CAL DIVE INTERNATIONAL

2001 Annual Report

CORPORATE PROFILE

Cal Dive International, Inc., (CDI) is a leading subsea contractor providing construction, well operations and decommissioning services from the shallowest to the deepest waters of the Gulf of Mexico basin. Over three decades, Cal Dive has developed a reputation for innovation which has kept the company on the leading edge of underwater technological developments. Production partnering, where CDI takes direct ownership in oil and gas reservoirs and related production facilities, enables the company to realize excellent returns while securing associated marine construction work.

Cal Dive has assembled the largest permanently deployed fleet of dynamically positioned (DP) vessels in the GOM, thereby assuring customers of the redundancy essential for challenging Deepwater construction projects. These technically advanced vessels serve as the work platform for services provided by CDI and alliances with a team of internationally recognized contractors and manufacturers. In 2002 the company will deploy $325 million worth of new assets: the *Q4000*, a revolutionary multi-service vessel specifically designed for well operations and construction tasks to 10,000 fsw; the *Intrepid* and *Eclipse*: two world-class DP construction vessels; and Canyon Offshore robotics. The purchase of Canyon adds the support tool essential for all Deepwater operations, a fleet of 19 remotely operated vehicles.

The entrepreneurial drive of CDI employees has enabled the company to excel in the GOM spot market on the Outer Continental Shelf. The scheduling flexibility afforded by the CDI fleet of twenty-two (22) vessels enables the company to offer turnkey pricing while assuring customers of on-time project performance. Since 1984, when the company custom-designed the first Gulf dive support vessels (DSVs) with a moonpool-deployed saturation diving system, CDI has been a major provider of saturation diving services to the "mid-water" Gulf (300 to 1,000 fsw). Aquatica, Inc., a wholly-owned subsidiary, has established a leading position in the shallow water market from the shore to 300 fsw. Cal Dive is also a leading salvage contractor, offering customers a number of options to address decommissioning obligations in the most cost-efficient manner.

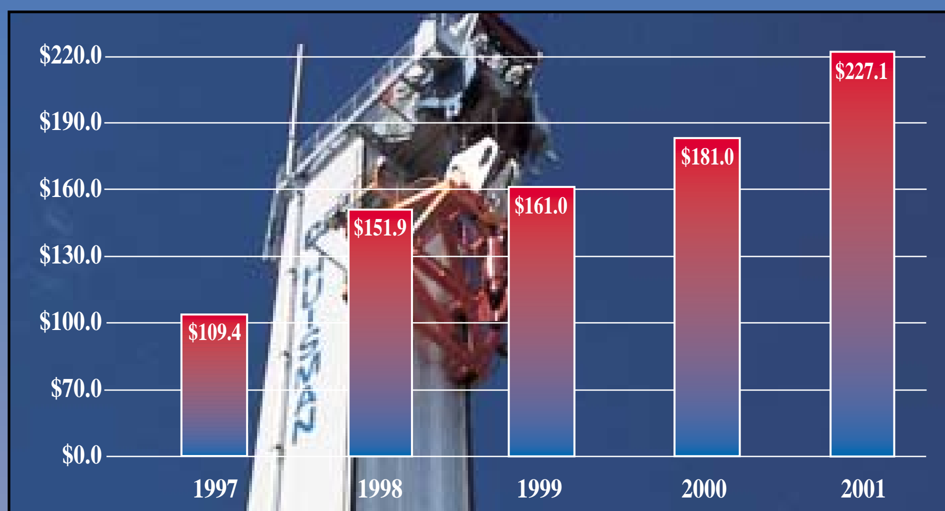
The company introduced its production partnering concept in 1992 with the formation of Energy Resource Technology, Inc. (ERT), a wholly-owned subsidiary that acquires and operates mature and non-core offshore properties. CDI has expanded the scope of its gas and oil operations by taking a working interest in *Gunnison*, a Deepwater development of Kerr-McGee Oil & Gas Corporation which has encountered significant reserves. The company is expanding its Deepwater Hub strategy by agreeing to participate in the ownership of the *Marco Polo* production facility.

Cal Dive has established a corporate culture in which environment, health and safety (EHS) are embraced as core business values. CDI seeks to provide for employee livelihood, customer needs and shareholder return through the application of safety programs which protect the environment, safeguard employee health and eliminate injuries.

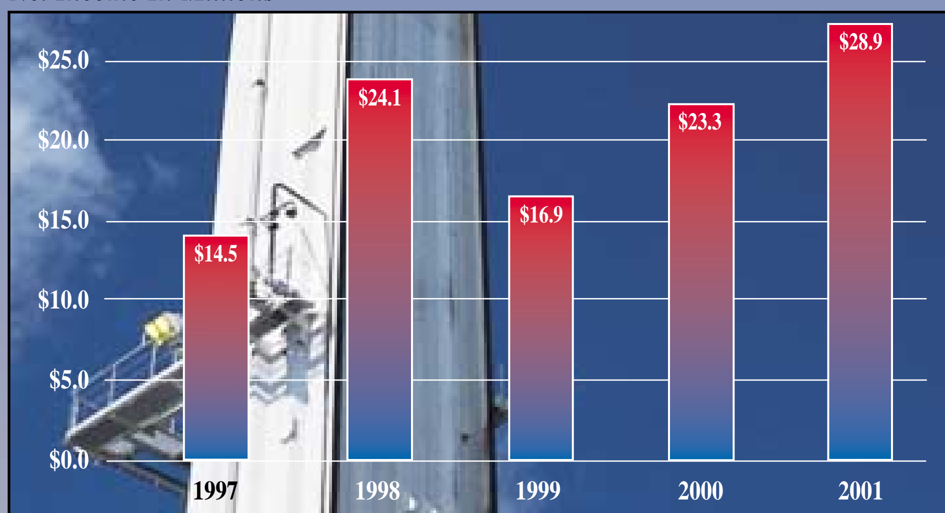
Headquartered in Houston, Texas, Cal Dive is publicly traded on NASDAQ under the symbol CDIS.

