

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

**Form 10-Q**

- Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934  
For the quarterly period ended June 30, 2012**
- or
- Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934  
For the transition period from \_\_\_\_\_ to \_\_\_\_\_**

Commission File Number 001-32936



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

**Minnesota**  
*(State or other jurisdiction  
of incorporation or organization)*

**95-3409686**  
*(I.R.S. Employer  
Identification No.)*

**400 North Sam Houston Parkway East  
Suite 400  
Houston, Texas**  
*(Address of principal executive offices)*

**77060**  
*(Zip Code)*

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

**NOT APPLICABLE**  
*(Former name, former address and former fiscal year, if changed since last report)*

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions of "large accelerated filer,"

“accelerated filer“ and “smaller reporting company” in Rule 12b-2 of the Exchange Act.

Large accelerated filer  Accelerated filer  Non-accelerated filer  Smaller reporting company   
(Do not check if a smaller reporting company)

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

Yes  No

As of July 20, 2012, 105,231,593 shares of common stock were outstanding.

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## PART I. FINANCIAL INFORMATION

## Item 1. Financial Statements.

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

	June 30, 2012	December 31, 2011
	(Unaudited)	
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 649,503	\$ 546,465
Accounts receivable:		
Trade, net of allowance for uncollectible accounts of \$4,067	187,904	238,781
Unbilled revenue	30,053	24,338
Costs in excess of billing	21,492	13,037
Other current assets	117,979	121,621
Total current assets	<u>1,006,931</u>	<u>944,242</u>
Property and equipment	4,366,783	4,391,064
Less accumulated depreciation	(2,007,490)	(2,059,737)
Property and equipment, net	<u>2,359,293</u>	<u>2,331,327</u>
Other assets:		
Equity investments	173,543	175,656
Goodwill	62,252	62,215
Other assets, net	86,786	68,907
Total assets	<u>\$ 3,688,805</u>	<u>\$ 3,582,347</u>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable	\$ 156,738	\$ 147,043
Accrued liabilities	177,225	239,963
Income tax payable	3,065	1,293
Current maturities of long-term debt	12,997	7,877
Total current liabilities	<u>350,025</u>	<u>396,176</u>
Long-term debt	1,167,908	1,147,444
Deferred tax liabilities	445,817	417,610
Asset retirement obligations	135,235	161,208
Other long-term liabilities	8,832	9,368
Total liabilities	<u>2,107,817</u>	<u>2,131,806</u>
Convertible preferred stock	1,000	1,000
Commitments and contingencies		
Shareholders' equity:		
Common stock, no par, 240,000 shares authorized, 105,631 and 105,530 shares issued, respectively	927,085	908,776
Retained Earnings	633,012	522,644
Accumulated other comprehensive loss	(9,825)	(10,017)
Total controlling interest shareholders' equity	<u>1,550,272</u>	<u>1,421,403</u>
Noncontrolling interest	29,716	28,138
Total equity	<u>1,579,988</u>	<u>1,449,541</u>
Total liabilities and shareholders' equity	<u>\$ 3,688,805</u>	<u>\$ 3,582,347</u>

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

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

	<b>Three Months Ended June 30,</b>	
	<b>2012</b>	<b>2011</b>
Net revenues:		
Contracting services	\$ 197,461	\$ 165,861
Oil and gas	149,933	172,458
Total net revenues	<u>347,394</u>	<u>338,319</u>
Cost of sales:		
Contracting services	147,156	116,521
Contracting services impairments	14,590	—
Oil and gas	92,423	110,027
Oil and gas property impairments	—	11,573
Total cost of sales	<u>254,169</u>	<u>238,121</u>
Gross profit	93,225	100,198
Loss on sale of assets, net	(236)	(22)
Ineffectiveness on oil and gas commodity derivative contracts	10,069	—
Selling and administrative expenses	(24,571)	(23,758)
Income from operations	78,487	76,418
Equity in earnings of investments	5,748	5,887
Net interest expense	(18,627)	(25,278)
Other income (expense), net	(1,692)	1,253
Income before income taxes	63,916	58,280
Provision for income taxes	18,476	16,171
Net income, including noncontrolling interests	45,440	42,109
Less net income applicable to noncontrolling interests	(789)	(786)
Net income applicable to Helix	44,651	41,323
Preferred stock dividends	(10)	(10)
Net income applicable to Helix common shareholders	<u>\$ 44,641</u>	<u>\$ 41,313</u>
Earnings per share of common stock:		
Basic	<u>\$ 0.42</u>	<u>\$ 0.39</u>
Diluted	<u>\$ 0.42</u>	<u>\$ 0.39</u>
Weighted average common shares outstanding:		
Basic	<u>104,563</u>	<u>104,673</u>
Diluted	<u>105,042</u>	<u>105,140</u>
Total comprehensive income applicable to Helix common shareholders (Note 9)	<u>\$ 54,483</u>	<u>\$ 60,867</u>

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



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

	<b>Six Months Ended June 30,</b>	
	<b>2012</b>	<b>2011</b>
Net revenues:		
Contracting services	\$ 427,303	\$ 288,609
Oil and gas	328,018	341,317
Total net revenues	<u>755,321</u>	<u>629,926</u>
Cost of sales:		
Contracting services	304,124	223,428
Contracting services impairments	14,590	—
Oil and gas	181,672	217,651
Oil and gas property impairments	—	11,573
Total cost of sales	<u>500,386</u>	<u>452,652</u>
Gross profit	254,935	177,274
Loss on sale of assets, net	(1,714)	(6)
Ineffectiveness on oil and gas commodity derivative contracts	7,730	—
Selling and administrative expenses	(50,267)	(48,739)
Income from operations	210,684	128,529
Equity in earnings of investments	6,155	11,537
Net interest expense	(40,387)	(49,514)
Loss on early extinguishment of long-term debt	(17,127)	—
Other income (expense), net	(1,606)	3,913
Income before income taxes	157,719	94,465
Provision for income taxes	45,753	25,721
Net income, including noncontrolling interests	111,966	68,744
Less net income applicable to noncontrolling interests	(1,578)	(1,554)
Net income applicable to Helix	110,388	67,190
Preferred stock dividends	(20)	(20)
Net income applicable to Helix common shareholders	<u>\$ 110,368</u>	<u>\$ 67,170</u>
Earnings per share of common stock:		
Basic	<u>\$ 1.05</u>	<u>\$ 0.63</u>
Diluted	<u>\$ 1.04</u>	<u>\$ 0.63</u>
Weighted average common shares outstanding:		
Basic	<u>104,547</u>	<u>104,573</u>
Diluted	<u>105,012</u>	<u>105,024</u>
Total comprehensive income applicable to Helix common shareholders (Note 9)	<u>\$ 110,560</u>	<u>\$ 78,272</u>

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





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

	<b>Six Months Ended</b>	
	<b>June 30,</b>	
	<b>2012</b>	<b>2011</b>
<b>Cash flows from operating activities:</b>		
Net income, including noncontrolling interests	\$ 111,966	\$ 68,744
Adjustments to reconcile net income, including noncontrolling interests to net cash provided by operating activities:		
Depreciation and amortization	134,960	167,170
Asset impairment charge and dry hole expense	14,679	18,204
Amortization of deferred financing costs	3,292	4,777
Stock-based compensation expense	3,658	4,938
Amortization of debt discount	4,776	4,414
Deferred income taxes	21,624	23,864
Excess tax benefit from stock-based compensation	657	1,196
Gain on investment in Cal Dive common stock	—	(753)
Loss on sale of assets, net	1,714	6
Loss on early extinguishment of debt	17,127	—
Unrealized gain and ineffectiveness on derivative contracts, net	(7,581)	(34)
Changes in operating assets and liabilities:		
Accounts receivable, net	46,611	(18,207)
Other current assets	(5,854)	12,712
Income tax payable	1,083	(4,154)
Accounts payable and accrued liabilities	(61,372)	(27,070)
Oil and gas asset retirement costs	(54,976)	(16,073)
Other noncurrent, net	(11,344)	10,839
Net cash provided by operating activities	<u>221,020</u>	<u>250,573</u>
<b>Cash flows from investing activities:</b>		
Capital expenditures	(150,107)	(106,122)
Distributions (investments) from equity investments, net	2,045	(1,106)
Proceeds from sale of Cal Dive common stock	—	3,588
Decrease in restricted cash	2,660	863
Net cash used in investing activities	<u>(145,402)</u>	<u>(102,777)</u>
<b>Cash flows from financing activities:</b>		
Extinguishment of Senior Unsecured Notes	(209,500)	—
Borrowings under revolving credit facility	100,000	109,400
Repayment of revolving credit facility	—	(109,400)
Issuance of Convertible Senior Notes due 2032	200,000	—
Repurchase of Convertible Senior Notes due 2025	(143,945)	—
Proceeds from Term Loan A	100,000	—
Repayment of Term Loan	(2,750)	(111,191)
Repayment of MARAD borrowings	(2,409)	(2,294)
Deferred financing costs	(6,485)	(9,014)
Repurchases of common stock	(7,510)	(1,012)
Excess tax benefit from stock-based compensation	(657)	(1,196)
Exercise of stock options, net and other	372	439
Net cash provided by (used in) financing activities	<u>27,116</u>	<u>(124,268)</u>

Effect of exchange rate changes on cash and cash equivalents	304	(424)
Net increase in cash and cash equivalents	<u>103,038</u>	<u>23,104</u>
Cash and cash equivalents:		
Balance, beginning of year	<u>546,465</u>	<u>391,085</u>
Balance, end of period	<u>\$ 649,503</u>	<u>\$ 414,189</u>

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

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

**Note 1 – Basis of Presentation and Recent Accounting Standards**

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

The accompanying condensed consolidated financial statements have been prepared in conformity with U.S. generally accepted accounting principles and are consistent in all material respects with those applied in our 2011 Annual Report on Form 10-K ("2011 Form 10-K"). The preparation of these financial statements requires us to make estimates and judgments that affect the amounts reported in the financial statements and the related disclosures. Actual results may differ from our estimates. Management has reflected all adjustments (which were normal recurring adjustments unless otherwise disclosed herein) that it believes are necessary for a fair presentation of the condensed consolidated balance sheets, statements of operations and comprehensive income, and cash flows, as applicable. The operating results for the three- and six-month periods ended June 30, 2012 are not necessarily indicative of the results that may be expected for the year ending December 31, 2012. Our balance sheet as of December 31, 2011 included herein has been derived from the audited balance sheet as of December 31, 2011 included in our 2011 Form 10-K. These unaudited condensed consolidated financial statements should be read in conjunction with the annual audited consolidated financial statements and notes thereto included in our 2011 Form 10-K.

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

In June 2011, the Financial Accounting Standards Board ("FASB") issued amendments to disclosure requirements for presentation of comprehensive income. This guidance, effective retrospectively for the interim and annual periods beginning on or after December 15, 2011, requires presentation of total comprehensive income, the components of net income, and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. In December 2011, the FASB issued an amendment that deferred the presentation of reclassification adjustments for each component of accumulated other comprehensive income in both net income and other comprehensive income on the face of the financial statements. The implementation of the amended accounting guidance did not have a material impact on our consolidated financial position or results of operations.

**Note 2 – Company Overview**

We are an international offshore energy company that provides specialty services to the offshore energy industry, with a focus on our growing well intervention and robotics businesses. We also own an oil and gas business that is a prospect generation, exploration, development and production company. We utilize cash flow generated from our oil and gas production to support expansion of our well intervention and robotics businesses. Our Contracting Services are located primarily in the Gulf of Mexico, North Sea, Asia Pacific, and West Africa regions. Our oil and gas operations are located in the Gulf of Mexico.

## Contracting Services Operations

We seek to provide services and methodologies which we believe are critical to developing offshore reservoirs and maximizing production economics. Our "life of field" services are segregated into four disciplines: well operations, robotics, subsea construction and production facilities. We have disaggregated our contracting services operations into two reportable segments: Contracting Services and Production Facilities. Our Contracting Services business includes the well operations, robotics and subsea construction activities. Our Production Facilities business includes our equity investments in Deepwater Gateway, L.L.C. ("Deepwater Gateway") and Independence Hub, LLC ("Independence Hub"), as well as our majority ownership of the *Helix Producer I* ("HP I") vessel. It also includes the Helix Fast Response System ("HFRS"), which includes access to our *Q4000* and *HP I* vessels. In 2011, we signed an agreement with Clean Gulf Associates ("CGA"), a non-profit industry group, allowing, in exchange for a retainer fee, the HFRS to be named as a response resource in permit applications to federal and state agencies, and making the HFRS available for a two-year term to certain CGA participants who have executed utilization agreements with us. In addition to the agreement with CGA, we currently have signed separate utilization agreements with 24 CGA participant member companies specifying the day rates to be charged should the HFRS be deployed in connection with a well control incident. The retainer fee for the HFRS became effective April 1, 2011.

## Oil and Gas Operations

We began our oil and gas operations to achieve incremental returns, to expand our off-season utilization of our contracting services assets, and to provide a more efficient solution to offshore abandonment. We have evolved this business model to include not only mature oil and gas properties but also unproved and proved reserves yet to be explored and developed.

## Note 3 – Details of Certain Accounts

Other current assets consisted of the following as of June 30, 2012 and December 31, 2011:

	<b>June 30, 2012</b>	<b>December 31, 2011</b>
	<b>(in thousands)</b>	
Other receivables	\$ 2,120	\$ 5,096
Prepaid insurance	11,247	12,701
Other prepaids	15,937	13,271
Spare parts inventory	15,697	18,066
Current deferred tax assets	36,504	41,449
Hedging assets	25,696	21,579
Gas and oil imbalance	4,367	5,134
Other	6,411	4,325
<b>Total other current assets</b>	<b>\$ 117,979</b>	<b>\$ 121,621</b>

Other assets, net, consisted of the following as of June 30, 2012 and December 31, 2011:

	<b>June 30, 2012</b>	<b>December 31, 2011</b>
	<b>(in thousands)</b>	
Restricted cash	\$ 31,081	\$ 33,741
Deferred dry dock expenses, net	20,341 <sup>(1)</sup>	5,381
Deferred financing costs, net	26,528	26,483
Intangible assets with finite lives, net	483	531
Other	8,353	2,771

Total other assets, net

\$ 86,786    \$ 68,907

- (1) The increase subsequent to December 31, 2011 primarily reflects the costs associated with the completed regulatory dry docks for the *Q4000* and *Seawell* in the first half of 2012.

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Accrued liabilities consisted of the following as of June 30, 2012 and December 31, 2011:

	<b>June 30, 2012</b>	<b>December 31, 2011</b>
	<b>(in thousands)</b>	
Accrued payroll and related benefits	\$ 44,642	\$ 49,599
Royalties payable	11,943	19,391
Current asset retirement obligations	69,630	93,183
Unearned revenue	7,649	7,654
Billing in excess of cost	2,994	28,839
Accrued interest	17,509	24,028
Hedging liability	5,685	1,247
Gas and oil imbalance	3,609	4,177
Other	13,564	11,845
Total accrued liabilities	<u>\$ 177,225</u>	<u>\$ 239,963</u>

#### Note 4 – Oil and Gas Properties

We follow the successful efforts method of accounting for our interests in oil and gas properties. Under the successful efforts method, the costs of successful wells and leases containing productive reserves are capitalized. Costs incurred to drill and equip development wells, including unsuccessful development wells, are capitalized. Costs incurred relating to unsuccessful exploratory wells are charged to expense in the period in which the drilling is determined to be unsuccessful.

##### *Exploration and Other*

As of June 30, 2012, we capitalized approximately \$32.8 million of costs associated with ongoing exploration and/or appraisal activities, including \$26.9 million associated with our Danny II exploratory well at Garden Banks Block 506 (see below). Such capitalized costs may be charged against earnings in future periods if management determines that commercial quantities of hydrocarbons have not been discovered or that future appraisal drilling or development activities are not likely to occur.

The following table details the components of exploration expense for the three- and six-month periods ended June 30, 2012 and 2011:

	<b>Three Months Ended June 30,</b>		<b>Six Months Ended June 30,</b>	
	<b>2012</b>	<b>2011</b>	<b>2012</b>	<b>2011</b>
Delay rental and geological and geophysical costs	\$ 1,146	\$ 1,299	\$ 1,757	\$ 1,654
Impairment of unproved properties <sup>(1)</sup>	—	6,640	144	6,640
Dry hole expense	(54)	—	(55)	(9)
Total exploration expense	<u>\$ 1,092</u>	<u>\$ 7,939</u>	<u>\$ 1,846</u>	<u>\$ 8,285</u>

(1) The amount recorded in the second quarter of 2011 reflects costs associated with a deepwater lease in which the term expired.

##### *Danny II*

We hold a 50% interest in the Danny II prospect at Garden Banks Block 506. The Danny II exploration well was drilled to a total depth of approximately 14,750 feet, in water depths of approximately 2,800 feet. Based on preliminary data, the well has encountered hydrocarbon pay and is expected to be predominately an oil producer. The well is currently being completed and is expected to

be developed via a subsea tie back system to our 70% owned and operated East Cameron Block 381 platform.



## Impairments

We did not record any oil and gas property impairments during the three-month period ended June 30, 2012. We recorded impairment charges totaling \$11.6 million associated with five of our Gulf of Mexico oil and gas properties during the three-month period ended June 30, 2011. There were no proved property impairments in the first quarter of 2012 or 2011.

## Asset retirement obligations

The following table describes the changes in our asset retirement obligations (both current and long-term) since December 31, 2011 (in thousands):

Asset retirement obligations at December 31, 2011	\$ 254,391
Liability incurred during the period	115
Liability settled during the period	(80,166)
Other revisions in estimated cash flows <sup>(1)</sup>	23,671
Accretion expense (included in depreciation and amortization)	6,854
Asset retirement obligations at June 30, 2012	<u>\$ 204,865</u>

- (1) The increased amount of these liabilities includes revisions to both non-producing and producing oil and gas properties. Increases to liabilities associated with non-producing properties include a corresponding cost of sales expense charge within our consolidated condensed statements of operations and comprehensive income while changes in estimates for producing properties are recorded as an increase to the related oil and gas properties property and equipment carrying costs included within our consolidated condensed balance sheet.

In the second quarter of 2012, we recorded an expense charge of \$6.9 million related to our only non-domestic oil and gas property, which is located in the North Sea. The charge reflects the increase in our estimated costs to complete our abandonment activities at this non-producing field. These activities are ongoing and are scheduled to be completed in the third quarter of 2012. In the second quarter of 2011, we recorded \$11.1 million of expense charges to increase our asset retirement obligations related to five non-producing fields, including \$4.1 million related to our oil and gas property located in the North Sea.

## Insurance

On June 30, 2012, we obtained a hurricane catastrophic bond for the period from July 1, 2012 to June 30, 2013 and made a payment of \$10.6 million. We will charge approximately \$8.4 million of this payment to insurance expense in the third quarter of 2012 and \$2.0 million in the fourth quarter of 2012 based upon the bond's contractual intrinsic value at the end of each of those quarterly periods.

## Note 5 – Statement of Cash Flow Information

We define cash and cash equivalents as cash and all highly liquid financial instruments with original maturities of less than three months. We had restricted cash totaling \$31.1 million at June 30, 2012 and \$33.7 million at December 31, 2011, all of which consisted of funds required to be escrowed to cover the future asset retirement obligations associated with our South Marsh Island Block 130 field. We have fully satisfied the escrow requirements under the escrow agreement and may use the restricted cash for future asset retirement costs of the field. We have used a small portion of these escrowed funds to pay for the initial reclamation activities at the South Marsh Island Block 130 field. Reclamation activities at the field will occur over many years and will be funded with these escrowed amounts. These amounts are reflected in "Other assets, net" in the accompanying condensed consolidated balance sheets.

The following table provides supplemental cash flow information for the six-month periods ended June 30, 2012 and 2011 (in thousands):

	<b>Six Months Ended June 30,</b>	
	<b>2012</b>	<b>2011</b>
Interest paid, net of capitalized interest	\$ 39,259	\$ 40,220
Income taxes paid	\$ 23,054	\$ 7,236

Non-cash investing activities for the six-month periods ended June 30, 2012 and 2011 included \$37.8 million and \$33.7 million, respectively, of accruals for capital expenditures. The accruals have been reflected in the accompanying condensed consolidated balance sheets as an increase in property and equipment and accounts payable.

## **Note 6 – Equity Investments**

As of June 30, 2012, we had two investments that we account for using the equity method of accounting: Deepwater Gateway and Independence Hub, both of which are included in our Production Facilities segment.

*Deepwater Gateway, L.L.C.* In June 2002, we, along with Enterprise Products Partners L.P. ("Enterprise"), formed Deepwater Gateway, each with a 50% interest, to design, construct, install, own and operate a tension leg platform production hub primarily for Anadarko Petroleum Corporation's *Marco Polo* field in the Deepwater Gulf of Mexico. Our investment in Deepwater Gateway totaled \$95.0 million and \$96.0 million as of June 30, 2012 and December 31, 2011, respectively (including capitalized interest of \$1.4 million at June 30, 2012 and December 31, 2011). Our net distributions from Deepwater Gateway totaled \$1.3 million and \$3.4 million for the three- and six-month periods ended June 30, 2012, respectively.

*Independence Hub, LLC.* In December 2004, we acquired a 20% interest in Independence Hub, an affiliate of Enterprise. Independence Hub owns the "Independence Hub" platform located in Mississippi Canyon Block 920 in a water depth of 8,000 feet. First production through the facility commenced in July 2007. Our investment in Independence Hub was \$78.5 million and \$79.7 million as of June 30, 2012 and December 31, 2011, respectively (including capitalized interest of \$4.7 million and \$4.9 million at June 30, 2012 and December 31, 2011, respectively). Our net distributions from Independence Hub totaled \$0.6 million and \$4.8 million in the three- and six-month periods ended June 30, 2012, respectively.

As disclosed in our 2011 Form 10-K, we invested in an Australian joint venture that engaged in well intervention operations in the Southeast Asia region. At December 31, 2011, we fully impaired our investment in that joint venture (Note 7 of 2011 Form 10-K). In the first quarter of 2012, we recorded additional losses totaling \$3.8 million related to our continued participation in the joint venture, including a \$3.0 million negotiated exit fee. In April 2012, we paid this fee and exited the joint venture. In connection with our exit, we were entitled to 50% of certain of the net assets on hand at the time of our departure. We received approximately \$3.7 million of proceeds for our pro rata portion of certain of the joint venture's net assets, which was recorded as income in "Equity in earnings of investments" during the second quarter of 2012. We are no longer a participant in this Australian joint venture.

## Note 7 – Long-Term Debt

Scheduled maturities of long-term debt outstanding as of June 30, 2012 were as follows (in thousands):

	<u>Term Loan <sup>(1)</sup></u>	<u>Revolving Credit Facility</u>	<u>Senior Unsecured Notes</u>	<u>2025 Notes <sup>(2)</sup></u>	<u>MARAD Debt</u>	<u>2032 Notes <sup>(3)</sup></u>	<u>Total</u>
Less than one year	\$ 8,000	\$ —	\$ —	\$ —	\$ 4,997	\$ —	\$ 12,997
One to two years	8,000	—	—	—	5,247	—	13,247
Two to three years	8,000	—	—	—	5,508	—	13,508
Three to four years	353,000	100,000	274,960	—	5,783	—	733,743
Four to five years	—	—	—	—	6,072	—	6,072
Over five years	—	—	—	157,830	80,150	200,000	437,980
Total debt	<u>377,000</u>	<u>100,000</u>	<u>274,960</u>	<u>157,830</u>	<u>107,757</u>	<u>200,000</u>	<u>1,217,547</u>
Current maturities	<u>(8,000)</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>(4,997)</u>	<u>—</u>	<u>(12,997)</u>
Long-term debt, less current maturities	\$ 369,000	\$ 100,000	\$ 274,960	\$ 157,830	\$ 102,760	\$ 200,000	\$1,204,550
Unamortized debt discount <sup>(4)</sup>	<u>—</u>	<u>—</u>	<u>—</u>	<u>(2,482)</u>	<u>—</u>	<u>(34,160)</u>	<u>(36,642)</u>
Long-term debt	<u>\$ 369,000</u>	<u>\$ 100,000</u>	<u>\$ 274,960</u>	<u>\$ 155,348</u>	<u>\$ 102,760</u>	<u>\$ 165,840</u>	<u>\$1,167,908</u>

(1) Amounts reflect both our Term Loan and Term Loan A.

(2) Beginning in December 2012, the holders of these Convertible Senior Notes may require us to repurchase these notes or we may at our own option elect to repurchase notes. These notes will mature in March 2025.

(3) Beginning in March 2018, the holders of these Convertible Senior Notes may require us to repurchase these notes or we may at our own option elect to repurchase the notes. These notes will mature in March 2032.

(4) The notes will increase to their principal amount through accretion of non-cash interest charges through December 2012 for the Convertible Senior Notes due 2025 and March 2018 for the Convertible Senior Notes due 2032.

Included below is a summary of certain components of our indebtedness. For additional information regarding our debt, see Note 9 of our 2011 Form 10-K.

### Senior Unsecured Notes

In December 2007, we issued \$550 million of 9.5% Senior Unsecured Notes due 2016 (“Senior Unsecured Notes”). Interest on the Senior Unsecured Notes is payable semiannually in arrears on each January 15 and July 15, commencing July 15, 2008. The Senior Unsecured Notes are fully and

unconditionally guaranteed by substantially all of our existing restricted domestic subsidiaries, except for Cal Dive I-Title XI, Inc. In addition, any future restricted domestic subsidiaries that guarantee any of our indebtedness and/or our restricted subsidiaries' indebtedness are required to guarantee the Senior Unsecured Notes. Our foreign subsidiaries are not guarantors. At December 31, 2011, we had \$475.0 million of Senior Unsecured Notes outstanding. Prior to stated maturity, after January 15, 2012, we may redeem all or a portion of the Senior Unsecured Notes, on no less than 30 days' and no more than 60 days' prior notice at the redemption prices (expressed as percentages of the principal amount) set forth below, plus accrued and unpaid interest, in any, thereon to the applicable redemption date.

<b>Year</b>	<b>Redemption Price</b>
2012	104.750%
2013	102.375%
2014 and thereafter	100.000%

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In March 2012, we purchased a portion of these Senior Unsecured Notes that resulted in an early extinguishment of \$200.0 million of our balance outstanding. In these transactions we paid an aggregate amount of \$213.5 million, including \$200.0 million in principal, a \$9.5 million premium for the repurchased Senior Unsecured Notes and \$4.0 million of accrued interest. We also recorded a \$2.0 million charge to accelerate a pro rata portion of the deferred financing costs associated with the original issuance of the Senior Unsecured Notes. The loss on the early extinguishment of these related Senior Unsecured Notes totaled \$11.5 million and is reflected as a component of "Loss on early extinguishment of long-term debt" in the accompanying condensed consolidated statements of operations and comprehensive income.

### *Credit Agreement*

In July 2006, we entered into a credit agreement (the "Credit Agreement") under which we borrowed \$835 million in a term loan (the "Term Loan") and were able to borrow up to \$300 million (the "Revolving Loans") under a revolving credit facility (the "Revolving Credit Facility"). The Credit Agreement has been amended six times, most recently in February 2012, to address certain issues with regard to covenants, maturity and the borrowing limits under the Term Loans and the Revolving Credit Facility. For additional information regarding the current terms of our credit facility, see Note 9 of our 2011 Form 10-K.

On February 21, 2012, we entered into an amendment to our Credit Agreement. Under the terms of the amendment the participating lenders agree to loan us \$100.0 million pursuant to an additional term loan (the "Term Loan A"). The terms of Term Loan A are the same as those governing the Revolving Credit Facility, with the Term Loan A requiring a \$5 million annual payment of its principal balance. The Term Loan A was funded in late March 2012 and we used the borrowings under the Term Loan A to repurchase a portion of our Senior Unsecured Notes.

The Term Loan currently bears interest at the one-, two-, three- or six-month LIBOR or on Base Rates at our current election plus an applicable margin between 2.25% and 3.5% depending on our consolidated leverage ratio. Our average interest rate on the Term Loan for the six-month periods ended June 30, 2012 and 2011 was approximately 3.8% and 3.2%, respectively, including the effects of our interest rate swaps (Note 16). Our Term Loan is currently scheduled to mature on July 1, 2015 but could be extended to July 1, 2016 if our Senior Unsecured Notes are fully repaid or refinanced by July 1, 2015.

As amended, our Revolving Credit Facility provides for \$600 million in borrowing capacity. The full amount of the Revolving Credit Facility may be used for issuances of letters of credit. In late March 2012, we borrowed \$100.0 million under our Revolving Credit Facility to repurchase a portion of our Senior Unsecured Notes. Accordingly, at June 30, 2012, we had \$100.0 million drawn on the Revolving Credit Facility and our availability under the Revolving Credit Facility totaled \$453.7 million, net of \$46.3 million of letters of credit issued. There were no borrowings outstanding at December 31, 2011.

The Revolving Loans bear interest based on one-, two-, three- or six-month LIBOR rates or on Base Rates at our current election, plus an applicable margin. The margin ranges from 1.5% to 3.5%, depending on our consolidated leverage ratio. The average interest rate under the Revolving Credit Facility totaled 3.0% for the period in which we had borrowings outstanding during the six-month period ended June 30, 2012.

The Credit Agreement contains various covenants regarding, among other things, collateral, capital expenditures, investments, dispositions, indebtedness and financial performance that are customary for this type of financing and for companies in our industry.

As the rates for our Term Loan are subject to market influences and will vary over the term of the Credit Agreement, we may enter into various cash flow hedging interest rate swaps to stabilize cash flows relating to a portion of our interest payments for our Term Loan. In January 2010, we entered into \$200 million, two-year interest rate swaps to stabilize cash flows relating to a portion of our interest

payments on our Term Loan, which extended to January 2012. In August 2011, we entered into additional two-year interest rate swap contracts to assist in stabilizing cash flows related to our interest payments from January 2012 through January 2014 (Note 16).

## *Convertible Senior Notes*

In March 2005, we issued \$300 million of our 3.25% Convertible Senior Notes at 100% of the principal amount to certain qualified institutional buyers (the “2025 Notes”). The 2025 Notes are convertible into cash and, if applicable, shares of our common stock based on the specified conversion rate, subject to adjustment.

The 2025 Notes can be converted prior to the stated maturity (March 2025) under certain triggering events specified in the indenture governing the 2025 Notes. No conversion triggers were met during the six-month periods ended June 30, 2012 and 2011. The first dates for early redemption of the 2025 Notes are in December 2012, with the holders of the 2025 Notes being able to put them to us on December 15, 2012 and our being able to call the 2025 Notes at any time after December 20, 2012 (see Note 9 of our 2011 Form 10-K). To the extent we do not have long-term financing secured to cover such conversion and/or redemption, the 2025 Notes would be classified as a current liability in the accompanying consolidated balance sheet. As the holders have the option to require us to redeem the 2025 Notes on December 15, 2012, we assessed whether or not this indebtedness was required to be classified as a current liability at June 30, 2012 and concluded that it still qualified as a long-term debt because a) we possess enough borrowing capacity under our Revolving Credit Facility (see “Credit Agreement” above) to settle the notes in full and b) it is our intent to utilize our Revolving Credit Facility borrowings or other alternative financing proceeds to settle the remaining balance of our 2025 Notes, if and when the holders exercise their redemption option.

The remaining balance of our 2025 Notes was \$157.8 million at June 30, 2012. In association with the issuance of additional Convertible Senior Notes (see “2032 Notes” below), we repurchased \$142.2 million in aggregate principal of our 2025 Notes. In these repurchase transactions we paid an aggregate amount of \$145.1 million, representing principal plus \$1.8 million of premium and \$1.1 million of accrued interest on these repurchased 2025 Notes. The loss on the early extinguishment of these related 2025 Notes totaled \$5.6 million and is reflected as a component of “Loss on early extinguishment of long-term debt” in the accompanying condensed consolidated statements of operations and comprehensive income. The loss on early extinguishment includes the acceleration of \$3.5 million of related unamortized discounts associated with the 2025 Notes, the \$1.8 million premium paid in connection with the repurchase of a portion of the 2025 Notes and a \$0.3 million charge to accelerate a pro rata portion of the deferred financing costs associated with the original issuance of these 2025 Notes.

The effective interest rate for the 2025 Notes is 6.6% after considering the effect of the accretion of the related debt discount that represented the equity component of the Convertible Notes at their inception.

Our average share price was below the \$32.14 per share conversion price for all of the periods presented in this Quarterly Report on Form 10-Q. As a result, there are no shares included in our diluted earnings per share calculation associated with the assumed conversion of our 2025 Notes. In the event our average share price exceeds the conversion price, there would be a premium, payable in shares of common stock, in addition to the principal amount, which is paid in cash, and such shares would be issued upon conversion.

## *2032 Notes*

In March 2012, we completed the public offering and sale of \$200.0 million in aggregate principal amount of 3.25% Convertible Senior Notes due 2032 (the “2032 Notes”). The net proceeds from the issuance of the 2032 Notes were \$195.0 million, after deducting the underwriter’s discounts and commissions and estimated offering expenses. We used the net proceeds to repurchase and retire \$142.2 million of aggregate principal amount of our 2025 Notes (see above), in separate, privately negotiated transactions, and intend to use the remaining net proceeds for other general corporate purposes, including the repayment of other indebtedness.

The registered 2032 Notes bear interest at a rate of 3.25% per annum, payable semi-annually in arrears on March 15 and September 15 of each year, beginning on September 15, 2012. The 2032 Notes will mature on March 15, 2032, unless earlier converted, redeemed or repurchased by us. The 2032 Notes are convertible in certain circumstances and during certain periods at an initial conversion rate of 39.9752 shares of common stock per \$1,000 principal amount of the 2032 Notes (which represents an initial conversion price of approximately \$25.02 per share of common stock), subject to adjustment in certain circumstances as set forth in the indenture governing the 2032 Notes. The initial conversion price



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represents a conversion premium of 35.0% over the closing price of our common stock on March 6, 2012 of \$18.53 per share.

Prior to March 20, 2018, the 2032 Notes will not be redeemable. On or after March 20, 2018, we may, at our option, redeem some or all of the 2032 Notes in cash, at any time, upon at least 30 days' notice at a price equal to 100% of the principal amount of the 2032 Notes to be redeemed plus accrued and unpaid interest (including contingent interest, if any) up to but excluding the redemption date. Holders may require us to purchase in cash some or all of their 2032 Notes at a repurchase price equal to 100% of the principal amount of the 2032 Notes, plus accrued and unpaid interest (including contingent interest, if any) up to but excluding the applicable repurchase date, on March 15, 2018, March 15, 2022 and March 15, 2027, or, subject to specified exceptions, at any time prior to the 2032 Notes' maturity following a fundamental change.

In connection with the issuance of our 2032 Notes, we recorded a discount of \$35.4 million as required under existing accounting requirements. To arrive at this discount amount, we estimated the fair value of the liability component of the 2032 Notes as of the date of their issuance (March 12, 2012) using an income approach. To determine this estimated fair value, we used borrowing rates of similar market transactions involving comparable liabilities at the time of issuance and an expected life of 6.0 years. In selecting the expected life, we selected the earliest date that the holder could require us to repurchase all or a portion of the 2032 Notes (March 15, 2018). The effective interest rate for the 2032 Notes is 6.9% after considering the effect of the accretion of the related debt discount that represented the equity component of the 2032 Notes at their inception.

### *MARAD Debt*

This U.S. government guaranteed financing ("MARAD Debt") is pursuant to Title XI of the Merchant Marine Act of 1936 which is administered by the Maritime Administration, and was used to finance the construction of the *Q4000*. The MARAD Debt is payable in equal semi-annual installments beginning in August 2002 and matures 25 years from such date. The MARAD Debt is collateralized by the *Q4000*, with us guaranteeing 50% of the debt, and initially bore interest at a floating rate which approximated AAA Commercial Paper yields plus 20 basis points. As provided for in the MARAD Debt agreements, in September 2005, we fixed the interest rate on the debt through the issuance of a 4.93% fixed-rate note with the same maturity date (February 2027).

### *Other*

In accordance with our Credit Agreement, Senior Unsecured Notes, 2025 Notes, 2032 Notes and MARAD Debt agreements, we are required to comply with certain covenants, including the maintenance of minimum net worth, working capital and debt-to-equity requirements, and restrictions that limit our ability to incur certain types of additional indebtedness. As of June 30, 2012, we were in compliance with these covenants and restrictions.

Deferred financing costs of \$26.5 million and \$26.5 million are included in other assets, net as of June 30, 2012 and December 31, 2011, respectively, and are being amortized over the life of the respective financing agreements.

At June 30, 2012, our unsecured letters of credit totaled approximately \$46.3 million (see "Credit Agreement" above). These letters of credit primarily guarantee asset retirement obligations as well as various contract bidding, contractual performance, insurance activities and shipyard commitments. The following table details our interest expense and capitalized interest for the three- and six-month periods ended June 30, 2012 and 2011:

Three Months Ended		Six Months Ended	
June 30,		June 30,	
2012	2011	2012	2011

(in thousands)

Interest expense	\$ 19,947	\$ 26,029	\$ 42,756	\$ 50,796
Interest income	(322)	(499)	(892)	(975)
Capitalized interest	(998)	(252)	(1,477)	(307)
Interest expense, net	<u>\$ 18,627</u>	<u>\$ 25,278</u>	<u>\$ 40,387</u>	<u>\$ 49,514</u>

## Note 8 – Income Taxes

The effective tax rates for the three- and six-month periods ended June 30, 2012 were 28.9% and 29.0%, respectively. The effective tax rates for the three- and six-month periods ended June 30, 2011 were 27.7% and 27.2%, respectively. The variance is primarily attributable to increased profitability in certain foreign jurisdictions with higher income tax rates.

