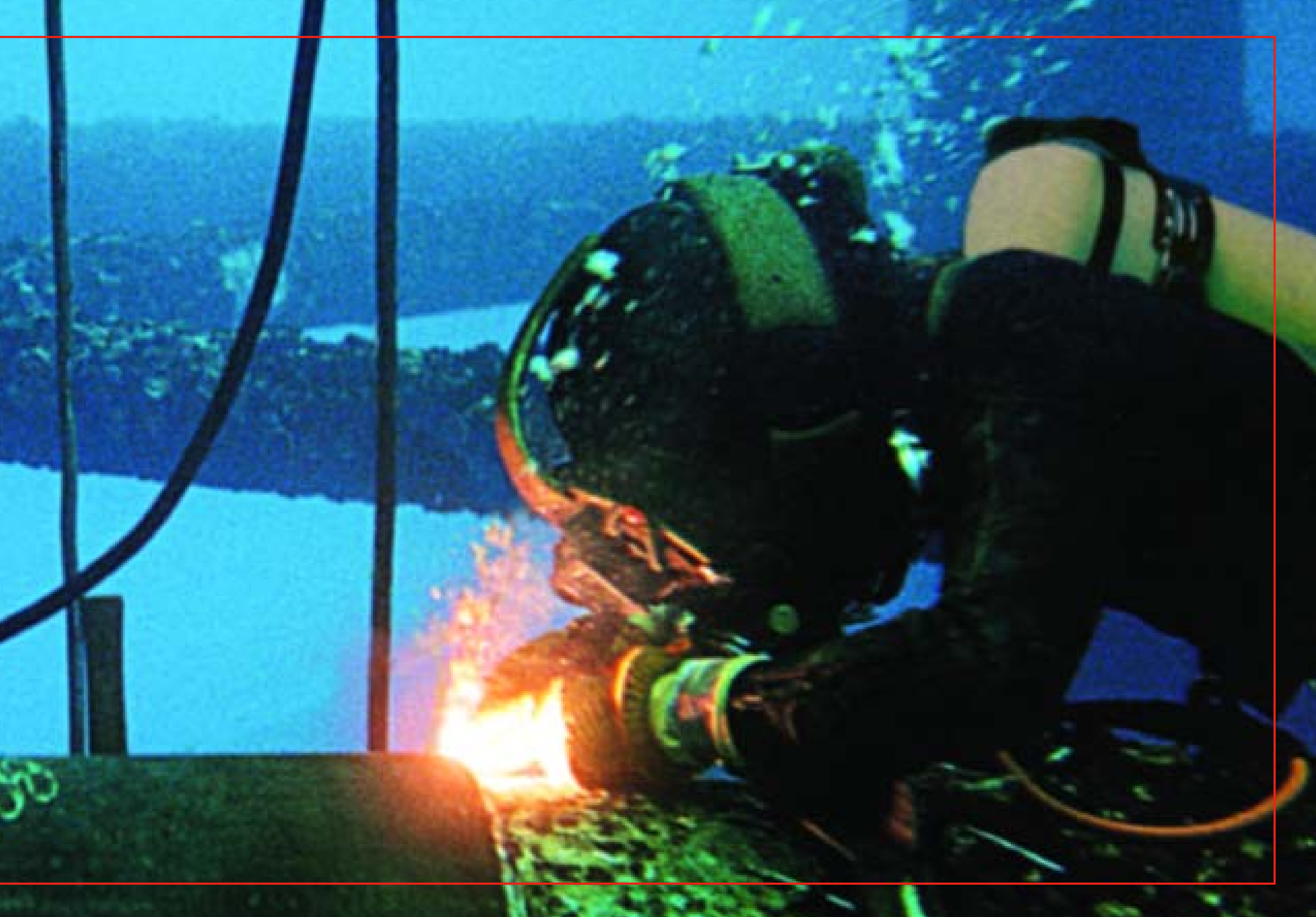
As a result, Shelf Contracting revenues of $73 million fell 14% below the $85 million registered a yearago. However, results on several fronts were stronger than expected and enabled this group to exceed the 2002 plan nonetheless. Hurricane *Lili*, which hit the Gulf in late September, produced a significant amount of inspection, maintenance and repair work in the fourth quarter at solid margins.

Shallow water revenues were actually higher than 2001 as Aquatica increased revenues by $9 million from eight customers and was selected as the contractor forall surface diving associated with Shell TLP platforms on the OCS. This success is a result of several factors: Our competition in the shallow watermarket consists principally of small "mom and pop" dive companies; we support upstream drill rig operations; and the bulk of our work is life-of-field services which are not dependent upon new marine construction.

We take pride in the fact that OCS customers turn to Cal Dive when faced with complex and challenging assignments. Highlights from 2002 include:

- Main Pass 74: Made almost 600 dives and devoted 35,000 man-hours to an emergency well abandonment and platform salvage project without an OSHA recordable incident (which the customer recognized by presenting each crew member a wrist watch safety award).
- Saturation Vessels: Completed inspection of a downed platform (with live wells) following Hurricane *Lili.*
- Anchor Vessels: Laid a power cable in South Texas waters in 130 fsw.

Our significant market share on the OCS reflects the capability of the CDI fleet and our experienced personnel. CDI has dedicated 12 four-point anchored and utility dive support vessels to the OCS, with another five DP vessels capable of working cost effectively on the Shelf. Our seven vessels that can work the "mid-water" Gulf (300 to 1,000 fsw), coupled with the largest pool of diving talent any-



where, make us one of the largest providers of saturation diving services in the world. Altogether the company employs more than 600 full-time supervisors, divers, tenders and support staff who make us the market leader for all manned diving services in the GOM.

One key to our success on the OCS is an alliance with Horizon Offshore whereby we provide DSV and diving services for Horizon pipelay barges while Horizon supplies derrick barge and heavy lift capacity to us. The combination of Horizon and Cal Dive makes for a formidable competitor; we appreciate and work hard for Horizon's business and to make our joint operations on the OCS work for our customers. Our interaction with Horizon outside the OCS alliance is multifaceted, including operations in Mexican waters subcontracted from Horizon.

Our decommissioning assets are another key, as they provide salvage services not only on the open market but also for ERT's abandonment backlog of over $90 million. Most decommissioning activity in 2002 was devoted to two significant ERT fields as a number of Gulf contractors with excess capacity were bidding salvage work at levels which CDI considered non economic.

The personnel-intensive nature of diving specifically and Shelf construction generally requires a relentless focus on safety. Our EHS program includes regular worksite EHS committee meetings, Job Safety Analysis, and BSP(Behavioral Safety Process) observations by all site personnel to reinforce safe behaviors and correct at-risk behaviors. Also team based Hazard Hunts are performed at each job location to identify and remove potential hazards from the working environment.

The OCS currently provides 27% of the natural gas consumed in the United States. At some point, the current high levels of commodity prices coupled with the dramatic decline in natural gas production should drive an increase in rig activity. However, given the lead time to construction work we are expecting another soft year on the OCS in 2003 and we have challenged our personnel with the following goals:

- SAFETY: Decrease Shelf TRIR by 20%.
- COST CONTROL: Decrease direct costs by 10%.
- SALVAGE: Achieve revenues twice those of 2002.
- FINANCIAL: Match or exceed 2002 results.

PRODUCTION PARTNERING

Through Energy Resource Technology, Cal Dive has successfully established a production partnering niche which provides the energy industry with alternatives to traditional approaches of equity sharing for offshore properties. ERT is a fully integrated oil and gas company, incorporated in 1992 to offer customers the option of selling mature or sunset properties. Over the past decade the ERTmodel has expanded into the Deepwater region of the Gulf, and most recently into the acquisition of fields containing proven undeveloped reserves (PUD). In each area, our primary goal is to provide the services listed below to our oil company customers:

- Sunset Properties: Assume the decommissioning liability and obligation to manage the eight separate phases of the salvage process.
- *Gunnison*: Provide marine contractor assistance to field development team.
- Deepwater Gateway: Own the production facility, enabling the producer to redeploy capital to acquire surrounding acreage.
- PUD Fields: Provide partial reimbursement and a carried interest in fields forproducers whose exploratory drilling has resulted in less than expected reserves.

The 71 BCFe acquired during 2002 essentially matched in a single year all that ERT had acquired in the prior 10 years. These acquisitions, the first significant transactions in two years, were negotiated early in the year when natural gas prices were below $3.00/mcf. Since we are not under pressure to replace reserves and production annually, we wait patiently for commodity prices to decline to levels where we add significant value. The industry-wide recognition of the role which ERT plays in the purchase of sunset properties results in a significant deal flow. In just four years from 1999 through 2002 we reviewed the potential acquisition of 750 offshore blocks. Since inception we have acquired interests in 90 fields, mostly from the majors and large independents, and today operate 42 leases while having a non-operated interest in another 21 GOM blocks.

ERT is recognized by the U.S. Minerals Management Service as an operator and record title interest holder in the Gulf of Mexico. We have an outstanding safety record which emphasizes regulatory compliance. ERT is exempt from MMS supplemental bonding and is fully insured with coverage that includes liability, comprehensive blowout and environmental risk protection. The ERT staff consists of 30 professionals having expertise in the areas of geoscience, production engineering, reservoir engineering, offshore operations and land management. Approximately 100 ERT and contract personnel operate our offshore properties.

(Net BCFe)	1998	1999	2000	2001	2002
Beginning Balance	30.3	30.2	35.6	28.2	24.5
Production	(4.9)	(8.9)	(15.5)	(13.9)	(16.6)
Sale of Properties	(0.6)	(5.2)	(1.2)	---	---
Purchase of Reserves	7.4	15.2	6.3	2.0	70.6
Property Exploitation (Revision)	(2.0)	4.3	3.0	8.2	5.2
Ending Balance	30.2	35.6	28.2	24.5	83.7
*Share of Gunnison "1P" Proved Reserves					73.8*

2002 oil and gas revenues of $63 million were almost identical to the prior year as an increase in production associated with the significant Shell and Hess acquisitions offset a 15% decline in the average realized commodity price. Gross profit margins of 43% were below the 48% of 2001 due to the lower commodity prices and to platform repairs and the time necessary for pipelines to return to full production following Hurricane *Lili*.

During 2002 our participation in the two Deepwater developments progressed at a rapid pace. Cal Dive is providing contracting personnel to the *Gunnison* development team while ERT engineers and geoscientists receive and assimilate reservoir data from the drilling of development wells. Fabrication of the sparhull, moorings and topsides are on schedule to be installed in the third quarter of 2003. Production is expected to ramp up during the first half of 2004 and then remain at peak levels for the better part of four years. While we agree that *Gunnison* is a "one-off" transaction that will probably not be repeated, it is one that should contribute significantly to CDI earnings each year through 2007.

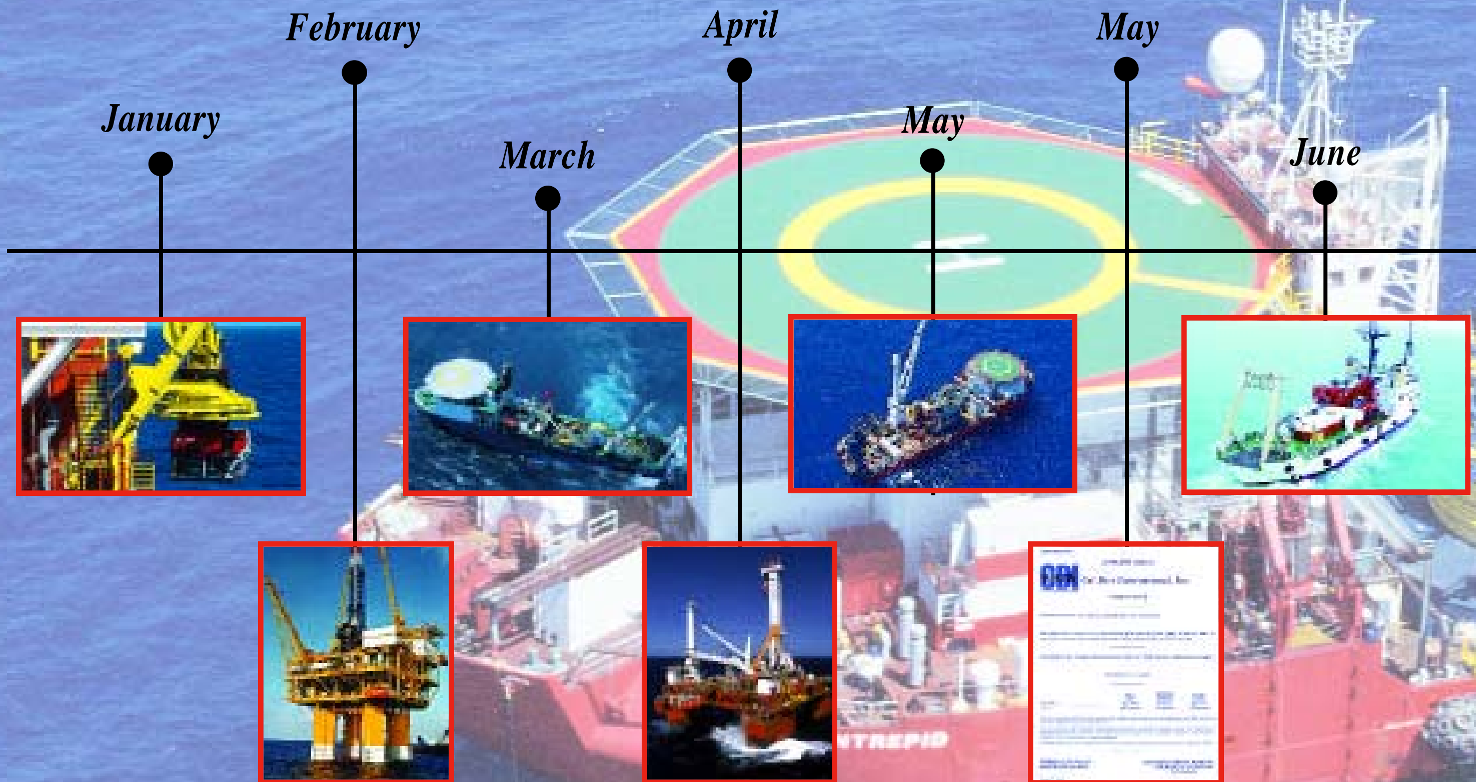
The *Marco Polo* tension-leg platform is also on target for installation in the second half of 2003. At a water depth of 4,300 fsw, this will be the deepest TLP installed in the world. The design capacity of 120,000 barrels of oil perday was oversized to accommodate tie-in of nearby fields. We expect that ownership of this facility will also add significantly to Cal Dive earnings in the years 2004 through 2010. This is a model we believe can be duplicated.