FINANCIAL HIGHLIGHTS

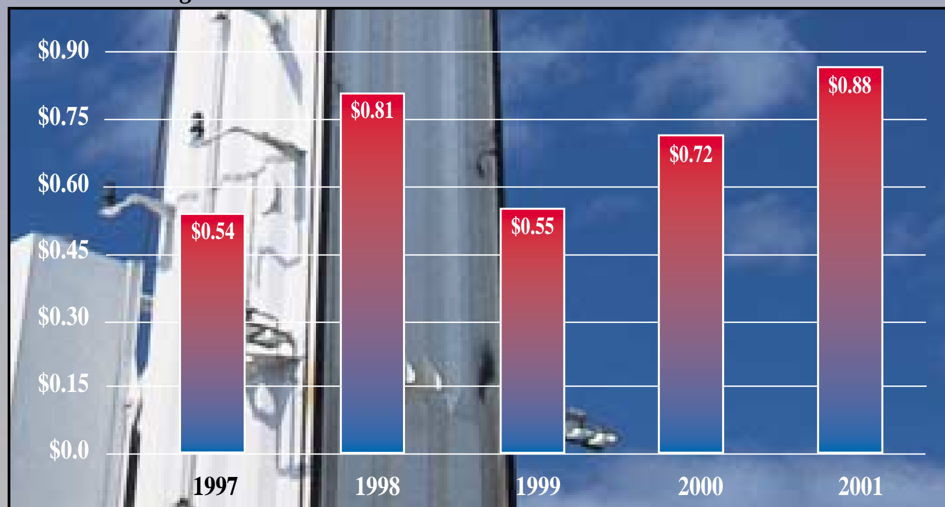
Revenue In Millions



Net Income In Millions



Diluted Earnings Per Share



GLOSSARY

Anchor Mooring: Anchors set over the construction work site enable DSVs to maintain station.

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

Deepwater: Water depths beyond 1,000 feet.

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

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

DP-2: Redundancy allows the vessel to maintain position even with failure of one DP system. Required for vessels which support both manned diving and robotics, and for those working in close proximity to platforms.

EBITDA: Earnings before interest, taxes, depreciation and amortization is a supplemental financial measure of cash flow used in the evaluation of the marine construction industry.

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

FSW: Water depth in feet of salt water.

Gulf of Mexico: Referred to in this report as Gulf, Deepwater Gulf or GOM.

MCF: Thousands of cubic feet of natural gas.

Minerals Management Service (MMS): The government regulatory body having responsibility for United States waters in the Gulf of Mexico.

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

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

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

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

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

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

Ultra-Deepwater: Water depths beyond 4,000 fsw.

TO OUR SHAREHOLDERS

Your company achieved all-time record earnings in a year that turned out to be quite a roller coaster ride. 2001 began with the euphoria of $10.00/mcf natural gas prices driving the offshore mobile rig count to full capacity with 180 rigs working. It ended with gas prices plunging to $2.00/mcf and only 120 offshore rigs employed in the Gulf of Mexico.

The countercyclical strategy embodied in the CDI mix of offshore construction and production partnering provided a safety net in this period of rapid change. An average realized natural gas price of $5.70/mcf carried our gas and oil operations to record earnings in the first half of 2001; when that commodity price dropped to just $2.50 in the second half, our marine contracting businesses picked up the ball and carried us through to the earnings record of $28.9 million. As a result, Cal Dive delivered a 12% return on capital employed, three times the 4% which our peer group averaged during 2001. This single-minded focus on shareholder value led *Forbes* magazine to name Cal Dive among the 200 best small companies in America. This marked the second time in the past four years that we have achieved this prestigious award.

Revenues broke through $200 million for the first time in our history, with the $227 million being 10 times greater than the sales Cal Dive generated in 1991, the year after your management team bought the company. Vessel utility was unusually strong, 72% in contrast to 54% in the prior year, due to a business strategy that focuses on underserved niches where CDI provides differentiated services. Because demand for our late-cycle construction services follows the drilling of a successful well by 6 to 12 months, the spike in GOM drilling activity in 2000 led to strong activity levels on the OCS during 2001. Excess capacity remained in the Deepwater GOM, however, so we aggressively deployed our DP vessels to two new regions, offshore Mexico and Trinidad, adding $29 million to our 2001 revenue base.

Gross profit margins of 30% achieved our corporate goal for the fourth time in the past five years; this is a significant accomplishment when you consider that several of our competitors are satisfied with margins that are only half this target. Tight overhead control in a period of uncertainty added two points to operating margins, enabling much of the increase in revenues to flow through to the bottom line. EBITDA of $79 million was 35% of revenues, again almost identical to the prior year and significantly above the 15% average of our peer group.

We remain focused on shipyard activity as we were throughout 2001. First the bad news: Conversion of the *Intrepid* (formerly *Sea Sorceress*) continues to encounter cost overruns and delays which have pushed her delivery into April or May. While we refer to this as a conversion, the work really constitutes the construction of a new DP-2 pipelay vessel onto and into the hull of an ice class vessel acquired three years ago. Although we are disappointed with this performance, the projected all-in investment of $70 million compares favorably with the cost of similar pipelay vessels in the market and those currently under construction.

On a brighter note, the *Q4000* is undergoing sea trials as we finish the 30-month build process of this revolutionary Deepwater vessel. The final cost of the *Q4000* is expected to come in below the budgeted $182 million, an achievement many in the industry did not think possible given her unique design and the fact that CDI had never built a semi-submersible from scratch. Following sea trials, the *Q4000* will work to establish customer recognition of her unique features as the subsea intervention market which the vessel targets remains at least a year away.

We acted quickly to take advantage of the depressed marine construction market to acquire two world-class DP vessels, the *Eclipse* and *Mystic Viking*, at very attractive prices. As a result, we have doubled the size of our DP fleet and can now offer customers the redundancy essential to effectively bring new Deepwater GOM fields into production. The technology dimension of our Deepwater service offering was significantly expanded with the January 2002 acquisition of Canyon Offshore, a company that provides the robotic vehicles essential to support the performance of construction tasks in water as deep as 10,000 fsw.

The physical challenges of performing construction tasks in a hostile work environment such as the ocean floor require a relentless focus on safety. Our current expansion into the Deepwater GOM has been accompanied by the implementation of procedures common in the more heavily regulated operations of the North Sea. CDI acted in 2001 with a goal of establishing the best safety record in our industry class. The dramatic improvement in our total recordable incidence rate has been recognized and applauded by customers.