We believe our recorded assets and liabilities are reasonable; however, tax laws and regulations are subject to interpretation and tax litigation is inherently uncertain, and therefore our assessments can involve a series of complex judgments about future events and rely heavily on estimates and assumptions.

## Note 9 – Comprehensive Income and Accumulated Other Comprehensive Loss

The components of total comprehensive income for the three- and six-month periods ended June 30, 2012 and 2011 were as follows (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
Net income, including noncontrolling interests	\$ 45,440	\$ 42,109	\$ 111,966	\$ 68,744
Other comprehensive income, net of tax				
Foreign currency translation gain (loss)	(2,838)	(1,416)	1,314	699
Unrealized gain (loss) on hedges, net	12,680	20,970	(1,122)	10,403
Other comprehensive income	9,842	19,554	192	11,102
Total comprehensive income	55,282	61,663	112,158	79,846
Less comprehensive income applicable to noncontrolling interests	(789)	(786)	(1,578)	(1,554)
Total comprehensive income applicable to Helix	54,493	60,877	110,580	78,292
Preferred stock dividends	(10)	(10)	(20)	(20)
Total comprehensive income applicable to Helix common shareholders	\$ 54,483	\$ 60,867	\$ 110,560	\$ 78,272

The components of accumulated other comprehensive loss were as follows (in thousands):

	June 30, 2012	December 31, 2011
Cumulative foreign currency translation adjustment	\$ (21,644)	\$ (22,958)
Unrealized gain on hedges, net	11,819	12,941
Accumulated other comprehensive loss	\$ (9,825)	\$ (10,017)

## Note 10 – Earnings Per Share

We have shares of restricted stock issued and outstanding, some of which remain subject to vesting requirements. Holders of such shares of unvested restricted stock are entitled to the same liquidation and dividend rights as the holders of our outstanding common stock and are thus considered participating securities. Under applicable accounting guidance, the undistributed earnings for each period are allocated based on the participation rights of both the common shareholders and holders of any participating securities as if earnings for the respective periods had been distributed. Because both the liquidation and dividend rights are identical, the undistributed earnings are allocated on a proportionate basis. Further, we are required to compute earnings per share (“EPS”) amounts under the two class method in periods in which we have earnings from continuing operations. For periods in

which we have a net loss we do not use the two class method as holders of our restricted shares are not contractually obligated to share in such losses.

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The presentation of basic EPS amounts on the face of the accompanying condensed consolidated statements of operations and comprehensive income is computed by dividing the net income applicable to Helix 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 and the income included in the numerator excludes the effects of the impact of dilutive common stock equivalents, if any. The computations of the numerator (Income) and denominator (Shares) to derive the basic and diluted EPS amounts presented on the face of the accompanying condensed consolidated statements of operations and comprehensive income are as follows (in thousands):

	<u>Three Months Ended June 30, 2012</u>		<u>Three Months Ended June 30, 2011</u>	
	<u>Income</u>	<u>Shares</u>	<u>Income</u>	<u>Shares</u>
<b>Basic:</b>				
Net income applicable to Helix common shareholders	\$ 44,641		\$ 41,313	
Less: Undistributed net income allocable to participating securities	(449)		(514)	
Net income applicable to Helix common shareholders	<u>\$ 44,192</u>	<u>104,563</u>	<u>\$ 40,799</u>	<u>104,673</u>

	<u>Three Months Ended June 30, 2012</u>		<u>Three Months Ended June 30, 2011</u>	
	<u>Income</u>	<u>Shares</u>	<u>Income</u>	<u>Shares</u>
<b>Diluted:</b>				
Net income per common share - Basic	\$ 44,192	104,563	\$ 40,799	104,673
Effect of dilutive securities:				
Stock options	—	118	—	106
Undistributed earnings reallocated to participating securities	2	—	3	—
2025 Notes and 2032 Notes	—	—	—	—
Convertible preferred stock	10	361	10	361
Net income per common share - Diluted	<u>\$ 44,204</u>	<u>105,042</u>	<u>\$ 40,812</u>	<u>105,140</u>

	<u>Six Months Ended June 30, 2012</u>		<u>Six Months Ended June 30, 2011</u>	
	<u>Income</u>	<u>Shares</u>	<u>Income</u>	<u>Shares</u>
<b>Basic:</b>				
Net income applicable to Helix common shareholders	\$ 110,368		\$ 67,170	
Less: Undistributed net income allocable to participating securities	(1,111)		(850)	
Net income applicable to Helix common shareholders	<u>\$ 109,257</u>	<u>104,547</u>	<u>\$ 66,320</u>	<u>104,573</u>

	<u>Six Months Ended June 30, 2012</u>		<u>Six Months Ended June 30, 2011</u>	
	<u>Income</u>	<u>Shares</u>	<u>Income</u>	<u>Shares</u>
<b>Diluted:</b>				
Net income per common share - Basic	\$ 109,257	104,547	\$ 66,320	104,573
Effect of dilutive securities:				
Stock options	—	104	—	90

Undistributed earnings reallocated to participating securities	5	—	4	—
2025 Notes and 2032 Notes	—	—	—	—
Convertible preferred stock	20	361	20	361
Net income per common share - Diluted	<u>\$ 109,282</u>	<u>105,012</u>	<u>\$ 66,344</u>	<u>105,024</u>

There were no diluted shares associated with our 2025 Convertible Senior Notes as the conversion price of \$32.14 (and conversion trigger of \$38.57 per share) was not met in either of the three- or six-month periods ended June 30, 2012 and 2011. Also, no diluted shares were included for our 2032 Notes for the three- or six-month periods ended June 30, 2012 as the conversion price of \$25.02 (and conversion trigger of \$32.53 per share) was not met and we have the right to settle any such future conversions in cash at our sole discretion.

**Note 11 – Employee Benefit Plans**

We have two stock-based compensation plans: the 1995 Long-Term Incentive Plan, as amended (the “1995 Incentive Plan”) and the 2005 Long-Term Incentive Plan, as amended (the “2005 Incentive Plan”). At the Annual Meeting of Shareholders on May 9, 2012, the shareholders approved an amendment and restatement to the 2005 Incentive Plan to: (i) authorize 4.3 million additional shares for issuance pursuant to our equity incentive compensation strategy, (ii) authorize incentive stock options, stock appreciation rights, cash awards and performance awards to be made pursuant to the amended and restated 2005 Incentive Plan, and (iii) include performance criteria for awards that may be made contingent upon the achievement of one or more performance measures, as well as limits on individual awards, in accordance with the requirements for performance-based compensation under Section 162(m) of the Internal Revenue Code. As of June 30, 2012, there were 6.7 million shares available for issuance under the amended and restated 2005 Incentive Plan, which includes a maximum of 2.0 million shares that may be granted as incentive stock options. There were no stock option grants in the three- and six-month periods ended June 30, 2012 and 2011. During the six-month period ended June 30, 2012, the following grants of share-based awards (restricted shares, restricted stock units and performance share units (“PSUs”) were made to executive officers, selected management employees and non-employee members of the board of directors under the amended and restated 2005 incentive plan:

<u>Date of Grant</u>	<u>Shares</u>	<u>Grant Date Fair Value Per Share</u>	<u>Vesting Period</u>
January 3, 2012	272,153	\$ 15.80	33% per year over three years
January 3, 2012 <sup>(1)</sup>	132,910	23.68	100% on January 1, 2015
January 3, 2012	1,958	15.80	100% on January 1, 2014
April 1, 2012	1,879	17.80	100% on January 1, 2014

- (1) Reflects the grant of PSUs to certain of our executive officers. The estimated fair value of the PSUs on grant date was determined using a Monte Carlo simulation model. The PSUs provide for an award based on the performance of our common stock over a three-year period with the maximum award being 200% of the original awarded PSUs and the minimum amount being zero. The vested PSUs will be settled in an equivalent number of shares of our common stock unless the Compensation Committee of our Board of Directors elects to pay in cash. See Note 12 of 2011 Form 10-K.

Compensation cost is recognized over the respective vesting periods on a straight-line basis. For the three- and six-month periods ended June 30, 2012, \$1.8 million and \$3.7 million, respectively, were recognized as compensation expense related to share-based awards as compared with \$2.0 million and \$4.9 million during the three- and six-month periods ended June 30, 2011.

*Long-Term Incentive Compensation Plan*

In January 2009, we adopted the 2009 Long-Term Incentive Cash Plan (the “2009 LTI Plan”) to provide long-term cash-based compensation to eligible employees. Under the terms of the 2009 LTI Plan, the majority of the cash awards are fixed sum amounts payable (the vesting period is five years for awards granted before January 1, 2012 and three years thereafter). However, some of the cash awards are indexed to our common stock and the payment amount at each vesting date will fluctuate based on the common stock’s performance. This share-based component is considered a liability plan and as such is re-measured to fair value each reporting period with corresponding changes being recorded as a charge to earnings as deemed appropriate.

The total awards made under the 2009 LTI Plan totaled \$4.2 million in 2012 and \$5.2 million in 2011. Total compensation expense under the 2009 LTI plan totaled \$1.2 million and \$3.6 million for the

three- and six-month periods ended June 30, 2012, respectively. For the three- and six-month periods ended June 30, 2011, total compensation under the 2009 LTI Plan totaled \$1.6 million and \$4.6 million, respectively. The liability balance under the 2009 LTI Plan was \$8.0 million at June 30, 2012 and \$9.9 million at December 31, 2011, including \$7.3 million at June 30, 2012 and \$8.5 million at December 31, 2011 associated with the variable portion of the 2009 LTI plan.



## Employee Stock Purchase Plan

At the May 2012 Annual Meeting of Shareholders, the shareholders approved the Helix Energy Solutions Group, Inc. Employee Stock Purchase Plan (the "ESPP"). The ESPP has 1.5 million shares authorized for issuance. Eligible employees who participate in the ESPP may purchase shares of our common stock through payroll deductions on an after tax basis over a four-month period beginning on January 1, May 1, and September 1 of each year during the term of the ESPP. The first of such purchase periods begins on September 1, 2012. The purchase price for the stock will be 85% of the lesser of (1) its fair market value on the first trading day of the purchase period or (2) its fair market value on the last trading day of the purchase period. A participant may elect to make contributions each pay period in an amount not less than 1% of his or her compensation, subject to an annual limitation equal to 10% of his or her compensation or such other amount established by the Compensation Committee of our Board of Directors (which administers the ESPP). No participant, however, may purchase more than 10,000 shares of our common stock during any purchase period nor may a participant purchase shares during a calendar year in excess of the "maximum share limitation." The maximum share limitation is the number of shares of our common stock derived by dividing \$25,000 by the fair market value (equal to the closing price per share of our common stock on the New York Stock Exchange on the applicable date) of the common stock determined as of the first trading day of the purchase period.

For more information regarding our employee benefit plans, including our stock-based compensation plans and our 2009 LTI Plan, see Note 12 of our 2011 Form 10-K.

## Note 12 – Business Segment Information

Our operations are conducted through the following lines of business: contracting services and oil and gas. We have disaggregated our contracting services operations into two reportable segments. As a result, our reportable segments consist of the following: Contracting Services, Production Facilities and Oil and Gas. Contracting Services operations include well operations, robotics and subsea construction. The Production Facilities segment includes our consolidated investment in the *HP I* and Kommandor LLC as well as our equity investments in Deepwater Gateway and Independence Hub that are accounted for under the equity method of accounting.

We evaluate our performance based on income before income taxes of each segment. All material intercompany transactions between the segments have been eliminated.

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2012	2011	2012	2011
	(in thousands)			
Revenues –				
Contracting Services	\$ 209,557	\$ 171,353	\$ 454,101	\$ 302,890
Production Facilities	19,963	20,545	39,985	36,115
Oil and Gas	149,933	172,458	328,018	341,317
Intercompany elimination	(32,059)	(26,037)	(66,783)	(50,396)
Total	<u>\$ 347,394</u>	<u>\$ 338,319</u>	<u>\$ 755,321</u>	<u>\$ 629,926</u>
Income (loss) from operations –				
Contracting Services	\$ 19,223	\$ 30,565	\$ 78,347	\$ 33,831
Production Facilities	9,882	11,920	19,931	17,876
Oil and Gas	60,442	43,064	137,384	96,304
Corporate	(11,158)	(9,112)	(22,056)	(19,553)
Intercompany elimination	98	(19)	(2,922)	71
Total	<u>\$ 78,487</u>	<u>\$ 76,418</u>	<u>\$ 210,684</u>	<u>\$ 128,529</u>

Equity in earnings of equity investments

\$ 5,748

\$ 5,887

\$ 6,155

\$ 11,537

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Intercompany segment revenues during the three- and six-month periods ended June 30, 2012 and 2011 were as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
	(in thousands)			
Contracting Services	20,538	14,295	43,739	27,164
Production Facilities	11,521	11,742	23,044	23,232
<b>Total</b>	<b>\$ 32,059</b>	<b>\$ 26,037</b>	<b>\$ 66,783</b>	<b>\$ 50,396</b>

Intercompany segment profits (losses) during the three- and six-month periods ended June 30, 2012 and 2011 were as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
	(in thousands)			
Contracting Services	(55)	63	3,009	39
Production Facilities	(43)	(44)	(87)	(110)
<b>Total</b>	<b>\$ (98)</b>	<b>\$ 19</b>	<b>\$ 2,922</b>	<b>\$ (71)</b>

Segment assets are comprised of all assets attributable to the reportable segment. The following table reflects total assets by reportable segment as of June 30, 2012 and December 31, 2011:

	June 30, 2012	December 31, 2011
	(in thousands)	
Contracting Services	\$2,176,796	\$ 2,006,065
Production Facilities	534,714	534,776
Oil and Gas	977,295	1,041,506
<b>Total</b>	<b>\$3,688,805</b>	<b>\$ 3,582,347</b>

**Note 13 – Related Party Transactions**

In April 2000, we acquired a 20% working interest in Gunnison, a deepwater Gulf of Mexico prospect, from a third party. Financing for the exploratory costs of approximately \$20 million was provided by an investment partnership (“OKCD”), the investors of which include current and former Helix senior management, in exchange for a revenue interest that is an overriding royalty interest of 25% of Helix’s 20% working interest. Production began in December 2003. Our payments to OKCD totaled \$2.2 million and \$3.9 million for the three- and six-month periods ended June 30, 2012, respectively, and \$2.7 million and \$5.1 million for the three- and six-month periods ended June 30, 2011, respectively. Our Chief Executive Officer, Owen Kratz, through Class A limited partnership interests in OKCD, personally owns approximately 81% of the partnership. In 2000, OKCD also awarded Class B income participations to key Helix employees who are required to maintain their employment status with Helix in order to retain such income participations.

## Note 14 – Commitments and Contingencies and Other Matters

### *Commitments*

#### Expansion of Well Intervention Fleet

In March 2012, we executed a shipyard contract for the construction of a newbuild semisubmersible well intervention vessel. This \$386.5 million shipyard contract represents the majority of the expected costs associated with the construction of this new semisubmersible well intervention vessel. We made the first scheduled payment under the contract in the amount of \$57.8 million on March 12, 2012. Under terms of this contract, the payments will be made in fixed amounts on contractually scheduled dates. The next \$58.0 million payment is scheduled to be made in December 2012.

On July 23, 2012, we entered into a definitive agreement to acquire the *Discoverer 534* drillship from a subsidiary of Transocean Ltd. for \$85 million. The transaction is expected to close in August 2012. We will then convert the drillship into a well intervention vessel in Singapore.

### *Contingencies and Claims*

We were subcontracted to perform development work for a large gas field offshore India. Work commenced in the fourth quarter of 2007 and we completed our scope of work in the third quarter of 2009. To date we have collected approximately \$303 million related to this project with an amount of trade receivables yet to be collected. We have requested arbitration in India pursuant to the terms of the subcontract to pursue our claims and the prime contractor has also requested arbitration and has asserted certain counterclaims against us. If we are not successful in resolving these matters through ongoing discussions with the prime contractor, then arbitration in India remains a potential remedy. Based on number of factors associated with the ongoing negotiations with the prime contractor, in 2010 we established an allowance against our trade receivable balance that reduces its balance to an amount we believe is ultimately realizable (see Notes 16 and 18 of our 2011 Form 10-K). However, at the time of this filing no final commercial resolution of this matter has been reached.

We have received value added tax (VAT) assessments from the State of Andhra Pradesh, India (the "State") in the amount of approximately \$28 million for the tax years 2007, 2008, 2009 and 2010 related to a subsea construction and diving contract we entered into in December 2006 in India. The State claims we owe unpaid taxes related to products consumed by us during the period of the contract. We are of the opinion that the State has arbitrarily assessed this VAT tax and has no foundation for the assessment and believe that we have complied with all rules and regulations as related to VAT in the State. We also believe that our position is supported by law and intend to vigorously defend our position. However, the ultimate outcome of this assessment and our potential liability from it, if any, cannot be determined at this time. If the current assessment is upheld, it may have a material negative effect on our consolidated results of operations while also impacting our financial position.

### *Contracting Services Impairment*

As our subsea construction vessel, the *Intrepid*, did not have work for the immediately foreseeable future, we deferred the vessel's scheduled regulatory dry dock and are currently preparing the vessel to be placed in cold-stack mode for at least the remainder of 2012. In consideration of these developments, we concluded the vessel was impaired and we recorded a \$14.6 million charge to reduce the carrying cost of the *Intrepid* to its estimated fair value at June 30, 2012.

### *Litigation*

On May 12, 2012, a shareholder derivative lawsuit styled Mark Lucas v. Owen Kratz, et al. was filed in the 270<sup>th</sup> Judicial District in the District Court of Harris County, Texas. In the suit, the plaintiff makes claims against our Board of Directors, certain of our former directors, certain of our current and former executive officers and the independent compensation consultant to the Compensation

Committee of our board of directors, for breaches of the fiduciary duties of candor, good faith and loyalty, unjust enrichment and aiding and abetting the alleged breaches of fiduciary duty relating to the long-term equity awards granted in 2010 to certain of our executive officers. This case is essentially a “copycat” complaint asserting similar causes of action arising out of the same facts as set forth in the federal action, *City of Sterling Heights Police & Fire Retirement System v. Owen Kratz, et al.*, a description of which is included in our 2011 Form

10-K. We have filed a motion to stay, motion to dismiss, special exceptions, plea to the jurisdiction and an original answer asserting that: (i) the suit should be stayed in favor of a first-filed federal derivative case; (ii) the plaintiff has not pled specific facts showing wrongful refusal of demand; (iii) the plaintiff has not demonstrated he continually owned shares during the complained of action; and (iv) the plaintiff has not stated a claim. The plaintiff is generally demanding disgorgement of the excessive compensation, restraint on the disposition/exercise of the alleged improperly awarded equity, implementation of additional internal controls, and attorney's fees and costs of litigation.

On June 20, 2012, we were named as a defendant in a claim filed in the Western District of Virginia by an individual, Charles Adams, who claims that he invented the capping stack used to plug the BP Gulf of Mexico Macondo well. Mr. Adams alleges that we obtained some drawings and other intellectual property from an engineer named Richard Haun and/or Mr. Haun's company, Equipment Design & Manufacturing Group, LLC, d/b/a ED&M Deepwater Engineering (collectively "ED&M", and also a named defendant), and that we and ED&M then engaged Cameron International Corporation (which is also a named defendant) to manufacture the capping stack and realize the Plaintiff's invention. Mr. Adams seeks at least \$150 million in compensatory damages, treble damages under a Virginia statute, punitive damages, attorney's fees and costs, as well as temporary and permanent injunctions against the defendants in relation to his claimed intellectual property. We believe that we were mistakenly named in this lawsuit because, among other things, we did not invent, manufacture or provide the capping stack that was used to plug the Macondo well, and although we did have a working relationship with ED&M, that work had nothing to do with the Macondo (or any other) capping stack. In the event it is not dismissed from this lawsuit, we intend to defend this matter vigorously. We do not expect that this matter will have a material adverse effect on our business or financial position, results of operations or cash flows.

We are involved in various legal proceedings, primarily involving claims for personal injury under the General Maritime Laws of the United States and the Jones Act based on alleged negligence. In addition, from time to time we incur other claims, such as contract disputes, in the normal course of business.

### **Note 15 – Fair Value Measurements**

Certain of our financial assets and liabilities are measured and reported at fair value on a recurring basis as required under applicable accounting requirements. These requirements establish a hierarchy for inputs used in measuring fair value. The fair value is to be calculated based on assumptions that market participants would use in pricing assets and liabilities and not on assumptions specific to the entity. The statement requires that each asset and liability carried at fair value be classified into one of the following categories:

- Level 1. Observable inputs such as quoted prices in active markets;
- Level 2. Inputs, other than the quoted prices in active markets, that are observable either directly or indirectly; and
- Level 3. Unobservable inputs for which there is little or no market data, which require the reporting entity to develop its own assumptions.

Assets and liabilities measured at fair value are based on one or more of three valuation techniques as follows:

- (a) Market Approach. Prices and other relevant information generated by market transactions involving identical or comparable assets or liabilities.
- (b) Cost Approach. Amount that would be required to replace the service capacity of an asset (replacement cost).
- (c) Income Approach. Techniques to convert expected future cash flows to a single present amount based on market expectations (including present value techniques, option-pricing and excess earnings models).



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The following table provides additional information related to assets and liabilities measured at fair value on a recurring basis at June 30, 2012 (in thousands):

	<u>Level 1</u>	<u>Level 2 <sup>(1)</sup></u>	<u>Level 3</u>	<u>Total</u>	<u>Valuation Technique</u>
<b>Assets:</b>					
Natural gas contracts	\$ —	\$ 10,902	\$ —	\$ 10,902	(c)
Oil contracts	—	21,770	—	21,770	(c)
<b>Liabilities:</b>					
Oil contracts	—	6,383	—	6,383	(c)
Fair value of long term debt <sup>(2)</sup>	1,133,037	123,382	—	1,256,419	(a), (b)
Interest rate swaps	—	376	—	376	(c)
Foreign currency forwards	—	44	—	44	(c)
<b>Total net liability</b>	<b><u>\$1,133,037</u></b>	<b><u>\$ 97,513</u></b>	<b><u>\$ —</u></b>	<b><u>\$1,230,550</u></b>	

(1) Unless otherwise indicated, the fair value of our Level 2 derivative 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 could be positive or negative.

(2) See Note 7 for additional information regarding our long term debt. The fair value of our long term debt at June 30, 2012 is as follows:

	<u>Fair Value</u>	<u>Carrying Value</u>
Term Loans (mature July 2015)	\$ 376,630	\$ 377,000
Revolving Credit Facility (matures July 2015)	100,000	100,000
2025 Notes (mature March 2025)	158,824	157,830 (a)
2032 Notes (mature March 2032)	207,500	200,000 (b)
Senior Unsecured Notes (mature January 2016)	290,083	274,960
MARAD Debt (matures February 2027) <sup>(c)</sup>	123,382	107,757
<b>Total</b>	<b><u>\$ 1,256,419</u></b>	<b><u>\$ 1,217,547</u></b>

a. Amount excludes the related unamortized debt discount of \$2.5 million.

b. Amount excludes the related unamortized debt discount of \$34.2 million.

c. The estimated fair value of all debt, other than the MARAD debt, was determined using Level 1 inputs using the market approach. The fair value of the MARAD debt was determined using a third party evaluation of the remaining average life and outstanding principal balance of the MARAD indebtedness as compared to other governmental obligations in the marketplace with similar terms. The fair value of the MARAD Debt was estimated using Level 2 fair value inputs using the market approach.

## **Note 16 – Derivative Instruments and Hedging Activities**

We are currently exposed to market risk in three major areas: commodity prices, interest rates and foreign currency exchange rates. Our 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, variable interest rates and foreign exchange currency fluctuations. All derivatives are reflected in the accompanying condensed consolidated balance sheets at fair value, unless otherwise noted.

We engage solely 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

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(loss), a component of shareholders' equity, until the hedged transactions occur and are recognized in earnings. The ineffective portion of a cash flow hedge's change in fair value is recognized immediately in earnings. In addition, any change in the fair value of a derivative that does not qualify for hedge accounting is recorded in earnings in the period in which the change occurs.

For additional information regarding our accounting for derivatives, see Notes 2 and 20 of our 2011 Form 10-K.

### *Commodity Price Risks*

We currently manage commodity price risk through various financial costless collars and swap instruments covering a portion of our anticipated oil and natural gas production for 2012 and 2013. All of our current commodity derivative contracts qualify for hedge accounting.

As of June 30, 2012, we had the following volumes under derivative contracts related to our oil and gas producing activities totaling approximately 4.3 million barrels of oil and 11.6 Bcf of natural gas:

<u>Production Period</u>	<u>Instrument Type</u>	<u>Average Monthly Volumes</u>	<u>Weighted Average Price <sup>(1)</sup></u>
<b>Crude Oil:</b>			(per barrel)
July 2012 — December 2012	Collar	75.0 MBbl	\$ 96.67 — \$118.57 (2)
July 2012 — December 2012	Collar	99.1 MBbl	\$ 99.67 — \$118.42
July 2012 — December 2012	Swap	96.6 MBbl	\$92.52
January 2013 — December 2013	Swap	88.9 MBbl	\$95.28
January 2013 — December 2013	Collar	133.3 MBbl	\$ 98.44 — \$115.85
<b>Natural Gas:</b>			(per Mcf)
July 2012 — December 2012	Swap	777.5 Mmcf	\$4.29
July 2012 — December 2012	Collar	156.7 Mmcf	\$4.75 — \$5.09
January 2013 — December 2013	Swap	500.0 Mmcf	\$4.09

(1) The prices quoted in the table above are NYMEX Henry Hub for natural gas. Most of our oil contracts are indexed to the Brent crude oil price.

(2) This contract is priced using NYMEX West Texas Intermediate for crude oil.

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

### *Variable Interest Rate Risks*

As some of our long-term debt has variable interest rates and is subject to market influences, in January 2010 we entered into various interest rate swaps to stabilize cash flows relating to interest payments for \$200 million of our Term Loan debt under our Credit Agreement (Note 7). The last of these monthly contracts matured in January 2012. In August 2011, we entered into additional interest rate swap contracts to fix the interest rate on \$200 million of our Term Loan debt. These monthly contracts began in January 2012 and extend through January 2014. Changes in the interest rate swap fair value are deferred to the extent the swap is effective and are recorded as a component of accumulated other comprehensive income (loss) until the anticipated interest payments occur and are recognized in interest expense. The ineffective portion of the interest rate swap, if any, will be recognized immediately in earnings within the line titled "Net interest expense". The amount of ineffectiveness associated with our interest swap contracts was immaterial for all periods presented in this Quarterly Report on Form 10-Q.

### *Foreign Currency Exchange Risks*

Because we operate in various regions in the world, we conduct a portion of our business in currencies other than the U.S. dollar. We entered into various foreign currency forwards to stabilize expected cash outflows relating to certain vessel charters denominated in British pounds. We did not designate any of our existing foreign exchange contracts as hedge contracts at their inception. The last of our existing monthly foreign currency swap contracts will settle in November 2012.

### Quantitative Disclosures Related to Derivative Instruments

The following tables present the fair value and balance sheet classification of our derivative instruments as of June 30, 2012 and December 31, 2011.

Derivatives designated as hedging instruments are as follows (in thousands):

	As of June 30, 2012		As of December 31, 2011	
	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value
<b>Asset Derivatives:</b>				
Natural gas contracts	Other current assets	\$ 9,663	Other current assets	\$ 12,957
Oil contracts	Other current assets	16,033	Other current assets	8,567
Oil contracts	Other assets	5,737	Other assets	—
Natural gas contracts	Other assets	1,239	Other assets	857
Interest rate swaps	Other assets	—	Other assets	327
		<u>\$ 32,672</u>		<u>\$ 22,708</u>

	As of June 30, 2012		As of December 31, 2011	
	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value
<b>Liability Derivatives:</b>				
Oil contracts	Accrued liabilities	\$ 5,324	Accrued liabilities	\$ 886
Interest rate swaps	Accrued liabilities	317	Accrued liabilities	202
Oil contracts	Other long-term liabilities	1,059	Other long-term liabilities	1,711
Interest rate swaps	Other long-term liabilities	59	Other long-term liabilities	—
		<u>\$ 6,759</u>		<u>\$ 2,799</u>

Derivatives that were not designated as hedging instruments (in thousands):

	As of June 30, 2012		As of December 31, 2011	
	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value
<b>Asset Derivatives:</b>				
Foreign exchange forwards	Other current assets	\$ —	Other current assets	\$ 55
		<u>\$ —</u>		<u>\$ 55</u>

	As of June 30, 2012		As of December 31, 2011	
	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value
<b>Liability Derivatives:</b>				
Foreign exchange forwards	Accrued liabilities	\$ 44	Accrued liabilities	\$ 159
		<u>\$ 44</u>		<u>\$ 159</u>

The following tables present the impact that derivative instruments designated as cash flow hedges had on our accumulated comprehensive income (loss) and our consolidated condensed statements of operations and comprehensive income for the three- and six-month periods ended June 30, 2012 and 2011. The hedge ineffectiveness related to some of our crude oil contracts totaled \$10.1 million and \$7.7 million for the three- and six-month periods ended June 30, 2012. The amount of any ineffectiveness associated with our oil contracts was immaterial for the three- and six-month periods ended June 30, 2011. These amounts are reflected as a separate line item titled "Ineffectiveness on oil and gas commodity derivative contracts" in the accompanying condensed consolidated statements of

operations and comprehensive income. Ineffectiveness associated with our interest rate swaps was immaterial for all periods presented. At June 30, 2012, most of our remaining unrealized gains (losses) related to our derivative contracts are expected to be reclassified into earnings within the next 12 months, including \$9.1 million for our oil and natural gas contracts and \$(0.2) million related to our interest swap contracts. All unrealized gains (losses) related to our derivative contracts are expected to be reclassified to earnings by no later than December 31, 2013. The last of our interest rate swaps will be settled in January 2014.

**Gain (Loss) Recognized in OCI on  
Derivatives  
(Effective Portion)**

	<b>Three Months Ended June 30,</b>		<b>Six Months Ended June 30,</b>	
	<b>2012</b>	<b>2011</b>	<b>2012</b>	<b>2011</b>
	<b>(in thousands)</b>			
Oil and natural gas commodity contracts	\$ 12,759	\$ 20,720	\$ (796)	\$ 9,942
Interest rate swaps	(79)	250	(326)	461
	<u>\$ 12,680</u>	<u>\$ 20,970</u>	<u>\$ (1,122)</u>	<u>\$ 10,403</u>

**Gain (Loss) Reclassified from Accumulated  
OCI  
into Income  
(Effective Portion)**

<b>Location of Gain (Loss) Reclassified from Accumulated OCI into Income (Effective Portion)</b>		<b>Three Months Ended June 30,</b>		<b>Six Months Ended June 30,</b>	
		<b>2012</b>	<b>2011</b>	<b>2012</b>	<b>2011</b>
		<b>(in thousands)</b>			
Oil and natural gas commodity contracts	Oil and gas revenue	\$ 8,023	\$ (11,860)	\$ 8,132	\$ (18,185)
Interest rate swaps	Net interest expense	(120)	(591)	(313)	(1,071)
		<u>\$ 7,903</u>	<u>\$ (12,451)</u>	<u>\$ 7,819</u>	<u>\$ (19,256)</u>

The following table presents the impact that derivative instruments not designated as hedges had on our condensed consolidated statement of operations and comprehensive income for the three- and six-month periods ended June 30, 2012 and 2011 (in thousands):

**Gain (Loss) Recognized in Income on  
Derivatives**

<b>Location of Gain (Loss) Recognized in Income on Derivatives</b>		<b>Three Months Ended June 30,</b>		<b>Six Months Ended June 30,</b>	
		<b>2012</b>	<b>2011</b>	<b>2012</b>	<b>2011</b>
		<b>(in thousands)</b>			
Foreign exchange forwards	Other expense	\$ )	\$ 6	\$ 164	\$ 614
		<u>(69)</u>	<u>6</u>	<u>164</u>	<u>614</u>
		<u>\$ (69)</u>	<u>\$ 6</u>	<u>\$ 164</u>	<u>\$ 614</u>

**Note 17 – Condensed Consolidated Guarantor and Non-Guarantor Financial Information**

The payment of our obligations under the Senior Unsecured Notes is guaranteed by all of our restricted domestic subsidiaries (“Subsidiary Guarantors”) except for Cal Dive I-Title XI, Inc. Each of these Subsidiary Guarantors is included in our condensed consolidated financial statements and has fully and unconditionally guaranteed the Senior Unsecured Notes on a joint and several basis. As a result of these guaranty arrangements, we are required to present the following condensed consolidating financial information. The accompanying guarantor financial information is reported based on the equity method of accounting for all periods presented. Under this method, investments in subsidiaries are recorded at cost and adjusted for our share in the subsidiaries’ cumulative results of operations, capital contributions and distributions and other changes in equity. Elimination entries related primarily to the elimination of investments in subsidiaries and associated intercompany balances and transactions.