The company's PUD or stranded field strategy involves properties where the future development cost is a significant component. The acquisition and successful development of East Cameron 374 demonstrated the viability of this model. The field owners had previously drilled two exploratory wells which encountered less than expected reserves. Due to other projects with competing capital requirements, the opportunity was made available to ERT. We leveraged off of the ability of CDI vessels to install the pipeline and control umbilical, achieving first production six weeks ahead of schedule. Since Cal Dive expects to devote all free cash flow in 2003 and 2004 to debt reduction, we are presently evaluating funding alternatives to expand this rapidly growing niche.

Specific goals for 2003 include:

- **Production:** Reach 30 BCFe in part through successful well exploitation program.
- **Deepwater Gateway:** Prove the repeatability of the *Marco Polo* concept.
- **Stranded Fields:** Secure funding to develop PUD strategy.

2002 Highlights



January
Purchased Canyon Offshore, Inc., a supplier of remotely operated vehicles (ROVs) and robotics to the offshore construction industry. This acquisition represents a vertical integration consistent with the CDI policy of directly controlling all aspects on the critical path of significant Deepwater projects.

February
Deepwater Gateway LLC, a joint venture between El Paso Energy Partners and Cal Dive, was created to construct, own and operate a tension leg platform to be installed at Anadarko's *Marco Polo* field in 4,300 fsw. In keeping with our "hub and spoke" strategy, the TLP was oversized to accommodate production from surrounding fields.

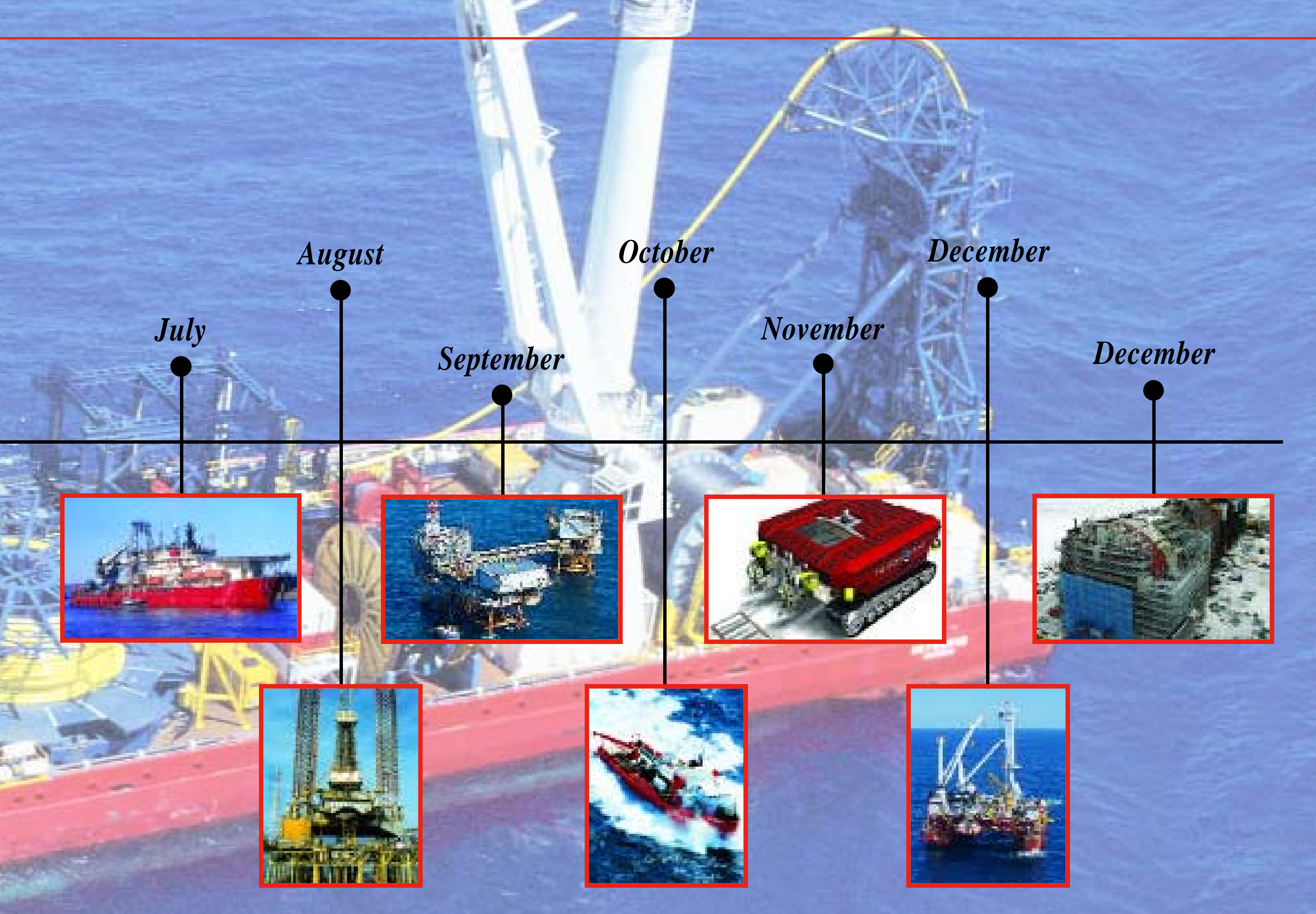
March
Completed an extensive upgrade and retrofit of the *Eclipse*. At 380 feet in length, this dynamically positioned vessel is our largest and most capable mono-hull DSV. She is the sistership to Technip-Coflexip's *Constructor* and Saipem's *Bar Protector*.

April
Accepted delivery of the *Q4000*, completing a three-year newbuild process. This ultra-deepwater MSV has a variable deck load of over 4,400 metric tons, a multi-purpose tower having 600-ton lift capacity, and cranes that can reach 10,000 fsw for completion and construction tasks.

May
Placed the converted MSV *Intrepid* into service following an 18-month build process. The 374-foot vessel is designed to lay umbilicals and up to 8-inch rigid pipe in water depths to 10,000 feet. Her 8,000 metric ton deck load is a unique work platform.

May
Sold approximately 4 million shares of primary common stock with net proceeds of $87.2 million used to purchase Well Operations assets and fund the Shell and Hess mature property acquisitions.

June
Took delivery of the chartered *Northern Canyon*, a DPROV support vessel. This technically advanced newbuild will support the Technip-Coflexip ROV and trenching agreements.



July

Solidified position as a worldwide leader of well operations tasks through the acquisition of the Well Operations Business Unit of Technip-Coflexip. This purchase includes the purpose built vessel, the MSV *Seawell*, together with dedicated engineering and project management personnel.

August

Established first production at East Cameron 374, proving the PUD model. Marine construction assistance provided by the *Intrepid* and *Cal Diver I* enabled the field to come on line six weeks ahead of schedule.

September

Took over operations of the large South Marsh Island 130 oilfield acquired from Shell and Hess. The properties acquired in these two transactions, the largest in ERT history, added 50 BCFe of proven developed reserves. We were the successful bidder for these properties as the customers were comfortable that CDI could handle the associated $50 million abandonment obligation.

October

Repair work caused by Hurricane *Lili* provided unusually strong utilization and significantly improved returns for our shallow water company, Aquatica, and the two saturation vessels that work the OCS.

November

Canyon negotiated three-year Master Service and Frame Agreements with Technip-Coflexip to provide worldwide ROV support and deploy a state-of-the-art 750 horsepower trenching unit.

December

The *Q4000* was prepared to mobilize for the all-important *Troika* project. This well operations job demonstrated the vessel's unique capacity to handle a challenging work scope of down hole remedial tasks.

December

Construction of both Deepwater production facilities, the *Gunnison* spar and *Marco Polo* TLP, are on schedule for delivery and installation in the second half of 2003.

FINANCIAL REVIEW

Our top line has grown significantly through a period when many oil service companies and those in other industries buffeted by the recession have faced a declining revenue base. In 2001 CDI revenues broke through $200 million for the first time. It took only one more year to then crack the $300 million level as new Deepwater assets fueled a 33% increase during 2002. This takes our five year compound average growth rate in revenues to 23%. Our aggressive capital program should enable us to continue to grow in $100 million increments to $400 million in 2003 and to half a billion the following year.

The addition of new DP vessels, Canyon Robotics and the Well Ops UK business enabled 2002 contracting revenue to increase by $76 million to $240 million. Oil and gas revenues of just under $63 million were virtually identical to the prior year as a 19% increase in production offset lower commodity prices. The significant Shell and Hess acquisitions completed in September were responsible for a volume increase that took the ERT production run rate close to 6.5 BCFe in the fourth quarter. We expect that exploitation of these acquisitions in 2003 will enable annual production twice the 15 BCFe averaged over the past three years. In 2002 we received an average commodity price of $3.71 per MCFe ($3.39 per MCFof natural gas and $25.54 per barrel of oil) versus $4.37 per MCFe ($4.44 per MCFof natural gas and $24.54 per barrel of oil) in the prior year. With the acquisition of the large South Marsh Island 130 oilfield, oil and condensate grew to 38% of ERT revenue in 2002, up from 27% just two years ago.

Consolidated gross profit margins of 18% in 2002 declined by 11 points from a year ago. Most of that slippage was in our contracting businesses as we broke even or lost money on two significant jobs that represented 20% of Subsea and Salvage revenue. Those two jobs resulted in DP fleet margins of only 7% in 2002, down from 25% in the prior year. Oil and gas margins also declined, from 48% in 2001 to 43%, due to lower commodity prices and to Hurricane *Lili* induced platform repairs.

Selling, general and administrative expenses of just under $33 million increased $11.5 million due to the new businesses acquired, Canyon and Well Ops UK, and to a charge taken in the fourth quarterfor the settlement of litigation.

Interest expense increased by $2.2 million over the prior year as a result of the borrowing related to ourcapital program. 62% of long term debt at year end is drawn on the MARAD facility which has an interest rate floating below 2.0%.

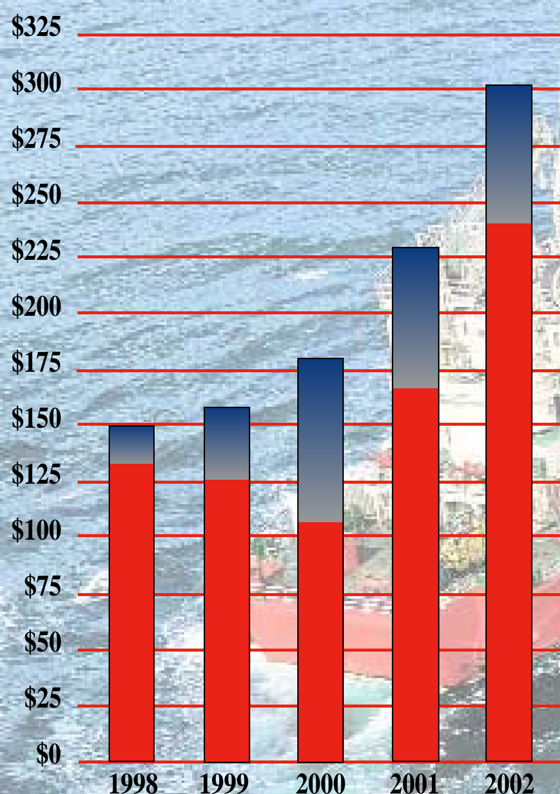
Net income of $12.4 million was 4% of revenues in 2002, down from 13% in the prior year. While we do not take pride in this performance, it stands in stark contrast to the losses reported by most of the companies in our peer group with significant GOM and North Sea operations. The variance in diluted earnings per share reflects the additional 4 million shares issued in a primary offering of common stock in May, 2002.