(In Thousands)	*2000*	*2001*	*Increase*
Revenues	$181,014	$227,141	25%
Gross Profit	55,369	66,911	21%
Selling & Administrative	20,800	21,325	3%
Net Income	23,326	28,932	24%
Cash Flow (EBITDA)	65,085	78,962	21%
Diluted Earnings Per Share	$0.72	$0.88	22%

2001 BOX SCORE		
Goals	*Grade*	*Comments*
Shareholder Return: Deliver return on invested capital of 12%.	A	12% in 2001 brought the five-year average to 16%.
Deepwater Contracting: Convert *Sea Sorceress* or acquire similar DP construction vessel.	B-	While shipyard delays negatively impacted 2001 margins, we acquired two world-class DP vessels: the *Eclipse* and *Mystic Viking*.
Well Operations: Complete construction and secure utilization commitment for the *Q4000*.	C-	Decision to upgrade the vessel for well operations tasks deferred delivery to 2002; efforts to secure a utilization commitment have yet to be successful.
Shelf Contracting: Expand capacity by acquisition of assets and extend Horizon Alliance.	A	Adding PDNO assets increased Aquatica revenues by 80%; extension of the Horizon Alliance resulted in that company becoming our largest customer.
Production Contracting: Secure *Gunnison* type Deepwater opportunity.	A	Agreement to participate in *Marco Polo* production facility extends Deepwater Hub strategy.
Safety: Launch an enhanced EHS management system.	A+	Achieved a 68% decrease the five-year OSHA total recordable incidence rate (TRIR).

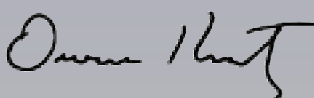
Turning to production partnering operations, an aggressive and successful well exploitation program enabled Energy Resource Technology to essentially replace its production in a period when high commodity prices made the purchase of mature properties difficult. More important for the future, we achieved significant milestones at *Gunnison* and *Marco Polo* in our thrust to move the ERT model to Deepwater.

The sanctioning of the *Gunnison* development confirms the field as a major Deepwater discovery, one which creates significant value for CDI shareholders. Our share of initial *Gunnison* reserves combined with those of ERT resulted in CDI shareholders owning 100 BCFe of total proven oil and gas reserves at December 31, 2001. We extended the concept of procuring Deepwater assets to gain the associated construction work with a letter of intent to own 50% of the *Marco Polo* production facility in 4,300 fsw. Upon completion of financing, we will assist with the installation of the tension-leg platform which will be operated with El Paso Energy Partners on a fixed-fee-plus tariff basis with significant upside potential for CDI construction work and ERT farm-in opportunities.

With our toolbox of marine construction assets full, expansion emphasis will turn to production partnering opportunities in 2002. Many of the oil companies that ventured into the Deepwater Gulf have depleted available capital on exploration activities, leaving a number of interesting prospects with proven undeveloped reserves and smaller discoveries with little or no production. The current commodity price environment limits their ability to develop these fields, creating significant opportunity for CDI. We have set the following goals to execute our differentiated business strategy in 2002:

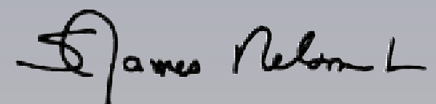
- **FINANCIAL: Deliver a ROCE of 10% as we incur interest expense on assets that will generate significant earnings in future periods.**
- **DEEPWATER CONTRACTING: Generate $50 million of revenue outside the GOM.**
- **WELL OPERATIONS: Gain client acceptance of the *Q4000* in a well operations mode.**
- **SHELF CONTRACTING: Reduce reliance upon a single customer.**
- **PRODUCTION PARTNERING: Capitalize on PUD (proven undeveloped reserves) opportunities.**

Respectfully submitted,



Owen E. Kratz
Chairman
Chief Executive Officer

Martin Ferron
President
Chief Operating Officer



S. James Nelson, Jr.
Vice Chairman

DEEPWATER CONTRACTING

Revenues of just under $80 million were 35% of the consolidated CDI volume. While up from 28% a year ago, the leverage available in our Deepwater fleet is highlighted by the fact that DP vessels generated 60% of Cal Dive revenues in 1998, the last demand-driven marine construction year. Utility of 87% was led by our two work-horse vessels, the *Uncle John* at 93% and *Witch Queen* at 90%. Even our smallest DP vessel, the *Merlin*, achieved almost full utilization after being cold stacked during the first quarter of the year.

While the DP market remained soft, the significant increase in utilization (87% versus 56% a year ago) reflects improved CDI market share, an expansion in the scope of Deepwater services, and our expansion into other regions of the GOM basin. Major projects in 2001 were:

- Exxon *Diana*: Riser tie-in, spool and strake installations.
- Exxon *Marshall/Madison*: Jumper and flying lead installations.
- Exxon *Mica*: Manifold, suction pile and tree installations.
- Kerr-McGee *Boomvang/Nansen*: Plet, flexible riser, umbilical and jumper installations.
- Allseas & EOG *Hibiscus/Pelican*: Pipeline tie-in work offshore Trinidad.

In addition, the 2001 Deepwater geotechnical coring campaign with Alliance partner Fugro involved work at *Gunnison*, *Crazy Horse*, *Holstein* and *Devil's Tower* among others. The *Uncle John* is an ideal work platform as she is capable of performing coring operations at up to 7,000 fsw without the mobilization cost of a drilling rig.

Penetration of the Trinidad market was a major 2001 accomplishment. Working for customers which included EOG, British Gas, BP and Allseas Contracting established a presence and reputation which were instrumental in our being awarded the significant 2002 BP *Bombax* project. Work in Mexican waters with Alliance partner Horizon Offshore included providing two DP vessels to Pemex in that market for a combined 14 months during the year. Revenues from these two geographic regions accounted for all of the DP fleet improvement over 2000.

Margins were not what they should have been given the utilization as we realized only 5% on the large, *Nansen/Boomvang* project. We bid this work assuming that the umbilicals and flowlines would be laid by the converted *Intrepid* and that the project would be completed before the onset of winter. The *Intrepid* shipyard delays resulted in our having to subcontract the lay portion of the job and project delays pushed the work into the heart of the winter months.

Our shipyard experiences led to the decision to have CDI management direct the upgrade of the *Eclipse* using subcontracted vendors. After taking delivery in late December, we successfully installed the saturation diving system, upgraded the DP system to DP-2 standards and restored the ballast system before putting her on the payroll in March, 2002. Our people are amazed at the world-class quality of this vessel. While the *Intrepid* conversion proved more difficult and time consuming than expected, she will offer customers a pipelay vessel capable of carrying an 8,000 metric ton deck load.