**HELIX ENERGY SOLUTIONS GROUP, INC.**  
**CONDENSED CONSOLIDATING BALANCE SHEETS**  
(in thousands)  
(Unaudited)

	As of June 30, 2012				
	<u>Helix</u>	<u>Guarantors</u>	<u>Non-Guarantors</u>	<u>Consolidating Entries</u>	<u>Consolidated</u>
<b>ASSETS</b>					
Current assets:					
Cash and cash equivalents	\$ 584,113	\$ 2,775	\$ 62,615	\$ —	\$ 649,503
Accounts receivable, net	71,410	82,343	34,151	—	187,904
Unbilled revenue	10,416	187	40,942	—	51,545
Income taxes receivable	111,850	—	8,463	(120,313)	—
Other current assets	57,286	44,058	16,630	5	117,979
<b>Total current assets</b>	<b>835,075</b>	<b>129,363</b>	<b>162,801</b>	<b>(120,308)</b>	<b>1,006,931</b>
Intercompany	(183,504)	368,513	(119,650)	(65,359)	—
Property and equipment, net	223,058	1,458,080	682,846	(4,691)	2,359,293
Other assets:					
Equity investments in unconsolidated affiliates	—	—	173,543	—	173,543
Equity investments in affiliates	2,031,892	43,534	—	(2,075,426)	—
Goodwill, net	—	45,107	17,145	—	62,252
Other assets, net	53,241	38,923	32,066	(37,444)	86,786
Due from subsidiaries/parent	47,426	580,277	—	(627,703)	—
	<b>\$ 3,007,188</b>	<b>\$ 2,663,797</b>	<b>\$ 948,751</b>	<b>\$ (2,930,931)</b>	<b>\$ 3,688,805</b>

**LIABILITIES AND SHAREHOLDERS’ EQUITY**

Current liabilities:

Accounts payable	\$ 49,247	\$ 71,377	\$ 36,114	\$ —	\$ 156,738
Accrued liabilities	59,212	95,392	22,621	—	177,225
Income taxes payable	—	139,280	—	(136,215)	3,065

Current maturities of long-term debt	8,000	—	4,997	—	12,997
Total current liabilities	<u>116,459</u>	<u>306,049</u>	<u>63,732</u>	<u>(136,215)</u>	<u>350,025</u>
Long-term debt	1,065,148	—	102,760	—	1,167,908
Deferred tax liabilities	240,263	103,693	107,317	(5,456)	445,817
Asset retirement obligations	—	135,235	—	—	135,235
Other long-term liabilities	4,237	4,067	528	—	8,832
Due to parent	—	—	81,056	(81,056)	—
Total liabilities	<u>1,426,107</u>	<u>549,044</u>	<u>355,393</u>	<u>(222,727)</u>	<u>2,107,817</u>
Convertible preferred stock	1,000	—	—	—	1,000
Total equity	<u>1,580,081</u>	<u>2,114,753</u>	<u>593,358</u>	<u>(2,708,204)</u>	<u>1,579,988</u>
	<u>\$ 3,007,188</u>	<u>\$ 2,663,797</u>	<u>\$ 948,751</u>	<u>\$ (2,930,931)</u>	<u>\$ 3,688,805</u>



**HELIX ENERGY SOLUTIONS GROUP, INC.**  
**CONDENSED CONSOLIDATING BALANCE SHEETS**  
(in thousands)

	As of December 31, 2011				
	<u>Helix</u>	<u>Guarantors</u>	<u>Non-Guarantors</u>	<u>Consolidating Entries</u>	<u>Consolidated</u>
<b>ASSETS</b>					
Current assets:					
Cash and cash equivalents	\$ 495,484	\$ 2,434	\$ 48,547	\$ —	\$ 546,465
Accounts receivable, net	79,290	117,767	41,724	—	238,781
Unbilled revenue	10,530	155	26,690	—	37,375
Income taxes receivable	80,388	—	—	(80,388)	—
Other current assets	68,627	48,661	10,159	(5,826)	121,621
Total current assets	<u>734,319</u>	<u>169,017</u>	<u>127,120</u>	<u>(86,214)</u>	<u>944,242</u>
Intercompany	(147,187)	315,821	(102,826)	(65,808)	—
Property and equipment, net	230,946	1,422,326	682,899	(4,844)	2,331,327
Other assets:					
Equity investments in unconsolidated affiliates	—	—	175,656	—	175,656
Equity investments in affiliates	1,952,392	37,239	—	(1,989,631)	—
Goodwill, net	—	45,107	17,108	—	62,215
Other assets, net	53,425	36,453	16,809	(37,780)	68,907
Due from subsidiaries/parent	64,655	430,496	—	(495,151)	—
	<u>\$ 2,888,550</u>	<u>\$ 2,456,459</u>	<u>\$ 916,766</u>	<u>\$ (2,679,428)</u>	<u>\$ 3,582,347</u>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>					
Current liabilities:					
Accounts payable	\$ 39,280	\$ 82,750	\$ 25,013	\$ —	\$ 147,043
Accrued liabilities	115,921	97,692	26,350	—	239,963
Income taxes payable	—	97,692	217	(96,616)	1,293
Current maturities of long-term debt	3,000	—	10,377	(5,500)	7,877
Total current liabilities	<u>158,201</u>	<u>278,134</u>	<u>61,957</u>	<u>(102,116)</u>	<u>396,176</u>
Long-term debt	1,042,155	—	105,289	—	1,147,444
Deferred tax liabilities	231,255	88,625	103,552	(5,822)	417,610
Asset retirement obligations	—	161,208	—	—	161,208
Other long-term liabilities	4,150	4,647	571	—	9,368
Due to parent	—	—	98,285	(98,285)	—
Total liabilities	<u>1,435,761</u>	<u>532,614</u>	<u>369,654</u>	<u>(206,223)</u>	<u>2,131,806</u>
Convertible preferred	1,000	—	—	—	1,000

stock

Total equity	<u>1,451,789</u>	<u>1,923,845</u>	<u>547,112</u>	<u>(2,473,205)</u>	<u>1,449,541</u>
	<u>\$ 2,888,550</u>	<u>\$ 2,456,459</u>	<u>\$ 916,766</u>	<u>\$ (2,679,428)</u>	<u>\$ 3,582,347</u>

**HELIX ENERGY SOLUTIONS GROUP, INC.**  
**CONDENSED CONSOLIDATING STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME**  
(in thousands)  
(Unaudited)

	<b>Three Months Ended June 30, 2012</b>				
	<b>Helix</b>	<b>Guarantors</b>	<b>Non-Guarantors</b>	<b>Consolidating Entries</b>	<b>Consolidated</b>
Net revenues	\$ 19,963	\$ 254,880	\$ 95,632	\$ (23,081)	\$ 347,394
Cost of sales	26,084	178,437	72,509	(22,861)	254,169
Gross profit	(6,121)	76,443	23,123	(220)	93,225
Loss on sale or acquisition of assets	—	(236)	—	—	(236)
Ineffectiveness on oil and gas derivative contract	—	10,069	—	—	10,069
Selling, general and administrative expenses	(11,658)	(8,919)	(4,257)	263	(24,571)
Income (loss) from operations	(17,779)	77,357	18,866	43	78,487
Equity in earnings of investments	64,446	3,670	5,748	(68,116)	5,748
Net interest expense and other	(9,597)	(7,074)	(3,648)	—	(20,319)
Income (loss) before income taxes	37,070	73,953	20,966	(68,073)	63,916
Provision (benefit) for income taxes	(7,554)	24,142	1,872	16	18,476
Net income (loss) applicable to Helix	44,624	49,811	19,094	(68,089)	45,440
Less: net income applicable to noncontrolling interests	—	—	—	(789)	(789)
Preferred stock dividends	(10)	—	—	—	(10)
Net income (loss) applicable to Helix common shareholders	<u>\$ 44,614</u>	<u>\$ 49,811</u>	<u>\$ 19,094</u>	<u>\$ (68,878)</u>	<u>\$ 44,641</u>
Total comprehensive income (loss) applicable to Helix common shareholders	<u>\$ 44,535</u>	<u>\$ 62,570</u>	<u>\$ 16,254</u>	<u>\$ (68,876)</u>	<u>\$ 54,483</u>

	<b>Three Months Ended June 30, 2011</b>				
	<b>Helix</b>	<b>Guarantors</b>	<b>Non-Guarantors</b>	<b>Consolidating Entries</b>	<b>Consolidated</b>
Net revenues	\$ 20,545	\$ 247,855	\$ 92,926	\$ (23,007)	\$ 338,319
Cost of sales	15,123	173,897	71,730	(22,629)	238,121
Gross profit	5,422	73,958	21,196	(378)	100,198
Loss on sale or acquisition of assets	(22)	—	—	—	(22)
Selling, general and administrative expenses	(9,574)	(9,915)	(4,658)	389	(23,758)
Income (loss) from operations	(4,174)	64,043	16,538	11	76,418

Equity in earnings of investments	58,929	4,194	5,887	(63,123)	5,887
Net interest expense and other	<u>(18,243)</u>	<u>(5,890)</u>	<u>108</u>	<u>—</u>	<u>(24,025)</u>
Income (loss) before income taxes	36,512	62,347	22,533	(63,112)	58,280
Provision (benefit) for income taxes	<u>(4,790)</u>	<u>20,319</u>	<u>637</u>	<u>5</u>	<u>16,171</u>
Net income (loss) applicable to Helix	41,302	42,028	21,896	(63,117)	42,109
Less: net income applicable to noncontrolling interests	—	—	—	(786)	(786)
Preferred stock dividends	<u>(10)</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>(10)</u>
Net income (loss) applicable to Helix common shareholders	<u>\$ 41,292</u>	<u>\$ 42,028</u>	<u>\$ 21,896</u>	<u>\$ (63,903)</u>	<u>\$ 41,313</u>
Total comprehensive income (loss) applicable to Helix common shareholders	<u>\$ 41,542</u>	<u>\$ 62,748</u>	<u>\$ 20,485</u>	<u>\$ (63,908)</u>	<u>\$ 60,867</u>

**HELIX ENERGY SOLUTIONS GROUP, INC.**  
**CONDENSED CONSOLIDATING STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME**  
(in thousands)  
(Unaudited)

	<b>Six Months Ended June 30, 2012</b>				
	<b>Helix</b>	<b>Guarantors</b>	<b>Non-Guarantors</b>	<b>Consolidating Entries</b>	<b>Consolidated</b>
Net revenues	\$ 39,985	\$ 540,568	\$ 221,532	\$ (46,764)	\$ 755,321
Cost of sales	42,705	343,030	160,954	(46,303)	500,386
Gross profit	(2,720)	197,538	60,578	(461)	254,935
Loss on sale or acquisition of assets	—	(1,714)	—	—	(1,714)
Ineffectiveness on oil and gas derivative contract	—	7,730	—	—	7,730
Selling, general and administrative expenses	(22,930)	(18,796)	(9,091)	550	(50,267)
Income (loss) from operations	(25,650)	184,758	51,487	89	210,684
Equity in earnings of investments	157,696	6,295	6,155	(163,991)	6,155
Net interest expense and other	(40,144)	(14,284)	(4,692)	—	(59,120)
Income (loss) before income taxes	91,902	176,769	52,950	(163,902)	157,719
Provision (benefit) for income taxes	(18,428)	59,023	5,127	31	45,753
Net income (loss) applicable to Helix	110,330	117,746	47,823	(163,933)	111,966
Less: net income applicable to noncontrolling interests	—	—	—	(1,578)	(1,578)
Preferred stock dividends	(20)	—	—	—	(20)
Net income (loss) applicable to Helix common shareholders	<u>\$ 110,310</u>	<u>\$ 117,746</u>	<u>\$ 47,823</u>	<u>\$ (165,511)</u>	<u>\$ 110,368</u>
Total comprehensive income (loss) applicable to Helix common shareholders	<u>\$ 109,985</u>	<u>\$ 116,950</u>	<u>\$ 49,138</u>	<u>\$ (165,513)</u>	<u>\$ 110,560</u>

	<b>Six Months Ended June 30, 2011</b>				
	<b>Helix</b>	<b>Guarantors</b>	<b>Non-Guarantors</b>	<b>Consolidating Entries</b>	<b>Consolidated</b>
Net revenues	\$ 36,127	\$ 489,897	\$ 150,802	\$ (46,900)	\$ 629,926
Cost of sales	31,716	339,128	128,008	(46,200)	452,652
Gross profit	4,411	150,769	22,794	(700)	177,274
Loss on sale or acquisition of assets	(6)	—	—	—	(6)
Selling, general and administrative expenses	(20,760)	(19,951)	(8,812)	784	(48,739)
Income (loss) from operations	(16,355)	130,818	13,982	84	128,529

Equity in earnings of investments	107,036	(1,468)	11,537	(105,568)	11,537
Net interest expense and other	<u>(35,527)</u>	<u>(10,599)</u>	<u>525</u>	<u>—</u>	<u>(45,601)</u>
Income (loss) before income taxes	55,154	118,751	26,044	(105,484)	94,465
Provision (benefit) for income taxes	<u>(11,963)</u>	<u>42,060</u>	<u>(4,404)</u>	<u>28</u>	<u>25,721</u>
Net income (loss) applicable to Helix	67,117	76,691	30,448	(105,512)	68,744
Less: net income applicable to noncontrolling interests	—	—	—	(1,554)	(1,554)
Preferred stock dividends	<u>(20)</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>(20)</u>
Net income (loss) applicable to Helix common shareholders	<u>\$ 67,097</u>	<u>\$ 76,691</u>	<u>\$ 30,448</u>	<u>\$ (107,066)</u>	<u>\$ 67,170</u>
Total comprehensive income (loss) applicable to Helix common shareholders	<u>\$ 67,559</u>	<u>\$ 86,633</u>	<u>\$ 31,157</u>	<u>\$ (107,077)</u>	<u>\$ 78,272</u>

**HELIX ENERGY SOLUTIONS GROUP, INC.**  
**CONDENSED CONSOLIDATING STATEMENTS OF CASH FLOWS**  
(in thousands)  
(Unaudited)

Six Months Ended June 30, 2012

	<u>Helix</u>	<u>Guarantors</u>	<u>Non- Guarantors</u>	<u>Consolidating Entries</u>	<u>Consolidated</u>
Cash flow from operating activities:					
Net income (loss), including noncontrolling interests	\$ 110,330	\$ 117,746	\$ 47,823	\$ (163,933)	\$ 111,966
Adjustments to reconcile net income (loss), including noncontrolling interests to net cash provided by (used in) operating activities:					
Equity in earnings of affiliates	(157,696)	(6,295)	—	163,991	—
Other adjustments	(23,636)	146,623	(11,702)	(2,231)	109,054
Net cash provided by (used in) operating activities	(71,002)	258,074	36,121	(2,173)	221,020
Cash flows from investing activities:					
Capital expenditures	(1,635)	(131,879)	(16,593)	—	(150,107)
Distributions from equity investments, net	—	—	2,045	—	2,045
Decreases in restricted cash	—	2,660	—	—	2,660
Net cash used in investing activities	(1,635)	(129,219)	(14,548)	—	(145,402)
Cash flows from financing activities:					
Borrowings of debt	400,000	—	—	—	400,000
Repayments of debt	(356,195)	—	(2,409)	—	(358,604)
Deferred financing costs	(6,485)	—	—	—	(6,485)
Repurchases of common stock	(7,510)	—	—	—	(7,510)
Excess tax benefit from stock-based compensation	(657)	—	—	—	(657)
Exercise of stock options, net	372	—	—	—	372
Intercompany financing	131,741	(128,514)	(5,400)	2,173	—
Net cash provided by (used in) financing activities	161,266	(128,514)	(7,809)	2,173	27,116
Effect of exchange rate	—	—	304	—	304

changes on cash and cash equivalents					
Net increase in cash and cash equivalents	88,629	341	14,068	—	103,038
Cash and cash equivalents:					
Balance, beginning of year	<u>495,484</u>	<u>2,434</u>	<u>48,547</u>	<u>—</u>	<u>546,465</u>
Balance, end of year	<u>\$ 584,113</u>	<u>\$ 2,775</u>	<u>\$ 62,615</u>	<u>\$ —</u>	<u>\$ 649,503</u>



**HELIX ENERGY SOLUTIONS GROUP, INC.**  
**CONDENSED CONSOLIDATING STATEMENTS OF CASH FLOWS**  
(in thousands)

	<b>Six Months Ended June 30, 2011</b>				
	<u>Helix</u>	<u>Guarantors</u>	<u>Non-Guarantors</u>	<u>Consolidating Entries</u>	<u>Consolidated</u>
<b>Cash flow from operating activities:</b>					
Net income (loss), including noncontrolling interests	\$ 67,117	\$ 76,691	\$ 30,448	\$ (105,512)	68,744
Adjustments to reconcile net income (loss), including noncontrolling interests to net cash provided by (used in) operating activities:					
Equity in earnings of affiliates	(107,036)	1,468	—	105,568	—
Other adjustments	21,261	180,193	(14,149)	(5,476)	181,829
Net cash provided by (used in) operating activities	(18,658)	258,352	16,299	(5,420)	250,573
<b>Cash flows from investing activities:</b>					
Capital expenditures	(15,699)	(76,331)	(14,092)	—	(106,122)
Distributions from equity investments, net	—	—	(1,106)	—	(1,106)
Proceeds from sale of Cal Dive common stock	3,588	—	—	—	3,588
Decreases in restricted cash	—	863	—	—	863
Net cash used in investing activities	(12,111)	(75,468)	(15,198)	—	(102,777)
<b>Cash flows from financing activities:</b>					
Repayments of debt	(111,191)	—	(2,294)	—	(113,485)
Deferred financing costs	(9,014)	—	—	—	(9,014)
Repurchases of common stock	(1,012)	—	—	—	(1,012)
Excess tax benefit from stock-based compensation	(1,196)	—	—	—	(1,196)
Exercise of stock options, net and other	1,652	—	(1,213)	—	439
Intercompany financing	162,868	(183,765)	15,477	5,420	—
Net cash provided by (used in) financing activities	42,107	(183,765)	11,970	5,420	(124,268)
Effect of exchange rate changes on cash and cash equivalents	—	—	(424)	—	(424)

Net increase (decrease) in cash and cash equivalents	11,338	(881)	12,647	—	23,104
Cash and cash equivalents:					
Balance, beginning of year	<u>376,434</u>	<u>3,294</u>	<u>11,357</u>	—	<u>391,085</u>
Balance, end of year	<u>\$ 387,772</u>	<u>\$ 2,413</u>	<u>\$ 24,004</u>	<u>\$ —</u>	<u>\$ 414,189</u>

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

### FORWARD-LOOKING STATEMENTS AND ASSUMPTIONS

This Quarterly Report on Form 10-Q contains various statements that contain forward-looking information regarding Helix Energy Solutions Group, Inc. and represent our expectations and beliefs concerning future events. This forward-looking information is intended to be covered by the safe harbor for "forward-looking statements" provided by the Private Securities Litigation Reform Act of 1995 as set forth in Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). All statements, included herein or incorporated herein by reference, that are predictive in nature, that depend upon or refer to future events or conditions, or that use terms and phrases such as "achieve," "anticipate," "believe," "estimate," "expect," "forecast," "plan," "project," "propose," "strategy," "predict," "envision," "hope," "intend," "will," "continue," "may," "potential," "should," "could" and similar terms and phrases are forward-looking statements. Included in forward-looking statements are, among other things:

- statements regarding our business strategy, including the potential sale of assets and/or other investments in our subsidiaries and facilities, or any other business plans, forecasts or objectives, any or all of which is subject to change;
- statements regarding our anticipated production volumes, results of exploration, exploitation, development, acquisition or operations expenditures, and current or prospective reserve levels with respect to any oil and gas property or well;
- statements related to commodity prices for oil and gas or with respect to the supply of and demand for oil and gas;
- statements relating to our proposed exploration, development and/or production of oil and gas properties, prospects or other interests and any anticipated costs related thereto;
- statements related to environmental risks, exploration and development risks, or drilling and operating risks;
- statements relating to the construction or acquisition of vessels or equipment and any anticipated costs related hereto;
- statements regarding projections of revenues, gross margin, expenses, earnings or losses, working capital or other financial items;
- statements regarding any financing transactions or arrangements, or ability to enter into such transactions;
- statements regarding anticipated legislative, governmental, regulatory, administrative or other public body actions, requirements, permits or decisions;
- statements regarding the collectability of our trade receivables;
- statements regarding anticipated developments, industry trends, performance or industry ranking;
- statements regarding general economic or political conditions, whether international, national or in the regional and local market areas in which we do business;
- statements related to our ability to retain key members of our senior management and key employees;
- statements related to the underlying assumptions related to any projection or forward-looking statement; and
- any other statements that relate to non-historical or future information.

Although we believe that the expectations reflected in these forward-looking statements are reasonable and are based on reasonable assumptions, they do involve risks, uncertainties and other factors that could cause actual results to be materially different from those in the forward-looking statements. These factors include, among other things:

- impact of the weak economic conditions and the future impact of such conditions on the oil and

gas industry and the demand for our services;

- uncertainties inherent in the development and production of oil and gas and in estimating reserves;
- the geographic concentration of our oil and gas operations;
- the effect of regulations on the offshore Gulf of Mexico oil and gas operations;
- uncertainties regarding our ability to replace depletion;
- unexpected future capital expenditures (including the amount and nature thereof);
- impact of oil and gas price fluctuations and the cyclical nature of the oil and gas industry;
- the effects of indebtedness, which could adversely restrict our ability to operate, could make us

vulnerable to general adverse economic and industry conditions, could place us at a competitive disadvantage compared to our competitors that have less debt and could have other adverse consequences to us;

- the effectiveness of our hedging activities;
- the results of our continuing efforts to control costs, and improve performance;
- the success of our risk management activities;
- the effects of competition;
- the availability (or lack thereof) of capital (including any financing) to fund our business strategy and/or operations and the terms of any such financing;
- the impact of current and future laws and governmental regulations, including tax and accounting developments;
- the effect of adverse weather conditions and/or other risks associated with marine operations, including exposure of our oil and gas operations to tropical storm activity in the Gulf of Mexico;
- the impact of operational disruptions affecting the *Helix Producer I* vessel which is crucial to producing oil and natural gas from our Phoenix field;
- the effect of environmental liabilities that are not covered by an effective indemnity or insurance;
- the potential impact of a loss of one or more key employees; and
- the impact of general, market, industry or business conditions.

Our actual results could differ materially from those anticipated in any forward-looking statements as a result of a variety of factors, including those described in Item 1A. "Risk Factors" in our 2011 Form 10-K. All forward-looking statements attributable to us or persons acting on our behalf are expressly qualified in their entirety by these risk factors. Forward-looking statements are only as of the date they are made, and other than as required under the securities laws, we assume no obligation to update or revise these forward-looking statements or provide reasons why actual results may differ.

## EXECUTIVE SUMMARY

### Our Business

We are an international offshore energy company that provides specialty services to the offshore energy industry, with a focus on our growing well intervention and robotics businesses. We also own an oil and gas business that is a prospect generation, exploration, development and production company. We utilize cash flow generated from our oil and gas production to support expansion of our well intervention and robotics businesses.

### Our Strategy

Over the past few years, we have focused on improving our balance sheet by increasing our liquidity through disposition of non-core business assets and reductions in our planned capital spending. At June 30, 2012, our cash on hand totaled \$649.5 million and our liquidity was \$1.1 billion. Our capital expenditures for full year 2012 are expected to total approximately \$635 million, primarily reflecting construction costs associated with our recently announced new semi-submersible well intervention vessel, costs related to the purchase and conversion of the *Discoverer 534* drillship into a well intervention vessel, and the exploration and development costs for certain of our oil and gas properties (excluding costs related to our asset retirement obligations). We believe that we have sufficient liquidity to successfully implement our near term business plan without incurring additional indebtedness beyond the existing capacity under the Revolving Credit Facility.

### Economic Outlook and Industry Influences

Demand for our contracting services operations is primarily influenced by the condition of the oil and gas industry, and in particular, the willingness of oil and gas companies to make capital expenditures for offshore exploration, drilling and production operations. Generally, spending for our contracting services fluctuates directly with the direction of oil and natural gas prices. However, some of our contracting services, more specifically our subsea construction services, will often lag drilling

operations by a period of 6 to 18 months, meaning that even if there were a sudden increase in deepwater permitting and subsequent drilling in the Gulf of Mexico, it probably would still be some time before we would start securing any awarded projects in this region. The performance of our oil and gas operations is also largely dependent on the prevailing market prices for oil and natural gas, which are impacted by global economic conditions,

hydrocarbon production and capacity, geopolitical issues, weather, and several other factors, including but not limited to:

- worldwide economic activity, including available access to global capital and equity markets;
- demand for oil and natural gas, especially in the United States, Europe, China and India;
- economic and political conditions in the Middle East and other oil-producing regions;
- the effect of regulations on offshore Gulf of Mexico oil and gas operations;
- actions taken by OPEC;
- the availability and discovery rate of new oil and natural gas reserves in offshore areas;
- the cost of offshore exploration for and production and transportation of oil and gas;
- the ability of oil and natural gas companies to generate funds or otherwise obtain external capital for exploration, development and production operations;
- the sale and expiration dates of offshore leases in the United States and overseas;
- technological advances affecting energy exploration production transportation and consumption;
- weather conditions;
- environmental and other governmental regulations; and
- tax policies.

During the second quarter of 2012, oil prices decreased rather significantly from levels realized in the previous three months. The average NYMEX West Texas Intermediate (“WTI”) crude oil price was \$93.49 per barrel in the second quarter of 2012 compared to \$102.93 per barrel in the first quarter of 2012 and \$94.06 per barrel in the fourth quarter of 2011. In 2011, the price that we received for the majority of our crude oil sales volumes started to increase significantly over the WTI market price. Historically the price we receive for most of our crude oil, as priced using a number of Gulf Coast crude oil price indexes, closely correlated with current market prices of WTI crude oil; however, because of a substantial increase in crude oil inventories at Cushing, Oklahoma the price of Gulf Coast crude has been substantially higher than WTI. Currently the price we receive for our crude oil more closely correlates with the Brent crude oil price in the North Sea. The premium we received for our oil sales was anywhere from \$8 - \$27 per barrel greater than the given WTI price during the past twelve months and was approximately \$11 per barrel in the first half of 2012. We do not know how long the price variance of our crude oil and WTI will continue but most analysts believe this premium will continue at least through 2012.

Although the market environment for natural gas improved in the second quarter of 2012, in general natural gas prices remain weak, reflecting the unusually mild conditions during the past winter season over the majority of the U.S. and the continued increase in supply of natural gas derived primarily from non-traditional sources of natural gas such as production from shale formations and tight sands located throughout the U.S. A combination of these factors has decreased the NYMEX Henry Hub price of natural gas to \$2.00 per Mcf at March 31, 2012, reflecting the lowest prices for natural gas in approximately 10 years. At June 30, 2012, the NYMEX Henry Hub price of natural gas was \$2.74 per Mcf.

Over the past three months, there has been considerable concern regarding an overall deterioration of the global economy. The debt crisis and economic conditions in Europe are affecting the global equity and commodity markets as well as effectively hampering normal business activities. Although China is still reporting economic growth, the level of such growth is slowing. In the U.S., there is a consensus amongst most economists that the slow recovery will continue over at least the remainder of 2012. The oil and natural gas industry has been adversely affected by the uncertainty of the general timing and level of the economic recovery as well the uncertainties concerning increased government regulation of the industry in the United States. Over the longer-term, the fundamentals for our business remain generally favorable as the need for the continual replenishment of oil and gas production is the primary driver of demand for our services.

We developed the Helix Fast Response System ("HFRS") as a culmination of our experience as a responder in the Macondo oil spill response and containment efforts. The HFRS centers on two vessels, the *HP I* and the *Q4000*, both of which played a key role in the Macondo oil spill response and containment efforts and are presently operating in the Gulf of Mexico. In 2011, we signed an agreement with Clean Gulf Associates ("CGA"), a non-profit industry group, allowing, in exchange for a retainer fee, the HFRS to be named as a response resource in permit applications to federal and state agencies and making the HFRS available for a two-year term to certain CGA participants who have executed utilization agreements with us. In addition to the agreement with CGA, we currently have signed separate utilization agreements with 24



CGA participant member companies specifying the day rates to be charged should the HFRS solution be deployed in connection with a well control incident. The retainer fee associated with HFRS was effective April 1, 2011 and is a component of our Production Facilities business segment.

## RESULTS OF OPERATIONS

Our operations are conducted through two lines of business: contracting services and oil and gas. We have disaggregated our contracting services operations into two continuing reportable segments Contracting Services and Production Facilities. Our third business segment is Oil and Gas.

All material intercompany transactions between the segments have been eliminated in our consolidated financial statements, including our consolidated results of operations.

### Contracting Services Operations

We seek to provide services and methodologies that we believe are critical to developing offshore reservoirs and maximizing production economics. The Contracting Services segment includes well operations, robotics and subsea construction services. Our Contracting Services business operates primarily in the Gulf of Mexico, North Sea, Asia Pacific and West Africa regions, with services that cover the lifecycle of an offshore oil or gas field. As of June 30, 2012, our Contracting Services had backlog of approximately \$721.0 million, including \$338.5 million expected to be performed over the remainder of 2012. Our Production Facilities segment reflects the results associated with the operations of the *HP I* as well as our equity investments in two Gulf of Mexico production facilities (Note 6). Backlog for the *HP I* totaled approximately \$32.8 million at June 30, 2012, including \$16.7 million expected to be serviced over the remainder of 2012. At December 31, 2011, our combined backlog for both Contracting Services and the *HP I* totaled \$539.7 million, including \$505.1 million for 2012. These backlog contracts are cancelable without penalty in many cases. Backlog is not a reliable indicator of total annual revenue for our Contracting Services businesses as contracts may be added, cancelled and in many cases modified while in progress.

### Oil and Gas Operations

We began our oil and gas operations to achieve incremental returns, to expand off-season utilization of our Contracting Services assets, and to provide a more efficient solution to offshore abandonment. We have evolved this business model to include not only mature oil and gas properties but also proved and unproved reserves yet to be developed and explored. By owning oil and gas reservoirs and prospects, we are able to utilize the services we otherwise provide to third parties to create value at key points in the life of our own reservoirs including during the exploration and development stages, the field management stage, and the abandonment stage. It is also a feature of our business model to opportunistically monetize part of the created reservoir value, through sales of working interests, in order to help fund field development and reduce gross profit deferrals from our Contracting Services operations. Therefore the reservoir value we create is realized through oil and gas production and/or monetization of working interest stakes.

### Non-GAAP Financial Measures

A non-GAAP financial measure is generally defined by the SEC as one that purports to measure historical or future performance, financial position, or cash flows, but excludes amounts that would not be so adjusted in the most comparable measures under generally accepted accounting principles ("GAAP"). We measure our operating performance based on EBITDAX, a non-GAAP financial measure, that is commonly used in the oil and natural gas industry but is not a recognized accounting term under GAAP. We use EBITDAX to monitor and facilitate the internal evaluation of the performance of our business operations, to facilitate external comparison of our business results to those of others in our industry, to analyze and evaluate financial and strategic planning decisions regarding future investments and acquisitions, to plan and evaluate operating budgets, and in certain cases, to report our results to the holders of our debt as required under our debt covenants. We believe our measure of

EBITDAX provides useful information to the public regarding our ability to service debt and fund capital expenditures and may help our investors understand our operating performance and compare our results to other companies that have different financing, capital and tax structures.

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We define EBITDAX as income (loss) from continuing operations plus income taxes, net interest expense and other, depreciation, depletion and amortization expense and exploration expenses. We separately disclose our non-cash asset impairment charges, which, if not material, would be reflected as a component of our depreciation, depletion and amortization expense.

In our reconciliation of income, including noncontrolling interests, we provide amounts as reflected in our accompanying condensed consolidated financial statements unless otherwise footnoted. This means that such amounts are recorded at 100% even if we do not own 100% of all of our subsidiaries. Accordingly, to arrive at our measure of Adjusted EBITDAX, when applicable, we deduct the noncontrolling interests related to the adjustment components of EBITDAX, the gain or loss on the sale of assets, unrealized gains (losses) associated with our oil and gas commodity contracts.

Other companies may calculate their measures of EBITDAX and Adjusted EBITDAX differently than we do, which may limit its usefulness as a comparative measure. Because EBITDAX is not a financial measure calculated in accordance with GAAP, it should not be considered in isolation or as a substitute for net income attributable to common shareholders, but used as a supplement to that GAAP financial measure. A reconciliation of our net income, including noncontrolling interests to EBITDAX and Adjusted EBITDAX is as follows:

	<b>Three Months Ended June 30,</b>		<b>Six Months Ended June 30,</b>	
	<b>2012</b>	<b>2011</b>	<b>2012</b>	<b>2011</b>
	<b>(in thousands)</b>			
Net income, including noncontrolling interests	\$ 45,440	\$ 42,109	\$ 111,966	\$ 68,744
Adjustments:				
Income tax provision	18,476	16,171	45,753	25,721
Net interest expense and other	20,319	24,025	41,993	45,601
Loss on extinguishment of long term debt	—	—	17,127	—
Depreciation and amortization	62,468	75,027	134,960	167,170
Asset impairment charges	14,590	11,573	14,590	11,573
Exploration expenses	1,092	7,939	1,846	8,285
EBITDAX	<u>162,385</u>	<u>176,844</u>	<u>368,235</u>	<u>327,094</u>
Adjustments:				
Noncontrolling interest Kommandor LLC	(1,026)	(1,026)	(2,052)	(2,041)
Unrealized gain on oil and gas commodity contracts	(10,069)	—	(7,730)	—
Loss on sales of assets	236	22	1,714	6
ADJUSTED EBITDAX	<u>\$ 151,526</u>	<u>\$ 175,840</u>	<u>\$ 360,167</u>	<u>\$ 325,059</u>

### Comparison of Three Months Ended June 30, 2012 and 2011

The following table details various financial and operational highlights for the periods presented:

	<b>Three Months Ended</b>		<b>Increase/ (Decrease)</b>
	<b>June 30,</b>		
	<b>2012</b>	<b>2011</b>	
Revenues (in thousands) –			
Contracting Services	\$ 209,557	\$ 171,353	\$ 38,204
Production Facilities	19,963	20,545	(582)
Oil and Gas	149,933	172,458	(22,525)
Intercompany elimination	(32,059)	(26,037)	(6,022)
	<u>\$ 347,394</u>	<u>\$ 338,319</u>	<u>\$ 9,075</u>

Gross profit (in thousands) –			
Contracting Services	\$ 26,338	\$ 38,049	\$ (11,711)
Production Facilities	10,017	12,070	(2,053)
Oil and Gas	57,510	50,858	6,652
Corporate	(738)	(760)	22
Intercompany elimination	98	(19)	117
	<u>\$ 93,225</u>	<u>\$ 100,198</u>	<u>\$ (6,973)</u>

Gross Margin –		
Contracting Services	13%	22%
Production Facilities	50%	59%
Oil and Gas	38%	29%
Total company	27%	30%

Number of vessels <sup>(1)</sup> / Utilization <sup>(2)</sup>		
Contracting Services:		
Construction vessels	9/84%	8/71%
Well operations	3/67%	3/89%
ROVs	51/65%	46/54%

(1) Represents number of vessels as of the end of the period excluding acquired vessels prior to their in-service dates, vessels taken out of service prior to their disposition and vessels jointly owned with a third party.

(2) Average vessel utilization rate is calculated by dividing the total number of days the vessels in this category generated revenues by the total number of calendar days in the applicable period.

Intercompany segment revenues during the three-month periods ended June 30, 2012 and 2011 were as follows (in thousands):

	<b>Three Months Ended</b>		<b>Increase/ (Decrease)</b>
	<b>March 31,</b>		
	<b>2012</b>	<b>2011</b>	
Contracting Services	\$ 20,538	\$ 14,295	\$ 6,243
Production Facilities	11,521	11,742	(221)
	<u>\$ 32,059</u>	<u>\$ 26,037</u>	<u>\$ 6,022</u>

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Intercompany segment profit during the three-month periods ended June 30, 2012 and 2011 was as follows (in thousands):

	<b>Three Months Ended</b>		<b>Increase/ (Decrease)</b>
	<b>June 30,</b>		
	<b>2012</b>	<b>2011</b>	
Contracting Services	\$ (55)	\$ 63	\$ (118)
Production Facilities	(43)	(44)	1
	<u>\$ (98)</u>	<u>\$ 19</u>	<u>\$ (117)</u>

The following table details various financial and operational highlights related to our Oil and Gas segment for the periods presented:

	<b>Three Months Ended</b>		<b>Increase/ (Decrease)</b>
	<b>June 30,</b>		
	<b>2012</b>	<b>2011</b>	
<b>Oil and Gas information –</b>			
Oil production volume (MBbls)	1,232	1,430	(198)
Oil sales revenue (in thousands)	\$ 132,425	\$ 145,074	\$ (12,649)
Average oil sales price per Bbl (excluding hedges)	\$ 106.95	\$ 111.23	\$ (4.28)
Average realized oil price per Bbl (including hedges)	\$ 107.51	\$ 101.43	\$ 6.08
Increase (decrease) in oil sales revenue due to:			
Change in prices (in thousands)	\$ 8,701		
Change in production volume (in thousands)	(21,350)		
Total decrease in oil sales revenue (in thousands)	<u>\$ (12,649)</u>		
<b>Gas production volume</b>			
(MMcf)	2,735	4,075	(1,340)
Gas sales revenue (in thousands)	\$ 15,762	\$ 25,121	\$ (9,359)
Average gas sales price per mcf (excluding hedges)	\$ 3.49	\$ 5.63	\$ (2.14)
Average realized gas price per mcf (including hedges)	\$ 5.76	\$ 6.17	\$ (0.41)
Decrease in gas sales revenue due to:			
Change in prices (in thousands)	\$ (1,641)		
Change in production volume (in thousands)	(7,718)		
Total decrease in gas sales revenue (in thousands)	<u>\$ (9,359)</u>		
<b>Total production</b>			
(MBOE)	1,687	2,109	(422)
Price per BOE	\$ 87.82	\$ 80.68	\$ 7.14
<b>Oil and Gas revenue information (in thousands) –</b>			
Oil and gas sales revenue	\$ 148,186	\$ 170,195	\$ (22,009)
Other revenues	1,747	2,263	(516)
(1)	<u>\$ 149,933</u>	<u>\$ 172,458</u>	<u>\$ (22,525)</u>

(1) Other revenues include fees earned under our process handling agreements.

Presenting the expenses of our Oil and Gas segment on a cost per barrel of production basis normalizes for the impact of production gains/losses and provides a measure of expense control efficiencies. The following table highlights certain relevant expense items in total (in thousands) and on a cost per barrel of production basis (natural gas converted to barrel of oil equivalent at a ratio of six Mcf of natural gas to each barrel of oil):

	Three Months Ended June 30,			
	2012		2011	
	Total	Per barrel	Total	Per barrel
Oil and gas operating expenses <sup>(1)</sup> :				
Direct operating expenses <sup>(2)</sup>	\$ 27,311	\$ 16.19	\$ 29,390	\$ 13.94
Workover	6,150	3.65	2,236	1.06
Transportation	1,976	1.17	1,391	0.66
Repairs and maintenance	2,114	1.25	2,980	1.41
Overhead and company labor	2,943	1.74	3,296	1.56
	<u>\$ 40,494</u>	<u>\$ 24.00</u>	<u>\$ 39,293</u>	<u>\$ 18.63</u>
Depletion expense	\$ 36,315	\$ 21.52	\$ 48,526	\$ 23.00
Abandonment	11,019	6.53	11,375	5.39
Accretion expense	3,415	2.02	3,844	1.82
Net hurricane (reimbursements) costs	88	0.05	(950)	(0.45)
Impairment	—	—	11,573	5.49
	<u>50,837</u>	<u>30.12</u>	<u>74,368</u>	<u>35.25</u>
Total	<u>\$ 91,331</u>	<u>\$ 54.12</u>	<u>\$ 113,661</u>	<u>\$ 53.88</u>

(1) Excludes exploration expense of \$1.1 million and \$7.9 million for the three-month periods ended June 30, 2012 and 2011, respectively. Exploration expense is not a component of lease operating expense.

(2) Includes production taxes.

**Revenues.** Our Contracting Services revenues increased by 22% for the three-month period ended June 30, 2012 as compared to the same period in 2011. The increase reflects significantly higher utilization for our subsea construction vessels, with the *Express* being deployed on a project located offshore Israel and the continued deployment of the *Caesar* on an accommodation project offshore Mexico. The *Intrepid* was idle for most of the second quarter of 2012 as further discussed in “Gross Profit” below. Our robotics revenues increased reflecting the increased number of assets for that business as well as higher utilization of our chartered vessels and owned ROVs. We had decreased revenues associated with our well operations activities primarily reflecting the extended downtime associated with the planned regulatory dry docking of both the *Q4000* and the *Seawell*. The *Well Enhancer* is expected to go into dry dock in the third quarter of 2012.

Oil and Gas revenues decreased 13% during the three-month period ended June 30, 2012 as compared to the same period in 2011, reflecting a 20% reduction in production volumes. The decline in production volumes was impacted by weather-related downtime for certain of our producing fields in June 2012, normal oil production declines, and decreased natural gas production reflecting the disposition of certain natural gas fields subsequent to June 30, 2011. For the month of July (through July 22, 2012) our production rate approximated 17.5 MBOE/d as compared to an approximate average of 18.5 MBOE/d in the second quarter of 2012.

Our Production Facilities revenues decreased by 3% for the three-month period ended June 30, 2012 as compared to the same period in 2011. The *HP I* is currently being utilized in the Phoenix field, where it is expected to remain until the field becomes uneconomic.