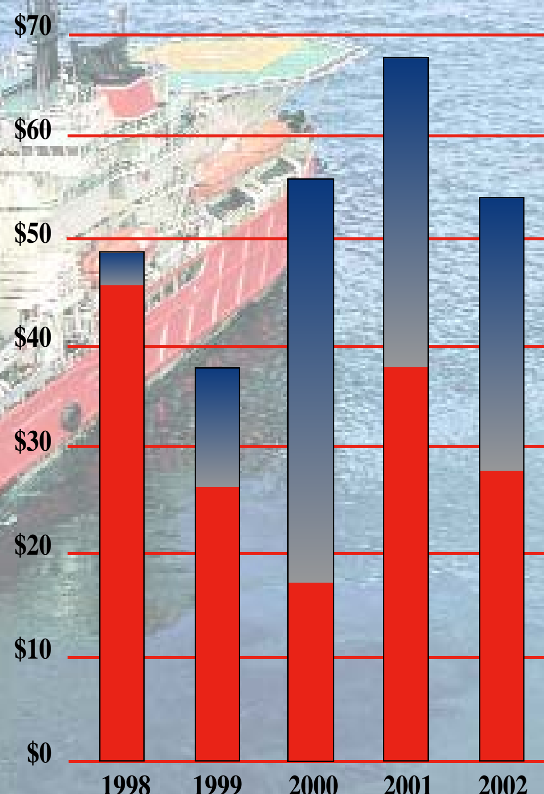
Exclusive of the $10 million of pre-tax charges taken in Q4, net income is roughly the same as in 1999. Since that time we have tripled the size of our fleet (nine DP vessels and 15 DSVs on the OCS versus three and five, respectively, in 1999) and ERT has grown its asset base from 3.8 MMBOE to 26.2 MMBOE. In addition we will be operating 19 ROV systems and 5 trenching units around the world, have cornered the entire non-rig well ops market, and have interests in two major Deepwater developments (*Gunnison* and *Marco Polo*). In other words, we have significant earnings visibility in our oil and gas operations and earnings leverage in our contracting assets.

2002 marked the close of a $450 million capital expansion to add contracting assets. Those investments consisted of: construction and conversion of the *Q4000* and *Intrepid* and the purchases of the *Eclipse* and *Mystic Viking* ($280 million), acquisition of the business of Canyon Offshore, Well Ops UK, and Professional Divers of New Orleans ($150 million), and the purchase of ROV systems. The new year will also mark the close of $300 million of production partnering investments

(In Thousands)	*2002*	*2001*	*Increase (Decrease)*
Revenues	$302,705	$227,141	33%
Gross Profit	$53,792	66,911	(20%)
Selling & Administrative	32,783	21,325	54%
Net Income	12,377	28,932	(57%)
Diluted Earnings Per Share	$0.35	$0.88	(60%)

Return on Capital Employed	
2002 Income from Operations	$21,009
Add: Litigation and Contract Reserves	10,000
Tax Affected Earnings ($31,009 @ 65%)	20,056
Total Capital (Average quarterly shareholder equity plus long term debt less *Gunnison/Marco Polo* investments)	412,908
ROCE ($20,056 ÷ $412,908)	4.86%





Production Partnering
Marine Contracting

in the two Deepwater developments ($210 million), sunset properties acquired during 2002 (approximately $100 million of cash and abandonment liability assumed), with the balance related to well work.

2003 capital spending will range from $100 to $110 million with the major components consisting of payments for the *Gunnison* spar and development work ($40 million), ERTwell work and property acquisitions ($30 million to $40 million), and Canyon's purchase of three new ROV systems and a trenching unit to support the Technip-Coflexip agreements ($20 million).

We initially structured separate facilities to provide for the construction of the two production facilities, the *Gunnison* spar and *Marco Polo* TLP. With the financial leverage provided by the $87 million of net proceeds from the common equity offering we revised the spararrangement. The total principal was reduced from $67 million to $35 million and the asset and related debt were put on ourbalance sheet. The $110 million *Marco Polo* construction facility is reflected in our financial statements on the equity investment method. We provided the $33 million of equity funding related to this venture in 2002 so the remaining cost to complete the TLP will be funded entirely by the construction loan facility.

Over the last three years $145 million of new equity has been raised from the sale of common stock and conversion of options ($120 million) and an issue of convertible preferred in January, 2003 ($25 million). The balance of funding has been provided by working capital generated by operations, and long term borrowing. Debt at year end consisted of the *Gunnison* construction loan facility ($29.3 million), borrowings on our revolving credit line ($52.6 million), and most significantly, the funding available from MARAD for construction of the *Q4000* ($142.1 million). The interest rates on these debt instruments ranged from 4.2% to 4.4% for the *Gunnison* and revolver to a low of 2% on MARAD. Anotherfeature is that only $15 million of the total year end debt of $228 million is scheduled for repayment in the years 2003 and 2004. The company was in compliance with the various covenants of these loan facilities with the exception of a cash flow leverage covenant for which we obtained a waiver.

The capital expansion program has resulted in a debt to total book capitalization ratio of 40% at December 31, 2002. We plan to use all excess cash to reduce debt in 2003 and 2004. When combined with the new issue of preferred and additional equity generated by earnings in those years, doing so should get us close to the 30% ratio which is our corporate target.

Corporate Directory

Board of Directors

Gordon F. Ahalt, 75
Independent Consultant

Bernard J. Duroc-Danner, 49
Chairman & Chief Executive Officer
Weatherford International, Inc.

Martin R. Ferron, 46
President & Chief Operating Officer
Cal Dive International, Inc.

Owen E. Kratz, 48
Chairman & Chief Executive Officer
Cal Dive International, Inc.

John Lovoi, 42
President, JVL Partners &
Principal, Avalon Advisors LP

S. James Nelson, Jr., 60
Vice Chairman
Cal Dive International, Inc.

Anthony Tripodo, 50
Executive Vice President
Veritas DGC Inc.

William L. Transier, 48
Executive Vice President &
Chief Financial Officer
Ocean Energy, Inc.

Executive Officers

Owen E. Kratz, 48
Chairman & Chief Executive Officer

Martin R. Ferron, 46
President & Chief Operating Officer

S. James Nelson, Jr., 60
Vice Chairman

Michael V. Ambrose, 56
Senior Vice President -
Deepwater Contracting

James Lewis Connor, III, 45
Senior Vice President &
General Counsel

A. Wade Pursell, 38
Senior Vice President &
Chief Financial Officer

Corporate Officers

Wayne J. Bywater, 48
Vice President - Business Development

G. Kregg Lunsford, 34
Vice President - Finance & Audit

A. Mark McWatters, 43
Vice President - Project Support Services

Scott T. Naughton, 48
Vice President - Shelf Contracting

J. Wayne Seelbach, 51
Vice President -
Environment, Health & Safety

Stephanie L. Van Horn, 29
Corporate Controller

Subsidiary Management

Steve Brazda, 52
President - Aquatica, Inc.

Johnny E. Edwards, 49
President
Energy Resource Technology, Inc.

John S. Edwards, 46
Martin O'Carroll, 44
Co-Presidents
Canyon Offshore, Inc.

Ian A. Collie, 52
General Manager - Well Ops US

William E. Morrice, 38
General Manager - Well Ops UK

Corporate Locations

Corporate & ERT Headquarters
Houston
400 N. Sam Houston Parkway E.
Suite 400 • Houston, TX 77060
Office: 281-618-0400
Fax: 281-618-0500

Operations Base
Morgan City
1550 Youngs Road
Morgan City, LA 70380
Office: 504-330-0300
Fax: 504-330-0394

Aquatica, Inc.
Lafayette
3209 Moss Street
Lafayette, LA 70509
Office: 337-232-8714
Fax: 337-234-9831

Sales Office
New Orleans
1615 Poydras Street • Suite 1050
New Orleans, LA 70112
Office: 504-522-4340
Fax: 504-522-3507

Canyon Offshore, Inc.
Houston
5212 Brittmoore Road
Houston, TX 77041
Office: 713-856-6010
Fax: 713-856-6020

Well Ops (UK) Ltd.
Kettock Lodge
Campus 2
Science & Technology Park
Balgownie Drive
Bridge of Don
Aberdeen AB22 8GU
United Kingdom
Office: 01224-226650
Fax: 01224-822731

Shareholder Information

Common Stock Listing
Nasdaq National Market
Symbol: CDIS

Annual Meeting
Stockholders are invited to attend CDI's Annual Shareholder Meeting on Wednesday, May 14 at 11:00 a.m. Central Daylight Time at the Wyndham Greenspoint Hotel, 12400 Greenspoint Drive, Houston, Texas.

Stock Held In "Street Name"
The company maintains a direct mailing list to ensure that shareholders with stock held in brokerage accounts receive information on a timely basis. We also maintain a list of those investors who wish to receive CDI Press Releases on a "real time" basis. Shareholders wanting to be added to these lists should direct their requests to Investor Relations at the Corporate Headquarters or call (281) 618-0400.

Investor Relations
Shareholders, securities analysts or portfolio managers seeking information about Cal Dive are welcome to contact Jim Nelson, Vice Chairman, at 281-618-0400.

Stock Transfer Agent
Wells Fargo Shareowner Services
161 North Concord Exchange
P.O. Box 64854
St. Paul, MN 55164-0854
800-468-9716
www.wellsfargo.com/shareownerservices
Communications concerning the transfer of shares, lost certificates, duplicate mailings or change of address should be directed to the stock transfer agent.

Website
http://www.caldive.com
Our website includes a profile of your company, the services we offerand a complete review of each of our vessels. The Investor Relations section enables you to access the most recent quarterly and annual reports as soon as they are issued. All shareholders are invited to participate in the quarterly conference calls with analysts. Simply click on "Live Webcast" in the Investor Relations module to listen; replays of the conference calls are also available by clicking on "Audio Archives".

Independent Public Accountants
Ernst & Young LLP
Houston, TX

Corporate Counsel
Fulbright & Jaworski LLP
Houston, TX

Form 10-K
The information, including financial statements and footnotes thereto, included in this Annual Report to Shareholders should be read in conjunction with the company's annual report on Form 10-K for the year ended December 31, 2002, which is incorporated herein by reference. This Annual Report and related Form 10-K are both provided to Shareholders in connection with the Company's Annual Meeting. Shareholders interested in obtaining, without cost, a printed copy of the Form 10-K filed with the Securities and Exchange Commission may do so by writing to Cal Dive International, Inc., 400 N. Sam Houston Parkway E., Suite 400, Houston TX 77060-3500. The Form 10-K can also be accessed and downloaded from our website.

This Annual Report 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 are neither statements of historical fact nor guarantees of future performance or events. Forward-looking statements involve risks and assumptions that could cause actual results to vary materially from those predicted. Among other things, these include unexpected delays and operational issues associated with turnkey projects, the price of crude oil and natural gas, weather conditions in offshore markets, changes in site conditions and capital expenditures by customers. For a more complete discussion of these risk factors, see our Annual Report on Form 10-K for the year ended December 31, 2002, filed with the Securities and Exchange Commission. 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.