The January 4, 2002 acquisition of Canyon Offshore represents a vertical integration which flows from a corporate policy of directly controlling all aspects on the critical path of turnkey projects. Canyon currently owns 19 ROV systems and operates eight customer owned trenching systems in the United States, Southeast Asia and the North Sea. During 2001 Canyon successfully introduced the Quest electric work class ROV to the industry and opened a new North Sea operations base in Aberdeen, Scotland. The Cal Dive ROV support vessel, the *Merlin*, will be transferred to and become part of Canyon operations in March. In June, the company will take delivery of the *Northern Canyon*, a purpose-built, 270-foot state-of-the-art ROV support vessel which will be deployed initially in the North Sea.

The Deepwater GOM is principally an oil play with the size of the reservoirs resulting in significant lead times to first production. We are currently tracking 30 fields that will come into our service market, completion and production, in the years 2002 through 2004. We have aggressively moved to "lock up" a lot of real-estate by assembling a world-class fleet of seven DP vessels as we do not believe that there will be enough marine construction capacity to handle this demand. Our Deepwater contracting team has identified the following goals for 2002:

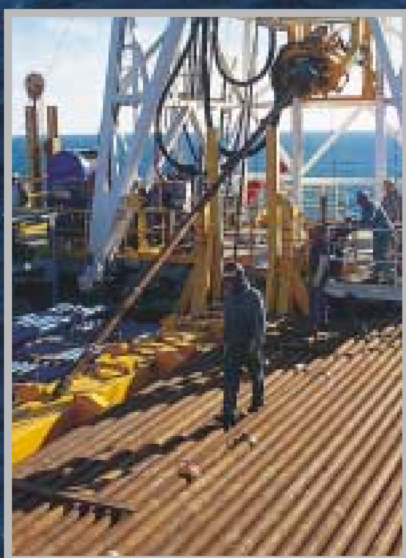
- AWARDS: Secure significant portions of the BP *Thunder Horse* and *Atlantis* project awards.
- REVENUES: Increase non-GOM revenues by 67%, building upon the *Bombax* award in Trinidad, continuing work in Mexican waters and initial projects offshore Brazil.
- *INTREPID*: Complete conversion and secure 200 days of utility.
- CANYON: Increase EBITDA by 30% with the addition of two vessels and delivery of three new Quest systems.

WELL OPERATIONS

Well Operations is a niche that is new to CDI, one which offers significant future opportunity. This business line involves drilling support (which includes pre-setting casings, setting trees and commissioning wells), life-of-field services (which include well intervention), decommissioning and abandonment. Currently there is no cost-effective solution for subsea well operations to troubleshoot or enhance production, shift zones or perform recompletions, as all such work today must be done from drill rigs. This is the opportunity we hope to seize with the introduction of the *Q4000*.

There presently are just over 200 subsea trees in the GOM which we are targeting. With numerous Deepwater fields coming into production in the years 2002 through 2004, that figure is estimated to increase to 500 by 2005. Today "dry" trees, those located on a platform or similar floating production facility, are intervened or worked over almost once every year. In contrast, subsea wells presently undergo intervention and recovery enhancement work once every five years because of the logistical difficulty and cost. Studies indicate that there could be a 25% improvement in subsea well productivity if intervention work were performed more frequently.

In addition to well completions, intervention operations involve the reservoir, the subsea tree, controls, manifold and flowline/umbilicals. CDI semi-submersible vessels, the *Q4000* and *Uncle John*, can effectively handle all intervention tasks except those which involve the pulling of tubing. These dynamically positioned vessels are much more cost-efficient than the current alternative, a drilling rig, as they are specifically fit for this purpose and can rapidly mobilize and transit to the site with specialized engineering personnel and experienced crews onboard. These features will become increasingly important as the worldwide Deepwater drilling rig fleet becomes fully utilized. Anchored rigs are quite costly for well intervention tasks, as they must be towed into position and moored.



Last year's annual report mentioned a goal of securing a commitment to begin building the *Q6000*, a vessel design which included all of the features of the *Q4000* plus enhanced completion capability. With the later-than-expected emergence of the Deepwater well operations market, we elected instead to add many of those features by upgrading the *Q4000* while she is still in the shipyard.

In 2000 we successfully built a Well Operations group by attracting industry recognized specialists who wanted to be part of our expansion into the Ultra-Deepwater regions. These key managers serve as a core group to deliver specialized CDI and alliance partner services. CDI has entered into exclusive alliances to offer GOM customers the most technically advanced subsea solutions available. For example, Schlumberger provides downhole technical services and FMC the subsea intervention hardware deployed from our vessels.

In 2001 we submitted bids on 13 projects, seven of which went to semi-submersible drilling rigs already under contract. Virtually all of these projects involve well servicing and abandonment services. CDI Well Operations projects completed during 2001 include:

- CONOCO: World's first use of the Schlumberger Sen Tree 3 system as an open water riser system from a DP vessel in a shallow water live well intervention.
- FMC: Jointly developed the world's first 15,000 psi intervention riser for operations to 10,000 fsw.
- WELL DECOMMISSIONING: Applied a campaign approach (i.e. a single mobilization) to perform multiple through-tubing subsea well decommissioning and well operations for Kerr-McGee, Newfield and ExxonMobil.

Each of these projects was completed with a perfect safety and environmental record.

Specific Well Operations goals for 2002:

- *Q4000*: Establish a track record and gain acceptance of the vessel in a well operations mode.
- MARKETING: Introduce the rapid response capabilities of the *Q4000* for subsea emergencies.
- DECOMMISSIONING: Institute a "Campaign Approach" for the final abandonment of the 500 to 700 temporarily abandoned subsea wells in the GOM.

SHELF CONTRACTING

Cal Dive has been providing traditional subsea services, including air and saturation diving, marine construction and maintenance, and decommissioning services on the Outer Continental Shelf since 1975. The significant spike in commodity prices spurred a dramatic increase in the number of offshore rigs drilling for natural gas in 2000 and early 2001. Given the lag time between the drilling of a successful well and the commissioning of our services, we experienced a significant increase in 2001 Shelf Contracting activity, particularly in the first part of the year. Revenues of almost $85 million compare to $58 million in 2000. This improvement was achieved by essentially doubling the vessel capacity of Aquatica and effectively teaming with Alliance partner Horizon Offshore. Today CDI offers 15 vessels that provide services on the OCS; in addition, four of our DP vessels can also back up into this region and perform saturation diving operations.