**Gross Profit.** Gross profit associated with Contracting Services decreased by approximately 31% in the second quarter of 2012 as compared to the same period last year. As our subsea construction vessel, the *Intrepid*, did not have any work contracted for the immediately foreseeable future, we deferred the vessel’s scheduled regulatory dry dock and are currently preparing the vessel to be placed in cold-stack mode for at least the remainder of 2012. This decision resulted in the conclusion that the vessel was impaired at June 30, 2012. Accordingly, we recorded a \$14.6 million impairment charge to reduce the carrying cost of the *Intrepid* to its estimated fair value. Excluding that impairment charge, our

Contracting Services gross profit increased 8%, reflecting higher utilization of our construction vessels and ROVs. Furthermore, gross profit was negatively impacted in the second quarter of 2012 due to the extended regulatory dry docking and the associated out of service days for both the *Q4000* and the *Seawell*. We anticipate high utilization for all of our vessels for the remainder of 2012 with the exception of the planned regulatory dry dock of the *Well Enhancer* in the third quarter and the *Intrepid* being in cold-stack mode.



Oil and Gas gross profit increased by 13% in the second quarter of 2012 as compared to the same period in 2011, which was partially attributable to lower asset retirement obligation cost overruns. Additionally, there were no oil and gas property impairments for the three-month period ended June 30, 2012 while such impairments totaled \$11.6 million for the three-month period ended June 30, 2011. Absent the effect of the aforementioned 2011 charges, oil and gas gross profit decreased by approximately 13%, primarily reflecting lower production volumes offset in part by higher oil price realizations.

***Ineffectiveness on Oil and Gas Commodity Derivative Contracts.*** The \$10.1 million gain on oil and gas commodity derivative contracts reflects the amount of unrealized ineffectiveness associated with our oil derivative contracts that were designated as hedging contracts.

***Selling, General and Administrative Expenses.*** Our selling, general and administrative expenses were essentially flat in both absolute dollar amounts and as a percentage of total revenues (7%) for the comparable second quarter periods of 2012 and 2011.

***Equity in Earnings of Investments.*** Equity in earnings of investments was \$5.7 million in the second quarter of 2012 as compared to \$5.9 million in the second quarter of 2011. This decrease was primarily due to Independence Hub receiving lower fees from major customers of the facility following expiration of a five-year supplemental monthly demand fee in March 2012. Such decrease in equity in earnings of investments was partially offset by a \$3.7 million recovery of previously estimated losses associated with our Australian joint venture when we completed our exit from that joint venture in April 2012.

***Net Interest Expense.*** Our net interest expense totaled \$18.6 million for the three-month period ended June 30, 2012 as compared to \$25.3 million in the same period last year. The decrease in interest expense primarily reflects a general reduction of our indebtedness since the second quarter of 2011, including the early extinguishment of approximately \$275 million of our Senior Unsecured Notes during the third quarter of 2011 (\$75 million) and the first quarter of 2012 (\$200 million). The Senior Unsecured Notes bear a 9.5% interest rate which is greater than the 5.1% weighted average interest rate of our total indebtedness as of June 30, 2012. Capitalized interest totaled \$1.0 million for the three-month period ended June 30, 2012 as compared to \$0.3 million for the same period in 2011. Interest income totaled \$0.3 million for the second quarter of 2012 as compared with \$0.5 million in the second quarter of 2011.

***Other Income (Expense), net.*** We reported other expense of \$1.7 million in second quarter 2012 as compared to other income of \$1.3 million in the same prior year period. The increase in other expense primarily reflects foreign exchange fluctuations in our non U.S. dollar functional currencies.

***Provision for Income Taxes.*** Income taxes reflected expense of \$18.5 million in the second quarter of 2012 as compared to \$16.2 million in the same period last year. The variance primarily reflects increased profitability in the current year period. The effective tax rate of 28.9% for the second quarter of 2012 was higher than the 27.7% effective tax rate for the second quarter of 2011 as a result of the increased profitability in certain foreign jurisdictions with higher tax rates.

**Comparison of Six Months Ended June 30, 2012 and 2011**

The following table details various financial and operational highlights for the periods presented:

	<b>Six Months Ended June 30,</b>		<b>Increase/ (Decrease)</b>
	<b>2012</b>	<b>2011</b>	
Revenues (in thousands) –			
Contracting Services	\$ 454,101	\$ 302,890	\$ 151,211
Production Facilities	39,985	36,115	3,870
Oil and Gas	328,018	341,317	(13,299)
Intercompany elimination	(66,783)	(50,396)	(16,387)
	<u>\$ 755,321</u>	<u>\$ 629,926</u>	<u>\$ 125,395</u>

Gross profit (in thousands) –			
Contracting Services	\$ 92,850	\$ 48,561	\$ 44,289
Production Facilities	20,207	18,206	2,001
Oil and Gas	146,346	112,093	34,253
Corporate	(1,546)	(1,657)	111
Intercompany elimination	(2,922)	71	(2,993)
	<u>\$ 254,935</u>	<u>\$ 177,274</u>	<u>\$ 77,661</u>

Gross Margin –		
Contracting Services	20%	16%
Production Facilities	51%	50%
Oil and Gas	45%	33%
Total company	34%	28%

Number of vessels <sup>(1)</sup> / Utilization <sup>(2)</sup>		
Contracting Services:		
Construction vessels	9/89%	8/61%
Well operations	3/76%	3/83%
ROVs	51/67%	46/52%

(1) Represents number of vessels as of the end of the period excluding acquired vessels prior to their in-service dates, vessels taken out of service prior to their disposition and vessels jointly owned with a third party.

(2) Average vessel utilization rate is calculated by dividing the total number of days the vessels in this category generated revenues by the total number of calendar days in the applicable period.

Intercompany segment revenues during the six-month periods ended June 30, 2012 and 2011 were as follows (in thousands):

	<b>Six Months Ended June 30,</b>		<b>Increase/ (Decrease)</b>
	<b>2012</b>	<b>2011</b>	
Contracting Services	\$ 43,739	\$ 27,164	\$ 16,575
Production Facilities	23,044	23,232	(188)
	<u>\$ 66,783</u>	<u>\$ 50,396</u>	<u>\$ 16,387</u>

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Intercompany segment profit during the six-month periods ended June 30, 2012 and 2011 was as follows (in thousands):

	<b>Six Months Ended June 30,</b>		<b>Increase/ (Decrease)</b>
	<b>2012</b>	<b>2011</b>	
Contracting Services	\$ 3,009	\$ 39	\$ 2,970
Production Facilities	(87)	(110)	23
	<u>\$ 2,922</u>	<u>\$ (71)</u>	<u>\$ 2,993</u>

The following table details various financial and operational highlights related to our Oil and Gas segment for the periods presented:

	<b>Six Months Ended June 30,</b>		<b>Increase/ (Decrease)</b>
	<b>2012</b>	<b>2011</b>	
Oil and Gas information –			
Oil production volume (MBbls)	2,658	2,931	(273)
Oil sales revenue (in thousands)	\$ 288,169	\$ 280,910	\$ 7,259
Average oil sales price per Bbl (excluding hedges)	\$ 109.45	\$ 103.92	\$ 5.53
Average realized oil price per Bbl (including hedges)	\$ 108.41	\$ 95.83	\$ 12.58
Increase (decrease) in oil sales revenue due to:			
Change in prices (in thousands)	\$ 36,881		
Change in production volume (in thousands)	(29,622)		
Total increase in oil sales revenue (in thousands)	<u>\$ 7,259</u>		
Gas production volume (MMcf)	6,303	9,477	(3,174)
Gas sales revenue (in thousands)	\$ 36,518	\$ 56,282	\$ (19,764)
Average gas sales price per mcf (excluding hedges)	\$ 4.06	\$ 5.35	\$ (1.29)
Average realized gas price per mcf (including hedges)	\$ 5.79	\$ 5.94	\$ (0.15)
Decrease in gas sales revenue due to:			
Change in prices (in thousands)	\$ (1,376)		
Change in production volume (in thousands)	(18,388)		
Total decrease in gas sales revenue (in thousands)	<u>\$ (19,764)</u>		
Total production (MBOE)	3,709	4,511	(802)
Price per BOE	\$ 87.55	\$ 74.75	\$ 12.80
Oil and Gas revenue information (in thousands) –			
Oil and gas sales revenue	\$ 324,687	\$ 337,192	\$ (12,505)
Other revenues			
(1)	3,331	4,125	(794)
	<u>\$ 328,018</u>	<u>\$ 341,317</u>	<u>\$ (13,299)</u>

(1) Other revenues include fees earned under our process handling agreements.

Presenting the expenses of our Oil and Gas segment on a cost per barrel of production basis normalizes for the impact of production gains/losses and provides a measure of expense control efficiencies. The following table highlights certain relevant expense items in total (in thousands) and on a cost per barrel of production basis (natural gas converted to barrel of oil equivalent at a ratio of six Mcf of natural gas to each barrel of oil):

	Six Months Ended June 30,			
	2012		2011	
	Total	Per barrel	Total	Per barrel
Oil and gas operating expenses <sup>(1)</sup> :				
Direct operating expenses <sup>(2)</sup>	\$ 55,877	\$ 15.07	\$ 60,050	\$ 13.32
Workover	8,231	2.22	4,804	1.06
Transportation	3,833	1.03	3,802	0.84
Repairs and maintenance	3,984	1.08	5,247	1.16
Overhead and company labor	5,984	1.61	6,613	1.47
	<u>\$ 77,909</u>	<u>\$ 21.01</u>	<u>\$ 80,516</u>	<u>\$ 17.85</u>
Depletion expense	\$ 80,718	\$ 21.77	\$ 114,239	\$ 25.32
Abandonment	14,259	3.84	11,533	2.56
Accretion expense	6,854	1.85	7,630	1.69
Net hurricane (reimbursements) costs	86	0.02	(4,552)	(1.01)
Impairment	—	—	11,573	2.57
	<u>101,917</u>	<u>27.48</u>	<u>140,423</u>	<u>31.13</u>
Total	<u>\$ 179,826</u>	<u>\$ 48.49</u>	<u>\$ 220,939</u>	<u>\$ 48.98</u>

(1) Excludes exploration expense of \$1.8 million and \$8.3 million for the six-month periods ended June 30, 2012 and 2011, respectively. Exploration expense is not a component of lease operating expense.

(2) Includes production taxes.

**Revenues.** Our Contracting Services revenues increased by 50% for the six-month period ended June 30, 2012 as compared to the same period in 2011. The increase reflects significantly higher utilization for our subsea construction vessels, which benefited from an increase in activity in the Gulf of Mexico in the first quarter of 2012, the continued deployment of the *Caesar* on an accommodation project in Mexico and the *Express* working offshore Israel for most of the second quarter of 2012. Our combined robotics and well operations revenues for the six-month period ended June 30, 2012 increased by 32% over amounts realized in the first half of 2011. The increase in our robotics revenues reflects the high utilization of our chartered vessels and owned ROVs, the utilization of a number of additional spot market vessels for much of the first half of 2012, and the performance of a number of North Sea trenching projects in early 2012 (which activities are not normally conducted during the first quarter in large part because of seasonal weather patterns). Our well operations activities reflected increased revenues despite the *Q4000* and the *Seawell* being in dry dock for 70 days and 52 days, respectively, with most of the associated out of service days occurring in the second quarter of 2012. The *Well Enhancer* is expected to go into dry dock in the third quarter of 2012. As noted in the “Comparison of the Three Months Ended June 30, 2012”, the *Intrepid* was idle for most of the second quarter of 2012 and is being placed in cold-stack mode.

Oil and Gas revenues decreased 4% during the six-month period ended June 30, 2012 as compared to the same period in 2011, reflecting lower production volumes offset in part by higher oil prices. Our production decreased by 18% in the first half of 2012 as compared to the same period in 2011, primarily reflecting much lower natural gas production, normal oil production declines, and the weather-related downtime affecting certain of our fields in June 2012. The decrease in the production of natural gas primarily reflects the disposition of certain oil and gas properties subsequent to June 30, 2011, most notably eight natural gas producing fields in the Main Pass area in January 2012.

Our Production Facilities revenues increased by 11% for the six-month period ended June 30, 2012 as compared to the same period in 2011. The increase in revenues primarily reflects the quarterly HFRS retainer fee, which commenced on April 1, 2011.

**Gross Profit.** Gross profit associated with our Contracting Services increased by approximately 91% in the first half of 2012 as compared to the same period last year. This increase reflects the strong margins achieved on many of our Contracting Services projects as well as the increased number and much higher utilization of our construction vessels and ROVs. Gross profit was negatively impacted in the first half of 2012 because of the extended regulatory dry docking for the *Q4000* and the *Seawell*, as well as a \$14.6 million asset impairment charge recorded following our decision to place the *Intrepid* in cold-stack mode (Note 14).

Absent the scheduled dry dock of the *Well Enhancer* in the third quarter of 2012 and the *Intrepid* being in cold-stack mode, we expect high utilization for our well operations and robotics vessels for the remainder of 2012.

Oil and Gas gross profit increased by approximately 30% during the six-month period ended June 30, 2012 as compared to the same period in 2011, which was primarily attributable to higher oil price realizations offset in part by lower production volumes. The decrease in our sales volumes was primarily related to lower natural gas production as a result of the disposition of eight of our non-operated properties (see below). We are also experiencing normal oil production declines at our Phoenix field.

**Loss on Sale of Assets, Net.** The \$1.7 million loss on the disposition of assets in the first half of 2012 primarily reflects the disposition of eight of our non-operated oil and gas properties located in the Main Pass area of the Gulf of Mexico. We transferred our ownership interests in these natural gas producing properties to our joint interest partner in exchange for them assuming our share (\$5.3 million) of the future asset retirement obligations associated with these properties.

**Ineffectiveness on Oil and Gas Commodity Derivative Contracts.** The \$7.7 million gain on oil and gas commodity derivative contracts reflects the amount of unrealized ineffectiveness associated with our oil derivative contracts designated as hedging contracts.

**Selling, General and Administrative Expenses.** Our selling, general and administrative expenses were essentially flat when comparing the year over year periods. However, as a percentage of revenues our selling, general and administrative expenses decreased to 6.7% in the first half of 2012 as compared to 7.7% in the first half of 2011. Our selling, general and administrative expenses in the first half of 2011 included \$1.6 million of costs related to the resignation of our Executive Vice President and Chief Operating Officer.

**Equity in Earnings of Investments.** Equity in earnings of investments decreased by \$5.4 million during the six-month period ended June 30, 2012 as compared to the same prior year period. The decrease was primarily due to Independence Hub receiving lower fees from major customers of the facility following expiration of a five-year supplemental monthly demand fee in March 2012.

**Net Interest Expense.** Our net interest expense totaled \$40.4 million for the six-month period ended June 30, 2012 as compared to \$49.5 million in the same period last year. The decrease in interest expense primarily reflects a general reduction of our indebtedness since the second quarter of 2011, including the early extinguishment of approximately \$275 million of our Senior Unsecured Notes during the third quarter of 2011 (\$75 million) and the first quarter of 2012 (\$200 million). The Senior Unsecured Notes bear a 9.5% interest rate which is greater than the 5.1% weighted average interest rate of our total indebtedness as of June 30, 2012. Capitalized interest totaled \$1.5 million for the six-month period ended June 30, 2012 as compared to \$0.3 million for the same period in 2011. Interest income totaled \$0.9 million for the first half of 2012 as compared with \$1.0 million in the first half of 2011.

**Loss on early extinguishment of long term debt.** The charges of \$17.1 million were associated with the early extinguishment of portions of our debt in the first quarter of 2012, including \$11.5 million related to our repurchase of \$200 million of our Senior Unsecured Notes and \$5.6 million related to our repurchase of \$142.2 million of our 2025 Notes (Note 7).

**Other Income (Expense), net.** We reported other expense of \$1.6 million in first half of 2012 as compared to other income of \$3.9 million in the same prior year period. The increase in other expense primarily reflects foreign exchange fluctuations in our non U.S. dollar functional currencies. In the first half of 2012, we recorded gains on our foreign exchange forward contracts totaling \$0.2 million compared to gains of \$0.6 million in the first half of 2011 (Note 16). In the first half of 2011, we also sold our remaining 0.5 million shares of Cal Dive common stock for net proceeds of approximately \$3.6 million. Our gain on the sale of these remaining Cal Dive common shares was approximately \$0.8 million.

**Provision for Income Taxes.** Income taxes reflected expense of \$45.8 million in the six-month period ended June 30, 2012 as compared to \$25.7 million in the same period last year. The variance primarily reflects increased profitability in the current year period. The effective tax rate of 29.0% for the first half of 2012 was higher than the 27.2% effective tax rate for the same period in 2011 as a result of the increased profitability in certain foreign jurisdictions with higher tax rates.



## LIQUIDITY AND CAPITAL RESOURCES

### Overview

The following table presents certain information useful in the analysis of our financial condition and liquidity for the periods presented:

	<b>June 30, 2012</b>	<b>December 31, 2011</b>
	<b>(in thousands)</b>	
Net working capital	\$ 656,906	\$ 548,066
Long-term debt <sup>(1)</sup>	1,167,908	1,147,444
Liquidity <sup>(2)</sup>	1,103,191	1,105,065

- (1) Long-term debt does not include the current maturities portion of the long-term debt as such amount is included in net working capital. It is also net of unamortized debt discount on our 2025 Notes and 2032 Notes (Note 7).
- (2) Liquidity, as defined by us, is equal to cash and cash equivalents plus available capacity under our revolving credit facility, which capacity is reduced by current letters of credit drawn against the facility. During the second half of 2012, we anticipate a significant reduction in our liquidity reflecting capital expenditures to expand our well intervention fleet as well as expected cash outlays to pay down our existing debt and to fund other capital expenditures (see “Outlook” below).

The carrying amount of our debt, including current maturities, as of June 30, 2012 and December 31, 2011 was as follows:

	<b>June 30, 2012</b>	<b>December 31, 2011</b>
	<b>(in thousands)</b>	
Term Loans (mature July 2015) <sup>(1)</sup>	\$ 377,000	\$ 279,750
Revolving Credit Facility (matures July 2015) <sup>(1)</sup>	100,000	—
2025 Notes (mature March 2025) <sup>(2)</sup>	155,348	290,445
2032 Notes (mature March 2032) <sup>(3)</sup>	165,840	—
Senior Unsecured Notes (mature January 2016)	274,960	474,960
MARAD Debt (matures February 2027)	107,757	110,166
<b>Total</b>	<b>\$1,180,905</b>	<b>\$ 1,155,321</b>

- (1) Represents earliest date debt would mature; see Note 7 for conditions that would extend the maturity date.
- (2) These amounts are net of the unamortized debt discount of \$2.5 million and \$9.6 million, respectively. The notes will increase to \$157.8 million face amount through accretion of non-cash interest charges through 2012. Notes may be redeemed by the holders beginning in December 2012 (Note 7).
- (3) This amount is net of the unamortized debt discount of \$34.2 million. The notes will increase to the \$200 million face amount through accretion of non-cash interest charges through March 2018, which is the period in which the holders of the notes may first require us to redeem the notes.

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The following table provides summary data from our condensed consolidated statements of cash flows:

	<b>Six Months Ended June 30,</b>	
	<b>2012</b>	<b>2011</b>
	<b>(in thousands)</b>	
Net cash provided by (used in):		
Operating activities	\$ 221,020	\$ 250,573
Investing activities	\$ (145,402)	\$ (102,777)
Financing activities	\$ 27,116	\$ (124,268)

Our current requirements for cash primarily reflect the need to fund capital expenditures to allow the growth of our current lines of business and to service our existing debt. We also intend to repay debt with any additional free cash flow from operations and/or cash received from any dispositions of our non-core business assets. Historically, we have funded our capital program, including acquisitions, with cash flow from operations, borrowings under credit facilities and use of project financing along with other debt and equity alternatives.

We remain focused on maintaining a strong balance sheet and adequate liquidity. We have a reasonable basis for estimating our future cash flow supported by our remaining Contracting Services backlog and the hedged portion of our estimated oil and gas production through 2013. We believe that internally generated cash flow and available borrowing capacity under our Revolving Credit Facility will be sufficient to fund our operations throughout 2012. Separately, under certain circumstances or conditions, we may reduce our planned capital spending and seek further additional dispositions of our non-core business assets to the extent satisfactory economic opportunities exist.

In accordance with our Credit Agreement, Senior Unsecured Notes, 2025 Notes, 2032 Notes and MARAD debt, we are required to comply with certain covenants and restrictions, including certain financial ratios such as collateral coverage, interest coverage and consolidated indebtedness leverage, as well as the maintenance of minimum net worth, working capital and debt-to-equity requirements. The Credit Agreement and Senior Unsecured Notes also contain provisions that limit our ability to incur certain types of additional indebtedness. These provisions effectively prohibit us from incurring any additional secured indebtedness or indebtedness guaranteed by the Company. The Credit Agreement does permit us to incur certain unsecured indebtedness, and also provides for our subsidiaries to incur project financing indebtedness (such as our MARAD loan) secured by the underlying asset, provided that such indebtedness is not guaranteed by us. Upon the occurrence of certain dispositions or the issuance or incurrence of certain types of indebtedness, we may be required to prepay a portion of the Term Loan equal to the amount of proceeds received from such occurrences (or at least 60% of the proceeds from the disposition of certain assets). Such prepayments will be applied first to the Term Loan, and any excess will then be applied to the Term Loan A and the Revolving Credit Facility. As of June 30, 2012 and December 31, 2011, we were in compliance with all of our debt covenants and restrictions.

A prolonged period of weak economic activity may make it difficult to comply with our covenants and other restrictions in agreements governing our debt. Our ability to comply with these covenants and other restrictions is affected by economic conditions and other events beyond our control. If we fail to comply with these covenants and other restrictions, such failure could lead to an event of default, the possible acceleration of our repayment of outstanding debt and the exercise of certain remedies by the lenders, including foreclosure on our pledged collateral.

Our 2025 Notes and 2032 Notes can be converted prior to stated maturity under certain triggering events specified in the respective indentures governing each series of Convertible Senior Notes. To the extent we do not have cash on hand or long-term financing secured to cover the conversion, the 2025 Notes and 2032 Notes would be classified as a current liability in the accompanying condensed

consolidated balance sheet. No conversion triggers were met during the first half of 2012. The holders may redeem the 2025 Notes beginning December 2012 (Note 7 as well as Note 9 of our 2011 Form 10-K). As the holders have this option, we assessed whether or not this debt was required to be classified as a current liability at June 30, 2012 but concluded this debt still qualified as a long term debt because a) we possess enough borrowing capacity under our Revolving Credit Facility (matures July 2015) to settle the Convertible Senior Notes in full and b) it is our intent to utilize our borrowing capacity under the Revolving Credit Facility or other

alternative financing proceeds to settle our 2025 Notes, if and when the holders exercise their redemption option.

In June 2011, we amended our Credit Agreement to, among other things, extend its maturity to at least July 1, 2015 and increase the availability under our Revolving Credit Facility to \$600 million. In February 2012, we entered into another amendment to our Credit Agreement. Under terms of this amendment, the lenders provided us with \$100 million in additional proceeds under a term loan (Term Loan A). The terms of the Term Loan A are the same as those governing the Revolving Credit Facility, with the Term Loan A requiring a \$5 million annual payment of the principal balance. The Term Loan A funded in late March 2012 and we used these proceeds and \$100 million of borrowings under our Revolving Credit Facility to redeem \$200 million of our Senior Unsecured Notes outstanding. See Note 7 as well as Note 9 of our 2011 Form 10-K for additional information related to our long-term debt, including more information regarding the recent amendments to our Credit Agreement and our requirements and obligations under the debt agreements including our covenants and collateral security.

*Working Capital*

Cash flow from operating activities decreased by \$29.6 million in the six-month period ended June 30, 2012 as compared to the same period in 2011. This decrease primarily reflects decreased oil and natural gas production and the effect of some of our vessels being in dry dock in the first half of 2012. These decreases were partially offset by increased level of Contracting Services activity and the substantially higher oil prices realized in the first half of 2012.

*Investing Activities*

Capital expenditures have consisted principally of the purchase or construction of dynamically positioned vessels, strategic acquisitions of select businesses, improvements to existing vessels, acquisition, exploration and development of oil and gas properties and investments in our production facilities. Significant sources (uses) of cash associated with investing activities for the six-month periods ended June 30, 2012 and 2011 were as follows:

	<b>Six Months Ended June 30,</b>	
	<b>2012</b>	<b>2011</b>
	<b>(in thousands)</b>	
Capital expenditures:		
Contracting Services	\$ (115,006)	\$ (30,840)
Production Facilities	(773)	(14,688)
Oil and Gas	(34,328)	(60,594)
Distributions (investments) from equity investments, net <sup>(1)</sup>	2,045	(1,106)
Proceeds from sale of Cal Dive common stock	—	3,588
Decrease in restricted cash	2,660	863
Cash used in investing activities	<u>\$ (145,402)</u>	<u>\$ (102,777)</u>

(1) Distributions from equity investments are net of undistributed equity earnings from our equity investments. Gross distributions from our equity investments are detailed in “Equity Investments” below.

Capital expenditures associated with our Contracting Services business primarily include payments on our recently announced semi-submersible well intervention vessel and the acquisition and construction of additional ROVs and trenchers related to our robotics business.

On July 23, 2012, we entered into a definitive agreement to acquire the *Discoverer 534* drillship from a subsidiary of Transocean Ltd. for \$85 million. The transaction is expected to close in August 2012. We will then convert the drillship into a well intervention vessel in Singapore. Expected cost for the vessel and subsequent conversion into a well intervention vessel is approximately \$180 million, all of

which is expected to be incurred in the second half of 2012. The vessel is expected to join our well intervention fleet in the Gulf of Mexico in the first half of 2013.

Our oil and gas capital expenditures included costs associated with the exploration activities at our Danny II prospect at Garden Banks Block 506. We hold a 50% working interest in the Danny II exploration well that was drilled to a total depth of approximately 14,750 feet, in water depths of approximately 2,800 feet. Based on preliminary data, the well has encountered more than 70 feet of high quality net pay. The well, expected to be predominately an oil producer, is currently being completed and is expected to be developed via a subsea tie back system to our 70% owned and operated East Cameron Block 381 platform. First production from Danny II is expected in the fourth quarter of 2012.

### *Restricted Cash*

As of June 30, 2012 and December 31, 2011, we had \$31.1 million and \$33.7 million of restricted cash, all of which consisted of funds required to be escrowed to cover the future asset retirement obligations associated with our South Marsh Island Block 130 field. We have fully satisfied our escrow requirements and may use the restricted cash for future asset retirement costs for this field. We have used a small portion of these escrowed funds to pay for the initial reclamation activities at the South Marsh Island Block 130 field. Reclamation activities at the field will occur over many years and will be funded with these escrowed amounts. These amounts are reflected in other assets, net in the accompanying condensed consolidated balance sheets.

### *Equity Investments*

We received the following distributions from our equity investments during the six-month periods ended June 30, 2012 and 2011:

	<b>Six Months Ended June 30,</b>	
	<b>2012</b>	<b>2011</b>
	<b>(in thousands)</b>	
Deepwater Gateway.	\$ 3,400	\$ 3,550
Independence Hub	4,800	9,580
Total	<u>\$ 8,200</u>	<u>\$ 13,130</u>

### **Outlook**

We anticipate that capital expenditures for the remainder of 2012 will total between \$450 million and \$460 million. These estimates may increase or decrease based on various economic factors and/or existence of additional investment opportunities. However, we may reduce the level of our planned capital expenditures given any prolonged economic downturn or our inability to execute disposition transactions related to our remaining non-core business assets, most notably all or a portion of our oil and gas business assets. We believe that internally-generated cash flow, cash from future sales of our non-core business assets, and availability under our existing credit facilities will provide the capital necessary to fund our 2012 initiatives.

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The following table summarizes our contractual cash obligations as of June 30, 2012 and the scheduled years in which the obligations are contractually due (in thousands):

	<u>Total <sup>(1)</sup></u>	<u>Less Than 1 year</u>	<u>1-3 Years</u>	<u>3-5 Years</u>	<u>More Than 5 Years</u>
2025 Notes <sup>(2)</sup>	\$ 157,830	\$ —	\$ —	\$ —	\$ 157,830
2032 Notes <sup>(3)</sup>	200,000	—	—	—	200,000
Senior Unsecured Notes	274,960	—	—	274,960	—
Term Loans <sup>(4)</sup>	377,000	8,000	16,000	353,000	—
MARAD debt	107,757	4,997	10,755	11,855	80,150
Revolving Credit Facility <sup>(5)</sup>	100,000	—	—	100,000	—
Interest related to debt	327,253	60,000	111,937	35,978	119,338
Drilling and development costs	87,275	87,275	—	—	—
Property and equipment <sup>(6,7)</sup>	358,488	143,188	215,300	—	—
Operating leases <sup>(8)</sup>	345,717	55,875	116,859	121,502	51,481
<b>Total cash obligations</b>	<b><u>\$ 2,336,280</u></b>	<b><u>\$ 359,335</u></b>	<b><u>\$ 470,851</u></b>	<b><u>\$ 897,295</u></b>	<b><u>\$ 608,799</u></b>

- (1) Excludes unsecured letters of credit outstanding at June 30, 2012 totaling \$46.3 million. These letters of credit primarily guarantee asset retirement obligations as well as various contract bidding, insurance activities and shipyard commitments.
- (2) Contractual maturity in 2025 (2025 Notes can be redeemed by us or we may be required to purchase them beginning in December 2012). Notes can be converted prior to stated maturity if closing sale price of Helix's common stock for at least 20 days in the period of 30 consecutive trading days ending on the last trading day of the preceding fiscal quarter exceeds 120% of the closing price on that 30<sup>th</sup> trading day (i.e., \$38.57 per share) and under certain triggering events as specified in the indenture governing the 2025 Notes. Upon the occurrence of a triggering event, to the extent we do not have alternative long-term financing secured to cover the conversion, the 2025 Notes would be classified as a current liability in the accompanying balance sheet. At June 30, 2012, the conversion trigger was not met.
- (3) Contractual maturity in 2032. The 2032 Notes have the same triggering mechanisms as noted in the 2025 Notes in (2) above except its issuance price is \$25.02 per share and the stock price would have to exceed 130% of its issuance price on that 30<sup>th</sup> trading day (i.e., \$32.53 per share). At June 30, 2012, the conversion trigger was not met. The first date that the holders of these notes may require us to redeem the notes is in March 2018. See Note 7 for additional information regarding these 2032 Notes.
- (4) Our Term Loans will mature on July 1, 2015 but may extend to July 1, 2016 (January 1, 2016 with regards to Term Loan A) if our Senior Unsecured Notes are either refinanced or repaid in full by July 1, 2015 (Note 7).
- (5) Our Revolving Credit Facility will mature on July 1, 2015 but may extend to January 1, 2016 if our Senior Unsecured Notes are either refinanced or repaid in full by July 1, 2015 (Note 7).
- (6) Primarily reflects the costs related to construction of our new semi-submersible well intervention vessel (Note 14).
- (7) Amount does not include the approximately \$180 million of costs associated with the acquisition and subsequent conversion of the drillship, *Discoverer 534*, into a well intervention vessel (see "Investing Activities" above).
- (8) Operating leases included facility leases and vessel charter leases. Vessel charter lease commitments at June 30, 2012 were approximately \$335.2 million.





## CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Our discussion and analysis of our financial condition and results of operations are based upon our condensed consolidated financial statements. We prepare these financial statements in conformity with accounting principles generally accepted in the United States. As such, we are required to make certain estimates, judgments and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the periods presented. We base our estimates on historical experience, available information and various other assumptions we believe to be reasonable under the circumstances. These estimates may change as new events occur, as more experience is acquired, as additional information is obtained and as our operating environment changes. For additional information regarding our critical accounting policies and estimates, please read our “Critical Accounting Policies and Estimates” as disclosed in our 2011 Form 10-K.

### Item 3. Quantitative and Qualitative Disclosure about Market Risk

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

*Interest Rate Risk.* As of June 30, 2012, \$477.0 million of our outstanding debt was subject to floating rates. The interest rate applicable to our variable rate debt may rise, increasing our interest expense and related cash outlay. To reduce the impact of this market risk, in January 2010, we entered into two-year cash flow hedging interest rate swaps to stabilize cash flows relating to interest payments on \$200 million of our Term Loan. In August 2011, we entered into additional interest rate swap contracts to fix the interest rate on \$200 million of our Term Loan. These swap contracts, which are settled monthly, begin in January 2012 and extend through January 2014. The impact of market risk is estimated using a hypothetical increase in interest rates by 100 basis points for our variable rate long-term debt that is not hedged. Based on this hypothetical assumption, we would have incurred an additional \$0.9 million in interest expense for the first six months of 2012.

Our financial instruments that are potentially sensitive to changes in interest rates also include our Term Loans, 2025 Notes, 2032 Notes, Senior Unsecured Notes and MARAD Debt. The following table reflects the fair value of these debt instruments as compared to their respective carrying value as of June 30, 2012 (in thousands):

	<u>Fair Value</u>	<u>Carrying Value</u>
Term Loans (mature July 2015) <sup>(a)</sup>	\$ 376,630	\$ 377,000
2025 Notes (mature March 2025) <sup>(a)</sup>	158,824	157,830 <sup>(b)</sup>
2032 Notes (mature March 2032) <sup>(a)</sup>	207,500	200,000 <sup>(c)</sup>
Senior Unsecured Notes (mature January 2016) <sup>(a)</sup>	290,083	274,960
MARAD Debt (matures February 2027) <sup>(d)</sup>	123,382	107,757
Total	<u>\$ 1,156,419</u>	<u>\$ 1,117,547</u>

- a. The fair values of these instruments were based on quoted market prices as of June 30, 2012.
- b. Amount excludes the related unamortized debt discount of \$2.5 million.
- c. Amount excludes the related unamortized debt discount of \$34.2 million.
- d. The fair value of the MARAD debt was determined using a third party evaluation of the remaining average life and outstanding principal balance of the MARAD indebtedness as compared to other governmental obligations in the marketplace with similar terms.

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**Commodity Price Risk.** As of June 30, 2012, we had the following volumes under derivative contracts related to our oil and gas producing activities totaling approximately 4.3 million barrels of oil and 11.6 Bcf of natural gas:

<u>Production Period</u>	<u>Instrument Type</u>	<u>Average Monthly Volumes</u>	<u>Weighted Average Price (a)</u>
<b>Crude Oil:</b>			(per barrel)
July 2012 — December 2012	Collar	75.0 MBbl	\$ 96.67 — \$118.57 (b)
July 2012 — December 2012	Collar	99.1 MBbl	\$ 99.67 — \$118.42
July 2012 — December 2012	Swap	96.6 MBbl	\$92.52
January 2013 — December 2013	Swap	88.9 MBbl	\$95.28
January 2013 — December 2013	Collar	133.3 MBbl	\$ 98.44 — \$115.85
<b>Natural Gas:</b>			(per Mcf)
July 2012 — December 2012	Swap	777.5 Mmcf	\$4.29
July 2012 — December 2012	Collar	156.7 Mmcf	\$4.75 — \$5.09
January 2013 — December 2013	Swap	500.0 Mmcf	\$4.09

- The prices quoted in the table above are NYMEX Henry Hub for natural gas. Most of our oil contracts are indexed to the Brent crude oil price.
- This contract is priced using NYMEX West Texas Intermediate for crude oil.

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

**Foreign Currency Exchange Rate Risk.** Because we operate in various regions around the world, we conduct a portion of our business in currencies other than the U.S. dollar (primarily with respect to our U.K. and Australian operations). As such, our earnings are subject to movements in foreign currency exchange rates when transactions are denominated in a) currencies other than the U.S. dollar, which is our functional currency or b) the functional currency of our subsidiaries, which is not necessarily the U.S. dollar. In order to mitigate the effects of exchange rate risks in areas outside the U.S., we generally pay a portion of our expenses in local currencies and a substantial portion of our contracts provide for collections from customers in U.S. dollars. During the first six months of 2012, we recognized foreign exchange loss of \$1.8 million in "Other income (expense), net" in the condensed consolidated statements of income and comprehensive income. We also entered into various foreign currency forward purchase contracts to stabilize expected cash outflows relating to certain vessel charters denominated in British pounds. The gain resulting from changes in the fair value of our foreign exchange forwards that were not designated for hedge accounting totaled \$0.2 million for the six-month period ended June 30, 2012.

#### **Item 4. Controls and Procedures**

- Evaluation of disclosure controls and procedures.** Our management, with the participation of our principal executive officer and principal financial officer, evaluated the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) promulgated under the Exchange Act) as of the end of the fiscal quarter ended June 30, 2012. Based on this evaluation, the principal executive officer and the principal financial officer have concluded that our disclosure controls and procedures were effective as of the end of the fiscal quarter ended June 30, 2012 to ensure that information that is required to be disclosed by us in the reports we file or submit under the Exchange Act is (i) recorded, processed, summarized and reported, within the time periods specified in the SEC's rules and forms and (ii) accumulated and communicated to our management, as appropriate, to allow timely decisions regarding required disclosure.

(b) Changes in internal control over financial reporting. There have been no changes in our internal control over financial reporting, as defined in Rule 13a-15(f) of the Exchange Act, in the period covered by this report that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting. Resulting impacts on internal controls over financial reporting were evaluated and determined not to be significant for the fiscal quarter ended June 30, 2012.

**Part II. OTHER INFORMATION****Item 1. Legal Proceedings**

See Part I, Item 1, Note 14 to the Condensed Consolidated Financial Statements, which is incorporated herein by reference.