FINANCIAL STATEMENTS

CAL DIVE INTERNATIONAL, INC., AND SUBSIDIARIES:

Consolidated Balance Sheets - December 31, 2002 and 2001 (in thousands):

	DECEMBER 31,	
	2002	**2001**
ASSETS		
CURRENTASSETS		
Cash and cash equivalents	$ ---	$ 37,123
Restricted cash	2,506	---
Accounts receivable -		
Trade, net of revenue allowance on gross amounts billed of $7,156 and $4,262	52,808	45,527
Unbilled revenue	22,610	10,659
Other current assets	28,266	20,055
Total current assets	106,190	113,364
PROPERTYAND EQUIPMENT	726,878	423,742
Less - Accumulated depreciation	(130,527)	(92,430)
Total property and equipment	596,351	331,312
OTHER ASSETS		
Goodwill, net	79,758	14,973
Investment in Deepwater Gateway, LLC	32,688	---
Other assets, net	52,045	34,647
	$ 867,032	$ 494,296
LIABILITIES AND SHAREHOLDERS'EQUITY		
CURRENT LIABILITIES		
Accounts payable	$ 62,798	$ 42,252
Accrued liabilities	34,790	21,011
Income taxes payable	---	---
Current maturities of long-term debt	4,201	1,500
Total current liabilities	101,789	64,763
LONG-TERM DEBT	223,576	98,048
DEFERRED INCOME TAXES	102,230	75,805
DECOMMISSIONING LIABILITIES	92,420	29,331
OTHER LONG TERM LIABILITIES	1,972	---
Total liabilities	521,987	267,947
REDEEMABLE STOCK IN SUBSIDIARY	7,528	---
COMMITMENTS AND CONTINGENCIES		
SHAREHOLDERS'EQUITY:		
Common stock, no par, 120,000 shares authorized, 51,060 and 46,239 shares issued	195,405	99,105
Retained earnings	145,947	133,570
Treasury stock, 13,602 and 13,783 shares, at cost	(3,741)	(6,326)
Accumulated other comprehensive loss	(94)	---
Total shareholders'equity	337,517	226,349
	$ 867,032	$ 494,296

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

CAL DIVE INTERNATIONAL, INC., AND SUBSIDIARIES:

Consolidated Statements Of Operations For The Years Ended December 31, 2002, 2001 and 2000 (in thousands, except per share amounts)

	YEAR ENDED DECEMBER 31,		
	2002	**2001**	**2000**
NET REVENUES			
Subsea and salvage	$ 239,916	$ 163,740	$ 110,217
Oil and gas production	62,789	63,401	70,797
	302,705	227,141	181,014
COST OF SALES			
Subsea and salvage	212,868	127,047	94,104
Oil and gas production	36,045	33,183	31,541
Gross profit	53,792	66,911	55,369
SELLING AND ADMINISTRATIVE EXPENSES	32,783	21,325	20,800
INCOME FROM OPERATIONS	21,009	45,586	34,569
Net interest expense and other	1,968	1,290	554
INCOME BEFORE INCOME TAXES	19,041	44,296	34,015
Provision for income taxes	6,664	15,504	11,555
Minority Interest	---	(140)	(866)
NET INCOME	12,377	$ 28,932	$ 23,326
NET INCOME PER SHARE			
Basic	$ 0.35	$ 0.89	$ 0.74
Diluted	0.35	0.88	0.72
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING			
Basic	35,504	32,449	31,588
Diluted	35,749	33,055	32,341

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

CAL DIVE INTERNATIONAL, INC., AND SUBSIDIARIES:

Consolidated Statements Of Shareholders' Equity For The Years Ended December 31, 2002, 2001 and 2000 (in thousands)

	COMMON STOCK		RETAINED EARNINGS	TREASURY STOCK		ACCUMULATED OTHER COMPREHENSIVE LOSS	TOTAL SHAREHOLDERS' EQUITY
	SHARES	AMOUNT		SHARES	AMOUNT		
BALANCE, DECEMBER 31, 1999	44,790	$ 73,311	$ 81,312	(13,640)	$ (3,751)	$ ---	$ 150,872
NET INCOME	---	---	23,326	---	---	---	23,326
ACTIVITY IN COMPANYSTOCK PLANS, NET	485	5,740	---	---	---	---	5,740
SALE OF COMMON STOCK, NET	610	14,787	---	---	---	---	14,787
BALANCE, DECEMBER 31, 2000	45,885	93,838	104,638	(13,640)	(3,751)	---	194,725
NET INCOME	---	---	28,932	---	---	---	28,932
ACTIVITY IN COMPANYSTOCK PLANS, NET	354	5,267	---	---	---	---	5,267
PURCHASE OF TREASURY SHARES	---	---	---	(143)	(2,575)	---	(2,575)
BALANCE, DECEMBER 31, 2001	46,239	99,105	133,570	(13,783)	(6,326)	---	226,349
COMPREHENSIVE INCOME							
NET INCOME	---	---	12,377	---	---	---	12,377
FOREIGN CURRENCY TRANSLATION ADJUSTMENTS	---	---	---	---	---	2,548	2,548
UNREALIZED LOSS ON COMMODITY HEDGES	---	---	---	---	---	(2,642)	(2,642)
COMPREHENSIVE INCOME							12,283
SALE OF COMMON STOCK, NET	3,961	87,219	---	---	---	---	87,219
ACTIVITY IN COMPANYSTOCK PLANS, NET	860	7,376	---	---	---	---	7,376
ISSUANCE OF SHARES IN BUSINESS ACQUISITION	---	1,705	---	181	2,585	---	4,290
BALANCE, DECEMBER 31, 2002	51,060	$ 195,405	$ 145,947	(13,602)	$ (3,741)	$ (94)	$ 337,517

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

CAL DIVE INTERNATIONAL, INC., AND SUBSIDIARIES:

Consolidated Statements Of Cash Flows For The Years Ended December 31, 2002, 2001 and 2000 (in thousands)

	YEAR ENDED DECEMBER 31,		
	2002	**2001**	**2000**
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income	$ 12,377	$ 28,932	$ 23,326
Adjustments to reconcile net income to net cash provided by operating activities --			
Depreciation and amortization	44,755	34,533	30,730
Deferred income taxes	6,130	15,504	21,085
Gain on sale of assets	(10)	(1,881)	(3,292)
Changes in operating assets and liabilities:			
Accounts receivable, net	(1,728)	(13,594)	6,723
Other current assets	(7,086)	2,760	(4,298)
Accounts payable and accrued liabilities	14,730	21,263	(1,030)
Income taxes receivable/payable	1,476	10,014	(7,256)
Other noncurrent, net	(5,443)	(8,424)	(12,287)
Net cash provided by operating activities	65,201	89,107	53,701
CASH FLOWS FROM INVESTING ACTIVITIES:			
Capital expenditures	(161,766)	(151,261)	(95,124)
Acquisition of businesses, net of cash acquired	(118,331)	(11,500)	---
Investment in Deepwater Gateway, LLC	(32,688)	---	---
Restricted cash	(2,506)	2,624	6,062
Prepayments and deposits related to salvage operations	---	782	826
Proceeds from sales of property	483	1,530	3,124
Insurance proceeds from loss of vessel	---	---	7,118
Net cash used in investing activities	(314,808)	(157,825)	(77,994)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Sale of common stock, net of transaction costs	87,219	---	14,787
Borrowings under MARAD loan facility	43,899	59,494	40,054
Repayment of MARAD borrowings	(1,318)	---	---
Borrowing on line of credit	52,591	---	---
Borrowings on term loan	29,270	---	---
Repayment of capital leases	(5,183)	---	---
Exercise of stock options, net	5,900	4,084	2,980
Purchase of treasury stock	---	(2,575)	---
Net cash provided by financing activities	212,378	61,003	57,821
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	106	---	---
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(37,123)	(7,715)	33,528
CASH AND CASH EQUIVALENTS:			
Balance, beginning of year	37,123	44,838	11,310
Balance, end of year	$ ---	$ 37,123	$ 44,838

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

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

1. ORGANIZATION

Cal Dive International, Inc. (Cal Dive, CDI or the Company), headquartered in Houston, Texas, is an energy services company specializing in subsea construction and well operations. CDI operates primarily in the Gulf of Mexico (Gulf), and recently in the North Sea, with services that cover the lifecycle of an offshore oil or gas field. CDI's current diversified fleet of 23 vessels and 21 remotely operated vehicles (ROVs) and trencher systems perform services that support drilling, well completion, intervention, construction and decommissioning projects involving pipelines, production platforms, risers and subsea production systems. The Company also has a significant investment in oil and gas properties and related production facilities as part of its Production Partnering business. CDI's customers include major and independent oil and gas producers, pipeline transmission companies and offshore engineering and construction firms.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation

The accompanying consolidated financial statements include the accounts of the Company and its majority owned subsidiaries. All significant intercompany accounts and transactions have been eliminated. The Company accounts for its 50% interest in Deepwater Gateway LLC using the equity method of accounting as the Company does not have voting or operational control of this entity.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. On an ongoing basis the Company evaluates its estimates including those related to bad debts, investments, intangible assets and goodwill, property plant and equipment, income taxes, workers' insurance and contingent liabilities. The Company bases its estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results could differ from those estimates.

Goodwill and Indefinite-Lived Intangibles

In accordance with Statement of Financial Accounting Standards (SFAS) No. 142, *Goodwill and Indefinite-Lived Intangibles* (SFAS No. 142), the Company tests for the impairment of goodwill and other intangible assets with indefinite lives on at least an annual basis. The Company's goodwill impairment test involves a comparison of the fair value of each of the Company's reporting units, as defined under SFAS No. 142, with its carrying amount. The Company's indefinite-lived asset impairment test involves a comparison of the fair value of the intangible and its carrying value. The fair value is determined using discounted cash flows and other market-related valuation models, such as earnings multiples and comparable asset market values. Prior to the adoption of SFAS No. 142, goodwill was amortized on a straight line basis over 25 years. In conjunction with the adoption of this statement, the Company has discontinued the amortization of goodwill.

Property and Equipment

Property and equipment, both owned and under capital leases, are recorded at cost. Depreciation is provided primarily on the straight-line method over the estimated useful lives of the assets.

All of the Company's interests in oil and gas properties are located offshore in United States waters. 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.

Energy Resource Technology, Inc. (ERT) acquisitions of producing offshore properties are recorded at the value exchanged at closing together with an estimate of its proportionate share of the undiscounted decommissioning liability assumed in the purchase based upon its working interest ownership percentage. In estimating the decommissioning liability assumed in offshore property acquisitions, the Company performs detailed estimating procedures, including engineering studies. All capitalized costs are amortized on a unit-of-production basis (UOP) based on the estimated remaining oil and gas reserves. Properties are periodically assessed for impairment in value, with any impairment charged to expense.

The following is a summary of the components of property and equipment (dollars in thousands):

	Estimated Useful Life	2002	2001
Construction in progress	N/A	$ 32,943	$ 221,916
Vessels	15 to 30	465,158	103,929
Offshore leases and equipment	UOP	210,542	82,334
Machinery, equipment and leasehold improvements	5	18,235	15,563
Total property and equipment		$ 726,878	$ 423,742

In July 1999, the CDI Board of Directors approved the construction of the *Q4000*, a newbuild, ultra-deepwater multi-purpose vessel, for a total estimated cost of $150 million and, in June 2001, approved modification to the original construction contract increasing the total estimated costs to $182 million. Amounts incurred on this project and the conversion of the *Intrepid* pipelay vessel were included in Construction in Progress as of December 31, 2001. Both of these vessels were placed in service during 2002 and are included in Vessels as of December 31, 2002. Construction in progress as of December 31, 2002 includes costs incurred relating to construction of the spar at *Gunnison* (see note 9). The Company capitalized interest totaling $4.4 million and $1.9 million during the years ended December 31, 2002 and 2001, respectively. During 2001, the Company acquired two additional DP marine construction vessels (the *Mystic Viking* and the *Eclipse*). The total cost of the two vessels acquired and related upgrades was approximately $40 million, the majority of which was expended and capitalized as of December 31, 2001.

The cost of repairs and maintenance of vessels and equipment is charged to operations as incurred, while the cost of improvements is capitalized. Total repair and maintenance charges were $11,489,000, $8,501,000 and $4,343,000 for the years ended December 31, 2002, 2001 and 2000, respectively.

In accordance with SFAS No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*, long-lived assets, excluding goodwill and indefinite-lived intangibles, to be held and used by the Company are reviewed to determine whether any events or changes in circumstances indicate that the carrying amount of the asset may not be recoverable. SFAS No. 144 modifies SFAS No. 121, *Accounting for the Impairment or Disposal of Long-Lived Assets to be Disposed of.*

For long-lived assets to be held and used, the Company bases its evaluation on impairment indicators such as the nature of the assets, the future economic benefit of the assets, any historical or future profitability measurements and other external market conditions or factors that my be present. If such impairment indicators are present or other factors exist that indicate that the carrying amount of the asset may not be recoverable, the Company determines whether an impairment has occurred through the use of an undiscounted cash flows analysis of the asset at the lowest level for which identifiable cash flows exist. If an impairment has occurred, the Company recognizes a loss for the difference between the carrying amount and the fair value of the asset. The fair value of the asset is measured using quoted market prices or, in the absence of quoted market prices, is based on an estimate of discounted cash flows. Assets are classified as held for sale when the Company has a plan for disposal of certain assets and those assets meet the held for sale criteria of SFAS No. 144.

Foreign Currency

The functional currency for the Company's foreign subsidiary Well Ops (U.K.) 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 was a gain of $2.5 million, net of taxes of $1.4 million, in 2002 is included as accumulated other comprehensive loss, as a component of shareholders'equity. All foreign currency transaction gains and losses are recognized currently in the statements of operations. These amounts for the year ended December 31, 2002 were not material to the Company's results of operations or cash flows.

Canyon Offshore, the Company's ROV and robotics subsidiary, has operations in the United Kingdom and Southeast Asia sectors. Canyon conducts the majority of its affairs 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 gain or loss from translation is recognized in the statements of operations. These amounts for the year ended December 31, 2002 were not material to the Company's results of operations or cash flows.

Accounting for Price Risk Management 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 our oil and gas production. Under SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities,* all derivatives are reflected in our balance sheet at their fair market value.

Under SFAS No. 133 there are two types of hedging activities: hedges of cash flow exposure and hedges of fair value exposure. The Company engages primarily in cash flow hedges. Hedges of cash flow exposure are entered into to hedge a forecasted transaction or the variability of cash flows to be received or paid related to a recognized asset or liability. Changes in the derivative fair values that are designated as cash flow hedges are deferred to the extent that they are effective and are recorded as a component of accumulated other comprehensive income until the hedged transactions occur and are recognized in earnings. The ineffective portion of a cash flow hedge's change in value is recognized immediately in earnings in oil and gas production revenues.