During 2001 Aquatica expanded its services in the shallow water market (from the shore to 300 fsw) with the acquisition of the assets of Professional Divers of New Orleans (PDNO), which included three utility vessels and a four-point-moored vessel (*Mr. Sonny*) and the construction of a newbuild utility vessel (*Cal Diver IV*). This asset expansion was timed almost perfectly to match the increase in shallow water demand, enabling Aquatica to deliver revenues of $37 million, an 80% improvement over the prior year. The lack of competitor focus in this region enabled us to significantly expand market penetration. Prior to 2001, Aquatica had only one client producing over $1 million in annual revenues. In contrast, 10 customers exceeded this level in 2001, led by ExxonMobil, ChevronTexaco and Energy Partners. Utility of 69% was excellent given the weather susceptibility of many of these vessels; the 51% utilization in 2000 reflected what the industry would typically expect from the operation of such DSVs.

The *Cal Diver I*, *II* and *V* are devoted almost exclusively in support of our Alliance partner Horizon Offshore. This teaming arrangement provides customers a cost-effective array of services as our DSVs follow behind the Horizon barge spreads that lay the pipe and perform the more time-consuming tasks of commissioning the line. Our work for Horizon is almost exclusively on a turnkey basis where CDI margins are then determined principally by offshore performance. Utilization of these three CDI vessels was 75%, up from 60% in 2000. In further support of the alliance, we began providing barge diving support for Horizon barges in 2001, a low margin activity we view as a contribution to the overall success of the alliance. Unique OCS construction tasks completed during the year included three large diameter hot taps, including a 16-inch tied into a 20-inch pipeline for Williams, and multiple six-inch tie-ins completed 16 feet below the mudline for Buckeye Pipeline.

For the second consecutive year salvage revenues and margins were disappointing. In part, this is a result of high commodity prices in 2000 that led producers to milk the last possible production out of older properties. Because of the decline in commodity prices during 2001, these properties are now flooding the market with negative asset values. As a result, we expect that many will go directly to decommissioning, a development that suggests increased salvage demand in 2002 and 2003. A recently revised study by the MMS estimates that the total cost of the GOM abandonment market is $8.0 billion. Cal Dive has established a leading position in the removal of smaller structures, caissons and well protectors, which represent 52% of the structures in the Gulf.

Shelf Contracting services involve manned diving operations to 1,000 fsw. CDI introduced a company-wide effort to enhance a behavioral safety process (BSP) and training program that makes safety a constant focus of awareness through open communication with all offshore and yard employees. The process includes the documentation of all daily observations and the collection of this data. In addition we initiated regular monthly visits by project managers to conduct "Hazard Hunts" on each vessel, providing a "safety audit" with fresh eyes. First year results from this program were impressive as CDI's safety performance improved dramatically in 2001.

The decline in commodity prices and drilling activity, combined with the late-cycle nature of our Shelf Contracting services suggests a significant fall-off in 2002 activity levels. In this environment we have challenged our personnel with the following goals:

- SAFETY: Continue development of EHS Behavior Safety Program, decreasing the Shelf TRIR below 2.00.
- SALVAGE: Increase revenues by 33% through expanded penetration of an improving shallow water salvage market.
- HORIZON ALLIANCE: Continue to support this alliance as we expand our overseas presence with Horizon barge projects.

PRODUCTION PARTNERING

Gas and oil revenues of $63.4 million declined by $7.4 million or 10% with virtually all of that attributable to production of 13.9 BCFe versus 15.5 BCFe in the prior year. On an energy equivalent basis (MMBtu) the price was almost identical between years. Gross profit margins of 48% declined slightly from 55% in 2000 as we adopted an aggressive depletion strategy given the depressed level of commodity prices. While net income did not quite match the all time record set last year, 2001 earnings improved ERT's average annual return on capital to 30% since the company was formed in 1992.

Our disciplined acquisition strategy resulted in completing only three small mature property acquisitions in 2001 as high commodity prices made such purchases difficult. Rather than chase the upcycle and pay too much for properties, our emphasis turned internally to extracting more from the existing property base. ERT designed and executed a significant well enhancement program that resulted in adding 8.2 BCFe at a cost of $1.06 per mcf. The success of that program enabled us to essentially replace proven developed reserves; i.e. 2001 closed with 24.5 BCFe in contrast to 28.2 BCFe a year earlier.

Total proven reserves at year-end grew to 100 BCFe with initial reserves of 76.5 BCFe assigned to our ownership position in *Gunnison*. This figure represents 15% of the reserves reported by the operator, Kerr-McGee Oil & Gas Corporation, at December 31, 2001. The three criteria that the CDI Board had established to determine a commercial discovery and the commitment of CDI funds were achieved during 2001: 75 million barrels (gross) of reserves, total development costs of $500 million consistent with 75 MBOE, and a CDI shareholder return no less than 12%. The full potential of the three *Gunnison* blocks (Garden Banks 667, 668 and 669) will be better defined a year from now as the operator plans an extensive development program in 2002. The development timetable schedules the Cal Dive marine construction activities defined in the joint operating agreement for 2003 with first production anticipated early in 2004.

(Net BCFE))	1997	1998	1999	2000	2001
Beginning Balance	25.3	30.3	30.2	35.6	28.2
Production	(5.7)	(4.9)	(8.9)	(15.5)	(13.9)
Sale of Properties	(0.9)	(0.6)	(5.2)	(1.2)	--
Purchase of Reserves	9.9	7.4	15.2	6.3	2.0
Property Exploitation (Revision)	1.7	(2.0)	4.3	3.0	8.2
Ending Balance	30.3	30.2	35.6	28.2	24.5
*Share of Gunnison field (GB 667, 668, 669) based upon Kerr-McGee "1P" Proved Reserves					76.5*

There are 142 announced commercial discoveries in the Deepwater GOM that have yet to be brought into production. Many of these are smaller reservoirs that standing alone cannot justify the economics of a host production facility. As a result we expect that the Deepwater GOM will be developed in a hub and satellite field concept that resembles the approach the airline industry has used with regional hub locations. *Gunnison* is a hub location where Cal Dive will provide infrastructure and tie-back marine construction services. Late in 2001 we signed a letter of intent with El Paso Energy Partners that extends the concept of acquiring oil and gas assets to earn a significant return while also securing the associated marine construction work. In this instance we will jointly own the production facility that will be installed at Anadarko's *Marco Polo* field in 4,300 fsw. Our 50% ownership in this structure, when financed, will allow Cal Dive to realize a transmission return consisting of both a fixed demand and tariff charge. In addition, we will assist with the installation of the TLP and then work to develop the surrounding acreage which can be tied into the facility utilizing CDI marine construction vessels. Production from the *Marco Polo* facility is also anticipated early in the year 2004.