**Item 2. Unregistered Sales of Equity Securities and Use of Proceeds****Issuer Purchases of Equity Securities**

<u>Period</u>	<u>(a) Total number of shares purchased</u>	<u>(b) Average price paid per share</u>	<u>(c) Total number of shares purchased as part of publicly announced program (2)</u>	<u>(d) Maximum number of shares that may yet be purchased under the program (2)</u>
April 1 to April 30, 2012 <sup>(1)</sup>	61	\$ 16.86	—	405,063
May 1 to May 31, 2012 <sup>(1)</sup>	1,143	19.67	—	405,063
June 1 to June 30, 2012 <sup>(1)</sup>	410,203	15.82	405,063	—
	<u>411,407</u>	\$ 15.83	<u>405,063</u>	

(1) Represents shares withheld to satisfy tax obligations arising upon the vesting of restricted shares.

(2) Represents amounts of restricted shares issued to certain of our employees in 2012 (Note 11). Under the terms of our stock repurchase program, these grants increase the amount of shares available for repurchase. In June 2012, we repurchased 405,063 shares in open market transactions totaling \$6.4 million for an average of \$15.82 per share. For additional information regarding our stock repurchase program, see Note 14 of the 2011 Form 10-K.

**Item 5. Other Information**

On July 23, 2012, we entered into a definitive agreement to acquire the *Discoverer 534* drillship from a subsidiary of Transocean Ltd. for \$85 million (see Exhibit 10.2 of our Exhibit Index). The transaction is expected to close in August 2012. We will then convert the drillship into a well intervention vessel in Singapore. Expected cost for the vessel and subsequent conversion into a well intervention vessel is approximately \$180 million, all of which is expected to be incurred in the second half of 2012. The vessel is expected to join our well intervention fleet in the Gulf of Mexico in the first half of 2013.

**Item 6. Exhibits**

The exhibits to this report are listed in the Exhibit Index beginning on Page 55 hereof.

## SIGNATURES

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

### **HELIX ENERGY SOLUTIONS GROUP, INC. (Registrant)**

Date: July 25, 2012

By: **/s/ Owen Kratz**  
Owen Kratz  
President and Chief Executive Officer  
(Principal Executive Officer)

Date: July 25, 2012

By: **/s/ Anthony Tripodo**  
Anthony Tripodo  
Executive Vice President and  
Chief Financial Officer  
(Principal Financial Officer)

**INDEX TO EXHIBITS  
OF  
HELIX ENERGY SOLUTIONS GROUP, INC.**

3.1	2005 Amended and Restated Articles of Incorporation, as amended, of registrant, incorporated by reference to Exhibit 3.1 to the Current Report on Form 8-K filed by registrant with the Securities and Exchange Commission on March 1, 2006.
3.2	Second Amended and Restated By-Laws of Helix, as amended, incorporated by reference to Exhibit 3.1 to the Current Report on Form 8-K, filed by the registrant with the Securities and Exchange Commission on September 28, 2006.
4.1	Amendment No. 5 to Credit Agreement dated November 11, 2011 by and among Helix Energy Solutions Group, Inc., as borrower, Bank of America, N.A., as administrative agent, and the lenders named thereto, incorporated by reference to Exhibit 4.1 to the Current Report on Form 8-K filed by registrant with the Securities and Exchange Commission on March 7, 2012.
4.2	Indenture dated as of March 12, 2012 between Helix Energy Solutions Group, Inc. and The Bank of New York Mellon Trust Company, N.A., as Trustee. Incorporated by reference to Exhibit 4.1 to the Current Report on Form 8-K filed by registrant with Securities and Exchange Commission on March 12, 2012.
10.1	Construction contract dated as of March 12, 2012 between Helix Energy Solutions Group, Inc. and Jurong Shipyard Pte Ltd., incorporated by reference to Exhibit 10.1 to the Current Report on Form 8-K filed by the registrant with the Securities and Exchange Commission on March 15, 2012.
10.2	The MODU Sale Agreement between Helix Energy Solutions Group, Inc. and Transocean Discoverer 534 LLC dated July 23, 2012. <sup>(1)</sup>
10.3	Amended and Restated 2005 Long-Term Incentive Plan of Helix Energy Solutions Group, Inc. dated May 9, 2012. <sup>(1)</sup>
10.4	Employee Stock Purchase Plan of Helix Energy Solutions Group, Inc. dated May 9, 2012. <sup>(4)</sup>
15.1	Independent Registered Public Accounting Firm's Acknowledgement Letter <sup>(1)</sup>
31.1	Certification Pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934 by Owen Kratz, Chief Executive Officer <sup>(1)</sup>
31.2	Certification Pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934 by Anthony Tripodo, Chief Financial Officer <sup>(1)</sup>
32.1	Certification of Helix's Chief Executive Officer and Chief Financial Officer pursuant to Section 906 of the Sarbanes – Oxley Act of 2002 <sup>(2)</sup>
99.1	Report of Independent Registered Public Accounting Firm <sup>(1)</sup>
101.INS	XBRL Instance Document <sup>(2)</sup>
101.SCH	XBRL Schema Document <sup>(2)</sup>
101.CAL	XBRL Calculation Linkbase Document <sup>(2)</sup>
101.PRE	XBRL Presentation Linkbase Document <sup>(2)</sup>
101.DEF	XBRL Definition Linkbase Document <sup>(2)</sup>
101.LAB	XBRL Label Linkbase Document <sup>(2)</sup>

(1) Filed herewith

(2) Furnished herewith







## MODU SALE AGREEMENT

THIS MODU SALE AGREEMENT (this “**Agreement**”) is entered into on the 23<sup>rd</sup> day of July, 2012, by and between

- (1) **TRANSOCEAN DISCOVERER 534 LLC**, a company organized and existing under and by virtue of the laws of the State of Delaware (“**Seller**”); and
- (2) **HELIX ENERGY SOLUTIONS GROUP, INC.**, a company organized and existing and by virtue of the laws of the State of Minnesota (“**Buyer**”)

(the Buyer and Seller are referred to herein individually as a “**Party**” and collectively as the “**Parties**”).

**WHEREAS** the Seller is the owner of the Unit (as defined below) which is currently warm-stacked in Johor, Malaysia, and subject to laid-up status from ABS (as defined below); and

**WHEREAS** the Buyer wishes to purchase, and the Seller wishes to sell, the Unit on the terms and conditions set forth below;

**NOW, THEREFORE** for and in consideration of the premises and the mutual agreements contained herein, the Buyer and the Seller hereby agree as follows:

### 1. DEFINITIONS AND INTERPRETATION

1.1. **Definitions.** In this Agreement, unless the context otherwise requires:

- (a) “**ABS**” means the American Bureau of Shipping.
- (b) “**Affiliate**” means, with respect to one of the Parties hereto, any other company or legal entity which (i) is owned or controlled by such Party, (ii) owns or controls such Party, or (iii) is under common ownership or control as such Party. As used in the preceding sentence, “**control**” shall mean the right or ability to control more than fifty percent (50%) of the voting rights of a company or entity.
- (c) “**Business Day**” means a day on which banks are open for business in New York City, USA, London, UK, and Singapore.
- (d) “**Certificate of Acceptance**” means the Certificate of Acceptance of Delivery in the form of Schedule 2 to be delivered at the Closing in respect of the Unit.
- (e) “**Closing**” means the consummation of the purchase and sale of the Unit.
- (f) “**Closing Date**” means the date of the Closing with respect to the Unit in accordance with Article 7.1.
- (g) “**Closing Time**” means the date and time stated on the Certificate of Acceptance of Delivery.
- (h) “**Damages**” has the meaning given in Article 10.1.
- (i) “**Delivery Location**” means the entrance to the Port of Singapore.
- (j) “**De Minimis Losses**” means Partial Losses that would not reasonably be expected to cost more than two per cent (2%) of the Sale Price in the aggregate to repair, replace or rectify.
- (k) “**Gross Negligence**” means conduct which a reasonable person would perceive to entail a high degree of risk of loss or physical injury to others coupled with heedlessness or indifference to

or disregard of the consequences; provided that such heedlessness, indifference or disregard need not be conscious.

- (l) “**Group**” means, in relation to a Party, (i) that Party and its Affiliates, (ii) contractors and sub-contractors of that Party and/or its Affiliates and (iii) the respective officers, directors, agents and employees of any person within (i) or (ii) above, provided that members of the Seller’s Group shall never be deemed to be members of the Buyer’s Group.
- (m) “**GST**” means tax on goods and services chargeable on the transaction, and any similar replacement or additional tax such as Value Added Tax (VAT) and Sales Tax.
- (n) “**Lien**” means a lien, mortgage, security interest, pledge or other charge or encumbrance.
- (o) “**Onboard Unit Equipment**” means any machinery, engines, equipment, anchors, cable, pumps, tools, furniture, electrical, mechanical, or chemical, hydraulic and other systems, actually located onboard the Unit as listed in Part B of Schedule 1, incorporated into the Unit or attached to the Unit in each case at the date of the Inspection (as defined in Article 5.1(a)).
- (p) “**Onshore Unit Equipment**” means the equipment belonging to the Unit which is not located thereon, but is designated together with its current location in Part A of Schedule 1.
- (q) “**Outside Date**” means 31 August 2012, as may be postponed in accordance with Article 7.3 (or such later date as may be either (i) agreed between the Parties or (ii) if a Partial Loss occurs, required to allow Closing to occur pursuant to Article 9.2).
- (r) “**Partial Loss**” means:
  - (i) any matter in respect of which the Unit is not in the Inspection Condition (as defined in Article 5.1(b) whether by reason of physical loss or damage to the Unit (or any part thereof) or otherwise; and/or
  - (ii) the inability of the Seller to deliver any Onboard Unit Equipment or Onshore Unit Equipment which the Seller is required to deliver at Closing pursuant to this Agreement, which damage is covered under Seller’s hull and machinery policies (irrespective of deductibles), but excludes a Total Loss.
- (s) “**Services Agreement**” means the transition services agreement related to, and constituting a continuation of, the arrangement for the sale of the Unit, a form of which transition services agreement is attached hereto as **Annex A**, to be entered into between the Seller (or one of its Affiliates) and the Buyer on the Closing Date pursuant to which the Seller (or one of its Affiliates) shall, after Closing, arrange for certain services to be performed in order to assist the Buyer in the overhaul of the Unit’s top drive and two gear boxes. Notwithstanding any stipulation to the contrary wherever contained, the Services Agreement will be solely governed by the terms and conditions contained in such agreement.
- (t) “**Tax**” means any tax, fee, levy, duty or charge, including income, export, capital gains, sales, value added, transfer, customs, stamp, registration tax, fee, levy, duty or charge, that is assessed by any country or any other governmental authority and any fines, penalties or interest with respect to the foregoing.
- (u) “**Total Loss**” has the meaning given in Article 9.1.
- (v) “**Unit**” means the deepwater floater “*Discoverer 534*”, of Sonat Offshore Discoverer Class Design, originally built in 1975 by Mitsui Engineering & Shipbuilding, Japan, registered in Panama, Official No. 7240-76-H , IMO Number 7403469, with a gross tonnage of 17,284 T (registered). The Unit shall also include:
  - (i) all non-proprietary equipment operating manuals that the Seller has in its possession;

- (ii) all non-proprietary software pertaining to the Unit except that specifically excluded below;
- (iii) all other non-proprietary technical and regulatory documents pertaining to the Unit that the Seller has in its possession;
- (iv) the Onshore Unit Equipment; and
- (v) the Onboard Unit Equipment.

Notwithstanding the foregoing, for the avoidance of doubt, the Unit shall not include:

- (1) any item of any kind which is not actually located on, incorporated in or attached to the Unit except as is designated above or in Schedule 1; or
- (2) any form of business management and preventive maintenance software or any other software the license to which does not allow transfer without the licensor's consent, provided that Seller shall provide its reasonable assistance to Buyer upon Buyer's written request to obtain such consent; or
- (3) any equipment or material belonging to a third party and listed on Part C of Schedule 1.

Items included in the definition of the "Unit", but not located thereon, shall be delivered to the Buyer at their then current location onshore. The Buyer shall be responsible for the payment to all licensors of any fees, expenses or costs associated with the transfer of any licensed software from the Seller or the Seller's Affiliates to the Buyer or the Buyer's Affiliates, to the extent Buyer requests transfer of such licenses. In this Agreement "**non-proprietary**" means free from intellectual property rights that restrict or prohibit transfer or assignment, and, for the purposes of this Agreement, all systems and software, manuals and other documents that have been developed by the Seller or an Affiliate of the Seller and listed on Part D of Schedule 1 shall be deemed to be "**proprietary**".

- (w) "**United States Dollars**" (or "**US\$**") means the legal currency of the United States of America.
- (x) "**Wilful Misconduct**" means any intentional wrongful act (or intentional wrongful failure to act) with knowledge that such act (or failure to act) is wrongful and which is intended to cause injury to a person or loss of or damage to property.
- (y) "**VAT**" means value added tax chargeable under VATA 1994 and any similar replacement or additional tax.
- (z) "**VATA 1994**" means the Value Added Tax Act 1994 (as amended).

1.2. **Interpretation.** In this Agreement, unless the context otherwise requires:

- (a) Article headings are inserted for convenience of reference only and shall be ignored in the construction of this Agreement;
- (b) References to Articles and Schedules are to be construed as references to Articles of, and Schedules to, this Agreement and references to this Agreement include its Schedules;
- (c) The words "include", "includes" and "including" shall be deemed to be followed by the words "without limitation";
- (d) A reference to "law" or "regulation" includes any present or future regulation, rule, directive, requirement, request, or guideline (whether or not having the force of law) of any government entity, central bank or any self-regulatory or other supra-national authority;

- (e) The words “hereof,” “herein,” “hereto,” and “hereunder” and words of similar import shall, unless otherwise expressly specified, refer to this Agreement as a whole and not to any particular portion or provision of this Agreement;
- (f) Words denoting the singular only shall include the plural and vice versa and words denoting a gender include every gender;
- (g) All references in this Agreement to contracts, agreements, and other documents shall be deemed to refer to such contracts, agreements and other documents as amended, modified and supplemented from time to time;
- (h) The exclusions and limitations of liability in Articles 4.1 of this Agreement shall be given a wide interpretation in favour of the Seller and the *contra proferentem* rule shall not in any case apply to the disadvantage of the Seller. Where general words are used in any exclusion or limitation provision in favour of the Seller, such words shall not be limited by the nature of this Agreement, or by the character or effect of any breach of contract, breach of duty or any other act or omission (including negligence) alleged by the Buyer; and
- (i) References to any statute or other legislative provision are to be construed as references to any such statute or other legislative provision as the same may be re-enacted or amended or substituted by any subsequent statute or legislative provision (whether before or after the date hereof) and shall include any regulations, orders, instruments or other subordinate legislation issued or made under such statute or legislative provision.

## 2. **SALE AND PURCHASE**

The Seller hereby agrees to sell the Unit to the Buyer, and the Buyer hereby agrees to purchase the Unit from the Seller, upon the terms and conditions set forth in this Agreement.

## 3. **CONSIDERATION**

3.1. **Sale Price.** Subject to the terms hereof, the aggregate purchase price (the “**Sale Price**”) to be paid by the Buyer to the Seller for the Unit is EIGHTY-FIVE MILLION UNITED STATES DOLLARS (US\$ 85,000,000). The Buyer and the Seller hereby agree that the Sale Price represents a purchase of the Unit as a unit and not a sale of the separate components. The Onshore Unit Equipment together with the Onboard Unit Equipment are included in the Sale Price and have no value separate and apart from the Unit.

3.2. **Deposit.** As security for the fulfilment of this Agreement, the Buyer shall within five (5) calendar days of signing of this Agreement by both Parties, pay to the Seller a deposit equal to FOUR MILLION TWO HUNDRED FIFTY THOUSAND UNITED STATES DOLLARS (US\$ 4,250,000), representing five percent (5%) of the Sale Price (the “**Deposit**”), in immediately available funds by wiring the same to the Seller’s Bank Account on terms that the Seller undertakes to refund the Deposit to the Buyer when obligated to do so pursuant to this Agreement. The Deposit (together with any interest accrued thereon) shall be refunded to the Buyer only:

- (a) If the Unit suffers a Total Loss prior to Closing;
- (b) If the condition precedent set forth in Article 6.2(a) is not satisfied; and/or
- (c) If required pursuant to Articles 7.3(c) and 9.2(g).

Otherwise, the Deposit shall be non-refundable. If the Deposit is not paid in accordance with this Article 3.2, the Seller shall have the right to terminate this Agreement immediately by providing written notice to the Buyer.

3.3. **Closing Payment.** At Closing and subject to the provisions of this Agreement (including Articles 6 and 7 below), the Buyer shall pay to the Seller an amount (the “**Closing Payment**”) equal to the Sale Price less the Deposit.

3.4. **Wire Instructions.** All payments to the Seller under this Agreement, including the Closing Payment, are to be made in United States Dollars in immediately available funds, in full, without any set-off or counterclaim whatsoever, free and clear of any deductions or withholdings, to the following bank account (the “**Seller’s Bank Account**”):

Bank: Wells Fargo Bank, N.A., 420 Montgomery Street, San Francisco  
Swift: WFBI US 6S  
ABA: 121000248  
Acct #: 4020009528]  
Account of: Transocean Discover 534 LLC  
Attention: N/A

or such other account as may be designated by the Seller in writing from time to time.

3.5. If the Closing Payment is not paid in accordance with this Agreement and Seller is not in material breach of this Agreement, the Seller shall have the right to terminate this Agreement, in which case the Deposit (together with any interest accrued thereon) shall automatically be deemed to have been forfeited by the Buyer to the Seller, after which (save for any claims under Articles 10.1(a), 10.1(b) and/or 10.2(b)) neither Party shall have any claim of whatever nature against the other. The Seller and the Buyer agree that the Deposit (together with any interest accrued thereon) represents a genuine and reasonable pre-estimate of the loss that the Seller would suffer in the event the Buyer fails to pay the Closing Payment in accordance with this Agreement. Such Deposit is not a penalty but liquidated damages for the Seller’s loss of bargain.

#### 4. **REPRESENTATIONS AND WARRANTIES**

4.1. **Disclaimer of Warranties.** The Parties agree that at the Closing Time, the Unit will be delivered to the Buyer subject to laid up status from ABS and the Seller makes no representations or warranties as to what surveys, inspections or works may be required upon, or prior to reactivation of the Unit. The Buyer hereby represents and warrants to the Seller that the Buyer has inspected the Unit and its associated classification records and is fully satisfied with the condition and status thereof. The Parties agree that there is to be no dry-docking or diver’s inspection of the Unit prior to delivery or at the Closing Time. Except only as may be otherwise expressly stated in Article 4.3 below, the Buyer hereby acknowledges that the sale, purchase and delivery of the Unit is on an “AS IS, WHERE IS” basis, with all faults (whether or not reasonably discoverable by the Buyer or its surveyors on or before Closing) accepted by the Buyer, and that this Agreement and the sale and purchase of the Unit are WITHOUT ANY REPRESENTATION, WARRANTY, GUARANTY OR CONDITION, EXPRESSED OR IMPLIED, BY THE SELLER, AND THAT THE SELLER DOES NOT MAKE ANY WARRANTY, GUARANTY, OR REPRESENTATION OF ANY KIND, EITHER EXPRESS OR IMPLIED, STATUTORY OR OTHERWISE, WITH REGARD TO THE UNIT, INCLUDING AS TO SEAWORTHINESS, VALUE, DESIGN, OPERATION, MERCHANTABILITY, FITNESS FOR USE OR PARTICULAR PURPOSE OF THE UNIT OR AS TO THE ELIGIBILITY OF THE UNIT FOR ANY PARTICULAR TRADE, AND NOTWITHSTANDING ANYTHING ELSE CONTAINED IN THIS AGREEMENT THE BUYER HEREBY WAIVES AS AGAINST THE SELLER AND ITS AFFILIATES ALL WARRANTIES, REMEDIES AND LIABILITIES ARISING BY LAW OR OTHERWISE (INCLUDING ON THE BASIS OF NEGLIGENCE OF ANY DEGREE) WITH RESPECT TO THE UNIT. As between the Seller and the Buyer, the execution by the Buyer of the Certificate of Acceptance shall be conclusive proof that the Unit is in full and complete compliance with all requirements of this Agreement other than as stated in Article 4.3.

4.2. **Buyer’s Representations.** The Buyer hereby represents, covenants and warrants to the Seller the following:

- (a) The Buyer is duly incorporated and validly existing under the laws of its country of incorporation and has full legal right, power and authority to enter into this Agreement and any other documents to which it is, or may become, a party which are referred to in this Agreement

and to perform its obligations hereunder and thereunder. The Buyer has power and authority to enter into and perform this Agreement and those documents and the execution and delivery of this Agreement and those documents and the consummation of the transactions contemplated hereby and thereby have been duly and validly authorised and no other corporate proceeding on the part of the Buyer is necessary to authorise the execution and delivery of this Agreement and any other documents relating thereto or to consummate the transactions contemplated hereby or thereby;

- (b) The execution or delivery of this Agreement and the other documents to which the Buyer is, or may become, a party which are referred to in this Agreement, and completion of all transactions contemplated hereby, will not either now, or after notice or lapse of time, or both:
1. conflict with, violate, result in a breach or right of termination or acceleration under or require any consent or authorization under any of the terms, conditions or provisions of any mortgage, indenture, agreement, loan, guarantee, note, bond, permit, license, lease, grant, patent, or other undertaking or authorisation, written or oral, to or by which the Buyer is a party or is bound;
  2. conflict with, result in a breach of or require any consent under any of the terms, conditions or provisions of the Buyer's certificate of incorporation, by-laws or equivalent governing instruments; or
  3. result in a violation by the Buyer of any judgment, decree, order (including an executive order), award, writ, injunction or decree applicable to, or binding upon, the Buyer.
- (c) This Agreement will be conducted in accordance with: (i) all applicable United States export and re-export controls and economic sanctions, including the International Emergency Economic Powers Act, the Export Administration Regulations and all other applicable economic sanctions laws and regulations, including the regulations set forth in 31 CFR Chapter V; and (ii) other applicable economic sanctions and export control laws in other countries in which the Buyer does business. The Buyer warrants and covenants that it will not transfer, export or re-export the items that are subject of this Agreement to: Iran, Sudan, Cuba, Syria or North Korea; entities owned or controlled by the governments of Iran or Sudan; any Cuban national, wherever located; or any individual or entity included on the List of Specially Designated Nationals and Blocked Persons maintained by the US Treasury Department's Office of Foreign Assets Control, except to the extent appropriate licenses are first obtained by Buyer any such purpose.

4.3. **Seller's Representations.** The Seller hereby represents, covenants and warrants to the Buyer the following:

- (a) The Seller is the legal and beneficial owner of the Unit, the Onshore Unit Equipment and the Onboard Unit Equipment, and there are no employees, operations or business that will attach to the Unit and that the Buyer will assume;
- (b) On Closing, the Unit, the Onshore Unit Equipment and the Onboard Unit Equipment will be free of any and all Liens;
- (c) The Seller is duly formed and validly existing under the laws of its country of formation and has full legal right, power and authority to enter into this Agreement, and to perform its obligations hereunder. The Seller has power and authority to enter into and perform this Agreement and the execution and delivery of this Agreement and the consummation of the transactions contemplated hereby have been duly and validly authorised and no other corporate proceeding on the part of the Seller is necessary to authorise the execution and delivery of this Agreement or to consummate the transactions contemplated hereby;
- (d) The execution or delivery of this Agreement and completion of all transactions contemplated hereby, will not either now, or after notice or lapse of time, or both:

1. conflict with, violate, result in a breach or right of termination or acceleration under or require any consent or authorization under any of the terms, conditions or provisions of any mortgage, indenture, agreement, loan, guarantee, note, bond, permit, license, lease, grant, patent, or other undertaking or authorization, written or oral, to or by which the Seller is a party or is bound;
  2. conflict with, result in a breach of or require any consent under any of the terms, conditions or provisions of Seller's certificate of formation, by-laws or equivalent governing instruments; or
  3. result in a violation by the Seller of any judgment, decree, order (including an executive order), award, writ, injunction or decree applicable to, or binding upon, the Seller.
- (e) There are to Seller's knowledge no claims pending or threatened against Seller or the Unit that could reasonably be anticipated to result in a Lien on the Unit.
- (f) The Seller has not executed a contract that obligates the Unit to perform any drilling or other services.

## 5. CERTAIN COVENANTS

### 5.1. Condition of Unit for Purposes of Closing.

- (a) The Buyer hereby represents and warrants to the Seller that the Buyer (or its appointed representative) inspected the Unit (including its equipment on board and onshore) and its associated ABS classification records in the period from 30 May 2012 to 7 June 2012 (the "**Inspection**") and accepts and is fully satisfied with the condition and status thereof. The Parties agree that there is to be no dry-docking or diver's inspection of the Unit prior to delivery. The Seller further agrees, subject to the Buyer's payment of the Deposit, to make the captain, chief engineer, ETO, and drilling superintendent of the Unit available for a period of five (5) consecutive calendar days to perform a walk through of the Unit with the Buyer's project team and provide responses to Buyer's reasonable inquiries regarding the status of the Unit.
- (b) The Seller agrees that, solely for the purpose of determining whether the Buyer shall have the obligation to close, the Unit is to be in, at the Closing Date, the same overall condition, irrespective of any class conditions or recommendations, as at the time of the Inspection, fair wear and tear excepted and subject to De Minimis Losses and the provisions of Article 9.2 ("**Inspection Condition**"); PROVIDED THAT if the Buyer fails to notify the Seller prior to the Closing Date that the Unit is not in such Inspection Condition, the Unit will be conclusively presumed to be in such Inspection Condition at the Closing Date for all purposes of this Agreement and the Buyer shall have no further rights hereunder in connection with the actual condition or composition of the Unit. The Buyer shall provide written notice to the Seller prior to the Closing in the event that the Buyer believes that the Unit is not in the Inspection Condition, and/or that the composition of the Unit is not as required by this Agreement. Any such notice shall specifically list the deficiencies claimed by the Buyer and must be subject to reasonable verification by the Seller (with any actual deficiencies referred to herein as "**Deficiencies**"). In the event the Buyer notifies the Seller of Deficiencies, such Deficiencies shall be subject to the provisions of Article 9.2. Under no circumstances shall the Seller be liable or obligated after the Closing Date to the Buyer with regard to the physical condition or composition of the Unit, the Onshore Unit Equipment or the Onboard Unit Equipment unless otherwise stated in Article 4.3 above, and the Buyer hereby agrees that all rights it may otherwise have in connection therewith shall be automatically and irrevocably waived from and after Closing without any further act of the Buyer or the Seller.
- (c) Subject to (i) the payment of the Deposit by the Buyer pursuant to Article 3.2 hereto, (ii) the Buyer signing the Seller's letters of indemnity in the form set out in Schedule 3 to this Agreement, and (iii) the Buyer providing the Seller with written evidence that the Buyer has procured suitable insurance (including waiver of subrogation in favour of the Seller's group) to adequately cover the risk of injury to, illness or death of such representatives, the Buyer shall

have the right to put three (3) representatives on board the Unit at the Buyer's own cost, risk and liability up to two (2) weeks prior to the Closing to confirm that the Unit is in the Inspection Condition; PROVIDED, HOWEVER, that any such attendance shall not be conducted in such a way as to interfere in any material respect with the operation of the Unit. In the event the Closing of the sale and purchase of the Unit does not take place for any reason, the Buyer shall immediately remove, at the Buyer's expense, any person the Buyer has placed on the Unit. For the avoidance of doubt, Buyer's representatives shall be forbidden from soliciting any employees of the Seller or its Affiliates without the prior written consent of the Seller pursuant to Article 16.1 below. Seller shall have the right to remove Buyer's representatives for any reason and Buyer shall have the right to replace such representatives at Buyer's cost.

- (d) For the avoidance of doubt, the Buyer agrees that no re-activation of any part of the Unit from its warm stacked status shall be required on the part of the Seller in order for the Unit to be in the Inspection Condition. There shall be no testing of the functionality of any part of the Unit or its equipment prior to delivery. For the avoidance of doubt, any deterioration of the Unit due to normal corrosion after the date of the Inspection for the time and place of the Unit's location shall be treated as fair wear and tear.

## 6. **CONDITIONS PRECEDENT**

6.1. **Buyer's Conditions Precedent.** The obligations of the Buyer to consummate the transactions to be performed by it in connection with the Closing are, in all respects, subject to satisfaction or waiver by the Buyer of the below-listed conditions precedent:

- (a) The Unit shall be in the Inspection Condition; and
- (b) The representations and warranties of the Seller set forth in Article 4.3 shall be true and correct in all material respects as of the Closing Date with the same force and effect as if such representations and warranties had been made at and as of the Closing Date.

6.2. **Seller's Conditions Precedent.** The obligations of the Seller to consummate the transactions to be performed by it in connection with the Closing are, in all respects, subject to satisfaction (or waiver by the Seller) of the below-listed conditions precedent:

- (a) Issuance of any required authorization, sanction, licence or approval for the transactions contemplated by this Agreement, under relevant laws or agreements, including those required by all relevant customs laws and notifications and by flagging and registry authorities for transfer of the Unit to the Delivery Location. The Seller shall use its reasonable endeavors to obtain such approvals as soon as reasonably practicable; and
- (b) The representations and warranties of the Buyer set forth in Article 4.2 shall be true and correct in all material respects as of the Closing Date with the same force and effect as if such representations and warranties had been made at and as of the Closing Date.

## 7. **CLOSING**

7.1. **Closing.** Subject to the other terms and conditions of this Agreement, the Seller shall sell and the Buyer shall purchase the Unit, and the Closing shall be held in London at the offices of Ince & Co at International House, 1 St Katharine's Way, London E1W 1AY. The Closing shall take place on a Business Day nominated in writing by the Seller (the "**Closing Date**"), which shall be a date between July 23, 2012 and on or before the Outside Date, but as soon as reasonably practicable. The Seller shall provide the Buyer with eighteen (18) and five (5) calendar days' approximate notice and three (3) days' definite notice of when the Seller intends to deliver the Unit.

7.2. **Documents to be Delivered by Seller and Buyer.** On the Closing Date, representatives of the Seller and the Buyer shall meet as contemplated above for the purpose of completing the sale and purchase of the Unit.



(a) **Seller's Deliveries.** Simultaneously with the Seller's receipt of Sale Price and delivery of the items listed in Article 7.2(b), the Seller shall deliver to the Buyer the following in respect of the Unit:

1. An executed (and, if necessary, notarized and/or apostilled) Bill of Sale for the Unit in a form acceptable for recording at the country in which the Buyers are to register the Unit (the "**Bill of Sale**"), and any other documents reasonably required for Buyer to change the registry of the Unit. The Seller must be informed at least 10 Business Days prior to the Closing Date of the Country or the Country shall be presumed to be the Republic of Panama;
2. A certified copy of a resolution of the board of directors of the Seller approving the terms of this Agreement and the transactions contemplated herein;
3. A Certificate of Good Standing of the Seller (or the equivalent document in the country of incorporation of the Seller);
4. A certified copy of a Certificate of Incumbency for the Seller (or the equivalent document in the country of incorporation of the Seller) showing a list of the current directors and officers of the Seller;
5. A certificate in English stating that the Seller's representations, covenants and warranties made in Article 4.3 are true and correct as of the Closing Date.
6. (If separate from the resolution referred to in Article 7.2(a)2 above) an original Power of Attorney of the Seller, duly notarised and apostilled, authorising the Seller's appointed representatives to execute all necessary documents and take all necessary action in order to sell the Unit to the Buyer;
7. Any non-proprietary technical or regulatory documentation pertaining to the Unit which the Seller may have in its possession or, to the Seller's knowledge, the possession of any of its Affiliates and which is not already aboard the Unit, including applicable class certificates, class attestations, loadline certificates, operating manuals, radio licenses, and engineering drawings; PROVIDED, HOWEVER that the Seller does not represent that (a) it has in its possession (or shall have in its possession at Closing) any such documentation, (b) any documentation that it does have (or may have at Closing) is (or shall be) current, valid or correct, and (c) the Unit is (or shall be) capable of obtaining any needed documentation; PROVIDED further that the Seller shall have no obligation to seek, obtain or deliver to the Buyer any documentation which is not in its possession or control at Closing. The Buyer shall also be entitled to retain a hard copy of the Unit's preventive maintenance records, PROVIDED that this documentation may be provided to the Buyer's representatives either onboard the Unit or at the onshore location of the documentation; and
8. A certified copy of a Transcript of Register for the Unit dated no more than five (5) Business Days prior to the Closing Date reflecting that there are no mortgages, liens or other encumbrances recorded on the Unit.

(b) **Buyer's Deliveries.** Simultaneously with delivery of the Unit as contemplated herein and the items set forth in Article 7.2(a), the Buyer shall pay the Sale Price to the Seller in full and free of bank charges in accordance with Article 3.3 and 3.4, and shall deliver to the Seller the following in respect of the Unit:

1. A receipt from the bank of the Buyer evidencing the irrevocable and unconditional transfer of the Closing Payment to the Seller's Bank Account (provided that, for the avoidance of doubt, Closing shall not take place until the Closing Payment has been received into the Seller's Bank Account);
2. A certified copy in English of a resolution of the board of directors of the Buyer approving the terms of this Agreement and the transactions contemplated herein;

3. A Certificate of Good Standing of the Buyer in English (or the equivalent documents in the country of incorporation of the Buyer);
4. Certified copies of Certificate of Incumbency for the Buyer (or the equivalent documents in the country of incorporation of the Buyer) showing a list of the current directors and officers of the Buyer with a certified translation in English;
5. Original Power of Attorney in English of the Buyer, duly notarised and apostilled, authorising the Buyer's appointed representatives to execute all necessary documents and take all necessary action in order to purchase the Unit from the Seller; and
6. A certificate in English stating that the Buyer's representations, covenants and warranties made in Article 4.2 are true and correct as of the Closing Date.

7.3. **Outside Date.**

- (a) In the event that the Closing does not occur on or before the Outside Date or Extended Outside Date (as applicable), for whatever reason (save as provided in Article 3.2), either Party may terminate this Agreement by providing written notice to the other, in which case the Deposit (together with any interest accrued thereon) shall be retained by the Seller and neither Party shall have any further obligation hereunder to the other Party.
- (b) In the event that the Closing does not occur on or before the Outside Date by reason of a breach of this Agreement by the Seller, the Parties hereby agree that the Closing Date shall be extended by a period of 10 (ten) Business Days (the "Extended Outside Date") in order to allow the Seller time to cure such breach and proceed to Closing.
- (c) In the event that the Closing does not occur on or before the Extended Outside Date by reason of a breach of this Agreement by the Seller, the Buyer may terminate this Agreement by providing written notice to the Seller, in which case the Deposit together with any interest accrued thereon shall be returned to the Buyer within 5 days of termination thereafter, after which (save for any claims under Articles 10.1(a), 10.1(b) and/or 10.2(b)) neither Party shall have any claim of whatever nature against the other.

8. **DELIVERY AND POST-CLOSING MATTERS**

- 8.1. The Unit shall be delivered to the Buyer free from all Liens. Concurrently with the delivery of the Bill of Sale, (i) the Seller shall deliver to the Buyer, and the Buyer shall accept from the Seller, the Unit, and (ii) each Party shall acknowledge such delivery and acceptance by executing and delivering the Certificate of Acceptance. The risk of loss, and title to the Unit, shall pass to the Buyer as of the Closing Time.
- 8.2. The Unit with the Onboard Unit Equipment shall be delivered to the Delivery Location. Seller shall at its cost and expense prepare the Unit to be transferred from its current location to the Delivery Location and secure all licenses and permits relating thereto.
- 8.3. Buyer shall take control of the Unit after Seller confirms that the Sale Payment has been received into the Seller's Bank Account, at which time Buyer may move the Unit from the Delivery Location.
- 8.4. Upon delivery of the Unit pursuant to Article 8.1 above, the Buyer shall change the name of the Unit and within thirty (30) days alter all markings on the Unit accordingly.
- 8.5. The Buyer shall be responsible for obtaining any licenses, permits and other similar governmental or other authorizations as well as for filing appropriate documentation as required by the laws of the country in which the Unit is delivered, in relation to the movement of the Unit from and after the Closing. This includes but is not limited to customs declarations, authorizations, permits and licenses.
- 8.6. The Buyer shall, no later than thirty (30) calendar days after the Closing and at its sole cost and expense remove all equipment specified in Schedule 1 Part A which is located onshore at the yard(s). If the Buyer has not removed such equipment after the said period of thirty (30) days, the Buyer

acknowledges and agrees that the Seller has the right to dispose of the said equipment in any manner it sees fit. Such disposal and the cost of storage and or demurrage until such time that the equipment is suitably disposed shall be at the Buyer's cost.

8.7. Upon Closing, the Buyer and Seller shall enter into the Services Agreement.

8.8. The Buyer agrees to provide to the Seller and the Seller agrees to provide to the Buyer, all requisite documentation and assistance as may be required for completion of any customs procedures and formalities associated with this sale.

8.9. The Buyer warrants that, for a period of two (2) years following the Closing, the Unit shall not be used for conventional drilling purposes, except for top hole drilling services provided as ancillary services with respect to the plugging and abandoning of a well.

9. **TOTAL LOSS; PARTIAL LOSS**

9.1. **Total Loss.** If during the period between the date of this Agreement and the Closing Time, there is an actual total casualty loss, constructive total casualty loss or compromised total casualty loss (collectively, a "**Total Loss**") of the Unit, this Agreement shall terminate and neither Party shall have any further claim of whatsoever nature against the other.