As required by SFAS No. 133, we formally document all relationships between hedging instruments and hedged items, as well as our risk management objectives, strategies for undertaking various hedge transactions and our methods for assessing and testing correlation and hedge ineffectiveness. All hedging instruments are linked to the hedged asset, liability, firm commitment or forecasted transaction. We also assess, both at the inception of the hedge and on an on-going basis, whether the derivatives that are used in our hedging transactions are highly effective in offsetting changes in cash flows of the hedged items. We discontinue hedge accounting prospectively if we determine that a derivative is no longer highly effective as a hedge.

The market value of hedging instruments reflects our best estimate and is based upon exchange or over-the-counter quotations whenever they are available. Quoted valuations may not be available due to location differences or terms that extend beyond the period for which quotations are available. Where quotes are not available, we utilize other valuation techniques or models to estimate market values. These modeling techniques require us to make estimations of future prices, price correlation and market volatility and liquidity. Our actual results may differ from our estimates, and these differences can be positive or negative.

During the second half of 2002, the Company entered into various cash flow hedging swap contracts to fix cash flows relating to a portion of the Company's oil and gas production. All of these qualified for hedge accounting and none extended beyond a year and a half. The aggregate fair value of the hedges was a liability of $4.1 million as of December 31, 2002. The Company recorded $2.6 million of loss, net of taxes of $1.4 million, in other comprehensive loss within shareholders'equity as these hedges were highly effective.

As of December 31, 2002, 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:			
January - December 2003	Swap	46 MBbl	$ 26.50
January - December 2003	Swap	30 MBbl	$ 26.82
Natural Gas:			
January - March 2003	Swap	800,000 MMBtu	$ 4.21
April - December 2003	Swap	400,000 MMBtu	$ 4.02
April - December 2003	Swap	200,000 MMBtu	$ 4.21

Subsequent to December 31, 2002, the Company entered into additional natural gas hedges for the period April through December 2003. The contracts cover 200,000 MMBtu per month at $4.97.

In June 2002, CDI signed an agreement with Coflexip to acquire the Subsea Well Operations Business Unit for 44.8 million British pounds (which at the time equaled $67.5 million) which subsequently closed in July. CDI entered into a foreign currency forward contract to lock in the British pound to U.S. dollar exchange rate. Under SFAS No. 133, we accounted for this transaction with changes in its fair value reported in earnings. Accordingly, a $1.1 million gain was recorded in other income for the year ended December 31, 2002 as a result of the change in market value of the contract as of June 30, 2002. This contract settled in July 2002 for $1.1 million.

Earnings per Share

The Company computes and presents earnings per share in accordance with SFAS No. 128, *Earnings Per Share*. SFAS 128 requires the presentation of "basic" EPS and "diluted" EPS on the face of the statement of operations. Basic 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 that the denominator includes dilutive common stock equivalents, which were stock options, less the number of treasury shares assumed to be purchased from the proceeds with the exercise of stock options.

Stock Based Compensation Plans
In December 2002, the Financial Accounting Standards Board (FASB) issued SFAS No. 148, *Accounting for Stock-Based Compensation Transition and Disclosure* (SFAS No. 148) to provide alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation. As permitted under SFAS No. 123, the Company continues to use the intrinsic value method of accounting established by Accounting Principles Board Opinion No. 25, *Accounting for Stock Issued to Employees*, 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. If SFAS No. 123 had been used for the accounting of these plans, the Company's pro forma net income for 2002, 2001 and 2000 would have been $7.9 million, $25.9 million and $21.7 million, respectively, and the Company's pro forma diluted earnings per share would have been $0.22, $0.79 and $0.67, respectively. These pro forma results exclude consideration of options granted prior to January 1, 1995, and therefore may not be representative of that to be expected in future years.

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 5.0 percent in 2000, 4.5 percent in 2001 and 4.0 percent in 2002, and expected volatility to be 62 percent in 2000, 61 percent in 2001 and 59 percent in 2002. The fair value of shares issued under the Employee Stock Purchase Plan was based on the 15% discount received by the employees. The weighted average per share fair value of the options granted in 2002, 2001 and 2000 was $15.20, $14.47, and $8.05, respectively. The estimated fair value of the options is amortized to pro forma expense over the vesting period.

Revenue Recognition
The Company earns the majority of its subsea service and salvage contracting revenues during the summer and fall months. Revenues are derived from billings under contracts (which are typically of short duration) that provide for either lump-sum turnkey charges or specific time, material and equipment charges which are billed in accordance with the terms of such contracts. The Company recognizes revenue as it is earned at estimated collectible amounts. Revenue on significant turnkey contracts is recognized on the percentage-of-completion method based on the ratio of costs incurred to total estimated costs at completion. Contract price and cost estimates are reviewed periodically as work progresses and adjustments are reflected in the period in which such estimates are revised. Provisions for estimated losses on such contracts are made in the period such losses are determined. Unbilled revenue represents revenue attributable to work completed prior to year-end which has not yet been invoiced. All amounts included in unbilled revenue at December 31, 2002 are expected to be billed and collected within one year.

The Company records revenues from the sales of crude oil and natural gas when delivery to the customer has occurred and title has transferred. This occurs when production has been delivered to a pipeline or a barge lifting has occurred. The Company may have an interest with other producers in certain properties. In this case the Company used the entitlements method to account for sales of production. Under the entitlements method the Company may receive more or less than its entitled share of production. If the Company receives more than its entitled share of production, the imbalance is treated as a liability. If the Company receives less than its entitled share, the imbalance is recorded as an asset.

Revenue Allowance on Gross Amounts Billed
The Company bills for work performed in accordance with the terms of the applicable contract. The gross amount of revenue billed will include not only the billing for the original amount quoted for a project but also include billings for services provided which the Company believes are allowed under the terms of the related contract but are outside the scope of the original quote. The Company establishes a revenue allowance for these additional billings based on its collections history if conditions warrant such a reserve.

Major Customers and Concentration of Credit Risk
The market for the Company's products and services is primarily the offshore oil and gas industry. Oil and gas companies make capital expenditures on exploration, drilling and production operations offshore, the level of which is generally dependent on the prevailing view of the future oil and gas prices, which have been characterized by significant volatility in recent years. The Company's customers consist primarily of major, well-established oil and pipeline companies and independent oil and gas producers. The Company performs ongoing credit evaluations of its customers and provides allowances for probable credit losses when necessary. The percent of consolidated revenue of major customers was as follows: 2002 - BP Trinidad & Tobago LLC (11%); Horizon Offshore, Inc. (10%); 2001 - Horizon Offshore, Inc. (18%), Enron Corporation (10%); and 2000 - Enron Corporation (13%).

In March 2001, CDI and Horizon Offshore, Inc. announced that the Alliance Agreement covering operation on the Outer Continental Shelf was extended for a three-year period. Principal features of the Alliance are that CDI provides Dive Support Vessel services behind Horizon pipelay barges while Horizon supplies pipelay, derrick barge and heavy lift capacity to Cal Dive. The Alliance was also expanded to include CDI providing the diving personnel working from Horizon barges, a service Horizon handled internally in 2000. During 2001 and 2002 the Company also provided dynamically positioned vessels to support Horizon projects for Pemex in Mexican waters of the Gulf of Mexico.

Income Taxes
Deferred income taxes are based on the differences between financial reporting and the tax bases of assets and liabilities in accordance with SFAS No. 109, *Accounting for Income Taxes*. The statement requires, among other things, the use of the liability method of computing deferred income taxes. The liability method is based on the amount of current and future taxes payable using tax rates and laws in effect at the balance sheet date. Income taxes have been provided based upon the tax laws and rates in the countries in which operations are conducted and income is earned. A valuation allowance for deferred tax assets is recorded when it is more likely than not that some or all of the benefit from the deferred tax asset will not be realized.

Deferred Drydock Charges
The Company accounts for regulatory (U.S. Coast Guard, American Bureau of Shipping and Det Norske Veritas) related drydock inspection and certification expenditures by capitalizing the related costs and amortizing them over the 30-month period between regulatory mandated drydock inspections and certification. During the years ended December 31, 2002, 2001 and 2000, drydock amortization expense was $4.9 million, $3.1 million and $2.2 million, respectively. This predominant industry practice provides appropriate matching of expenses with the period benefitted (i.e., certification to operate the vessel for a 30-month period).

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. The Company had $2.5 million of restricted cash as of December 31, 2002 representing amounts securing a performance bond which management believes will be released during 2003. During the years ended December 31, 2002, 2001 and 2000, the Company made cash payments for interest charges, net of interest capitalized, of $811,000, $662,000 and $-0-, respectively, and made cash payments for federal income taxes of approximately $-0-, $-0- and $1,800,000 respectively.

Reclassifications
Certain reclassifications were made to previously reported amounts in the consolidated financial statements and notes to make them consistent with the current presentation format.

New Reporting Requirements
In July 2001, the FASB released SFAS No. 143, *Accounting for Asset Retirement Obligations*, which is required to be adopted no later than January 1, 2003. SFAS 143 addresses the financial accounting and reporting obligations and retirement costs related to the retirement of tangible long-lived assets. Among other things, SFAS 143 will require oil and gas companies to reflect decommissioning liabilities on the face of the balance sheet at fair market value on a discounted basis. Historically, ERT has reflected this liability on the balance sheet on an undiscounted basis. The Company will adopt this standard, as required, effective January 1, 2003. Management currently believes adoption of this standard will result in a cumulative effect adjustment in the first quarter of 2003 of between $0.01 and $0.03 per share and adjustments to certain balance sheet accounts including a decrease in Decommissioning Liabilities of approximately $30 million due to discounting.

In November 2002, FASB interpretation (FIN) No. 45, *Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others* (FIN No. 45) was issued. FIN No. 45 requires a guarantor to recognize at the inception of a guarantee a liability for the fair value of the obligation undertaken in issuing the guarantee. FIN No. 45 also expands the disclosures required to be made by a guarantor about its obligations under certain guarantees that it has issued. Initial recognition and measurement provisions of FIN No. 45 are applicable on a prospective basis to guarantees issued or modified. The disclosure requirements are effective immediately. Adoption of FIN No. 45 did not have a material effect on CDI's consolidated financial statements.

In January 2003, FIN No. 46, *Consolidation of Variable Interest Entities* was issued. FIN No. 46 requires that companies that control another entity through interests other than voting interests should consolidate the controlled entity. FIN No. 46 applies immediately to variable interest entities created after January 31, 2003, and applies in the first interim period beginning after June 15, 2003 to variable interest entities created before February 1, 2003. The related disclosure requirements are effective immediately. The Company does not believe that the adoption of this interpretation will have a material impact on its consolidated financial statements.

3. OFFSHORE PROPERTYTRANSACTIONS

In August 2002 ERT, a wholly owned subsidiary of Cal Dive International, Inc. acquired the 74.8% working interest of Shell Exploration & Production Company in the South Marsh Island 130 (SMI 130) field (Shell acquisition). ERT paid $10.3 million in cash and assumed Shell's pro-rata share of the related decommissioning liability. SMI 130 consists of two blocks, located in approximately 215 feet of water, with approximately 155 wells on five 8-pile platforms.

Unaudited pro forma combined operating results of CDI and the Shell acquisition for the twelve months ended December 31, 2002 and 2001, respectively are summarized as follows (in thousands, except per share data):

	2002	2001
	(unaudited)	
Net revenues	$ 321,186	$ 259,762
Income before taxes	23,690	54,892
Net income	15,399	35,828
Earnings per share:		
Basic	$ 0.43	$ 1.10
Diluted	0.43	1.08

In August 2002, ERT also completed the purchase of seven Gulf of Mexico fields from Amerada Hess (including its 25% ownership position in SMI 130) for $9.3 million in cash and assumption of Amerada Hess's pro-rata share of the related decommissioning liability. As a result, ERT took over as operator with an effective 100% working interest in that field.

In June 2002, ERT acquired a package of offshore properties from Williams Exploration and Production. ERT paid $4.9 million and assumed the pro-rata share of the abandonment obligation for the acquired interests. The blocks purchased represent an average 30% net working interest in 26 Gulf of Mexico leases.

In April 2002, ERT acquired a 100% interest in East Cameron Block 374, including existing wells, equipment and improvements. Terms included a cash payment of approximately $3 million to reimburse the owners for the inception-to-date cost of the subsea wellhead and umbilical, and an overriding royalty interest in future production. Cal Dive completed the temporarily abandoned number one well and performed a subsea tie-back to a host platform. The cost of completion and tie-back was approximately $7 million, with first production occurring in August 2002.

ERT purchased working interests of 3% to 75% in four offshore blocks during 2001 in exchange for assumption of the pro-rata share of the decommissioning obligations. In addition, during 2001 ERT purchased a working interest of 55% in Vermilion 201 for $2.5 million (see footnote 4). In the first quarter of 2000, ERT acquired interests in six offshore blocks with working interests from 40% to 75% in five platforms, one caisson and 13 wells. ERT agreed to a purchase price of $4.9 million and assumed the prorated share of the abandonment obligation for the acquired interests, and entered into a two-year contract to manage certain properties. Additionally, in April 2000, ERT acquired a 20% interest in *Gunnison*. See further discussion in footnote 4. In connection with 2002, 2001 and 2000 offshore property acquisitions, ERTassumed net abandonment liabilities estimated at approximately $63.6 million, $3.1 million and $4.2 million respectively.