Specific goals for 2002 include:

- **RESERVE ADDITIONS: Add 20 BCFe through the purchase of interests in mature properties and from the ERT 2002 well exploitation program.**
- ***Marco Polo*: Negotiate commitment for funding construction of the TLP and design program to develop surrounding acreage.**
- **DEEPWATER: Extend the ERT business model into the Deepwater GOM by creating a vehicle to develop fields with proven undeveloped reserves and marginal reservoirs.**

FLEET PROFILE

GULF OF MEXICO	SUBSEA & SALVAGE SERVICES TO 1,000 FT.				DEEPWATER CONSTRUCTION & WELL OPS.				
Vessels	Salvage	Resupply	Surface Diving	Saturation Diving	Reeled Products Lay	ROV Support, Light Construction	Coring	Well Operations	Deep Heavy Construction, Templates, Moorings
Salvage Operations									
Barge-1/Well Service	Primary								
Dive Support Vessels									
7 Utility DSVs	Secondary	Secondary	Primary						
Mr. Fred	Secondary		Primary						
Mr. Sonny	Secondary		Primary						
Mr. Jack	Secondary		Primary						
Talisman	Secondary	Primary	Primary						
Cal Diver I			Secondary	Primary					
Cal Diver II			Secondary	Primary					
Cal Diver V	Primary		Primary						
Dynamically Positioned Vessels									
Merlin						Primary	Secondary		
Northern Canyon (leased)						Secondary	Primary		
Mystic Viking				Primary	Primary	Secondary	Secondary		
Witch Queen				Primary	Primary	Secondary	Secondary		
Eclipse				Primary	Primary	Secondary	Secondary		
Intrepid					Primary	Primary	Secondary		Primary
Uncle John				Secondary	Secondary	Secondary	Primary	Primary	Secondary
Q4000					Secondary	Secondary	Secondary	Primary	Primary

Primary Function (red bar) *Secondary or Capable Function* (blue bar)

Canyon

FINANCIAL REVIEW

Net income of $28.9 million was 20% greater than the prior earnings record of $24.1 million set in 1998, the last year that subsea and salvage contracting operations experienced strong demand. As demonstrated in the accompanying graph our unique strategy combining marine contracting with gas and oil operations has increased revenues at a 25% compound annual growth rate since 1997, a period which includes three difficult years for offshore construction.

Revenues of $227.1 million increased by $46 million with all of that improvement coming from contracting operations. Contracting revenues of $163.7 million surpassed the record of $152 million set in 1998 with the increase a function of the capacity added to our Shelf Contracting assets. The improvement in OCS activity levels and the expansion of our alliance with Horizon Offshore resulted in that company being our largest customer at 18% of consolidated revenues. Doubling the asset base of Aquatica enabled an 80% improvement in shallow water revenues: $37 million in 2001 versus $20.6 million in the prior year. Gas and oil revenues of $63.4 million declined from $70.8 million in 2000 as production was 10% lower than the prior year. Energy Resource Technology received an average of $4.44/mcf for natural gas and $24.54/bbl for oil compared to $4.04/mcf and $28.91/bbl in 2000. Since oil prices did not tail off until the fourth quarter, oil and condensate represented 30% of 2001 revenues, up from 27% in the prior year.

Gross profit of $66.9 million increased by $11.5 million or 21% over the prior year. A $20 million improvement in subsea and salvage gross profit was split equally between Shelf and Deepwater Contracting activities as overall fleet utilization improved to 72% in 2001, up from 54% in the prior year. Contracting margins were 22%, up from 15% in the prior year, even though we earned only 5% on $15 million of *Nansen/Boomvang* volume that was mostly pass-through revenues. That job also accounted for the significant increase in unbilled revenue at December 31, 2001, as the next scheduled invoicing milestone was achieved in January 2002. Gas and oil production gross profit of $30.2 million decreased by $9.0 million from 2000. While commodity prices fell precipitously in the second half of the year, an average natural gas price above $4.00 will typically result in 50% margins for our ERT business. While ERT received an average of $4.44/mcf in 2001, margins of only 48% in 2001 are due to higher amortization rates (30% of revenues versus 26% in the prior year) and to $1.0 million of exposure related to the Enron bankruptcy.

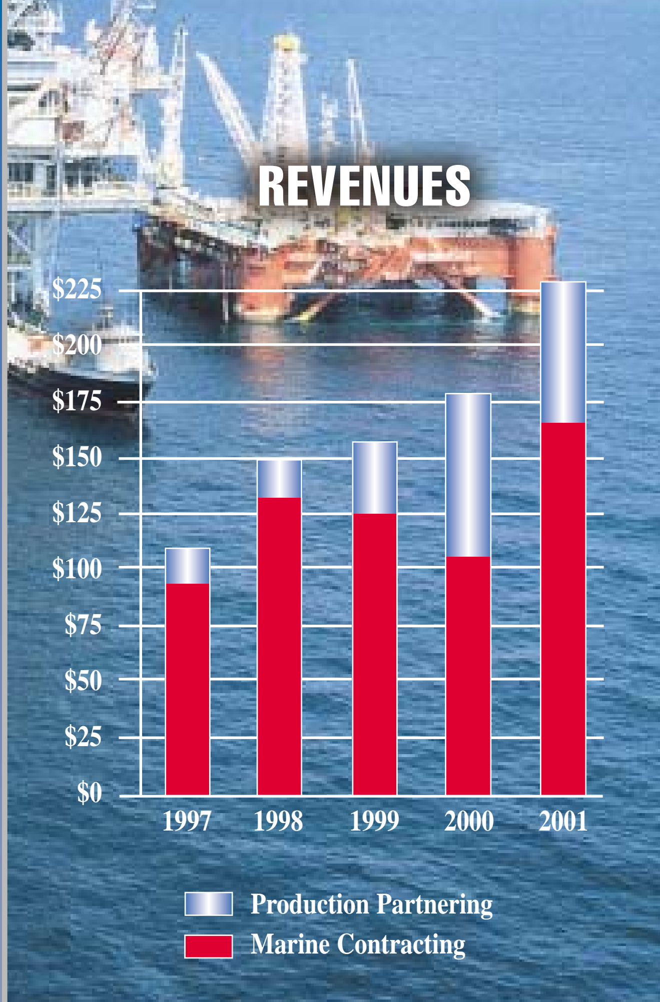
Selling, general and administrative costs of $21.3 million were up only $500,000 or 3% over the year 2000. Having weathered the horrendous downturns in the offshore industry during 1986 and 1992, we responded quickly to the falling commodity prices which shut down a number of GOM construction projects in 2001. As a result, overhead ran at 9% of 2001 revenues, down from 11% in the prior year.