9.2. **Partial Loss.**

- (a) If during the period between the date of this Agreement and the Closing Time, the Unit suffers a Partial Loss, then the terms of this Article 9.2 shall apply and the Seller shall provide written notice to the Buyer of such Partial Loss.
- (b) The Parties agree that the Seller shall not be required to remedy De Minimis Losses, whether pursuant to Articles 5.1 or 9 or otherwise. In respect of Partial Losses other than De Minimis Losses, the following provisions of this Article 9.2 shall apply.
- (c) At the time of giving the notice referred to in paragraph (a) above, the Seller shall either (i) notify the Buyer that the Seller will perform the work necessary to cause the Unit to meet the requirements specified herein ("**Repair Work**"), or (ii) notify the Buyer that the Seller does not intend to perform the Repair Work, in which case the provisions of Articles 9.2(d) and 9.2(e) shall apply.
- (d) If the Seller notifies the Buyer that it does not intend to perform the Repair Work, and the Parties are able to agree in writing on the costs of such Repair Work or other acceptable Sale Price reduction within ten (10) Business Days of the Buyer's receipt of notice under paragraph (a) above, the Sale Price shall be reduced by such agreed amount and the sale shall be completed as soon as reasonably practicable.
- (e) If the Seller notifies the Buyer that it does not intend to perform such Repair Work, and the Parties are unable to agree in writing on the costs of the Repair Work or other acceptable Sale Price reduction within the time period specified in Article 9.2(d), then the Parties shall mandate Noble Denton to assess the reasonable cost of carrying out such Repair Work. Noble Denton shall provide an assessment of such cost with reasons and the Parties agree that such amount shall constitute the amount for the Repair Work in question and such assessment shall be final and binding upon both Parties and the Sale Price shall be reduced by such amount and the sale shall be completed as soon as reasonably practicable.
- (f) If, under Article 9.2(e), Noble Denton is required to assess any damage to the Unit and quantify the cost of any Repair Work, Noble Denton shall be instructed jointly by the Parties to carry out such assessment and quantification, such appointment expressly to require Noble Denton to act impartially when carrying out such assessment and quantification. The cost of any such appointment is to be shared equally between the Parties.
- (g) If the Repair Work in the reasonable opinion of Noble Denton is likely to last more than ninety (90) calendar days the Buyer shall have the right to terminate this Agreement by notice to the

Seller. In such case, the Deposit shall be refunded to the Buyer within five (5) Business Days of the Seller's receipt of such notice.

10. **INDEMNITY AND LIABILITY**

10.1. **Buyer's Indemnities.** The Buyer shall defend, release, indemnify and hold harmless the Seller's Group from and against all liens, claims, demands, causes of action, liability, damages, costs, expenses and losses (including attorneys' fees) (collectively, "**Damages**") which arise out of or in connection with:

- (a) injury to, illness or death of any member of the Buyer's Group; and/or
- (b) loss of or damage to the property of any member of the Buyer's Group (including the Unit on or after the Closing Time); and/or
- (c) the presence of employees, subcontractors, invitees, customers and/or agents of the Buyer or its Group on the Unit; and/or
- (d) the Unit or the operation of the Unit to the extent the alleged event giving rise to such claim occurred on or after the Closing Time; and/or
- (e) any breach of any of the representations or warranties made by the Buyer in Article 4.2 or any breach by the Buyer of any of the representations, warranties, covenants or agreements set forth in this Agreement.

10.2. **Seller's Indemnities.** Subject to Article 10.1 above and the other provisions of this Agreement, including Articles 4.1 and 11, the Seller shall release, indemnify, defend and hold the Buyer harmless from and against any Damages arising out of or in connection with:

- (a) claims made against the Unit which have been incurred prior to the Closing Time; and/or
- (b) any breach of any of the representations or warranties made by the Seller in Article 4.3 or any breach by the Seller of any of the representations, warranties, covenants or agreements set forth in this Agreement.

10.3. **General Indemnity and Liability Provisions.**

(a) **Application of Indemnities.**

- (i) No person shall be entitled to rely on or enforce any indemnity or any exclusion or limitation of liability contained in this Agreement to recover (or exclude or limit that person's liability in respect of) any losses caused by that person's Gross Negligence or Wilful Misconduct, or by the Gross Negligence or Wilful Misconduct of any other person within the same Group.
- (ii) Subject only to paragraph (i) above, all of the indemnities, allocations of risk, limitations and exclusions of liability and other agreements contained in this Article 10 or elsewhere in this Agreement shall apply (to the extent permitted by law) notwithstanding the negligence of any person or party, strict liability, liability imposed by statute, or any other breach of obligation of any person or any other event or condition. Indemnified Parties (as defined in paragraph (c) below) shall be entitled to reasonable attorneys' fees incurred in asserting or enforcing the indemnities granted herein.

(b) **Consequential Damages.** Without prejudice to any provisions of this Agreement, in no event shall either the Seller, on the one hand, or the Buyer, on the other, be liable to the other (or to any other party claiming indemnification hereunder) for any loss of use, loss of revenue, profit or anticipated profit, delay, business interruption and other similar losses, whether direct or indirect, and any indirect or consequential losses whatsoever.

- (c) **Recouped Amount.** If, after an indemnity payment (an “**Indemnity Payment**”) is made under this Article 10 by a Party owing a duty of indemnification hereunder (an “**Indemnifying Party**”) to a party claiming indemnification (an “**Indemnified Party**”), any Indemnified Party receives, directly or indirectly, any refund, rebate, credit, settlement or other payment or amount from any person relating to such Indemnity Payment (a “**Recouped Amount**”) which was not included in the Indemnifying Party’s favour when calculating the Indemnity Payment, the Indemnified Party shall promptly inform the Indemnifying Party and pay an amount equal to the Recouped Amount to the Indemnifying Party. In addition, if any Indemnified Party becomes aware of circumstances that could reasonably give rise to a Recouped Amount, the Indemnified Party shall promptly so notify the Indemnifying Party and shall use commercially reasonable efforts to collect and obtain such potential Recouped Amount.
- (d) **Indemnification Notices for Claims.** If any Indemnified Party is seeking indemnification under this Agreement from an Indemnified Party, the Indemnified Party shall give prompt written notice of the claim to the Indemnifying Party describing in reasonable detail the nature of the claim, an estimate of the loss or damages attributable to the claim (which estimate will not be conclusive or binding) and the basis for the Indemnified Party’s request for indemnification hereunder.

## 11. **TAXES AND FEES**

### 11.1. **Apportionment of Tax Liabilities.**

- (a) The Seller shall solely bear all corporate income tax and/or, capital gains tax assessed on account of this sale. The Seller shall bear all Taxes and customs charges resulting from the move of the Unit to the Delivery Location.
- (b) If any GST or any indirect taxes of similar nature are chargeable on the Sale Price of the Unit, the Seller shall submit to the Buyer an invoice containing the GST amount (or an invoice containing any indirect tax of similar nature) and the Buyer shall pay the Seller the amount of such GST (or any indirect tax of similar nature) on presentation to the Buyer of such GST invoice.
- (c) Except as otherwise stated in paragraph (a) above, the Buyer shall bear all other Taxes including all transfer, registration, customs duties, stamp duties, fees, import, excise and any other type of Taxes, fees and charges which are assessed on account of or in connection with the sale or a deemed importation of the Unit as a result of or in connection with the sale, whether or not levied directly upon the Buyer or an Affiliate of the Buyer, and the Sale Price shall be net of such amounts. As used herein, the expression “Taxes, fees and charges” shall include fines, penalties and any interest with respect to Taxes, fees and charges.

11.2. **Seller’s Tax Indemnity to Buyer etc.** The Seller shall be liable for and shall indemnify the Buyer and the Buyer’s Affiliates against any and all Damages arising out of or relating to any Tax for which the Seller is responsible under Article 11.1.

11.3. **Buyer’s Tax Indemnity to Seller etc.** The Buyer shall be liable for and shall indemnify the Seller and the Seller’s Affiliates against any and all Damages arising out of or relating to any Tax for which the Buyer is responsible under Article 11.1.

11.4. **Registry Fees.** Any fees and expenses in connection with the registration under Buyer’s flag shall be for Buyer’s account, whereas similar charges in connection with the closing of the Seller’s registry shall be for Seller’s account.

## 12. **CHOICE OF LAW AND VENUE**

12.1. **Choice of Law and Jurisdiction.** This Agreement shall be governed by and construed in accordance with English law, without regard to its rules of conflict of laws that would require the application of laws of a different jurisdiction. TO THE FULLEST EXTENT PERMITTED BY APPLICABLE LAW, EACH PARTY TO THIS AGREEMENT HEREBY IRREVOCABLY AND UNCONDITIONALLY CONSENTS AND SUBMITS TO THE EXCLUSIVE JURISDICTION OF

THE COURTS OF ENGLAND IN LONDON (THE “**CHOSEN COURTS**”), FOR PURPOSES OF ALL LEGAL PROCEEDINGS ARISING OUT OF OR RELATING TO THIS AGREEMENT AND AGREES NOT TO COMMENCE ANY SUCH PROCEEDINGS EXCEPT IN THE CHOSEN COURTS. EACH PARTY TO THIS AGREEMENT IRREVOCABLY WAIVES, TO THE FULLEST EXTENT PERMITTED BY LAW, ANY OBJECTION WHICH IT MAY NOW OR HEREAFTER HAVE TO THE LAYING OF THE VENUE OF ANY SUCH PROCEEDING BROUGHT IN THE CHOSEN COURTS AND ANY CLAIM THAT ANY SUCH PROCEEDING BROUGHT IN THE CHOSEN COURTS HAS BEEN BROUGHT IN AN INCONVENIENT FORUM.

12.2. **Seller's Agent for Service of Process.** The Seller hereby irrevocably appoints Ince Process Agents Limited at its registered office (presently being at 5th floor, International House, 1 St Katharine's Way, London E1W 1AY) as its agent to receive and accept on its behalf any process or other document relating to any proceedings in the English courts in connection with this Agreement.

12.3. **Buyer's Agent for Service of Process.** The Buyer hereby irrevocably appoints EC3 Services Limited at its registered office in England (presently being at St Botolph Building, 138 Houndsditch, London EC3A 7AR) (or such other person being a firm of solicitors resident in England as it may substitute by notice) as its agents to receive and accept on its behalf any process or other document relating to any proceedings in the English courts in connection with this Agreement.

### 13. **COST OF THE TRANSACTION; AGENCY FEES**

13.1. Whether or not the transactions contemplated hereby shall be consummated, the Parties agree that each Party will pay the fees, expenses and disbursements of such Party and its agents, representatives, and counsel incurred in connection with the subject matter of this Agreement. In particular the Buyer shall be fully responsible for the costs incurred by it in carrying out the inspection of the Unit, inclusive of logistical requirements such as helicopter flights. The Seller shall be responsible for any payment of the brokerage fees to Pareto Offshore AS.

### 14. **NOTICES**

14.1. All notices and other communications (“**Notices**”) under this Agreement shall be in writing and shall be marked for the attention of the person, and sent to the address, or fax number, given in this Article (or such other address, fax number or person as the recipient may notify the other party in accordance with the provisions of this Article) and shall be delivered personally, or sent by fax, or by international courier service.

14.2. A Notice shall be deemed to have been given:

- (a) if delivered personally, at the time of delivery; or
- (b) in the case of fax, at the time of transmission; or
- (c) in the case of delivery by international courier service, two (2) Business Days after being delivered into the custody of such service; and

if deemed receipt under the previous paragraphs of this Article 14.2 is not within business hours of the place of receipt (meaning 9 am to 5.30 pm Monday to Friday on a day that is not a public holiday in the place of receipt), when business next starts in the place of receipt. To prove service it is sufficient to prove that the Notice was transmitted by fax to the fax number of the party or, in the case of international courier service, that the envelope containing the notice was properly addressed and delivered to the courier company.

14.3. The addresses for service of Notice are:

Seller:

Transocean Discoverer 534 LLC  
4 Greenway Plaza  
Houston, Texas 77046  
Attn: Larry D. McMahan

with copies to:

Transocean Management Limited  
Chemin de Blandonnet 10  
CH-1214 Vernier  
Switzerland  
Attn: Christophe Raimbault  
Fax: +41 22 930 9094

and

Ince & Co LLP  
International House  
1 St Katharine's Way  
London E1W 1AY  
UK  
Fax: +44 20 7481 4968  
Ref: RBE/LSJ/8465/8777

Buyer:

Helix Energy Solutions Group, Inc.  
400 North Sam Houston Parkway East, Suite 400  
Houston, Texas 77006

For the attention of: Owen Kratz  
Fax number: +1 281 618 0505

with copy to:

Helix Energy Solutions Group, Inc.  
400 North Sam Houston Parkway East, Suite 400  
Houston, Texas 77006

For the attention of: Alisa Johnson  
Fax number: +1 281 618 0505

15. **ENTIRE AGREEMENT**

15.1. This Agreement, and any documents referred to in it, constitute the entire agreement between the Parties and supersede any arrangement, understanding or previous agreement between them relating to the subject matter they cover. Each Party acknowledges that in entering into this Agreement, and any documents referred to in it, does not rely on, and shall have no remedy in respect of, any statement, representation, assurance or warranty of any person other than as expressly set out in this Agreement or those documents. Nothing in this Article 15 operates to limit or exclude any liability for fraud.

16. **EMPLOYEES**

16.1. The Buyer undertakes that neither it nor any of its Affiliates shall solicit any employees of the Seller or its Affiliates without the prior written consent of the Seller; provided that Seller shall cooperate reasonably with the Buyer with regard to the employment by Buyer of Seller's personnel currently

assigned to the Unit.

16.2. Solicitation by the Buyer or any Affiliate thereof by way of a general newspaper advertisement or other general solicitation that does not specifically target an employee or group of employees of the Seller or an Affiliate thereof shall not be considered a violation of Article 16.1 above.

17. **PUBLICITY**

17.1. Unless a Party has obtained the prior written consent of the other Party or has already publicly disclosed the information that the other Party intends to disclose, each Party agrees to treat as confidential all documents and other information which it may obtain in connection with this Agreement and neither party shall make any broadcast, press release, advertisement, public disclosure or other public announcement or statement with respect to this Agreement, including the Sale Price, the Unit or any of the terms or conditions hereof, unless required by law or the rules of any stock exchange. However, the Seller or its Affiliates may disclose such information without the Buyer's prior written consent in the Fleet Status Reports or Fleet Status Update Summaries of Transocean Ltd. to the extent the Seller or its Affiliates believe that it is necessary or prudent to do so.

18. **GENERAL**

18.1. The invalidity, illegality or unenforceability of any provision or any part of any provision of this Agreement shall not affect the continuation in force of such other part or the remainder of this Agreement.

18.2. Save as provided in Articles 10 and 11, this Agreement and the documents referred to in it are made for the benefit of the Parties and their successors and permitted assigns, and are not intended to benefit, or be enforceable by, anyone else. Notwithstanding the foregoing the Buyer may transfer the rights hereunder to any of its Affiliates, which are organized and existing under and by virtue of the laws of any OECD country, without the prior consent of the Seller provided that the Buyer remains responsible for the payment of the Sale Price.

18.3. No amendment or addition to this Agreement shall be valid unless agreed in writing by each of the Parties hereto.

18.4. This Agreement may be executed in any number of counterparts by the Parties hereto on separate counterparts, each of which when executed and delivered shall constitute an original, but all of which shall together constitute one and the same instrument.

18.5. The provisions of Articles 10, 11, 12, 13, 14, 15, 16, 17 and this Article 18.5 and any other provisions which, due to their nature should reasonably be expected to survive, shall survive any termination of this Agreement.

[Remainder of Page Intentionally Left Blank.]



**IN WITNESS WHEREOF**, the Parties hereto have caused this Agreement to be executed in multiple originals by their duly authorized officers, all as of the day and year first above written.

**TRANSOCEAN DISCOVERER  
534 LLC**

**HELIX ENERGY SOLUTIONS GROUP, INC.**

By: /s/ Larry McMahan  
Name: Larry McMahan  
Title: President

By: /s/ Anthony Tripodo  
Name: Anthony Tripodo  
Title: Executive Vice President  
and Chief Financial Officer

## ANNEX A

### TRANSITION SERVICES AGREEMENT

This TRANSITION SERVICES AGREEMENT (this “**Agreement**”) is made and entered into as of 23 July 2012, between **TRANSOCEAN DISCOVERER 534 LLC**, a company organized and existing under and by virtue of the laws of the State of Delaware, or one of its Affiliates (“**Seller**”) and **HELIX ENERGY SOLUTIONS GROUP, INC.**, a company organized and existing and by virtue of the laws of the State of Minnesota (“**Buyer**”) (the Seller and the Buyer are referred to herein individually as a “**Party**” and collectively as the “**Parties**”).

WHEREAS Seller and Buyer have entered into a MODU Sale Agreement dated as of the date hereof (the “**MODU Sale Agreement**”), pursuant to which the Seller has agreed to sell and the Buyer has agreed to purchase, on the terms and subject to the conditions therein set out, the deepwater floater drilling rig known as the “*Discoverer 534*” (the “**Unit**”);

AND WHEREAS, the Buyer desires that the Seller arrange for certain services to be provided to the Buyer during the Transition Period (as defined hereunder);

AND WHEREAS, the Seller is willing, on the terms and subject to the conditions herein set out, to arrange for the Services (as defined hereunder) to be provided during the Transition Period;

NOW, THEREFORE, for good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the undersigned hereby intend to be legally bound by this Agreement and the Parties to this Agreement agree as follows:

#### ARTICLE I

#### DEFINITIONS

*Section 1.1. Definitions.* The following terms shall have the meaning ascribed thereto when used throughout this Agreement and the Exhibits hereto:

(a) “**Affiliate**” shall mean, with respect to any Person, any other company or legal entity which (i) is owned or controlled by such Person, (ii) owns or controls such Person, or (iii) is under common ownership or control as such Person. As used in the preceding sentence, “control” shall mean the right or ability to control more than fifty percent (50%) of the voting rights of a company or entity.

(b) “**Applicable Law**” means all constitutions, treaties, laws, statutes, ordinances, rules, regulations, orders, interpretations, permits, judgments, decrees, injunctions, writs and orders of any Governmental Authority or arbitrator that apply to any of the Parties, the Unit, or the terms of this Agreement.

(c) “**Business Day**” shall mean any day other than a Saturday or Sunday on which banks are open for business in New York, USA, London, UK and Singapore.

(d) “**Claims**” all liens, claims, demands, causes of action, liability, damages, costs, expenses and losses (including attorneys' fees).

(e) “**Completion Date**” shall mean the time and date upon the completion of the Services.

(f) “**Consequential Loss**” shall mean (i) consequential or indirect loss under English law; and (ii) loss and/or deferral of production, loss of product, loss of use, loss of revenue, profit or anticipated profit (if any), Claims related to business interruption, howsoever caused, in each case whether direct or indirect and whether foreseeable or not.

(g) “**Delivery Date**” means the date and time when the Unit is delivered to the Buyer pursuant to the MODU Sale Agreement.

(h) “**Governmental Authority**” means any federal, state, local, municipal or other governmental, administrative, judicial or regulatory entity having or asserting jurisdiction over a Party, the Unit or this Agreement.

(i) “**Gross Negligence**” means such wanton and reckless conduct, carelessness or omission as constitutes in effect an utter disregard for harmful, foreseeable and avoidable consequences

(j) “**Group**” means, in relation to a Party, (i) that Party and its Affiliates, (ii) contractors and sub-contractors of that Party and/or its Affiliates and (iii) the respective directors, officers, agents and employees of any Person within (i) or (ii) above.

(k) “**Person**” means any corporation, partnership, limited partnership, limited liability company or individual.

(l) “**Regardless of Cause**” means whether or not any Claim is asserted to have arisen by virtue of tort (including negligence), breach of statutory duty, breach of contract (including this Agreement) or quasi-contract, strict liability, breach of representation or warranty (express or implied), breach of any laws, regulations, rules or orders of any government or other authority having jurisdiction, or otherwise, on the part of the Party or other Person seeking indemnity or of any other Person; except where expressly stated to the contrary, Regardless of Cause also means whether or not any Claim is asserted to have arisen by virtue of (i) Gross Negligence, (ii) Wilful Misconduct or (iii) deliberate repudiatory breach of this Agreement or any other contract, on the part of the Party or other Person seeking indemnity or of any other Person.

(m) “**Serviced Equipment**” means the equipment identified on Exhibit A as being subject to the Services.

(n) “**Termination Date**” means the date which is earliest of (i) the date the Unit becomes an actual or is declared a constructive or compromised total loss, or (ii) the Completion Date.

(o) “**Third Party**” shall mean any party which is not a member of the Seller’s Group or the Buyer’s Group.

(p) “**Transition Period**” means the period between the Delivery Date and the Termination Date.

(q) “**Wilful Misconduct**” shall mean any intentional wrongful act (or intentional wrongful failure to act) with knowledge that such act (or failure to act) is wrongful and which is intended to cause injury to a Person or physical loss of or damage to property.

Any term used herein which is defined in the MODU Sale Agreement and not otherwise defined herein shall bear, in this Agreement, the meaning attributed to it in the MODU Sale Agreement.

## ARTICLE I

### SERVICES

*Section 1.1. Services.* The Seller hereby agrees to cause to be provided through its Affiliates or other third parties, the services described in **Exhibit A** hereto with respect to the Unit (the “**Services**”), subject to the terms and conditions hereof, in particular the indemnity obligations of the Buyer. The Completion Date shall be no later than December 1, 2012. The Services shall be performed at Seller’s risk and cost; the consideration for Seller’s performance of the Services is Buyer’s agreement to purchase the Unit and delivery of the purchase price therefor.

*Section 1.2.* The Services may only be used in connection with the activities of the Unit, and consistent in all material respects in scope and type with the past practices of the Seller and its Affiliates. Without prejudice to the other terms and conditions hereof, the Services shall be provided in a manner similar to that followed by the Seller or its Affiliates in the operation of the Unit prior to the Unit being laid up by Seller and in the servicing of equipment of Seller’s Affiliates similar to the Serviced Equipment in preparation for drilling operations, provided that the gear boxes shall be repaired and reinstalled in accordance with international good oilfield practices to ensure that the gear system is operational. Seller shall use its reasonable efforts to provide that any third party contracts for rendering the Services shall permit Seller to transfer any warranties thereunder to Buyer and shall transfer the same to Buyer at completion of the Services. For the avoidance of doubt, Buyer agrees that it shall pay for the commissioning of the Serviced Equipment.

*Section 1.3.* Buyer shall provide all assistance reasonably requested by Seller or its Affiliates in connection with the Services to be provided under this Agreement. Buyer shall also provide reasonable access to Seller to the Unit after Closing at the yard designated by Buyer in Singapore for purposes of removing the Seller’s BOP, located on the Unit as of the date hereof. Such removal shall be at Seller’s sole risk and cost and shall be completed by Seller no later than December 1, 2012.

*Section 1.4. Party Representatives.* Buyer and Seller shall each appoint a representative (respectively “**Buyer’s Representative**” and “**Seller’s Representative**”, and together, the “**Representatives**”) who shall each have authority to fully represent and bind Buyer or Seller respectively as to operational issues related to Services consistent with the terms of this Agreement, and to otherwise act on behalf of the Party to this Agreement appointing such Representative. Either Party may withdraw authority of its Representative immediately upon written notice to the other Party, and shall designate a replacement Representative upon ten (10) Business Day’s prior written notice to the other Party. Each Party shall direct that the Representative appointed by it shall use reasonable efforts to resolve in an amicable and co-operative manner issues which are raised by either of the Parties in relation to the Services. If the Representatives are unable to resolve any issue within ten (10) Business Days of it being notified to the other, the dispute resolution procedure in Section 5.5 shall apply. Buyer’s Representative or its designee shall have the right to be present with the Serviced Equipment at all times during performance of the Services, but the presence of Buyer’s Representative shall in no way affect Seller’s obligations hereunder. Buyer shall also be permitted to have a representative of the classification society for the Unit present at testing and installation of the Serviced Equipment.

*Section 1.5. Excluded Services.* The Services shall not include any service which is not expressly described herein (including any exhibit hereto).

*Section 1.6. MODU Sale Agreement.* The Parties agree that Articles 8.6 and 9.2 of the MODU Sale Agreement shall not apply to the Serviced Equipment.

## ARTICLE II

### INDEMNITIES AND LIMITATIONS ON CLAIMS

*Section 2.1. Indemnities.*

(a) Indemnity by the Buyer. The Buyer shall be solely responsible for and shall defend, release, indemnify and hold harmless the Seller's Group from and against any and all Claims howsoever arising from or in connection with:

- (i) death, illness of or injury to any Person within the Buyer's Group; and/or
- (ii) loss of or damage to any property owned by any member of the Buyer's Group including the Unit,
- (iii) personal injury including death or disease or loss of or damage to the property of any Third Party, and
- (iv) Consequential Loss suffered by the Buyer's Group or any Third Party,

Regardless of Cause.

(b) Indemnity by the Seller. The Seller shall be solely responsible for and shall defend, release, indemnify and hold harmless the Buyer's Group from and against any and all Claims howsoever arising from or in connection with:

- (i) death, illness of or injury to any Person within the Seller's Group; and/or
- (ii) loss of or damage to any property owned by any member of the Seller's Group,
- (iii) Consequential Loss suffered by the Seller's Group,

Regardless of Cause.

*Section 2.2. Limitation on Remedies.* Subject only to Section 2.1 above:

(a) Buyer hereby expressly waives any right Buyer may have to claim, collect or receive damages other than under breach of contract for any non-performance, inadequate performance, faulty performance or other failure or breach by Seller under or relating to this Agreement, Regardless of Cause. Nothing in this paragraph shall be construed to limit in any way Buyer's right to recover physical possession of the Serviced Equipment following the Closing, as that term is defined in the MODU Sale Agreement.

(b) Without limiting the generality of any other provision hereof, it is not the intent of Seller or its Affiliates to render professional advice or opinions; Buyer shall not rely on Seller or its Affiliates for such professional advice or opinions. Buyer shall seek all third party professional advice and opinions as it may desire or need.

*Section 2.3. Relationship of the Parties.* The Buyer understands and agrees that neither the Seller nor any of member if its Group shall be the agent of the Buyer, and no fiduciary duty or other legal duty or obligation or special standard of care imposed on an agent toward a principal or any other Person shall be imposed on the Seller or any member of its Group. The Buyer understands and agrees that the Seller's relationship to the Buyer under this Agreement is strictly a contractual arrangement on the terms and conditions set forth in this Agreement, and the Buyer hereby waives any and all rights that it may otherwise have under any Applicable Law or legal precedent to make any claim or take any action against the Seller or any of member if its Group based on any theory of agency, fiduciary duty or any implied or special standard of care. This Agreement is not intended to and shall not be construed as creating a joint venture, partnership, agency or other association within the meaning of the common law or under the laws of any jurisdiction in which either Party is organized, or conducting business.

*Section 2.4. Term and Termination.*

(a) Term. This Agreement shall remain in full force and effect until the Termination Date.

## ARTICLE III

## FORCE MAJEURE

*Section 3.1. Effect and Definition.* No failure or omission by the Seller or the Buyer to perform or carry out any of its obligations in accordance with this Agreement (other than an obligation to make payment) shall give rise to any claim by the other Party or be deemed a breach of this Agreement if such failure or omission arises from an event of Force Majeure.

For the purpose of this section, “**Force Majeure**” shall mean any event or circumstance that is beyond the reasonable control of, and not solely the result of the fault or negligence of, the party affected thereby, including but not limited to lightning, earthquakes, tornadoes, hurricanes, floods, washouts, storms, fires, explosions, epidemics, acts of God, other natural disasters, acts of the public enemy, computer crimes, cyberterrorism, confiscation or seizure by a Governmental Authority or other governmental interference (whether actual or claiming to act as such), insurrections, riots, civil disturbance, sabotage, terrorism, threats of sabotage or terrorism, vandalism, wars and warlike actions (whether declared or undeclared and whether actual, pending or expected), arrests or other restraints by a Governmental Authority (whether actual or claiming to act as), blockades, embargoes, boycotts, strikes, lockouts, labor unrest and other labor disputes.

*Section 3.2. Notification Requirements.* The Party claiming to be affected by a force majeure event shall (i) promptly notify the other Party of the beginning and end of any event claimed to be Force Majeure; and (ii) take all reasonable steps and precautions to alleviate or rectify the effects thereof; and (iii) resume performance in accordance with this Agreement as soon as is reasonably possible.

## ARTICLE IV

### GOVERNMENT RESTRICTIONS/BUSINESS ETHICS

Notwithstanding anything in this Agreement to the contrary, (a) neither Seller nor any member of its Group shall be required to undertake any actions, omissions, services or performance which would or may place the Seller or any member of its Group in violation of any Applicable Law, including without limitation, the U.S. Federal Foreign Corrupt Practices Act and the United Kingdom Bribery Act, as in force from time to time and (b) the Buyer acknowledges receipt from the Seller of the Seller’s Company Policy on Business Conduct and the Buyer agrees that the Seller shall not be required to take any actions, omissions, services or performance which would place the Seller or any member of its Group in violation of such Company Policy.

## ARTICLE V

### MISCELLANEOUS

*Section 5.1. Amendment and Modification.* This Agreement may be amended or supplemented at any time by the Parties but only pursuant to an instrument in writing signed by both Parties.

*Section 5.2. Entire Agreement; Assignment; Binding Effect.* This Agreement constitutes the entire agreement between the Parties and supersedes any arrangement, understanding or previous agreement between them relating to its subject matter. Each Party acknowledges that in entering into this Agreement, and any documents referred to in it, does not rely on, and shall have no remedy in respect of, any statement, representation, assurance or warranty of any Person other than as expressly set out in this Agreement. Nothing in this Section 5.2 operates to limit or exclude any liability for fraud. Neither Party may assign any of its rights hereunder without the prior written consent of the other Party. However nothing shall prevent the Seller from causing performance of its obligations hereunder by Affiliates or Third Parties.

*Section 5.3. Severability.* If any provision of this Agreement is held invalid or unenforceable, no other provision shall be affected. With respect to the provision held invalid or unenforceable, the Parties shall amend this Agreement as necessary to effect the original intent of the Parties as closely as possible.

*Section 5.4. Notices.* All notices and other communications (“**Notices**”) under this Agreement shall be in writing and shall be marked for the attention of the person(s), and sent to the address(es), or fax number(s), given in this Section (or such other address(es), fax number(s) or person(s) as the relevant Party may notify the other in accordance with the provisions of this section) and shall be delivered personally, or sent by fax, or by international courier service.

(a) Notices to the Seller:

Transocean Discoverer 534 LLC  
4 Greenway Plaza  
Houston, Texas 77046

For the attention of: Larry D. McMahan

with copies to:

Transocean Management Limited

Chemin de Blandonnet 10  
CH-1214 Vernier  
Switzerland

Attn: : Christophe Raimbault  
Fax: +41 22 930 9094

and

Ince & Co LLP  
International House  
1 St. Katharine's Way  
London E1W 1AY  
UK

Attn: Renaud Barbier-Emery  
Fax: +44 20 7481 4968

(b) Notices to the Buyer:

Helix Energy Solutions Group, Inc.  
400 North Sam Houston Parkway East, Suite 400  
Houston, Texas 77006  
Singapore 089316

Attn: Owen Kratz  
Fax: +1 281 618 0505

With copy to:

Helix Energy Solutions Group, Inc.  
400 North Sam Houston Parkway East, Suite 400  
Houston, Texas 77006  
Singapore 089316

Attn: Alisa Johnson  
Fax: +1 281 618 0505

A Notice shall be deemed to have been given:

- (a) if delivered personally, at the time of delivery; or
- (b) in the case of fax, at the time of transmission; or

(c) in the case of delivery by international courier service, two (2) Business Days after being delivered into the custody of such service; and

if deemed receipt under the previous paragraphs of this Section 5.4 is not within business hours of the place of receipt (meaning 9 am to 5.30 pm Monday to Friday on a day that is not a public holiday in the place of receipt), when business next starts in the place of receipt. To prove service it is sufficient to prove that the Notice was transmitted by fax to the fax number of the Party or, in the case of international courier service, that the envelope containing the notice was properly addressed and delivered to the courier company.

**Section 5.5. Governing Law and Jurisdiction.** This Agreement shall be governed by and construed in accordance with the laws of England and the Parties hereby irrevocably submit to the exclusive jurisdiction of the English Courts in London.

**Section 5.6. Seller's Agent for Service of Process.** The Seller hereby irrevocably appoints [Ince Process Agents Limited at its registered office (presently being at 5th floor, International House, 1 St Katharine's Way, London E1W 1AY)] as its agent to receive and accept on its behalf any process or other document relating to any proceedings in the English courts in connection with this Agreement.

**Section 5.7. Buyer's Agent for Service of Process.** The Buyer hereby irrevocably appoints EC3 Services Limited at its registered office in England (presently being at St Botolph Building, 138 Houndsditch, London EC3A 7AR) (or such other Person being a firm of solicitors resident in England as it may substitute by notice) as its agents to receive and accept on its behalf any process or other document relating to any proceedings in the English courts in connection with this Agreement.

Section 5.8. Counterparts. This Agreement may be executed in counterparts, each of which shall be deemed an original but all of which together shall constitute one and the same instrument.

Section 5.9. Interpretation. In this Agreement:

- (a) The headings are for convenience of reference only and shall be ignored in construing this Agreement;
- (b) Where the context requires, the singular includes the plural and vice versa;
- (c) The words "include," "includes" and "including" shall be deemed to be followed by the words "without limitation";
- (d) Unless the context otherwise indicates, references in this Agreement to articles, sections or exhibits are references, respectively, to articles, sections or exhibits of or to this Agreement;
- (e) All references in this Agreement to contracts, agreements and other documents shall be deemed to refer to such contracts, agreements and other documents as amended, modified and supplemented from time to time;
- (f) The words "hereof," "herein," "hereto," and "hereunder" and words of similar import shall, unless otherwise expressly specified, refer to this Agreement as a whole and not to any particular portion or provision of this Agreement; and
- (g) References to any Person in or party to this Agreement shall include reference to such Person's lawful successors and assigns.

Each of the Parties acknowledge that it and its counsel have reviewed and revised this Agreement and that any rule of construction to the effect that any ambiguities are to be resolved against the drafting party or proferens shall not be employed in the interpretation of this Agreement.

Section 5.10. No Third Party Beneficiaries.

(a) The indemnities in Section 2.1 are made for the benefit of the Persons identified in these sections and, accordingly, each of those Persons may in their own right enforce those provisions in accordance with the Contracts (Rights of Third Parties) Act 1999 ("**CRITPA**"). In accordance with section 2(3) of CRITPA, the whole or any part of this Agreement may be rescinded or varied by agreement between the Seller and the Buyer without the consent of such third parties.

(b) Save as provided in paragraph (a) above, a Person who is not a Party to this Agreement has no right under CRITPA or otherwise to enforce any term of this Agreement.

Section 5.11. The provisions of Articles II, IV and V shall survive any termination of this Agreement howsoever occurring.

[Remainder of this Page Intentionally Left Blank]

IN WITNESS WHEREOF, the Parties have caused this Agreement to be executed and unconditionally delivered as a deed as of the date first written above.

**TRANSOCEAN DISCOVERER 534 LLC**

/s/ Larry McMahan  
Name: Larry McMahan  
Title: President

**HELIX ENERGY SOLUTIONS GROUP, INC.**

/s/ Anthony Tripodo

Name: Anthony Tripodo  
Title: Executive Vice President  
and Chief Financial Officer

## **EXHIBIT A**

### **Services**

The Services to be arranged by Seller during the Transition Period pursuant to the terms of this Agreement shall be limited to the services specifically described below:

(a) Provision of repair services with respect to the Unit's top drive and delivery of such top drive following the repair services to the Buyer at the Singapore shipyard designated by the Buyer.

(b) Provision of overhaul services with respect to the Unit's two gear boxes, delivery of such gear boxes following the overhaul services to the Buyer at the Singapore shipyard designated by the Buyer and installation of such gear boxes pursuant to Buyer's instructions on the Unit.

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## HELIX ENERGY SOLUTIONS GROUP, INC.

## 2005 LONG TERM INCENTIVE PLAN

(As Amended and Restated Effective May 9, 2012)

## ARTICLE I

## ESTABLISHMENT, PURPOSE AND DURATION

1.1 **Amendment and Restatement.** The Company hereby amends and restates the "Helix Energy Solutions Group, Inc. 2005 Long Term Incentive Plan," as set forth in this document. The Plan permits the grant of Options, SARs, Restricted Stock, Restricted Stock Units, Cash Awards and Performance Awards. The Plan shall become effective on the latest of (a) the date the Plan is approved by the Board (b) the date the Plan is approved by the holders of at least a majority of the outstanding shares of voting stock of the Company and (c) if the provisions of the corporate charter, by-laws or applicable state law prescribes a greater degree of stockholder approval for this action, the approval by the holders of that percentage, at a meeting of stockholders.

1.2 **Purpose of the Plan.** The purpose of the Plan is to provide incentives to directors, corporate officers and other employees of the Company and its Affiliates by enabling them to acquire shares of common stock of the Company and to receive other compensation. based on the increase in value of the common stock of the Company or certain other performance measures. The Plan is intended to advance the best interests of the Company, its Affiliates and its stockholders by providing those persons who have substantial responsibility for the management and growth of the Company and its Affiliates with additional performance incentives and an opportunity to obtain or increase their proprietary interest in the Company, thereby encouraging them to continue in their employment with the Company and its Affiliates.