ERT production activities are regulated by the federal government and require significant third-party involvement, such as refinery processing and pipeline transportation. The Company records revenue from its offshore properties net of royalties paid to the Minerals Management Service (MMS). Royalty fees paid totaled approximately $9.2 million, $15.2 million and $11.7 million for the years ended 2002, 2001 and 2000, respectively. In accordance with federal regulations that require operators in the Gulf of Mexico to post an area wide bond of $3 million, the MMS has allowed the Company to fulfill such bonding requirements through an insurance policy.

During each of the past three years ERT has sold its interests in certain fields as well as the platforms and a pipeline. An ERT operating policy provides for the sale of assets when the expected future revenue stream can be accelerated in a single transaction. The net result of these sales had no impact for the year ended December 31, 2002 and added two cents and four cents to diluted earnings per share for the years ending December 31, 2001 and 2000, respectively. These sales were structured as Section 1031 "Like Kind" exchanges for tax purposes. Accordingly, the cash received was restricted to use for subsequent acquisitions of additional oil and gas properties.

4. RELATED PARTYTRANSACTIONS

In April 2000, ERT acquired a 20% working interest in *Gunnison*, a Deepwater Gulf of Mexico prospect of Kerr-McGee Oil & Gas Corporation. Consistent with CDI's philosophy of avoiding exploratory risk, financing for the exploratory costs of approximately $20 million was provided by an investment partnership (OKCD Investments, Ltd.), the investors of which are CDI senior management, in exchange for an overriding royalty interest of 25% of CDI's 20% working interest. CDI provided no guarantees to the investment

partnership. The Board of Directors established three criteria to determine a commercial discovery and the commitment of Cal Dive funds: 75 million barrels (gross) of reserves, total development costs of $500 million consistent with 75 MBOE, and a CDI estimated shareholder return of no less than 12%. Kerr-McGee, the operator, drilled several exploration wells and sidetracks in 3,200 feet of water at Garden Banks 667, 668 and 669 (the *Gunnison* prospect) and encountered significant potential reserves resulting in the three criteria being achieved during 2001. With the sanctioning of a commercial discovery, the Company is funding ongoing development and production costs. Cal Dive's share of such project development costs is estimated in a range of $100 million to $110 million ($63.3 million of which had been incurred by December 31, 2002) with over half of that for construction of the spar. See footnote 9 for discussion of financing relating to the spar construction.

During the fourth quarter of 2000 another investment partnership composed of Company management and industry sources funded the drilling of a deep exploratory well at ERT's Vermilion 201 field. Effective January 1, 2001, ERT acquired approximately 55% of this investment partnership's interest in the reserves discovered for $2.5 million.

As part of the process of obtaining funding for the exploratory costs of the above projects, several outside third parties were solicited. Management believes that the structure of these transactions was both consistent with the guidelines and at least as favorable to the Company and ERT as could have been obtained from the third parties.

During 2002 and 2001, the Company was paid fees of $200,000 and $500,000, respectively, by Ocean Energy, Inc. ("Ocean"), an oil and gas industry customer of subsea services. Amember of the Company's board of directors is a member of senior management of Ocean.

5. ACQUISITION OFBUSINESSES

Canyon Offshore, Inc.
In January 2002, CDI purchased Canyon, a supplier of remotely operated vehicles (ROVs) and robotics to the offshore construction and telecommunications industries. CDI purchased Canyon for cash of $52.8 million, the assumption of $9.0 million of Canyon debt (offset by $3.1 million of cash acquired), 181,000 shares of CDI common stock valued at $4.3 million (143,000 shares of which we purchased as treasury shares during the fourth quarter of 2001) and a commitment 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). As they are employees, amounts paid, if any, in excess of the $13.53 per share will be recorded as compensation expense. No such expense was recorded in 2002. These remaining shares have been classified as redeemable stock in subsidiary in the accompanying balance sheet and will be adjusted to their estimated redemption value at each reporting period based on Canyon's performance. The acquisition was accounted for as a purchase with the acquisition price allocated to the assets acquired and liabilities assumed based upon their estimated fair values, with the excess being recorded as goodwill. The allocation of the $70.5 million purchase price was as follows: ROVs and equipment ($22.9 million); net working capital assumed ($4.0 million) and goodwill ($43.6 million). The results of Canyon are included in the accompanying statements of operations since the date of the purchase, January 2, 2002.

Well Ops (U.K.) Limited
In July 2002, CDI purchased the subsea well operations business unit of CSO Ltd., a wholly owned subsidiary of Technip-Coflexip, for approximately $72.0 million ($68.6 million cash and $3.4 million deferred tax liability assumption). Well Ops (U.K.) Limited performs life of field well operations and marine construction tasks primarily in the North Sea. The assets purchased include the *Seawell* (a 368-foot DPDSV capable of supporting manned diving, ROVs and well operations). The acquisition was accounted for as a business purchase with the acquisition price allocated to the assets acquired and liabilities assumed based upon their estimated fair values, with the excess being recorded as goodwill. During the fourth quarter of 2002 the Company completed its purchase price allocation, including obtaining an appraisal of the *Seawell*, resulting in $50 million allocated to this vessel $1.5 million allocated to patented technology (to be amortized over 20 years) and goodwill of approximately $20.6 million as of December 31, 2002. The results of Well Ops (U.K.) are included in the accompanying statements of operations since the date of the purchase, July 1, 2002.

Professional Divers of New Orleans, Inc. (PDNO)
In March 2001, CDI acquired substantially all of the assets of Professional Divers of New Orleans, Inc. (PDNO) in exchange for $11.5 million. The assets purchased included a 165-foot four-point moored DSV, the *Mr. Sonny*, three utility vessels and associated diving equipment including two saturation diving systems. This acquisition was accounted for as a purchase with the acquisition price of $11.5 million being allocated to the assets acquired and liabilities assumed based upon their estimated fair values with the balance of the purchase price ($2.8 million) being recorded as goodwill. Total goodwill relating to shallow water diving company acquisitions (i.e., PDNO and Aquatica) was $15 million as of December 31, 2002.

The 2002 and 2001 acquisitions presented above are not material individually or in the aggregate with same year acquisitions, therefore pro forma information is not presented.

6. EQUITY INVESTMENT IN DEEPWATER GATEWAY LLC

In June 2002 CDI, along with El Paso Energy Partners, formed Deepwater Gateway L.L.C. (a 50/50 venture) 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 is estimated to be approximately $110 million. In August 2002 the Company, along with El Paso, completed a non-recourse project financing for this venture, terms of which include a minimum CDI equity investment of $33 million, all of which had been paid as of December 31, 2002. This is recorded as Investment in Deepwater Gateway L.L.C. in the accompanying consolidated balance sheet. Terms of the financing also require CDI to guarantee a balloon payment due at the end of the financing term in 2008 (estimated to be $22.5 million). The Company has not recorded any liability for this guarantee as management believes it is unlikely the Company will be required to pay the balloon payment.

7. GOODWILL

In June 2001, the FASB issued SFAS No. 142, which provides for the non-amortization of goodwill and other intangible assets with indefinite lives and requires that such assets be tested for impairment at least on an annual basis. The impact of adopting SFAS No. 142 would have been immaterial to the Company's results of operations for the years ended December 31, 2001 and 2000. The Company adopted SFAS No. 142 effective January 1, 2002 and has applied the non-amortization provision. During the second quarter of 2002, the Company completed the transitional goodwill impairment test prescribed in SFAS No. 142 with respect to existing goodwill at the date of adoption. In addition, the Company completed its annual goodwill impairment test as of November 1, 2002. The Company's goodwill impairment test involves a comparison of the fair value of each of the Company's reporting units, as defined under SFAS No. 142, with its carrying amount. All of the Company's goodwill as of December 31, 2002 and 2001 related to its subsea and salvage segment. The fair value is determined using discounted cash flows and other market-related valuation models. As both calculations indicated that the fair value of each reporting unit exceeded its carrying amount, none of the Company's goodwill was impaired. The Company will continue to test its goodwill annually on a consistent measurement date unless events occur or circumstances change between annual tests that

would more likely than not reduce the fair value of a reporting unit below its carrying amount.

8. ACCRUED LIABILITIES

Accrued liabilities consisted of the following as of December 31, 2002 and 2001 (in thousands):

	2002	2001
Accrued payroll and related benefits	$ 6,874	$ 6,880
Workers'compensation claims	1,724	1,537
Workers'compensation claims to be reimbursed	5,534	6,276
Royalties payable	3,238	3,207
Hedging liability	4,064	---
Other	13,356	3,111
Total accrued liabilities	$ 34,790	$ 21,011

9. LONG-TERM DEBT

In August 2000, the Company closed a $138.5 million 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). In January 2002, the Maritime Administration agreed to expand the facility to $160 million to include the modifications to the vessel which had been approved during 2001. To date the Company has drawn $143.5 million on this facility, which approximates the maximum of qualified expenditures. The MARAD Debt is payable in equal semi-annual installments beginning in August 2002 and maturing 25 years from such date. It 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 2% as of December 31, 2002). For a period up to ten years from delivery of the vessel in April 2002, CDI has options 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 December 31, 2002 the Company was in compliance with these covenants.

The Company has a revolving credit facility (Revolver) which was increased from $40 million to $70 million during 2002 and the term extended for three years. This facility is collateralized by accounts receivable and most of the remaining vessel fleet, bears interest at LIBOR plus 125-250 basis points depending on CDI leverage ratios (approximately 4.2% as of December 31, 2002) and, among other restrictions, includes three financial covenants (cash flow leverage, minimum interest coverage and fixed charge coverage). As of December 31, 2002, the Company had drawn $52.6 million under this revolving credit facility and was in compliance with these covenants with the exception of the cash flow leverage covenant, for which the Company obtained a waiver.

In November 2001, ERT entered into a five-year lease transaction with an entity owned by a third party to fund CDI's portion of the construction costs ($67 million) of the spar for the *Gunnison* field. As of December 31, 2001 and June 30, 2002, the entity had drawn down $5.6 million and $22.8 million, respectively, on this facility. Accrued interest cost on the outstanding balance is capitalized to the cost of the facility during construction and is payable monthly thereafter. In August 2002, CDI acquired 100% of the equity of the entity and converted the notes into a term loan ("*Gunnison* Term Loan"). The total commitment of the loan was reduced to $35 million and will be payable in quarterly installments of $1.75 million for three years after delivery of the spar with the remaining $15.75 million due at the end of the three years. The facility bears interest at LIBOR plus 225-300 basis points depending on CDI leverage ratios (approximately 4.4% as of December 31, 2002) and includes, among other restrictions, three financial covenants (cash flow leverage, minimum interest coverage and debt to total book capitalization). The Company was in compliance with these covenants as of December 31, 2002 with the exception of the cash flow leverage covenant, for which the Company obtained a waiver. The debt ($29.3 million at December 31, 2002) and related asset have been reflected on CDI's balance sheet beginning in the third quarter of 2002. The purchase price was allocated entirely to construction in progress as the purchase price approximated the fair value of the spar.

Scheduled maturities of Long-term Debt outstanding as of December 31, 2002 were as follows (in thousands):

	MARAD Debt	Revolver	Gunnison Term Loan	Other	Total
2003	$ 2,766	$ ---	$ ---	$ 1,435	$ 4,201
2004	2,949	---	7,000	1,395	11,344
2005	3,144	52,591	7,000	572	63,307
2006	3,352	---	15,270	386	19,008
2007	3,573	---	---	---	3,573
Thereafter	126,344	---	---	---	126,344
Long-term debt	142,128	52,591	29,270	3,788	227,777
Current maturities	(2,766)	(---)	(---)	(1,435)	(4,201)
Long-term debt, less current maturities	$139,362	$ 52,591	$ 29,270	$ 2,353	$ 223,576

10. INCOME TAXES

CDI and its subsidiaries, including acquired companies from their respective dates of acquisition, file a consolidated U.S. federal income tax return. The Company conducts its international operations in a number of locations that have varying laws and regulations with regard to taxes. Management believes that adequate provisions have been made for all taxes that will ultimately be payable. $2.5 million of the Company's $19.0 million pre-tax income was derived from foreign operations. Income taxes have been provided based on the statutory rate of 35 percent adjusted for items which are allowed as deductions for federal income tax reporting purposes, but not for book purposes. The primary differences between the statutory rate and the Company's effective rate are as follows:

	2002	2001	2000
Statutory rate	35%	35%	35%
Foreign provision	4	---	---
Foreign tax credit	(4)	---	---
Research and development tax credits	---	(2)	(2)
Other	---	2	1
Effective rate	35%	35%	34%

Components of the provision for income taxes reflected in the statements of operations consist of the following (in thousands):

	2002	2001	2000
Current	$ 534	$ ---	$ ---
Deferred	6,130	15,504	11,555
	$ 6,664	$ 15,504	$ 11,555

	2002	2001	2000
Domestic	$ 5,996	$ 15,504	$ 11,555
Foreign	668	---	---
	$ 6,664	$ 15,504	$ 11,555

Deferred income taxes result from differences between the tax bases of assets and liabilities and their carrying value. The nature of these differences and the income tax effect of each as of December 31, 2002 and 2001, is as follows (in thousands):

	2002	2001
Deferred tax liabilities -		
Depreciation and other	$ 102,230	$ 75,805
Deferred tax assets -		
Net operating loss carryforward	(28,385)	(13,761)
R&D credit carryforward	(17,087)	(15,987)
Reserves, accrued liabilities and other	(9,929)	(7,548)
Valuation allowance (R&D credit)	14,450	13,528
Net deferred tax liability	$ 61,279	$ 52,037

The detail of deferred tax balances as of December 31, 2001 described above contain reclassification adjustments totaling $21.2 million and conforming disclosures to provide a detail of deferred tax assets that were previously offset against deferred tax liabilities. The Company's consolidated balance sheet as of December 31, 2001 has been adjusted to conform with the above presentation.