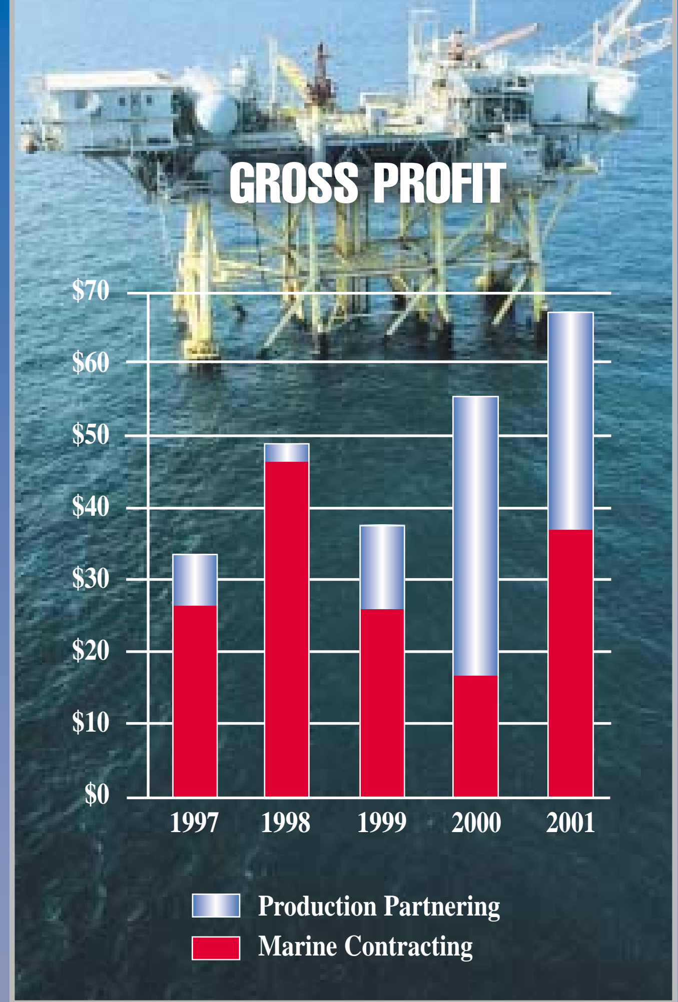
Net interest and other expense of $1.3 million includes goodwill amortization of $700,000. Virtually all interest paid during the year resulted from amounts drawn on the MARAD loan facility for construction of the *Q4000* and thus was capitalized as a cost of the vessel. Interest expense will become a significant item in 2002 when the *Q4000* commences operations and the interest on this $160 million facility is expensed.

Federal income taxes have been provided at the statutory 35% effective tax rate. However, our deduction of *Q4000* construction costs as research and development expenditures for tax purposes has resulted in CDI paying no federal income taxes in any of the last three years. Since deduction of these costs effects financial and taxable income in different years, the entire provision for federal taxes was again recorded as deferred income taxes. Should the Internal Revenue Service agree that such expenditures also qualify for the R&D tax credit, this would create a permanent tax difference which could reduce the tax provision in future periods.

EBITDA of $79 million increased by $14 million or 21% over the prior year. This represents an all-time CDI record as we maintained our cash flow margin at 35% revenues versus 36% in 2000. While EBITDA reflects the strong cash generation of gas and oil operations, the cash margins of our contracting businesses almost doubled to 21% of 2001 revenue, up from the 11% in the prior year.

Capital expenditures of just over $151 million compare to $95 million in 2000. Major components were: Construction of the *Q4000* ($53 million) and conversion of the *Intrepid* ($33 million); purchase of two DP vessels, the *Mystic Viking* and *Eclipse* ($40 million); and production partnering expenditures totaling $20 million for initial *Gunnison* development costs, the ERT 2001 Well Enhancement Program and property acquisitions. In addition, Aquatica aquired the PDNO assets (consisting of three utility vessels and a four-point moored DSV) for $11.5 million. These expenditures were funded by $89 million from operating activities, $59 million drawn on the MARAD loan facility, and existing cash balances.





CAPEX in 2002 will include $50 million for the completion of the *Q4000* and *Intrepid*, $65 million for the purchase of Canyon Offshore and the addition of three new Quest ROV units, and approximately $30 million as the equity portion of the construction of the *Marco Polo* production facility. It is estimated that $34 million of *Gunnison* development expenditures in 2002 will be funded by the construction financing now in place and $19 million by CDI.

On January 4, 2002 we acquired 85% of the stock of Canyon Offshore in exchange for cash of $51 million, the assumption of $5 million of Canyon net debt, and 181,000 shares of CDI common stock (143,000 shares of which were purchased during the fourth quarter of 2000). We will acquire the remaining 15% from management depending upon Canyon performance over the years 2002 - 2004. The acquisition was recorded as a purchase with the excess of the purchase price over the fair value of the net assets acquired resulting in goodwill initially estimated to approximate $40 million.

Long-term debt at year-end consisted of approximately $100 million drawn on the $160 million facility in place with MARAD for construction of the *Q4000*. Through the end of 2001, we have spent approximately $137 million of the vessel's $182 million budget. During the construction period CDI is paying a rate which approximates short-term U.S. Treasuries (2.25% at year-end); we have four years from commissioning of the vessel to fix the long-term rate on this 25-year facility. While we reflect the full amount of this borrowing on our balance sheet only half has recourse to Cal Dive. At year-end $5.6 million has been drawn on the $67 million lease facility which is funding construction of the *Gunnison* spar. The interest on this facility is LIBOR plus 225 to 300 basis points, depending upon certain leverage ratios (currently 4.4%). When construction of the spar is completed CDI has the option to convert the loan facility to a twenty-year leveraged lease term or pay interest only lease payments for three years before paying off the debt at that time. The contractual long-term provisions of the MARAD debt and *Gunnison* spar lease are designed to match amortization of principal with revenue generated when the assets are placed in service. For example, only $7.2 million of the $107.5 million total of these two obligations is due in the years 2002-2004. A similar construction loan is being considered to fund our $100 million share of the anticipated cost of the *Marco Polo* TLP. Working with 50% joint owner El Paso Energy Partners, negotiations are in process to conclude a facility that would require a 30% equity component. Early in 2002 Cal Dive increased the funding available pursuant to its revolving line of credit from $40 million to $60 million to support our growth plans in the next two years until significant revenues and cash flow are realized from the *Gunnison* and *Marco Polo* investments. The more restrictive financial covenants of these various loan facilities include a debt to EBITDA coverage ratio of 3.00 to 1 and a 50% limit of total debt to capitalization.