1.3 **Grants Under the Plan.** The applicable provisions of the Plan will continue in effect with respect to an Award granted under the Plan for as long as such Award remains outstanding.

## ARTICLE II

## DEFINITIONS

The words and phrases defined in this Article shall have the meaning set out below throughout the Plan, unless the context in which any such word or phrase appears reasonably requires a broader, narrower or different meaning.

2.1 "Affiliate" means any corporation, partnership, limited liability company or association, trust or other entity or organization which, directly or indirectly, controls, is controlled by, or is under common control with, the Company. For purposes of the preceding sentence, "control" (including, with correlative meanings, the terms "controlled by" and "under common control with"), as used with respect to any entity or organization, shall mean the possession, directly or indirectly, of the power (a) to vote more than 50 percent (50%) of the securities having ordinary voting power for the election of directors of the controlled entity or organization, or (b) to direct or cause the direction of the management and policies of the controlled entity or organization, whether through the ownership of voting securities or by contract or otherwise.

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2.2 "Award" means, individually or collectively, a grant under the Plan of Options, SARs, Restricted Stock, Restricted Stock Units, Cash Awards and Performance Awards in each case subject to the terms and provisions of the Plan.

2.3 "Award Agreement" means an agreement that sets forth the terms and conditions applicable to an Award granted under the Plan.

2.4 "Board" means the board of directors of the Company.

2.5 "Cash Award" means an Award denominated in cash and granted pursuant to Article IX.

2.6 "Change in Control" has the meaning prescribed in an Award Agreement between the Company and a Holder, or, if there is no Award Agreement, means the occurrence of any of the following events: (a) there shall be consummated (i) any consolidation or merger of the Company in which the Company is not the continuing or surviving corporation or pursuant to which shares of the Stock would be converted into cash, securities or other property, other than a merger of the Company where a majority of the Board of the surviving corporation is, and for a two-year period after the merger continues to be, persons who were directors of the Company immediately prior to the merger or were elected as directors, or nominated for election as director, by a vote of at least two-thirds of the directors then still in office who were directors of the Company immediately prior to the merger, or (ii) any sale, lease, exchange or transfer (in one transaction or a series of related transactions) of all or substantially all of the assets of the Company; (b) the shareholders of the Company shall approve any plan or proposal for the liquidation or dissolution of the Company; or (c) (i) any "person" (as such term is used in Sections 13(d) and 14(d)(2) of the Exchange Act, other than the Company or a subsidiary thereof or any employee benefit plan sponsored by the Company or a subsidiary thereof, shall become the beneficial owner (within the meaning of Rule 13d-3 under the Exchange Act) of securities of the Company representing 20 percent or more of the combined voting power of the Company's then outstanding securities ordinarily (and apart from rights accruing in special circumstances) having the right to vote in the election of directors, as a result of a tender or exchange offer, open market purchases, privately negotiated purchases or otherwise, and (ii) at any time during a period of two years after such "person" becomes such a beneficial owner, individuals who immediately prior to the beginning of such period constituted the Board shall cease for any reason to constitute at least a majority thereof, unless the election or the nomination by the Board for election by the Company's shareholders of each new director during such period was approved by a vote of at least two-thirds of the directors then still in office who were directors at the beginning of such period.

2.7 "Code" means the United States Internal Revenue Code of 1986, as amended.

2.8 "Committee" means a committee of at least two persons, who are members of the Compensation Committee of the Board and are appointed by the Compensation Committee of the Board, or, to the extent it chooses to operate as the Committee, the Compensation Committee of the Board. Each member of the Committee in respect of his or her participation in any decision with respect to an Award intended to satisfy the requirements of Section 162(m) of the Code must satisfy the requirements of "outside director" status within the meaning of Section 162(m) of the Code; provided, however, that the failure to satisfy such requirement shall not affect the validity of the action of any committee otherwise duly authorized and acting in the matter. As to Awards, grants or other transactions that are authorized by the Committee and that are intended to be exempt under Rule 16b-3 under the Exchange Act, the requirements of Rule 16b-3(d)(1) under the Exchange Act with respect to committee action must also be satisfied. For all purposes under the Plan, the Chief Executive Officer

of the Company shall be deemed to be the "Committee" with respect to Options, SARs and Restricted Stock granted by him or her pursuant to Section 4.1.

2.9 "Company" means Helix Energy Solutions Group, Inc., a Minnesota corporation, or any successor (by reincorporation, merger or otherwise).

2.10 "Corporate Change" shall have the meaning ascribed to that term in Section 4.5(c).

2.11 "Covered Employee" means any Employee who is or may be a "covered employee," as defined in Code Section 162(m).

2.12 "Disability" means as determined by the Committee in its discretion exercised in good faith, a physical or mental condition of the Holder that would entitle him or her to payment of disability income payments under the Company's long term disability insurance policy or plan for employees as then in effect; or in the event that the Holder is not covered, for whatever reason under the Company's long term disability insurance policy or plan for employees or in the event the Company does not maintain such a long term disability insurance policy, "Disability" means a permanent and total disability as defined in Section 22(e)(3) of the Code. A determination of Disability may be made by a physician selected or approved by the Committee and, in this respect, the Holder shall submit to an examination by such physician upon request by the Committee.

2.13 "Employee" means (a) a person employed by the Company or any Affiliate as a common law employee or (b) a person who has agreed to become a common law employee of the Company or any Affiliate and is expected to become such within six (6) months from the date of a determination made for purposes of the Plan.

2.14 "Exchange Act" means the United States Securities Exchange Act of 1934, as amended from time to time.

2.15 "Fair Market Value" of the Stock as of any particular date means (1) if the Stock is traded on a stock exchange, the closing sale price of the Stock on that date as reported on the principal securities exchange on which the Stock is traded, or (2) if the Stock is traded in the over-the-counter market, the average between the high bid and low asked price on that date as reported in such over-the-counter market; provided that (a) if the Stock is not so traded, (b) if no closing price or bid and asked prices for the stock was so reported on that date or (c) if, in the discretion of the Committee, another means of determining the fair market value of a share of Stock at such date shall be necessary or advisable, the Committee may provide for another means for determining such fair market value.

2.16 "Fiscal Year" means the Company's fiscal year.

2.17 "Holder" means a person who has been granted an Award or any person who is entitled to receive Shares under an Award.

2.18 "Incentive Option" means an incentive stock option that is intended to satisfy the requirements of Section 422 of the Code.

2.19 "Minimum Statutory Tax Withholding Obligation" means the amount the Company or an Affiliate is required to withhold for federal, state and local taxes based upon the applicable minimum statutory withholding rates required by the relevant tax authorities.

2.20 "Option" means an option to purchase Stock granted pursuant to Article V.

2.21 "Option Price" shall have the meaning ascribed to that term in Section 5.4.

2.22 "Optionee" means a person who is granted an Option under the Plan.

2.23 "Option Agreement" means a written contract setting forth the terms and conditions of an Option.

2.24 "Performance Award" means an Award made pursuant to Article X to an Employee which is subject to the attainment of one or more Performance Goals.

2.25 "Performance Goal" means one or more standards established by the Committee to determine in whole or in part whether a Performance Award shall be earned.

2.26 "Period of Restriction" means the period during which Restricted Stock is subject to a substantial risk of forfeiture (based on the passage of time, the achievement of performance goals, or upon the occurrence of other events as determined by the Committee, in its discretion), as provided in Article VII.

2.27 "Plan" means the Helix Energy Solutions Group, Inc. 2005 Long Term Incentive Plan, as set forth in this document and as it may be amended from time to time.

2.28 "Qualified Performance Awards" has the meaning set forth in Section 10.3.

2.29 "Restricted Stock" means shares of restricted Stock issued or granted under the Plan pursuant to Article VII.

2.30 "Restricted Stock Award" means an authorization by the Committee to issue or transfer Restricted Stock to a Holder.

2.31 "Restricted Stock Unit" means a unit credited to a Holder's ledger account maintained by the Company pursuant to Article VIII.

2.32 "Restricted Stock Unit Award" means an Award granted pursuant to Article VII.

2.33 "Retirement" means retirement in accordance with the terms of a retirement plan that is qualified under Section 401(a) of the Code and maintained by the Company or an Affiliate in which the Holder is a participant.

2.34 "Section 409A" means Section 409A of the Code and Department of Treasury rules and regulations issued thereunder.

2.35 "Stock" means the common stock of the Company, no par value per share (or such other par value as may be designated by act of the Company's stockholders).

2.36 "Stock Appreciation Right" or "SAR" means a right to receive a payment, in cash or shares of Stock, equal to the excess of the Fair Market Value of a specified number of shares of Stock on the date the right is exercised over a specified exercise price granted pursuant to Article VI.

2.37 "Stock Award" means an Award in the form of shares of or that may be settled in shares of Stock, including a Restricted Stock Award, a Restricted Stock Unit Award or a Performance Award, and excluding Options and SARs.

2.38 "Substantial Risk of Forfeiture" shall have the meaning ascribed to that term in Section 409A of the Code and Department of Treasury guidance issued thereunder.

2.39 "Termination of Employment" means the termination of the Award recipient's employment relationship with the Company and all Affiliates.

### ARTICLE III

#### ELIGIBILITY AND PARTICIPATION

3.1 **Eligibility.** The persons who are eligible to receive Awards under the Plan are Employees and directors of the Company (except that directors may not receive Awards of Incentive Options).

3.2 **Participation.** Subject to the terms and provisions of the Plan, the Committee may, from time to time, select the Employees to whom Awards shall be granted and shall determine the nature and amount of each Award.

### ARTICLE IV

#### GENERAL PROVISIONS RELATING TO AWARDS

4.1 **Authority to Grant Awards.** The Committee may grant Awards to those Employees as the Committee shall from time to time determine, under the terms and conditions of the Plan. Subject only to any applicable limitations set out in the Plan, the number of shares of Stock or other value to be covered by any Award to be granted under the Plan shall be as determined by the Committee in its sole discretion. However, the Chief Executive Officer of the Company is authorized to grant Options, SARs, and/or Stock Awards, with respect to no more than 200,000 shares of Stock per Fiscal Year, as inducements to hire prospective Employees and/or in connection with the promotion of current Employees, in each case who will not be officers of the Company subject to the provisions of Section 16 of the Exchange Act.

4.2 **Dedicated Shares; Maximum Awards.** The aggregate number of shares of Stock with respect to which Awards may be granted under the Plan is 10,300,000. The aggregate number of shares of Stock with respect to which Incentive Options may be granted under the Plan is 2,000,000. The maximum number of

shares of Stock with respect to which Awards may be granted to an Employee during a Fiscal Year is 1,000,000. The maximum value of a Cash Award to which may be granted to an Employee during a Fiscal Year is \$10,000,000. Each of the foregoing numerical limits stated in this Section 4.2 shall be subject to adjustment in accordance with the provisions of Section 4.5. If shares of Stock are withheld from payment of an Award to satisfy tax obligations with respect to the Award, such shares of Stock will count against the aggregate number of shares of Stock with respect to which Awards may be granted under the Plan. If Shares are tendered in payment of an Option Price of an Option, such shares of Stock will not be added to the aggregate number of shares of Stock with respect to which Awards may be granted under the Plan. To the extent that any outstanding Award is forfeited or cancelled for any reason or is settled in cash in lieu of share of Stock, the shares of Stock allocable to such portion of the Award may again be subject to an Award granted under the Plan.

4.3 **Non Transferability.** Except as specified in the applicable Award Agreements or in domestic relations court orders, Awards shall not be transferable by the Holder other than by will or under the laws of descent and distribution, and shall be exercisable, during the Holder's lifetime, only by him or her. In the discretion of the Committee, any attempt to transfer an Award other than under the terms of the Plan and the applicable Award Agreement may terminate the Award.

4.4 **Requirements of Law.** The Company shall not be required to sell or issue any shares of Stock under any Award if issuing those shares of Stock would constitute or result in a violation by the Holder or the Company of any provision of any law, statute or regulation of any governmental authority. Specifically, in connection with any applicable statute or regulation relating to the registration of securities, upon exercise of any Option or pursuant to any other Award, the Company shall not be required to issue any shares of Stock unless the Committee has received evidence satisfactory to it to the effect that the Holder will not transfer the shares of Stock except in accordance with applicable law, including receipt of an opinion of counsel satisfactory to the Company to the effect that any proposed transfer complies with applicable law. The determination by the Committee on this matter shall be final, binding and conclusive. The Company may, but shall in no event be obligated to, register any shares of Stock covered by the Plan pursuant to applicable securities laws of any country or any political subdivision. In the event the shares of Stock issuable on exercise of an Option or pursuant to any other Award are not registered, the Company may imprint on the certificate evidencing the shares of Stock any legend that counsel for the Company considers necessary or advisable to comply with applicable law, or, should the shares of Stock be represented by book or electronic entry rather than a certificate, the Company may take such steps to restrict transfer of the shares of Stock as counsel for the Company considers necessary or advisable to comply with applicable law. The Company shall not be obligated to take any other affirmative action in order to cause or enable the exercise of an Option or any other Award, or the issuance of shares of Stock pursuant thereto, to comply with any law or regulation of any governmental authority.

4.5 **Changes in the Company's Capital Structure.**

(a) The existence of outstanding Awards shall not affect in any way the right or power of the Company or its stockholders to make or authorize any or all adjustments, recapitalizations, reorganizations or other changes in the Company's capital structure or its business, any merger or consolidation of the Company, any issue of bonds, debentures, preferred or prior preference shares ahead of or affecting the Stock or Stock rights, the dissolution or liquidation of the Company, any sale or transfer of all or any part of its assets or business or any other corporate act or proceeding, whether of a similar character or otherwise.



(b) If the Company shall effect a subdivision or consolidation of Stock or other capital readjustment, the payment of a Stock dividend, or other increase or reduction of the number of shares of Stock outstanding, without receiving compensation therefor in money, services or property, then (1) the number, class or series and per share price of Stock subject to outstanding Options or other Awards under the Plan shall be appropriately adjusted in such a manner as to entitle a Holder to receive upon exercise of an Option or other Award, for the same aggregate cash consideration, the equivalent total number and class or series of Stock the Holder would have received had the Holder exercised his or her Option or other Award in full immediately prior to the event requiring the adjustment, and (2) the number and class or series of Stock then reserved to be issued under the Plan shall be adjusted by substituting for the total number and class or series of Stock then reserved, that number and class or series of Stock that would have been received by the owner of an equal number of outstanding shares of Stock of each class or series of Stock as the result of the event requiring the adjustment.

(c) If while unexercised Options or other Awards remain outstanding under the Plan (1) the Company shall not be the surviving entity in any merger, consolidation or other reorganization (or survives only as a subsidiary of an entity other than an entity that was wholly-owned by the Company immediately prior to such merger, consolidation or other reorganization), (2) the Company sells, leases or exchanges or agrees to sell, lease or exchange all or substantially all of its assets to any other person or entity (other than an entity wholly-owned by the Company), (3) the Company is to be dissolved or (4) the Company is a party to any other corporate transaction (as defined under Section 424(a) of the Code and applicable Department of Treasury regulations) that is not described in clauses (1), (2) or (3) of this sentence (each such event is referred to herein as a "Corporate Change"), then, except as otherwise provided in an Award Agreement (provided that such exceptions shall not apply in the case of a reincorporation merger), or as a result of the Committee's effectuation of one or more of the alternatives described below, there shall be no acceleration of the time at which any Award then outstanding may be exercised, and no later than ten days after the approval by the stockholders of the Company of such Corporate Change, the Committee, acting in its sole and absolute discretion without the consent or approval of any Holder, shall act to effect one or more of the following alternatives, which may vary among individual Holders and which may vary among Awards held by any individual Holder (provided that, with respect to a reincorporation merger in which Holders of the Company's ordinary shares will receive one ordinary share of the successor corporation for each ordinary share of the Company, none of such alternatives shall apply and, without Committee action, each Award shall automatically convert into a similar award of the successor corporation exercisable for the same number of ordinary shares of the successor as the Award was exercisable for ordinary shares of Stock of the Company):

- (1) accelerate the time at which some or all of the Awards then outstanding may be exercised so that such Awards may be exercised in full for a limited period of time on or before a specified date (before or after such Corporate Change) fixed by the Committee, after which specified date all such Awards that remain unexercised and all rights of Holders thereunder shall terminate;
- (2) require the mandatory surrender to the Company by all or selected Holders of some or all of the then outstanding Awards held by such Holders (irrespective of whether such Awards are then exercisable under the provisions of the Plan or the applicable Award Agreement evidencing such Award) as of a date, before or after such Corporate Change, specified by the Committee, in which event the Committee shall thereupon cancel such Award and the Company shall pay to each such Holder an amount of cash per share equal to the excess, if any, of the per share price

offered to stockholders of the Company in connection with such Corporate Change over the exercise prices under such Award for such shares;

- (3) with respect to all or selected Holders, have some or all of their then outstanding Awards (whether vested or unvested) assumed or have a new award of a similar nature substituted for some or all of their then outstanding Awards under the Plan (whether vested or unvested) by an entity which is a party to the transaction resulting in such Corporate Change and which is then employing such Holder or which is affiliated or associated with such Holder in the same or a substantially similar manner as the Company prior to the Corporate Change, or a parent or subsidiary of such entity, provided that (A) such assumption or substitution is on a basis where the excess of the aggregate fair market value of the Stock subject to the Award immediately after the assumption or substitution over the aggregate exercise price of such Stock is equal to the excess of the aggregate fair market value of all Stock subject to the Award immediately before such assumption or substitution over the aggregate exercise price of such Stock, and (B) the assumed rights under such existing Award or the substituted rights under such new Award as the case may be will have the same terms and conditions as the rights under the existing Award assumed or substituted for, as the case may be;
- (4) provide that the number and class or series of Stock covered by an Award (whether vested or unvested) theretofore granted shall be adjusted so that such Award when exercised shall thereafter cover the number and class or series of Stock or other securities or property (including, without limitation, cash) to which the Holder would have been entitled pursuant to the terms of the agreement or plan relating to such Corporate Change if, immediately prior to such Corporate Change, the Holder had been the holder of record of the number of shares of Stock then covered by such Award; or
- (5) make such adjustments to Awards then outstanding as the Committee deems appropriate to reflect such Corporate Change (provided, however, that the Committee may determine in its sole and absolute discretion that no such adjustment is necessary).

In effecting one or more of alternatives in (3), (4) or (5) immediately above, and except as otherwise may be provided in an Award Agreement, the Committee, in its sole and absolute discretion and without the consent or approval of any Holder, may accelerate the time at which some or all Awards then outstanding may be exercised.

(d) In the event of changes in the outstanding Stock by reason of recapitalizations, reorganizations, mergers, consolidations, combinations, exchanges or other relevant changes in capitalization occurring after the date of the grant of any Award and not otherwise provided for by this Section 4.5, any outstanding Award and any Award Agreements evidencing such Award shall be subject to adjustment by the Committee in its sole and absolute discretion as to the number and price of Stock or other consideration subject to such Award. In the event of any such change in the outstanding Stock, the aggregate number of shares of Stock available under the Plan may be appropriately adjusted by the Committee, whose determination shall be conclusive.

(e) After a merger of one or more corporations into the Company or after a consolidation of the Company and one or more corporations in which the Company shall be the surviving corporation, each Holder

shall be entitled to have his or her Restricted Stock appropriately adjusted based on the manner in which the shares of Stock were adjusted under the terms of the agreement of merger or consolidation.

(f) The issuance by the Company of stock of any class or series, or securities convertible into, or exchangeable for, stock of any class or series, for cash or property, or for labor or services either upon direct sale or upon the exercise of rights or warrants to subscribe for them, or upon conversion or exchange of stock or obligations of the Company convertible into, or exchangeable for, stock or other securities, shall not affect, and no adjustment by reason of such issuance shall be made with respect to, the number, class or series, or price of shares of Stock then subject to outstanding Options or other Awards.

4.6 **Election Under Section 83(b) of the Code.** No Holder shall exercise the election permitted under Section 83(b) of the Code with respect to any Award without providing written notice of the election to the Vice President - Tax of the Company.

4.7 **Forfeiture for Cause.** Notwithstanding any other provision of the Plan or an Award Agreement, if the Committee finds by a majority vote that a Holder, before or after his or her Termination of Employment (a) committed a fraud, embezzlement, theft, felony or an act of dishonesty in the course of his or her employment by the Company or an Affiliate which conduct damaged the Company or an Affiliate or (b) disclosed trade secrets of the Company or an Affiliate, then as of the date the Committee makes its finding, any Awards awarded to the Holder that have not been exercised by the Holder (including all Awards that have not yet vested) will be forfeited to the Company. The findings and decision of the Committee with respect to such matter, including those regarding the acts of the Holder and the damage done to the Company, will be final for all purposes. No decision of the Committee, however, will affect the finality of the discharge of the individual by the Company or an Affiliate.

4.8 **Forfeiture Events.** The Committee may specify in an Award Agreement that the Holder's rights, payments, and benefits with respect to an Award shall be subject to reduction, cancellation, forfeiture, or recoupment upon the occurrence of certain specified events, in addition to any otherwise applicable vesting or performance conditions of an Award. Such events may include, but shall not be limited to, Termination of Employment for cause, termination of the Holder's provision of services to the Company or its Affiliates, violation of material policies of the Company and its Affiliates, breach of non-competition, confidentiality, or other restrictive covenants that may apply to the Holder, or other conduct by the Holder that is detrimental to the business or reputation of the Company and its Affiliates.

## ARTICLE V

### OPTIONS

5.1 **Authority to Grant Options.** Subject to the terms and provisions of the Plan, the Committee, at any time, and from time to time, may grant Options under the Plan to eligible persons in such number and upon such terms as the Committee shall determine.

5.2 **Type of Options Available.** Options granted under the Plan may consist of nonqualified stock options that are not intended to satisfy the requirements of Section 422 of the Code and Incentive Options.

5.3 **Option Agreement.** Each Option grant under the Plan shall be evidenced by an Option Agreement that shall specify (a) the Option Price, (b) the duration of the Option, (c) the number of shares of Stock to which the Option pertains, (d) the exercise restrictions applicable to the Option, and (e) such other provisions as the Committee shall determine that are not inconsistent with the terms and provisions of the Plan. Unless the Option Agreement specifies a shorter general term, an Option shall expire on the tenth anniversary of the date the Option is granted. Options may not include provisions that “reload” the Option upon exercise.

5.4 **Option Price.** The price at which shares of Stock may be purchased under an Option (the “Option Price”) shall not be less than 100 percent (100%) of the Fair Market Value of the shares of Stock on the date the Option is granted. Subject to the limitation set forth in the preceding sentence of this Section 5.4, the Committee shall determine the Option Price for each grant of an Option under the Plan. Except as provided in Section 4.5 (in connection with a corporate transaction involving the Company (including, without limitation, any stock dividend, stock split, recapitalization, reorganization, merger, consolidation, split-up, spin-off, combination, or exchange of shares)), the terms of outstanding Options may not be amended to reduce the Option Price of outstanding Options or cancel outstanding Options in exchange for cash, other Awards or new Options with an Option Price that is less than the Option Price of the original Options without shareholder approval.

5.5 **Exercise of Options.** The Option Price shall be paid in full at the time of exercise in cash or, if permitted by the Committee and elected by the Optionee, the Optionee may purchase such shares by means of the Company withholding shares of Stock otherwise deliverable on exercise of the Award or tendering shares of Stock valued at Fair Market Value on the date of exercise, or any combination thereof. The Committee, in its sole discretion, shall determine acceptable methods for Optionee to tender shares of Stock or other Awards. The Committee may provide for procedures to permit the exercise or purchase of such Awards by use of the proceeds to be received from the sale of shares of Stock issuable pursuant to an Award (including cashless exercise procedures approved by the Committee involving a broker or dealer approved by the Committee). The Committee may adopt additional rules and procedures regarding the exercise of Options from time to time, provided that such rules and procedures are not inconsistent with the provisions of this Section 5.5.

5.6 **Transferability of Options.** No Option granted under the Plan may be sold, transferred, pledged, assigned, or otherwise alienated or hypothecated, other than by will or by the laws of descent and distribution. Further, except as otherwise provided in an Optionee’s Option Agreement, all Options granted to an Optionee under the Plan shall be exercisable during his or her lifetime only by such Optionee. Any attempted assignment of an Option in violation of this Section 5.6 shall be null and void.

5.7 **No Rights as Stockholder.** An Optionee shall not have any rights as a stockholder with respect to Stock covered by an Option until he or she exercises the Option; and, except as otherwise provided in Section 4.5, no adjustment for dividends, or otherwise, shall be made if the record date therefor is prior to the date of such exercise.

## ARTICLE VI

### STOCK APPRECIATION RIGHTS

The Committee may make Awards of SARs to eligible persons selected by it. The exercise price for an SAR shall not be less than the Fair Market Value of the Stock on the grant date. The holder of a tandem SAR may elect to exercise either the Option or the SAR, but not both. The exercise period for a SAR shall extend no more than 10 years after date the SAR is granted. SARs may not include provisions that “reload” the SAR upon exercise. Subject to the foregoing provisions, the terms, conditions, and limitations applicable to any SAR, including, but not limited to, the term of any SAR and the date or dates upon which the SAR becomes vested and exercisable, shall be determined by the Committee. Except as provided in Section 4.5, the Committee shall not directly or indirectly lower the exercise price of a previously granted SAR.

## ARTICLE VII

### RESTRICTED STOCK AWARDS

7.1 **Restricted Stock Awards.** The Committee may make Awards of Restricted Stock to eligible persons selected by it. The amount of, the vesting and the transferability restrictions applicable to any Restricted Stock Award shall be determined by the Committee in its sole discretion. If the Committee imposes vesting or transferability restrictions on a Holder’s rights with respect to Restricted Stock, the Committee may issue such instructions to the Company’s share transfer agent in connection therewith as it deems appropriate. The Committee may also cause the certificate for Shares issued pursuant to a Restricted Stock Award to be imprinted with any legend which counsel for the Company considers advisable with respect to the restrictions or, should the Shares be represented by book or electronic entry rather than a certificate, the Company may take such steps to restrict transfer of the Shares as counsel for the Company considers necessary or advisable to comply with applicable law.

7.2 **Restricted Stock Award Agreement.** Each Restricted Stock Award shall be evidenced by an Award Agreement that contains any vesting, transferability restrictions and other provisions not inconsistent with the Plan as the Committee may specify.

7.3 **Holder’s Rights as Stockholder.** Subject to the terms and conditions of the Plan, each recipient of a Restricted Stock Award shall have all the rights of a stockholder with respect to the shares of Restricted Stock included in the Restricted Stock Award during the Period of Restriction established for the Restricted Stock Award. Dividends paid with respect to Restricted Stock in cash or property other than shares of Stock or rights to acquire shares of Stock shall be paid to the recipient of the Restricted Stock Award currently. Dividends paid in shares of Stock or rights to acquire shares of Stock shall be added to and become a part of the Restricted Stock. During the Period of Restriction, (i) shares of Stock subject to a Restricted Stock Award shall be evidenced by book entry registration or in such other manner as the Committee may determine and (ii) the certificates evidencing the shares of such Restricted Stock (to the extent that such shares are so evidenced) shall contain appropriate legends and restrictions that describe the terms and conditions of the restrictions applicable thereto.

## ARTICLE VIII

### RESTRICTED STOCK UNIT AWARDS

8.1 **Authority to Grant Restricted Stock Unit Awards.** Subject to the terms and provisions of the Plan, the Committee, at any time, and from time to time, may grant Restricted Stock Unit Awards under the Plan to eligible persons in such amounts and upon such terms as the Committee shall determine. The amount of the vesting and the transferability restrictions applicable to any Restricted Stock Unit Award shall be determined by the Committee in its sole discretion. The Company shall maintain a bookkeeping ledger account which reflects the number of Restricted Stock Units credited under the Plan for the benefit of a Holder.

8.2 **Restricted Stock Unit Awards.** A Restricted Stock Unit Award shall be similar in nature to Restricted Stock Award except that no shares of Stock are actually transferred to the Holder until a later date specified in the applicable Award Agreement. Each Restricted Stock Unit shall have a value equal to the Fair Market Value of a share of Stock.

8.3 **Restricted Stock Unit Award Agreement.** Each Restricted Stock Unit Award shall be evidenced by an Award Agreement that contains any Substantial Risk of Forfeiture, transferability restrictions, form and time of payment provisions and other provisions not inconsistent with the Plan as the Committee may specify.

8.4 **Form of Payment Under Restricted Stock Unit Award.** Payment under a Restricted Stock Unit Award shall be made in either cash or shares of Stock as specified in the Holder's Award Agreement.

8.5 **Time of Payment Under Restricted Stock Unit Award.** A Holder's payment under a Restricted Stock Unit Award shall be made at such time as is specified in the Holder's Award Agreement. The Award Agreement shall specify that the payment will be made (1) by a date that is no later than the date that is two and one-half (2-1/2) months after the end of the Fiscal Year in which the Restricted Stock Unit Award payment is no longer subject to a Substantial Risk of Forfeiture or (2) at a time that is permissible under Section 409A.

8.6 **Holder's Rights as Stockholder.** A Holder of a Restricted Stock Unit Award shall have no rights of a stockholder with respect to the Restricted Stock Unit Award. A Holder shall have no voting rights with respect to any Restricted Stock Unit Award.

8.7 **Compliance With Section 409A.** Restricted Stock Unit Awards shall be designed and operated in such a manner that they are either exempt from the application of, or comply with, the requirements of Section 409A.

## ARTICLE IX

### CASH AWARDS

An Award may be in the form of a Cash Award. The terms, conditions and limitations applicable to a Cash Award, including, but not limited to, vesting or other restrictions, shall be determined by the Committee.

## ARTICLE X

### PERFORMANCE AWARDS

10.1 **Performance Awards.** Without limiting the type or number of Awards that may be made under the other provisions of this Plan, an Employee Award may be in the form of a Performance Award. The terms, conditions and limitations applicable to an Award that is a Performance Award shall be determined by the Committee. The Committee shall set Performance Goals in its discretion which, depending on the extent to which they are met, will determine the value and/or amount of Performance Awards that will be paid out to the Holder and/or the portion of an Award that may be exercised.

10.2 **Nonqualified Performance Awards.** Performance Awards granted to Holders that are not intended to qualify as qualified performance-based compensation under Code Section 162(m) shall be based on achievement of such Performance Goals and be subject to such terms, conditions and restrictions as the Committee or its delegate shall determine.

10.3 **Qualified Performance Awards.** Performance Awards granted to Employees under this Plan that are intended to qualify as qualified performance-based compensation under Code Section 162(m) shall be paid, vested or otherwise deliverable solely on account of the attainment of one or more pre-established, objective Performance Goals established by the Committee prior to the earlier to occur of (1) 90 days after the commencement of the period of service to which the Performance Goal relates and (2) the lapse of 25% of the period of service (as scheduled in good faith at the time the goal is established), and in any event while the outcome is substantially uncertain. A Performance Goal is objective if a third party having knowledge of the relevant facts could determine whether the goal is met. One or more of such goals may apply to the Employee, one or more business units, divisions or sectors of the Company, or the Company as a whole, and if so desired by the Committee, by comparison with a peer group of companies. A Performance Goal shall include one or more of the following: earnings before interest, taxes, depreciation, amortization and exploration expenses (EBITDAX), capital management, term of service, return on capital employed, revenue growth, market share, margin growth, return on equity, total stockholder return, increase in net after-tax earnings per share, market price per share, growth in market price per share, increase in operating pre-tax earnings, operating profit or improvements in operating profit, improvements in certain asset or financial measures (including working capital and the ratio of revenues to working capital), credit quality, expense ratios, pre-tax earnings or variations of income criteria in varying time periods and economic value added.

Unless otherwise stated, such a Performance Goal need not be based upon an increase or positive result under a particular business criterion and could include, for example, maintaining the status quo or limiting economic losses (measured, in each case, by reference to specific business criteria). In interpreting Plan provisions applicable to Qualified Performance Awards, it is the intent of this Plan to conform with the standards of Code Section 162(m) and Treasury Regulation § 1.162-27(e)(2)(i), as to grants to Covered Employees and the Committee in establishing such goals and interpreting this Plan shall be guided by such provisions. Prior to the payment of any compensation based on the achievement of Performance Goals applicable to Qualified Performance Awards, the Committee must certify in writing that applicable Performance Goals and any of the material terms thereof were, in fact, satisfied. For this purpose, approved minutes of the Committee meeting in which the certification is made shall be treated as such written certification. Subject to

the foregoing provisions, the terms, conditions and limitations applicable to any Qualified Performance Awards made pursuant to this Plan shall be determined by the Committee. The Committee may provide in any such Performance Award that any evaluation of performance may include or exclude any of the following events that occurs during a Performance Period: (a) asset write-downs, (b) litigation or claim judgments or settlements, (c) the effect of changes in tax laws, accounting principles, or other laws or provisions affecting reported results, (d) any reorganization and restructuring programs, (e) extraordinary nonrecurring items as described in Accounting Principles Board Opinion No. 30 and/or in management's discussion and analysis of financial condition and results of operations appearing in the Company's annual report to shareholders for the applicable year, (f) acquisitions or divestitures, (g) foreign exchange gains and losses and (h) settlement of hedging activities.

10.4 **Adjustment of Performance Awards.** Awards that are intended to qualify as Performance Awards may not be adjusted upward. The Committee may retain the discretion to adjust such Performance Awards downward, either on a formula or discretionary basis or any combination, as the Committee determines.

## ARTICLE XI

### ADMINISTRATION

11.1 **Awards.** The Plan shall be administered by the Committee or, in the absence of the Committee, the Plan shall be administered by the Board. The members of the Committee shall serve at the discretion of the Board. The Committee shall have full and exclusive power and authority to administer the Plan and to take all actions that the Plan expressly contemplates or are necessary or appropriate in connection with the administration of the Plan with respect to Awards granted under the Plan.

11.2 **Minimum Vesting of Stock Awards.** Any Stock Award granted to an Employee that (a) is not a Performance Award shall have a minimum vesting period of three years from the date of grant or (b) is a Performance Award shall have a minimum performance period of one year from the date of grant; provided, however, that (1) the Committee may provide for earlier vesting upon an Employee's termination of employment by reason of death, Disability or Change in Control and (2) vesting of a Stock Award may occur incrementally over the three-year vesting period or one-year minimum performance period, as applicable. The foregoing notwithstanding, 5% of the total number of shares of Stock available for issuance under this Plan shall not be subject to the minimum vesting period or performance period, as applicable, described in the preceding sentence.

11.3 **Authority of the Committee.** The Committee shall have full and exclusive power to interpret and apply the terms and provisions of the Plan and Awards made under the Plan, and to adopt such rules, regulations and guidelines for implementing the Plan as the Committee may deem necessary or proper, all of which powers shall be exercised in the best interests of the Company and in keeping with the objectives of the Plan. A majority of the members of the Committee shall constitute a quorum for the transaction of business, and the vote of a majority of those members present at any meeting shall decide any question brought before that meeting. Any decision or determination reduced to writing and signed by a majority of the members shall be as



effective as if it had been made by a majority vote at a meeting properly called and held. All questions of interpretation and application of the Plan, or as to award granted under the Plan, shall be subject to the determination, which shall be final and binding, of a majority of the whole Committee. No member of the Committee shall be liable for any act or omission of any other member of the Committee or for any act or omission on his or her own part, including but not limited to the exercise of any power or discretion given to him or her under the Plan, except those resulting from his or her own gross negligence or willful misconduct. In carrying out its authority under the Plan, the Committee shall have full and final authority and discretion, including but not limited to the following rights, powers and authorities, to:

(a) determine the persons to whom and the time or times at which Awards will be made;

(b) determine the number and exercise price of shares of Stock covered in each Award, subject to the terms and provisions of the Plan;

(c) determine the terms, provisions and conditions of each Award, which need not be identical and need not match the default terms set forth in the Plan;

(d) accelerate the time at which any outstanding Award will vest;

(e) prescribe, amend and rescind rules and regulations relating to administration of the Plan; and

(f) make all other determinations and take all other actions deemed necessary, appropriate or advisable for the proper administration of the Plan.

The Committee may correct any defect or supply any omission or reconcile any inconsistency in the Plan or in any Award to a Holder in the manner and to the extent the Committee deems necessary or desirable to further the Plan's objectives. Further, the Committee shall make all other determinations that may be necessary or advisable for the administration of the Plan. The Committee may delegate to the Chief Executive Officer and to other employees of the Company its administrative duties under this Plan (excluding its granting authority for Awards, other than pursuant to the specific authorization described in Section 4.1) pursuant to such conditions or limitations as the Committee may establish. The Committee may engage or authorize the engagement of a third party administrator to carry out administrative functions under the Plan.

The actions of the Committee in exercising all of the rights, powers, and authorities set out in this Article XI and all other Articles of the Plan, when performed in good faith and in its sole judgment, shall be final, conclusive and binding on all persons. The Committee may employ attorneys, consultants, accountants, agents, and other persons, any of whom may be an Employee, and the Committee, the Company, and its officers and Board shall be entitled to rely upon the advice, opinions, or valuations of any such persons.

**11.4 Decisions Binding.** All determinations and decisions made by the Committee or the Board, as the case may be, pursuant to the provisions of the Plan and all related orders and resolutions of the Committee or the Board, as the case may be, shall be final, conclusive and binding on all persons, including the Company, its stockholders, Employees, Holders and the estates and beneficiaries of Employees and Holders.