CDI effectively paid no federal income taxes in 2002 and 2001 due primarily to the deduction of *Q4000* construction costs as research and development for federal tax purposes. The Company paid $1.8 million of federal income taxes during 2000, but the amount was refunded in January 2001 upon completing our research and development analysis and filing for the refund. In addition, we filed amended tax returns for 1998 and 1999, deducting such costs, resulting in refunds of $8.2 million which were collected in January 2001.

The Company has provided additional taxes for the anticipated repatriation of earnings of its foreign subsidiaries.

At December 31, 2002, the Company had $81.1 million of net operating losses. Loss carryforwards, if not utilized, will expire at various dates from 2019 through 2022.

11. COMMITMENTS AND CONTINGENCIES:

Lease Commitments

During 1999, CDI acquired an interest in Cal Dive Aker CAHT I, LLC (CAHT I), the company which owned the *Cal Dive Aker Dove* (a newbuild DP anchor handling and subsea construction vessel which commenced operations in September 1999) for a total of $18.9 million. CDI effectively owned 56% of CAHT I and, accordingly, results of operations of this company were consolidated in the accompanying financial statements with Aker's share being reflected as minority interest. In December, 1999 CAHT I entered into a sale-leaseback of the *Cal Dive Aker Dove*. Cal Dive's portion of the sale proceeds received totaled $20 million. The lease was accounted for as an operating lease. Effective April 1, 2001, Coflexip's acquisition of Aker enabled CDI to "put" its interest in CAHT I back to Aker in return for Aker assuming all of CDI's obligations and guarantees under the sale-leaseback.

The Company leases several facilities, ROVs and a vessel under noncancelable operating leases, with the more significant leases expiring in the years 2004 and 2005. Future minimum rentals under these leases are $19,018,000 at December 31, 2002 with $8,848,000 due in 2003, $7,033,000 in 2004, $2,198,000 in 2005, $276,000 in 2006, $276,000 in 2007 and $387,000 thereafter. Total rental expense under these operating leases was $6,885,000, $779,000 and $721,000 for the years ended December 31, 2002, 2001 and 2000, respectively.

Insurance

The Company carries Hull and Increased Value insurance which provides coverage for physical damage to an agreed amount for each vessel. The deductibles are based on the value of the vessel with a maximum deductible of $500,000 on the *Q4000*. Other vessels carry deductibles between $100,000 and $350,000. The Company also carries Protection and Indemnity insurance which covers liabilities arising from the operation of the vessel and General Liability insurance which covers liabilities arising from construction operations. The deductible on both the P&I and General Liability is $100,000 per occurrence. Onshore employees are covered by Workers' Compensation. Offshore employees, including divers and tenders and marine crews, are covered by an Excess Maritime Employers Liability insurance policy which covers Jones Act exposures and includes a deductible of $100,000 per occurrence plus a $1 million annual aggregate. In addition to the liability policies named above, the Company carries various layers of Umbrella Liability for total limits of $200,000,000 excess of primary for all vessels. The Company's self insured retention on its medical and health benefits program for employees is $100,000 per claim.

In June 2000, the DP DSV *Balmoral Sea* caught fire while dockside in New Orleans, LAas the vessel was being prepared to enter drydock for an extended period. The vessel was deemed a total loss by insurance underwriters. Her book value (approximately $7 million) was fully insured as were all salvage and removal costs. Payments from the insurance companies were received during the fourth quarter of 2000.

The Company incurs workers' compensation claims in the normal course of business, which management believes are covered by insurance. The Company, its insurers and legal counsel analyze each claim for potential exposure and estimate the ultimate liability of each claim. Amounts accrued and receivable from insurance companies, above the applicable deductible limits, are reflected in other current assets in the consolidated balance sheet. Such amounts were $5,534,000 and $6,276,000 as of December 31, 2002 and 2001, respectively. See related accrued liabilities at footnote 8. The Company has not incurred any significant losses as a result of claims denied by its insurance carriers.

Litigation and Claims

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. In addition, the Company from time to time incurs other claims, such as contract disputes, in the normal course of business. During 2002, the Company engaged in a large construction project, and in late September, supports engineered by a subcontractor failed resulting in over a month of downtime for two of CDI's vessels. Management believes that under the terms of the contract the Company is entitled to the contractual stand-by rate for the vessels during their downtime. The customer is currently disputing these invoices along with certain other change orders. CDI has billed approximately $33.5 million ($28.9 million of which had been billed as of December 31, 2002 and $12.1 million of which had not been collected as of February 18, 2003) for this project which management believes it is due under the terms of the contract. However, due to the size of the dispute, inherent uncertainties with respect to an arbitration and relationship issues with the customer, CDI provided a reserve in the fourth quarter of 2002 resulting in a loss for the Company on the project as a whole. In another lengthy commercial

dispute, EEX Corporation sued Cal Dive and others alleging breach of fiduciary duty by a former EEX employee and damages resulting from certain construction and property acquisition agreements. Cal Dive had responded alleging EEX Corporation breached various provisions of the same contracts. EEX's acquisition by Newfield during the fourth quarter 2002 enabled CDI to enter meaningful settlement discussions prior to the trial date, which was set for February 2003. This resulted in a settlement including CDI making a cash payment, subsequent to yearend, and agreeing to provide work credits for its services over the next three years. The total value of the settlement was recorded in the Company's statement of operations for the year ended December 31, 2002. This settlement combined with the reserves on the project discussed above resulted in approximately $10 million of pre-tax charges recorded in the accompanying statement of operations.

In 1998, one of our 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 states 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. We were 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 now made demand on Cal Dive Offshore Ltd. ("CDO") a subsidiary of Cal Dive, for one-half of this amount. Because only one of the grounds in the preliminary findings by the arbitrator is applicable to CDO, and because CDO holds substantial counterclaims against Seacore, management believes that in the event Seacore continues to seek contribution from our subsidiary, which would require another arbitration, it is anticipated that our subsidiary's exposure, if any, should be less than $500,000.

Although the above discussed matters have the potential of significant additional liability, the Company believes that 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.

12. EMPLOYEE BENEFIT PLANS

Defined Contribution Plan
The Company sponsors a defined contribution 401(k) retirement plan covering substantially all of its employees. The Company's contributions are in the form of cash and are determined annually as 50 percent of each employee's contribution up to 5 percent of the employee's salary. The Company's costs related to this plan totaled $811,000, $595,000 and $423,000 for the years ended December 31, 2002, 2001 and 2000, respectively.

Stock-Based Compensation Plans
During 2000, the Board of Directors approved a "Stock Option in Lieu of Salary Program" for the Company's Chief Executive Officer. Under the terms of the program, the participant may annually elect to receive non-qualified stock options (with an exercise price equal to the closing stock price on the date of grant) in lieu of cash compensation with respect to his base salary and any bonus earned under the annual incentive compensation program. The number of options granted is determined utilizing the Black-Scholes valuation model as of the date of grant with a risk premium included. The participant made such election for 2002, 2001 and 2000 resulting in a total of 105,000, 180,000 and 115,000 options being granted during 2002, 2001 and 2000, respectively (which includes bonuses earned under the annual incentive compensation program in 2001 and 2000).

During 1995, the Board of Directors and shareholders approved the 1995 Long-Term Incentive Plan (the Incentive Plan). Under the Incentive Plan, a maximum of 10% of the total shares of Common Stock issued and outstanding may be granted to key executives and selected employees who are likely to make a significant positive impact on the reported net income of the Company. The Incentive Plan is administered by a committee which determines, subject to approval of the Compensation Committee of the Board of Directors, the type of award to be made to each participant and sets forth in the related award agreement the terms, conditions and limitations applicable to each award. The committee may grant stock options, stock appreciation rights, or stock and cash awards. Options granted to employees under the Incentive Plan vest 20% per year for a five year period or 33% per year for a three year period, have a maximum exercise life of three, five or ten years and, subject to certain exceptions, are not transferable.

Effective May 12, 1998, the Company adopted a qualified, non-compensatory Employee Stock Purchase Plan ("ESPP"), which allows employees to acquire shares of common stock through payroll deductions over a six month period. The purchase price is equal to 85 percent of the fair market value of the common stock on either the first or last day of the subscription period, whichever is lower. Purchases under the plan are limited to 10 percent of an employee's base salary. Under this plan 44,158, 38,849 and 25,391 shares of common stock were purchased in the open market at a weighted average share price of $21.86, $22.22 and $21.55 during 2002, 2001 and 2000, respectively.

All of the options outstanding at December 31, 2002, have exercise prices as follows: 127,191 shares at $18.00, 111,596 at $18.06, 129,000 shares at $19.63, 100,000 shares at $21.38, 412,000 shares at $21.83, 283,004 shares at $21.88, 120,000 shares at $24.00, 80,000 shares at $26.75 and 627,955 shares ranging from $3.95 to $23.72 and a weighted average remaining contractual life of 6.11 years.

Options outstanding are as follows:

	2002		2001		2000	
	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
Options outstanding, Beginning of year	2,179,246	$ 13.66	2,238,600	$ 11.34	1,957,208	$ 5.59
Granted	732,670	21.88	589,000	21.84	810,420	19.26
Exercised	(862,241)	7.18	(354,838)	9.43	(484,344)	4.24
Terminated	(58,929)	15.12	(293,516)	15.69	(44,684)	4.10
Options outstanding, December 31	1,990,746	$ 19.52	2,179,246	$ 13.66	2,238,600	$ 11.34
Options exercisable, December 31	704,191	$ 18.76	732,787	$ 8.97	518,308	$ 7.10

13. SHAREHOLDERS'EQUITY

The Company's amended and restated Articles of Incorporation provide for authorized Common Stock of 120,000,000 shares with no par value per share and 5,000,000 shares of preferred stock in one or more series.

In May 2002 CDI sold 3.4 million shares of primary common stock for $23.16 per share, along with 517,000 additional shares to cover over-allotments.

During the fourth quarter of 2001, CDI purchased 143,000 shares of its common stock for $2.6 million.

In October 2000, the Board of Directors declared a two-for-one split of CDI's common stock in the form of a 100% stock distribution on November 13, 2000 to all holders of record at the close of business on October 30, 2000. All share and per share data in these financial statements have been restated to reflect the stock split.

In September 2000, CDI completed a Secondary Stock Offering with Coflexip selling its 7.4 million shares of common stock at $26.31 per share. The over-allotment option was exercised resulting in the Company issuing 609,936 shares of common stock and receiving net proceeds of $14.8 million, and the Chief Executive Officer selling 500,000 shares receiving net proceeds of $12.1 million.

14. BUSINESS SEGMENT INFORMATION (IN THOUSANDS)

The following summarizes certain financial data by business segment:

	YEAR ENDED DECEMBER 31,		
	2002	2001	2000
Revenues -			
Subsea and salvage	$ 239,916	$ 163,740	$ 110,217
Oil and gas production	62,789	63,401	70,797
Total	$ 302,705	$ 227,141	$ 181,014
Income from operations -			
Subsea and salvage	$ 742	$ 21,705	$ 2,368
Oil and gas production	20,267	23,881	32,201
Total	$ 21,009	$ 45,586	$ 34,569
Net interest (income) expense and other -			
Subsea and salvage	$ 1,359	$ 739	$ (63)
Oil and gas production	609	551	617
Total	$ 1,968	$ 1,290	$ 554
Provision for income taxes -			
Subsea and salvage	$ (793)	$ 7,145	$ 436
Oil and gas production	7,457	8,359	11,119
Total	$ 6,664	$ 15,504	$ 11,555
Identifiable assets -			
Subsea and salvage	$ 642,579	$ 457,259	$ 301,416
Oil and gas production	224,453	37,037	46,072
Total	$ 867,032	$ 494,296	$ 347,488
Capital expenditures -			
Subsea and salvage	$ 66,297	$ 131,062	$ 82,697
Oil and gas production	95,469	20,199	12,427
Total	$ 161,766	$ 151,261	$ 95,124
Depreciation and amortization -			
Subsea and salvage	$ 27,220	$ 14,586	$ 11,621
Oil and gas production	17,535	19,947	19,109
Total	$ 44,755	$ 34,533	$ 30,730

During the year ended December 31, 2002, the Company derived $27.1 million of its revenues from the U.K. sector utilizing $91.7 million of its total assets in this region. Additionally, $66.1 million of revenues were derived from the Latin America sector during the year ended December 31, 2002. The majority of the remaining revenues were generated in the U.S. Gulf of Mexico.

15. SUPPLEMENTALOILAND GAS DISCLOSURES (UNAUDITED)

The following information regarding the Company's oil and gas producing activities is presented pursuant to SFAS No. 69, "Disclosures About Oil and Gas Producing Activities" (in thousands).

Capitalized Costs
Aggregate amounts of capitalized costs relating to the Company's oil and gas producing activities and the aggregate amount of related accumulated depletion, depreciation and amortization as of the dates indicated are presented below. The Company has no capitalized costs related to unproved properties.

	As of December 31,		
	2002	**2001**	**2000**
Gunnison capitalized costs	$ 63,294	$ 10,177	$ ---
Proved developed properties being amortized	180,256	72,157	60,679
Less - Accumulated depletion, depreciation and amortization	(71,151)	(54,482)	(35,835)
Net capitalized costs	$ 172,399	$ 27,852	$ 24,844

Included in capitalized costs proved developed properties being amortized is the Company's estimate of its proportionate share of decommissioning liabilities assumed relating to these properties which are also reflected as decommissioning liabilities in the accompanying consolidated balance sheets.

Costs Incurred in Oil and Gas Producing Activities
The following table reflects the costs incurred in oil and gas property acquisition and development activities during the years indicated:

	Year Ended December 31,		
	2002	**2001**	**2000**
Proved property acquisition costs	$ 94,034	$ 4,350	$ 7,635
Development costs	67,241	18,247	8,160
Total costs incurred	$ 161,275	$ 22,597	$ 15,795

Results of Operations For Oil and Gas Producing Activities

	Year Ended December 31,		
	2002	**2001**	**2000**
Revenues	$ 62,789	$ 63,401	$ 70,797
Production (lifting) costs	19,153	13,236	12,432
Depreciation, depletion and amortization	17,535	19,947	19,109
Pretax income from producing activities	26,101	30,218	39,256
Income tax expenses	7,457	8,359	11,119
Results of oil and gas producing activities	$ 18,644	$ 21,859	$ 28,137

Estimated Quantities of Proved Oil and Gas Reserves
Proved oil and gas reserve quantities are based on estimates prepared by Company engineers in accordance with guidelines established by the Securities and Exchange Commission. The Company's estimates of reserves at December 31, 2002, excluding *Gunnison*, have been reviewed by Miller and Lents, Ltd., independent petroleum engineers. Since the Company does not own a license to the geophysical data, reserves attributable to *Gunnison* (which total 47% of the proved reserves as of December 31, 2002) have been determined based on information provided by the operator. These reserve estimates were reviewed by our engineers, including an assessment of the operator's assumptions and their engineering, geologic and evaluation principles and techniques. All of the Company's reserves are located in the United States. Proved reserves cannot be measured exactly because the estimation of reserves involves numerous judgmental determinations. Accordingly, reserve estimates must be continually revised as a result of new information obtained from drilling and production history, new geological and geophysical data and changes in economic conditions.

As of December 31, 2000, -0- Bbls of oil and -0- Mcf of gas of the Company's proven reserves were undeveloped. As of December 31, 2001, 6,829,000 Bbls of oil and 35,525,000 Mcf of gas were undeveloped, all of which is attributable to *Gunnison*. As of December 31, 2002, 6,375,000 Bbls of oil and 51,807,000 Mcf of gas were undeveloped, 82% of which is attributable to *Gunnison*.

Reserve Quantity Information	**Oil (MBbls)**	**Gas (MMcf)**
Total proved reserves at December 31, 1999	1,702	25,381
Revisions of previous estimates	24	3,024
Production	(739)	(14,959)
Purchases of reserves in place	99	9,416
Sales of reserves in place	(5)	(1,151)
Total proved reserves at December 31, 2000	1,081	21,711
Revision of previous estimates	623	4,479
Production	(743)	(9,473)
Purchases of reserves in place	53	1,644
Sales of reserves in place	---	(22)
Extensions and discoveries	6,844	35,597
Total proved reserves at December 31, 2001	7,858	53,936
Revision of previous estimates	(1,442)	11,049
Production	(922)	(11,062)
Purchases of reserves in place	6,543	31,302
Sales of reserves in place	—	—
Extensions and discoveries	—	—
Total proved reserves at December 31, 2002	12,037	85,225

Standardized Measure of Discounted Future Net Cash Flows Relating to Proved Oil and Gas Reserves
The following table reflects the standardized measure of discounted future net cash flows relating to the Company's interest in proved oil and gas reserves as of December 31:

	2002	**2001**	**2000**
Future cash inflows	$ 693,023	$ 261,613	$ 219,620
Future costs -			
Production	(129,375)	(46,031)	(42,608)
Development and abandonment	(176,094)	(147,885)	(27,690)
Future net cash flows before income taxes	387,554	67,697	149,322
Future income taxes	(106,258)	(24,223)	(57,018)
Future net cash flows	281,296	43,474	92,304
Discount at 10% annual rate	(69,569)	(22,029)	(14,591)
Standardized measure of discounted future net cash flows	$ 211,727	$ 21,445	$ 77,713

Changes in Standardized Measure of Discounted Future Net Cash Flows

Principal changes in the standardized measure of discounted future net cash flows attributable to the Company's proved oil and gas reserves are as follows:

	2002	2001	2000
Standardized measure, beginning of year	$ 21,445	$ 77,713	$ 22,843
Sales, net of production costs	(43,729)	(50,165)	(57,720)
Net change in prices, net of production costs	69,085	(68,811)	87,427
Changes in future development costs	28,958	(2,421)	(3,695)
Development costs incurred	67,241	18,247	8,160
Accretion of discount	6,390	3,013	3,785
Net change in income taxes	(62,166)	30,192	(32,996)
Purchases of reserves in place	124,322	433	48,229
Extensions and discoveries	---	16,612	---
Sales of reserves in place	---	20	2,021
Net change due to revision in quantity estimates	899	1,604	20,084
Changes in production rates (timing) and other	(718)	(4,992)	(20,425)
Standardized measure, end of year	$ 211,727	$ 21,445	$ 77,713

16. REVENUE ALLOWANCE ON GROSS AMOUNTS BILLED

The following table sets forth the activity in the Company's Revenue Allowance on Gross Amounts Billed for each of the three years in the period ended December 31, 2002 (in thousands):

	2002	2001	2000
Beginning balance	$ 4,262	$ 1,770	$ 1,789
Additions	12,008	6,875	4,535
Deductions	(9,114)	(4,383)	(4,554)
Ending balance	$ 7,156	$ 4,262	$ 1,770

See note 2 for a detailed discussion regarding the Company's accounting policy on the Revenue Allowance on Gross Amounts Billed and Note 11 for a discussion of a large construction project in 2002.

17. QUARTERLY FINANCIALINFORMATION (UNAUDITED)

The offshore marine construction industry in the Gulf of Mexico is highly seasonal as a result of weather conditions and the timing of capital expenditures by the oil and gas companies. Historically, a substantial portion of the Company's services has been performed during the summer and fall months. As a result, historically a disproportionate portion of the Company's revenues and net income is earned during such period. The following is a summary of consolidated quarterly financial information for 2002 and 2001.

	Quarter Ended			
	March 31	June 30	September 30	December 31
	(In thousands, except per share amounts)			
Fiscal 2002				
Revenues	$ 53,928	$ 72,305	$ 84,015	$ 92,457
Gross profit	11,118	17,185	11,573	13,916
Net income	3,001	7,214	2,952	(790)
Net income per share:				
Basic	.09	.21	.08	(.02)
Diluted	.09	.21	.08	(.02)
Fiscal 2001				
Revenues	$ 58,482	$ 48,786	$ 51,570	$ 68,303
Gross profit	22,258	16,914	13,207	14,532
Net income	10,774	7,546	5,244	5,368
Net income per share:				
Basic	.33	.23	.16	.17
Diluted	.33	.23	.16	.16

18. SUBSEQUENT EVENTS

Sale of 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. The preferred stock holder has the right to purchase as much as $30 million in additional preferred stock for a period of two years beginning in July, 2003. The conversion price of the additional preferred stock will equal 125% of the then prevailing price of Cal Dive common stock, subject to a minimum conversion price of $30 per common share.

The preferred stock will have a minimum annual dividend rate of 4%, subject to adjustment, payable in cash or common shares at Cal Dive's option. After the second anniversary, the holder may redeem the value of its original investments in the preferred shares to be settled in common stock or cash at the discretion of the Company. Under certain conditions, the holder could redeem its investment prior to the second anniversary.

The proceeds received from the sale of this stock, net of transaction costs, will be classified outside of shareholders' equity on the balance sheet below total liabilities. The transaction costs will be accreted through the statement of operations over two years. Prior to the conversion, shares will be included in the Company's fully diluted earnings per share under the if converted method based on the Company's average common share price during the applicable period.

Subsequent to year-end, the Company filed a registration statement registering approximately 7.5 million shares of common stock relating to this transaction, the maximum potential total number shares of common stock redeemable under certain circumstances, subject to the Company's ability to redeem with cash, under the terms of the agreement.

REPORT OF INDEPENDENT AUDITORS

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

We have audited the accompanying consolidated balance sheet of Cal Dive International, Inc. and Subsidiaries as of December 31, 2002 and the related consolidated statements of operations, shareholders' equity and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit. The consolidated financial statements of Cal Dive International, Inc. as of December 31, 2001 and for each of the years in the two year period ended December 31, 2001 were audited by other auditors who have ceased operations. Those auditors expressed an unqualified opinion on those consolidated financial statements in their report dated February 18, 2002 before the reclassification adjustments and conforming disclosures described in Note 10.

We conducted our audit in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Cal Dive International, Inc. and Subsidiaries at December 31, 2002 and the consolidated results of their operations and their cash flows for the year then ended in conformity with accounting principles generally accepted in the United States.

As discussed in Note 1 to the accompanying consolidated financial statements, the Company adopted Statement of Financial Accounting Standards No.142, "Goodwill and Other Intangible Assets" in 2002.

As described above, the consolidated financial statements of Cal Dive International, Inc. and Subsidiaries as of December 31, 2001 and 2000, and for the years then ended were audited by other auditors who have ceased operations. As described in Note 10, the consolidated financial statements as of and for the year ended December 31, 2001 have been revised. We audited the reclassification adjustments and conforming disclosures described in Note 10 applied to revise the 2001 financial statements. In our opinion, such reclassification adjustments and conforming disclosures are appropriate and have been properly applied. However, we were not engaged to audit, review or apply any procedures to the 2001 consolidated financial statements of the Company other than with respect to such reclassification adjustments and conforming disclosures and, accordingly, we do not express an opinion or any other form of assurance on the 2001 consolidated financial statements taken as a whole.

ERNST & YOUNG LLP
Houston, Texas
February 17, 2003

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

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

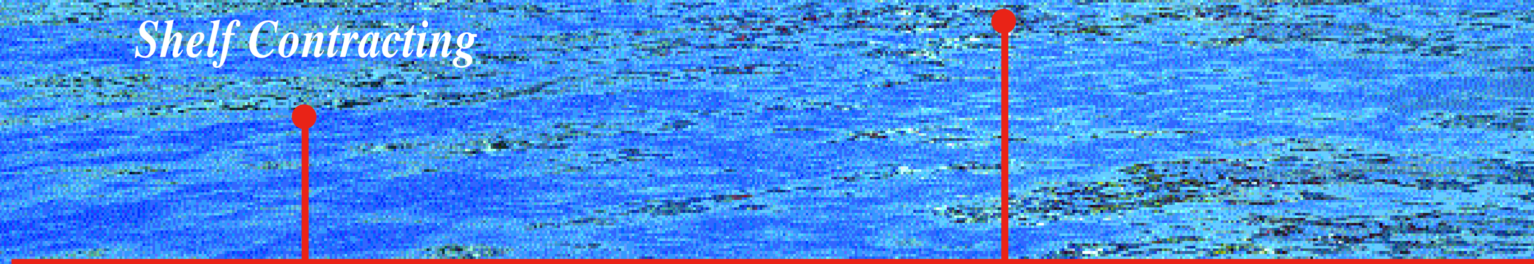
We have audited the accompanying consolidated balance sheets of Cal Dive International Inc. (a Minnesota corporation) and subsidiaries as of December 31, 2001 and 2000, and the related consolidated statements of operations, shareholders' equity and cash flows for each of the three years in the period ended December 31, 2001. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Cal Dive International, Inc., and subsidiaries as of December 31, 2001 and 2000, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2001, in conformity with accounting principles generally accepted in the United States.

ARTHUR ANDERSEN LLP
Houston, Texas
February 18, 2002

Note: The report of Arthur Andersen LLP presented above is a copy of a previously issued Arthur Andersen LLP report and said report has not been reissued by Arthur Andersen LLP nor has Arthur Andersen LLP provided a consent to the inclusion of its report in this Form 10-K.



WWW.CALDIVE.COM