**11.5 No Liability.** Under no circumstances shall the Company, the Board or the Committee incur liability for any indirect, incidental, consequential or special damages (including lost profits) of any form incurred by any person, whether or not foreseeable and regardless of the form of the act in which such a claim

may be brought, with respect to the Plan or the Company's, the Committee's or the Board's roles in connection with the Plan.

## ARTICLE XII

### AMENDMENT OR TERMINATION OF PLAN

12.1 **Amendment, Modification, Suspension, and Termination.** Subject to Section 12.2 the Committee may, at any time and from time to time, alter, amend, modify, suspend, or terminate the Plan and any Award Agreement in whole or in part; provided, however, that, without the prior approval of the Company's stockholders and except as provided in Section 4.5, the Committee shall not directly or indirectly lower the Option Price of a previously granted Option, and no amendment of the Plan shall be made without stockholder approval if stockholder approval is required by applicable law or stock exchange rules.

12.2 **Awards Previously Granted.** Notwithstanding any other provision of the Plan to the contrary, no termination, amendment, suspension, or modification of the Plan or an Award Agreement shall adversely affect in any material way any Award previously granted under the Plan, without the written consent of the Holder holding such Award.

## ARTICLE XIII

### MISCELLANEOUS

13.1 **Unfunded Plan/No Establishment of a Trust Fund.** Holders shall have no right, title, or interest whatsoever in or to any investments that the Company or any of its Affiliates may make to aid in meeting obligations under the Plan. Nothing contained in the Plan, and no action taken pursuant to its provisions, shall create or be construed to create a trust of any kind, or a fiduciary relationship between the Company and any Holder, beneficiary, legal representative, or any other person. To the extent that any person acquires a right to receive payments from the Company under the Plan, such right shall be no greater than the right of an unsecured general creditor of the Company. All payments to be made hereunder shall be paid from the general funds of the Company and no special or separate fund shall be established and no segregation of assets shall be made to assure payment of such amounts, except as expressly set forth in the Plan. No property shall be set aside nor shall a trust fund of any kind be established to secure the rights of any Holder under the Plan. All Holders shall at all times rely solely upon the general credit of the Company for the payment of any benefit which becomes payable under the Plan. The Plan is not intended to be subject to the Employee Retirement Income Security Act of 1974, as amended.

13.2 **No Employment Obligation.** The granting of any Award shall not constitute an employment contract, express or implied, nor impose upon the Company or any Affiliate any obligation to employ or continue to employ, or utilize the services of, any Holder. The right of the Company or any Affiliate to terminate the employment of any person shall not be diminished or affected by reason of the fact that an Award has been granted to him or her, and nothing in the Plan or an Award Agreement shall interfere with or limit in any way the right of the Company or its Affiliates to terminate any Holder's employment at any time or for any reason not prohibited by law.

13.3 **Tax Withholding.** The Company or any Affiliate shall be entitled to deduct from other compensation payable to each Holder any sums required by federal, state or local tax law to be withheld with respect to the vesting or exercise of an Award or lapse of restrictions on an Award. In the alternative, the Company may require the Holder (or other person validly exercising the Award) to pay such sums for taxes directly to the Company or any Affiliate in cash or by check within one day after the date of vesting, exercise or lapse of restrictions. In the discretion of the Committee, and with the consent of the Holder, the Company may reduce the number of shares of Stock issued to the Holder upon such Holder's exercise of an Option to satisfy the tax withholding obligations of the Company or an Affiliate; provided that the Fair Market Value of the shares of Stock held back shall not exceed the Company's or the Affiliate's Minimum Statutory Tax Withholding Obligation. The Committee may, in its discretion, permit a Holder to satisfy any Minimum Statutory Tax Withholding Obligation arising upon the vesting of Restricted Stock by delivering to the Holder of the Restricted Stock Award a reduced number of shares of Stock in the manner specified herein. If permitted by the Committee and acceptable to the Holder, at the time of vesting of shares of Restricted Stock, the Company shall (a) calculate the amount of the Company's or an Affiliate's Minimum Statutory Tax Withholding Obligation on the assumption that all such shares of vested Restricted Stock are made available for delivery, (b) reduce the number of such shares of Stock made available for delivery so that the Fair Market Value of the shares of Stock withheld on the vesting date approximates the Company's or an Affiliate's Minimum Statutory Tax Withholding Obligation and (c) in lieu of the withheld shares of Stock, remit cash to the United States Treasury and other applicable governmental authorities, on behalf of the Holder, in the amount of the Minimum Statutory Tax Withholding Obligation. The Company shall withhold only whole shares of Stock to satisfy its Minimum Statutory Tax Withholding Obligation. Where the Fair Market Value of the withheld shares of Stock does not equal the amount of the Minimum Statutory Tax Withholding Obligation, the Company shall withhold shares of Stock with a Fair Market Value slightly less than the amount of then Minimum Statutory Tax Withholding Obligation and the Holder must satisfy the remaining minimum withholding obligation in some other manner permitted under this Section 13.3. The withheld shares of Stock not made available for delivery by the Company shall be retained as treasury shares or will be cancelled and, in either case, the Holder's right, title and interest in such shares of Stock shall terminate. The Company shall have no obligation upon vesting or exercise of any Award or lapse of restrictions on Restricted Stock until the Company or an Affiliate has received payment sufficient to cover the Minimum Statutory Tax Withholding Obligation with respect to that vesting, exercise or lapse of restrictions. Neither the Company nor any Affiliate shall be obligated to advise a Holder of the existence of the tax or the amount which it will be required to withhold.

13.4 **Written Agreement.** Each Award shall be embodied in a written agreement or statement which shall be subject to the terms and conditions of the Plan. The Award Agreement shall be signed by a member of the Committee on behalf of the Committee and the Company or by an executive officer of the Company, other than the Holder, on behalf of the Company, and may be signed by the Holder to the extent required by the Committee. The Award Agreement may specify the effect of a Change in Control on the Award. The Award Agreement may contain any other provisions that the Committee in its discretion shall deem advisable which are not inconsistent with the terms and provisions of the Plan.

13.5 **Indemnification of the Committee.** The Company shall indemnify each present and future member of the Committee against, and each member of the Committee shall be entitled without further action on his or her part to indemnity from the Company for, all expenses (including attorney's fees, the amount of judgments and the amount of approved settlements made with a view to the curtailment of costs of litigation, other than amounts paid to the Company itself) reasonably incurred by such member in connection with or

arising out of any action, suit or proceeding in which such member may be involved by reason of such member being or having been a member of the Committee, whether or not he or she continues to be a member of the Committee at the time of incurring the expenses, including, without limitation, matters as to which such member shall be finally adjudged in any action, suit or proceeding to have been negligent in the performance of such member's duty as a member of the Committee. However, this indemnity shall not include any expenses incurred by any member of the Committee in respect of matters as to which such member shall be finally adjudged in any action, suit or proceeding to have been guilty of gross negligence or willful misconduct in the performance of his or her duty as a member of the Committee. In addition, no right of indemnification under the Plan shall be available to or enforceable by any member of the Committee unless, within 60 days after institution of any action, suit or proceeding, such member shall have offered the Company, in writing, the opportunity to handle and defend same at its own expense. This right of indemnification shall inure to the benefit of the heirs, executors or administrators of each member of the Committee and shall be in addition to all other rights to which a member of the Committee may be entitled as a matter of law, contract or otherwise.

13.6 **Gender and Number.** If the context requires, words of one gender when used in the Plan shall include the other and words used in the singular or plural shall include the other.

13.7 **Severability.** In the event any provision of the Plan shall be held illegal or invalid for any reason, the illegality or invalidity shall not affect the remaining parts of the Plan, and the Plan shall be construed and enforced as if the illegal or invalid provision had not been included.

13.8 **Headings.** Headings of Articles and Sections are included for convenience of reference only and do not constitute part of the Plan and shall not be used in construing the terms and provisions of the Plan.

13.9 **Other Compensation Plans.** The adoption of the Plan shall not affect any other option, incentive or other compensation or benefit plans in effect for the Company or any Affiliate, nor shall the Plan preclude the Company from establishing any other forms of incentive compensation arrangements for Employees.

13.10 **Other Awards.** The grant of an Award shall not confer upon the Holder the right to receive any future or other Awards under the Plan, whether or not Awards may be granted to similarly situated Holders, or the right to receive future Awards upon the same terms or conditions as previously granted.

13.11 **Successors.** All obligations of the Company under the Plan with respect to Awards granted hereunder shall be binding on any successor to the Company, whether the existence of such successor is the result, of a direct or indirect purchase, merger, consolidation, or otherwise, of all or substantially all of the business and/or assets of the Company.

13.12 **Law Limitations/Governmental Approvals.** The granting of Awards and the issuance of Shares under the Plan shall be subject to all applicable laws, rules, and regulations, and to such approvals by any governmental agencies or national securities exchanges as may be required.

13.13 **Delivery of Title.** The Company shall have no obligation to issue or deliver evidence of title for shares of Stock issued under the Plan prior to:

(a) obtaining any approvals from governmental agencies that the Company determines are necessary or advisable; and

(b) completion of any registration or other qualification of the Stock under any applicable national or foreign law or ruling of any governmental body that the Company determines to be necessary or advisable.

13.14 **Inability to Obtain Authority.** The inability of the Company to obtain authority from any regulatory body having jurisdiction, which authority is deemed by the Company's counsel to be necessary to the lawful issuance and sale of any shares of Stock hereunder, shall relieve the Company of any liability in respect of the failure to issue or sell such shares of Stock as to which such requisite authority shall not have been obtained.

13.15 **No Fractional Shares.** No fractional shares of Stock shall be issued or delivered pursuant to the Plan or any Award. The Committee shall determine whether cash, additional Awards, or other property shall be issued or paid in lieu of fractional shares of Stock or whether such fractional shares or any rights thereto shall be forfeited or otherwise eliminated.

13.16 **Waiver of Jury.** Each Award Agreement shall specify that the Award recipient and the Company shall both waive a trial by jury of any or all issues arising in any action or proceeding between the parties or their successors, heirs and assigns, under or connected with the Award, the Plan, or any of the provisions of the Award Agreement or the Plan.

13.17 **Governing Law.** The provisions of the Plan and the rights of all persons claiming thereunder shall be construed, administered and governed under the laws of the State of Texas, without regard to principles of conflicts of law.

13.18 **Compliance With Section 409A.** Awards shall be designed, granted and administered in such a manner that they are either exempt from the application of, or comply with, the requirements of Section 409A. Each Award Agreement for an Award that is intended to comply with the requirements of Section 409A shall be construed and interpreted in accordance with such intention. If the Committee determines that an Award, Award Agreement, payment, distribution, deferral election, transaction, or any other action or arrangement contemplated by the provisions of the Plan would, if undertaken or implemented, cause a Holder to become subject to additional taxes under Section 409A, then unless the Committee specifically provides otherwise, such Award, Award Agreement, payment, distribution, deferral election, transaction or other action or arrangement shall not be given effect to the extent it causes such result and the related provisions of the Plan and/or Award Agreement will be deemed modified, or, if necessary, suspended in order to comply with the requirements of Section 409A to the extent determined appropriate by the Committee, in each case without the consent of or notice to the Holder. The exercisability of an Option shall not be extended to the extent that such extension would subject the Holder to additional taxes under Section 409A.





**HELIX ENERGY SOLUTIONS GROUP, INC.  
EMPLOYEE STOCK PURCHASE PLAN**

**(Effective May 9, 2012)**

**1. Purpose**

The Helix Energy Solutions Group, Inc. Employee Stock Purchase Plan (the "Plan") is designed to encourage and assist employees of Helix Energy Solutions Group, Inc., a Minnesota corporation ("Helix") and Subsidiaries (as defined in Section 4) (hereafter collectively referred to as the "Company"), where permitted by applicable laws and regulations, to acquire an equity interest in Helix through the purchase of shares of common stock, no par value, of Helix ("Common Stock"). It is intended that this Plan shall constitute an "employee stock purchase plan" within the meaning of Section 423 of the Internal Revenue Code of 1986, as amended (the "Code"). Any reference to "shares" herein shall be deemed to include only full (if applicable) shares of Common Stock, unless the Compensation Committee (the "Committee") of the Board of Directors of Helix (the "Board") exercises its discretion to determine otherwise.

**2. Administration of the Plan**

The Plan shall be administered and interpreted by the Committee, provided that, the Committee may delegate to the Director of Human Resources and to other employees or committees of the Company (the "Administrator") its administrative duties under the Plan pursuant to such conditions or limitations as the Committee may establish. The Administrator shall supervise the administration and enforcement of the Plan according to its terms and provisions and shall have all powers necessary to accomplish these purposes and discharge its duties hereunder including, but not by way of limitation, the power to: (i) employ and compensate agents of the Company for the purpose of administering the accounts of participating employees; (ii) construe or interpret the Plan; (iii) determine all questions of eligibility; and (iv) compute the amount and determine the manner and time of payment of all benefits according to the Plan.

With respect to actions required by the Committee under the Plan, the Committee may act by decision of a majority of its members at a regular or special meeting of the Committee or by decision reduced to writing and signed by all members of the Committee without holding a formal meeting.

**3. Nature and Number of Shares**

The Common Stock subject to issuance under the terms of the Plan shall be shares of Helix's authorized but unissued shares, previously issued shares reacquired and held by Helix or shares purchased on the open market. The aggregate number of shares which may be issued under the Plan shall not exceed 1,500,000 shares of Common Stock. All shares purchased under the Plan, regardless of source, shall be counted against the 1,500,000 share limitation.

In the event of any reorganization, stock split, reverse stock split, stock dividend, combination of shares, merger, consolidation, offering of rights or other similar change in the

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capital structure of Helix, the Committee may make such adjustment, if any, as it deems appropriate in the number, kind and purchase price of the shares available for purchase under the Plan and in the maximum number of shares which may be issued under the Plan, subject to the approval of the Board and in accordance with Section 19.

#### **4. Eligibility Requirements**

Each "Employee" (as hereinafter defined), except as described in the next following paragraph, shall become eligible to participate in the Plan in accordance with Section 5 on the first "Enrollment Date" (as defined therein) following employment by the Company; provided, however, that such Employee must be employed by Helix or a participating Subsidiary on the day immediately preceding the Enrollment Date. Participation in the Plan is voluntary.

The following Employees are not eligible to participate in the Plan:

- (i) Employees who would, immediately upon enrollment in the Plan, own directly or indirectly, or hold options or rights to acquire, an aggregate of five percent (5%) or more of the total combined voting power or value of all outstanding shares of all classes of Helix or any Subsidiary (in determining stock ownership of an individual, the rules of Section 424(d) of the Code shall be applied, and the Administrator may rely on representations of fact made to it by the employee and believed by it to be true);
- (ii) Employees who are customarily employed by the Company less than twenty (20) hours per week or less than five (5) months in any calendar year; and
- (iii) Employees who are prohibited by the laws and regulations of the nation of their residence or employment from participating in the Plan as determined by the Administrator.

"Employee" shall mean any individual employed by Helix or any Subsidiary (as hereinafter defined). "Subsidiary" shall mean any corporation (a) which is in an unbroken chain of corporations beginning with Helix if each of the corporations other than the last corporation in the chain owns stock possessing fifty percent (50%) or more of the total combined voting power of all classes of stock in one of the other corporations in the chain and (b) which has adopted the Plan with the approval of the Committee. Effective May 9, 2012, all wholly owned subsidiaries of Helix are participating Subsidiaries.

#### **5. Enrollment**

Each eligible Employee of Helix or a participating Subsidiary who becomes eligible to participate in the Plan may enroll in the Plan effective as of the first day of the Purchase Period (as defined in Section 6) following the date he or she first meets the eligibility requirements of Section 4. Any eligible Employee not enrolling in the Plan when first eligible may enroll in the Plan on the first day of any subsequent Purchase Period. Any eligible Employee may enroll or re-enroll in the Plan as of the dates hereinabove prescribed or such other specific dates established by the Administrator from time to time ("Enrollment Dates"). In order to enroll, an

eligible Employee must complete, sign and submit the appropriate form to the person designated by the Administrator, all of which may be accomplished in electronic format in the form, manner and time established by the Administrator.

## **6. Method of Payment**

Payment for shares is to be made as of the applicable "Purchase Date" (as defined in Section 9) through payroll deductions on an after-tax basis (with no right of prepayment) over the Plan's designated purchase period (the "Purchase Period"), with the first such deduction commencing with the first payroll period ending after the Enrollment Date. Each Purchase Period under the Plan shall be a four (4) month period commencing on January 1, May 1 and September 1 of each calendar year, or such other period as the Administrator may prescribe. Each participating Employee (hereinafter referred to as a "Participant") will authorize such deductions from his or her pay for each month during the Purchase Period and such amounts will be deducted in conformity with his or her employer's payroll deduction schedule.

Each Participant may elect to make contributions each pay period in amounts not less than one percent (1%) of "Compensation," not to exceed in any calendar year an annual contribution equal to ten percent (10%) of "Compensation" (or such other percentages as the Administrator may establish from time to time before an Enrollment Date for all purchases to occur during the relevant Purchase Period). "Compensation" shall mean the Participant's base earnings or salary plus any wages paid for overtime but shall not include bonuses. In establishing percentages of permitted contributions, the Administrator may take into account the "Maximum Share Limitation" (as defined in Section 8). The rate of contribution shall be designated by the Participant in the enrollment form.

A Participant may elect to increase or decrease the rate of contribution effective as of the first day of a Purchase Period by giving prior notice to the person designated by the Administrator in the form and manner approved by the Company, provided that a Participant may elect to increase or decrease the rate of contribution once during a Purchase Period. A Participant may suspend payroll deductions at any time during a Purchase Period, by giving prior notice to the person designated by the Administrator in the form and manner approved by the Company. If a Participant elects to suspend the Participant's payroll deductions, only the balance of the Participant's account at the time of such election shall be used to purchase shares, which shall be accomplished at the end of a Purchase Period.

A Participant may also elect to withdraw the Participant's entire contributions for the current Purchase Period at any time by giving prior notice to the person designated by the Administrator in the form and manner approved by the Company. Any Participant who withdraws his or her contributions will receive, as soon as administratively practicable, his or her entire account balance, including any dividends. Any Participant who suspends payroll deductions or withdraws contributions during any Purchase Period cannot resume payroll deductions during such Purchase Period and must re-enroll in the Plan in order to participate in the next Purchase Period.

Except in case of cancellation of election to purchase, death, resignation or other terminating event, the amount in a Participant's account at the end of the Purchase Period will be applied to the purchase of the shares.

## **7. Crediting of Contributions; Dividends.**

Contributions shall be deposited into an account maintained by Helix with the financial institution designated by the Administrator for this purpose (the "Custodian") and may be invested in a money market account or such other investment vehicle or vehicles designated by the Administrator for purposes of the Plan. Notwithstanding the existence of any such investment, no interest or earnings on a Participant's contributions shall be paid to the Participant. Helix shall maintain a record of the amount of contributions allocable to each Participant's account. Dividends on shares held in a Participant's account in the Plan will also be credited to such Participant's account.

## **8. Grant of Right to Purchase Shares on Enrollment**

Enrollment in the Plan by an Employee as of an Enrollment Date will constitute the grant, as of the Grant Date, by the Company to the Participant of the right to purchase shares of Common Stock under the Plan. Re-enrollment by a Participant in the Plan will constitute a grant by the Company to the Participant of a new opportunity to purchase shares on the Enrollment Date on which such re-enrollment occurs. A Participant who has not (a) terminated employment, (b) withdrawn his or her contributions from the Plan, or (c) notified the Company, in the form and manner designated by the Company, by such date as the Company shall establish (which date shall not be later than the last day of the Purchase Period), of his or her election to withdraw his or her payroll deductions as of the last day of the Purchase Period will have shares of Common Stock purchased for him or her on the applicable Purchase Date, and the Participant will automatically be re-enrolled in the Plan on the Enrollment Date immediately following the Purchase Date on which such purchase has occurred, unless each Participant notifies the person designated by the Administrator in the form and manner approved by the Company that he or she elects not to re-enroll.

Each right to purchase shares of Common Stock under the Plan during a Purchase Period shall have the following terms:

- (i) the right to purchase shares of Common Stock during a particular Purchase Period shall expire on the earlier of: (A) the completion of the purchase of shares on the Purchase Date occurring in the Purchase Period, or (B) the date on which participation of such Participant in the Plan terminates for any reason;
- (ii) payment for shares purchased will be made only through payroll withholding and the crediting of other amounts, if applicable, in accordance with Sections 6 and 7;
- (iii) purchase of shares will be accomplished only in accordance with Section 9;

- (iv) the price per share will be determined as provided in Section 9;
- (v) the right to purchase shares (taken together with all other such rights then outstanding under this Plan and under all other similar employee stock purchase plans of Helix or any Subsidiary) will in no event give the Participant the right to purchase a number of shares during a calendar year in excess of the number of shares of Common Stock derived by dividing \$25,000 by the fair market value of the Common Stock (the "Maximum Share Limitation") on the applicable Grant Date determined in accordance with Section 9;
- (vi) the right to purchase shares will in all respects be subject to the terms and conditions of the Plan, as interpreted by the Administrator from time to time;
- (vii) Helix and the Custodian can agree to limitations on the transfer, gift, or margin of shares held with the Custodian. Such limitations, if any, shall apply to such shares; and
- (viii) the maximum number of shares of Common Stock that may be purchased by a Participant during any Purchase Period shall not exceed 10,000 shares.

## **9. Purchase of Shares**

The right to purchase shares of Common Stock granted by Helix under the Plan is for the term of a Purchase Period. The fair market value of the Common Stock ("Fair Market Value") to be purchased during such Purchase Period will be, as of the first trading day of the Purchase Period or such other trading date designated by the Administrator (the "Grant Date"), the closing price of the Common Stock on the New York Stock Exchange during regular trading hours or, if the Common Stock is traded over-the-counter or on another national securities exchange, such price or exchange as designated by the Administrator. The Fair Market Value of the Common Stock will again be determined in the same manner on the last trading day of the Purchase Period or such other trading date designated by the Administrator (the "Purchase Date"); however, in no event shall the Administrator, in the exercise of its discretion, designate a Purchase Date beyond twenty-seven (27) months from the related Grant Date or otherwise fail to meet the requirements of Section 423(b)(7) of the Code. These dates constitute the date of grant and the date of exercise for valuation purposes of Section 423 of the Code.

As of the Purchase Date, the Administrator shall apply the funds then credited to each Participant's account to the purchase of full shares of Common Stock (and fractional shares of Common Stock if authorized by the Administrator in its sole discretion). The cost to the Participant for the shares purchased during a Purchase Period shall be the lower of:

- (i) eighty-five percent (85%) of the Fair Market Value of Common Stock on the Grant Date; or
- (ii) eighty-five percent (85%) of the Fair Market Value of Common Stock on the Purchase Date.

As soon as administratively feasible after the Purchase Date, the Company will arrange for the delivery to each Participant in his or her brokerage account at the Custodian the shares of Common Stock purchased under the Plan by each such Participant. Shares of Common Stock to be delivered hereunder will be registered in the name of the Participant. Notwithstanding the foregoing, Participants shall be treated as the record owners of their shares effective as of the Purchase Date. Any cash equal to less than the price of a whole share of Common Stock shall be credited to a Participant's account on the Purchase Date and carried forward in his or her account for application during the next Purchase Period; provided, however, that cash equal to less than the price of a whole share will be used to purchase fractional shares only if the Administrator, in its sole discretion, permits the purchase of fractional shares under the Plan. Any Participant (i) who purchases shares at the end of a Purchase Period and is not re-enrolled in the Plan for the next Purchase Period or (ii) who withdraws his or her contributions from the Plan prior to the next Purchase Date will receive any cash or dividends remaining in his or her account and delivery of the number of shares held in his or her account provided that the Participant has notified the Custodian or such other designated bank or financial institution, in the appropriate manner, of the Participant's election to receive such delivery. Such Participant may elect to receive delivery of the remaining number of shares held in the Participant's account upon such Participant's termination of employment by giving the appropriate notice to the Custodian or such other designated bank or financial institution. Any Participant who terminates employment will receive a cash refund attributable to amounts equal to less than the price of a whole share, and any accumulated contributions and dividends and may receive delivery of the number of full shares held in his or her account by giving notice to the Custodian or such other designated bank or financial institution, in the appropriate manner, of the Participant's election to receive such delivery.

If for any reason the purchase of shares with a Participant's allocations to the Plan exceeds or would exceed the Maximum Share Limitation, such excess amounts shall be refunded to the Participant as soon as practicable after such excess has been determined to exist.

If as of any Purchase Date the shares authorized for purchase under the Plan are exceeded, enrollments shall be reduced proportionately to eliminate the excess. Any funds in a Participant's account (other than amounts not applicable to the purchase of shares) that cannot be applied to the purchase of shares due to excess enrollment shall be refunded as soon as administratively feasible.

#### **10. Withdrawal of Shares and Sale of Shares**

A Participant may elect to withdraw or sell shares which are held in the Participant's account pursuant to procedures established by the Administrator and approved by the Custodian.

#### **11. Termination of Participation**

The right to participate in the Plan terminates immediately when a Participant ceases to be employed by the Company for any reason whatsoever (including death, unpaid disability or when the Participant's employer ceases to be a Subsidiary) or the Participant otherwise becomes ineligible. Participation also terminates immediately when the Participant voluntarily withdraws

the Participant's contributions from the Plan. Participation terminates immediately after the Purchase Date if the Participant is not re-enrolled in the Plan for the next Purchase Period or if the Participant has suspended payroll deductions during any Purchase Period and has not re-enrolled in the Plan for the next Purchase Period. As soon as administratively feasible after termination of participation, the Participant or, if applicable, the Participant's beneficiary or legal representative, shall be entitled to receive (i) payment of all cash amounts credited to the Participant's account, including dividends, if any, determined in accordance with Section 7, (ii) payment of the net proceeds of the sale of fractional shares, if any, held in the Participant's account, and (iii) delivery of the number of whole shares held in the Participant's account to be delivered to the Participant or, if applicable, the Participant's beneficiary or legal representative, provided that such Participant, beneficiary or legal representative has given notice, in the appropriate manner, to the Custodian or such other designated bank or financial institution of his or her election to receive such delivery. For purposes of the Plan, a Participant is not deemed to have terminated employment if the Participant transfers employment from Helix to a Subsidiary, or vice versa, or transfers employment between Subsidiaries.

## **12. Unpaid Leave of Absence**

Unless the Participant has voluntarily withdrawn his or her contributions from the Plan, shares will be purchased for his or her account on the Purchase Date next following commencement of an unpaid leave of absence by such Participant, provided such leave does not constitute a termination of employment. The number of shares to be purchased will be determined by applying to the purchase the amount of the Participant's contributions made up to the commencement of such unpaid leave of absence, determined in accordance with Section 7. If the Participant's unpaid leave of absence both commences and terminates during the same Purchase Period and the Participant has resumed eligible employment prior to the Purchase Date related to that Purchase Period, he or she may also resume payroll deductions immediately, and shares will be purchased for him or her on such Purchase Date as otherwise provided in Section 9.

## **13. Designation of Beneficiary**

Each Participant may designate to the Company in writing one or more beneficiaries of a Participant's benefits under this Plan in the event of death, and the Participant may, in his or her sole discretion, change such designation at any time by notifying the Company in writing. Oral designations shall not be acceptable. Any such written designation shall be effective upon receipt by the person designated by the Administrator and shall control over any disposition by will or otherwise. Notifications received after a Participant's death shall not be valid.

As soon as administratively feasible after the death of a Participant, amounts credited to the Participant's account, determined in accordance with Section 7, shall be paid in cash and any shares shall be delivered to the Participant's designated beneficiaries or, in the absence of such designation, to the executor, administrator or other legal representative of the Participant's estate provided that such person or persons has or have given notice to the Custodian or such other designated bank or financial institution, in the appropriate manner, of his or her election to receive such delivery. Such payment shall relieve the Company of further liability to the

deceased Participant with respect to the Plan. If more than one beneficiary is designated, each beneficiary shall receive an equal portion of the account unless the Participant has given express contrary instructions.

#### **14. Assignment**

Except as provided in Section 13, the rights of a Participant under the Plan will not be assignable or otherwise transferable by the Participant, other than by will or the laws of descent and distribution or pursuant to a "qualified domestic relations order," as defined in Section 414(p) of the Code. No purported assignment or transfer of such rights of a Participant under the Plan, whether voluntary or involuntary, by operation of law or otherwise, shall vest in the purported assignee or transferee any interest or right therein whatsoever, but immediately upon such assignment or transfer, or any attempt to make the same, such rights shall terminate and become of no further effect. If this provision is violated, the Participant's election to purchase Common Stock shall terminate, and the only obligation of the Company remaining under the Plan will be to pay to the person entitled thereto the amount then credited to the Participant's account. No Participant may create a lien on any funds, securities, rights or other property held for the account of the Participant under the Plan, except to the extent that there has been a designation of beneficiaries in accordance with the Plan, and except to the extent permitted by will or the laws of descent and distribution if beneficiaries have not been designated. A Participant's right to purchase shares under the Plan shall be exercisable only during the Participant's lifetime and only by the Participant.

#### **15. Costs**

All costs and expenses incurred in administering this Plan shall be paid by the Company. Any brokerage fees for the sale of shares purchased under the Plan shall be paid by the Participant.

#### **16. Reports**

At the end of each Purchase Period, Helix shall provide or cause to be provided to each Participant a report of his or her contributions, including any other amounts earned and accruing to such Participant in accordance with the terms herein, and the number of whole shares of Common Stock purchased with such contributions by that Participant on each Purchase Date.

#### **17. Equal Rights and Privileges**

All eligible Employees shall have equal rights and privileges with respect to the Plan so that the Plan qualifies as an "employee stock purchase plan" within the meaning of Section 423 or any successor provision of the Code and related regulations. Any provision of the Plan which is inconsistent with Section 423 or any successor provision of the Code shall without further act or amendment by the Company be reformed to comply with the requirements of Section 423. This Section 17 shall take precedence over all other provisions in the Plan.

## **18. Rights as Shareholders**

A Participant will have no rights as a stockholder under the election to purchase until the Participant becomes a stockholder as herein provided. A Participant will become a stockholder with respect to shares for which payment has been completed as provided in Section 9 at the close of business on the last business day of the Purchase Period.

## **19. Modification and Termination**

The Plan may be amended or terminated at any time insofar as permitted by law, except that any provisions of the Plan that constitute a formula award for purposes of Rule 16b-3 under the Securities Exchange Act of 1934 ("Rule 16b-3") may not be amended more than once every six (6) months, other than to comport with changes in the Code or the rules thereunder, unless otherwise permitted under Rule 16b-3. Amendments to and termination of the Plan may be accomplished by action of the Committee subject to the provisions of Section 2. Notwithstanding the prior sentence or anything else contained herein, no amendment shall be effective without Committee resolution unless within one (1) year after it is adopted by the Committee it is approved by the holders of Helix's outstanding shares:

- (i) if and to the extent such amendment is required to be approved by shareholders to continue the exemption provided for in Rule 16b-3 (or any successor provision); or
- (ii) if and to the extent such amendment is required to be approved by shareholders in order to cause the rights granted under the Plan to purchase shares of Common Stock to meet the requirements of Section 423 of the Code (or any successor provision).

The Plan shall terminate after all Common Stock issued under the Plan has been purchased, unless terminated earlier by the Committee or unless additional Common Stock is issued under the Plan with the approval of the shareholders. In the event the Plan is terminated, the Committee may elect to terminate all outstanding rights to purchase shares under the Plan either immediately or upon completion of the purchase of shares on the next Purchase Date, unless the Committee has designated that the right to make all such purchases shall expire on some other designated date occurring prior to the next Purchase Date. If the rights to purchase shares under the Plan are terminated prior to expiration, all funds contributed to the Plan which have not been used to purchase shares shall be returned to the Participants as soon as administratively feasible, which funds shall be determined in accordance with Section 7.

## **20. Effective Date**

The Plan shall be effective as of May 9, 2012.

## **21. Governmental Approvals or Consents**

This Plan and any offering or sale made to Employees under it are subject to any governmental approvals or consents that may be or become applicable in connection therewith.



Subject to the provisions of Section 19, the Committee may make such changes in the Plan and include such terms in any offering under the Plan as may be desirable to comply with the rules or regulations of any governmental authority.

## **22. Listing of Shares and Related Matters**

If at any time the Board or the Committee shall determine, based on opinion of legal counsel, that the listing, registration or qualification of the shares covered by the Plan upon any national securities exchange or reporting system or under any state or federal law is necessary or desirable as a condition of, or in connection with, the sale or purchase of shares under the Plan, no shares will be sold, issued or delivered unless and until such listing, registration or qualification shall have been effected or obtained, or otherwise provided for, free of any conditions not acceptable to legal counsel.

## **23. Employment Rights**

The Plan shall neither impose any obligation on Helix or on any Subsidiary to continue the employment of any Participant, nor impose any obligation on any Participant to remain in the employ of Helix or of any Subsidiary.

## **24. Withholding of Taxes**

The Administrator may make such provisions as it may deem appropriate for the withholding of any taxes which it determines is required in connection with the purchase of Common Stock under the Plan.

## **25. Governing Law**

This Plan and all determinations made and actions taken pursuant hereto, to the extent not otherwise governed by mandatory provisions of the Code or the securities laws of the United States, shall be governed by and construed in accordance with the laws of the State of Texas.

## **26. Other Provisions**

The agreements to purchase shares of Common Stock under the Plan shall contain such other provisions as the Administrator shall deem advisable, provided that no such provision shall in any way be in conflict with the terms of the Plan.

***[The Remainder of this Page Intentionally Left Blank; Signature Page Follows.]***

IN WITNESS WHEREOF, this document has been executed effective May 9, 2012.

HELIX ENERGY SOLUTIONS GROUP,  
INC.

By: /s/ Alisa Johnson

Name: Alisa Johnson

Title: Executive Vice President,  
General Counsel and Corporate  
Secretary





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

July 25, 2012

To the Board of Directors and Shareholders  
of Helix Energy Solutions Group, Inc.

We are aware of the incorporation by reference in Registration Statement Forms S-3 (Nos. 333-179937, 333-10345 and 333-125276) and Forms S-8 (Nos. 333-126248, 333-58817, 333-50289 and 333-50205) of Helix Energy Solutions Group, Inc. of our report dated July 25, 2012 relating to the unaudited condensed consolidated interim financial statements of Helix Energy Solutions Group, Inc. and subsidiaries that is included in its Form 10-Q for the quarter ended June 30, 2012.

Very truly yours,

/s/ ERNST & YOUNG LLP

Houston, Texas

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**SECTION 302 CERTIFICATION**

I, Owen Kratz, the President and Chief Executive Officer of Helix Energy Solutions Group, Inc., certify that:

1. I have reviewed this quarterly report on Form 10-Q of Helix Energy Solutions Group, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - (a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):



(a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: July 25, 2012

/s/ Owen Kratz

Owen Kratz

President and Chief Executive  
Officer

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**SECTION 302 CERTIFICATION**

I, Anthony Tripodo, the Executive Vice President and Chief Financial Officer of Helix Energy Solutions Group, Inc., certify that:

1. I have reviewed this quarterly report on Form 10-Q of Helix Energy Solutions Group, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - (a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

(a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: July 25, 2012

/s/ Anthony Tripodo

Anthony Tripodo

Executive Vice President and  
Chief Financial Officer

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**CERTIFICATION OF CEO AND CFO PURSUANT TO 18 U.S.C. SECTION 1350**

(Adopted Pursuant to Section 906 of Sarbanes-Oxley Act of 2002)

Pursuant to section 1350 of chapter 63 of title 18 of the United States Code, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, Owen Kratz, as President and Chief Executive Officer, and Anthony Tripodo, as Executive Vice President and Chief Financial Officer, each hereby certifies that the Quarterly Report of Helix Energy Solutions Group, Inc. ("Helix") on Form 10-Q for the period ended June 30, 2012, as filed with the Securities and Exchange Commission on the date hereof (the "Report"):

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

Date: July 25, 2012

/s/ Owne Kratz  
Owen Kratz  
President and Chief Executive  
Officer

Date: July 25, 2012

/s/ Anthony Tripodo  
Anthony Tripodo  
Executive Vice President and  
Chief Financial Officer

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**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

The Board of Directors and Shareholders of  
Helix Energy Solutions Group, Inc.

We have reviewed the condensed consolidated balance sheet of Helix Energy Solutions Group, Inc. and subsidiaries as of June 30, 2012, and the related condensed consolidated statements of operations for the three-month and six-month periods ended June 30, 2012 and 2011, and the related consolidated statements of cash flows for the six-month periods ended June 30, 2012 and 2011. These financial statements are the responsibility of the Company's management.

We conducted our review in accordance with the standards of the Public Company Accounting Oversight Board (United States). A review of interim financial information consists principally of applying analytical procedures and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with the standards of the Public Company Accounting Oversight Board, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our review, we are not aware of any material modifications that should be made to the condensed consolidated financial statements referred to above for them to be in conformity with U.S. generally accepted accounting principles.

We have previously audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheet of Helix Energy Solutions Group, Inc. and subsidiaries as of December 31, 2011, and the related consolidated statements of operations, shareholders' equity, and cash flows for the year then ended, not presented herein, and in our report dated February 24, 2012, we expressed an unqualified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying condensed consolidated balance sheet as of December 31, 2011, is fairly stated, in all material respects, in relation to the consolidated balance sheet from which it has been derived.

/s/ ERNST & YOUNG LLP

Houston, Texas  
July 25, 2012

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