FINANCIAL STATEMENTS

CAL DIVE INTERNATIONAL, INC., AND SUBSIDIARIES:

Consolidated Balance Sheets - December 31, 2001 and 2000 (in thousands):

	DECEMBER 31,	
	2001	**2000**
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 37,123	$ 44,838
Restricted cash	---	2,624
Accounts receivable --		
Trade, net of revenue allowance on gross amounts billed of $4,262 and $1,770	45,527	42,924
Unbilled revenue	10,659	1,902
Income tax receivable	---	10,014
Other current assets	20,055	20,975
Total current assets	113,364	123,277
PROPERTY AND EQUIPMENT	423,742	266,102
Less - Accumulated depreciation	(92,430)	(67,560)
Total property and equipment	331,312	198,542
OTHER ASSETS:		
Goodwill, net	14,973	12,878
Other assets, net	13,473	12,791
	$ 473,122	$ 347,488
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Accounts payable	$ 42,252	$ 25,461
Accrued liabilities	21,011	21,435
Income taxes payable	---	---
Current maturities of long-term debt	1,500	---
Total current liabilities	64,763	46,896
LONG-TERM DEBT	98,048	40,054
DEFERRED INCOME TAXES	54,631	38,272
DECOMMISSIONING LIABILITIES	29,331	27,541
COMMITMENTS AND CONTINGENCIES		
SHAREHOLDERS' EQUITY:		
Common stock, no par, 120,000 shares authorized, 46,239 and 45,885 shares issued	99,105	93,838
Retained earnings	133,570	104,638
Treasury stock, 13,783 and 13,640 shares, at cost	(6,326)	(3,751)
Total shareholders' equity	226,349	194,725
	$ 473,122	$ 347,488

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

CAL DIVE INTERNATIONAL, INC., AND SUBSIDIARIES:

Consolidated Statements Of Operations For The Years Ended December 31, 2001, 2000 and 1999 (in thousands, except per share amounts)

	YEAR ENDED DECEMBER 31,		
	2001	**2000**	**1999**
NET REVENUES			
Subsea and salvage	$ 163,740	$ 110,217	$ 128,435
Natural gas and oil production	63,401	70,797	32,519
	227,141	181,014	160,954
COST OF SALES			
Subsea and salvage	127,047	94,104	103,113
Natural gas and oil production	33,183	31,541	20,590
Gross profit	66,911	55,369	37,251
SELLING AND ADMINISTRATIVE EXPENSES	21,325	20,800	13,227
INCOME FROM OPERATIONS	45,586	34,569	24,024
Equity in earnings of Aquatica, Inc.	---	---	600
Net interest (income) expense and other	1,290	554	(849)
INCOME BEFORE INCOME TAXES	44,296	34,015	25,473
Provision for income taxes	15,504	11,555	8,465
Minority Interest	(140)	(866)	109
NET INCOME	$ 28,932	$ 23,326	$ 16,899
NET INCOME PER SHARE			
Basic	$ 0.89	$ 0.74	$ 0.56
Diluted	0.88	0.72	0.55
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING			
Basic	32,449	31,588	30,016
Diluted	33,055	32,341	30,654

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

CAL DIVE INTERNATIONAL, INC., AND SUBSIDIARIES:

Consolidated Statements Of Shareholders' Equity For The Years Ended December 31, 2001, 2000 and 1999 (in thousands)

	COMMON STOCK		RETAINED	TREASURY STOCK		TOTAL SHAREHOLDERS'
	SHARES	AMOUNT	EARNINGS	SHARES	AMOUNT	EQUITY
BALANCE, DECEMBER 31, 1998	42,804	$ 52,981	$ 64,413	(13,640)	$ (3,751)	$ 113,643
NET INCOME	---	---	16,899	---	---	16,899
ACTIVITY IN COMPANY STOCK PLANS, NET	594	4,174	---	---	---	4,174
ACQUISITION OF AQUATICA, INC.	1,392	16,156	---	---	---	16,156
BALANCE, DECEMBER 31, 1999	44,790	73,311	81,312	(13,640)	(3,751)	150,872
NET INCOME	---	---	23,326	---	---	23,326
ACTIVITY IN COMPANY STOCK PLANS, NET	485	5,740	---	---	---	5,740
SALE OF COMMON STOCK, NET	610	14,787	---	---	---	14,787
BALANCE, DECEMBER 31, 2000	45,885	93,838	104,638	(13,640)	(3,751)	194,725
NET INCOME	---	---	28,932	---	---	28,932
ACTIVITY IN COMPANY STOCK PLANS, NET	354	5,267	---	---	---	5,267
PURCHASE OF TREASURY SHARES	---	---	---	(143)	(2,575)	(2,575)
BALANCE, DECEMBER 31, 2001	46,239	$ 99,105	$ 133,570	(13,783)	$ (6,326)	$ 226,349

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

CAL DIVE INTERNATIONAL, INC., AND SUBSIDIARIES:

Consolidated Statements Of Cash Flows For The Years Ended December 31, 2001, 2000 and 1999 (in thousands)

	YEAR ENDED DECEMBER 31,		
	2001	**2000**	**1999**
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income	$ 28,932	$ 23,326	$ 16,899
Adjustments to reconcile net income to net cash provided by operating activities --			
Depreciation and amortization	34,533	30,730	20,615
Deferred income taxes	15,504	21,085	4,298
Equity in earnings of Aquatica, Inc.	---	---	(600)
Gain on sale of assets	(1,881)	(3,292)	(8,454)
Changes in operating assets and liabilities:			
Accounts receivable, net	(13,594)	6,723	(16,918)
Other current assets	2,760	(4,298)	(6,468)
Accounts payable and accrued liabilities	21,263	(1,030)	21,217
Income taxes receivable	10,014	(7,256)	(430)
Other noncurrent, net	(8,424)	(12,287)	(4,660)
Net cash provided by operating activities	89,107	53,701	25,499
CASH FLOWS FROM INVESTING ACTIVITIES:			
Capital expenditures	(151,261)	(95,124)	(77,447)
Purchase of Professional Divers of New Orleans, Inc., net	(11,500)	---	---
Cash (restricted) available for acquisitions	2,624	6,062	(8,222)
Investment in Aquatica, Inc.	---	---	442
Prepayments and deposits related to salvage operations	782	826	7,684
Proceeds from sales of property	1,530	3,124	28,931
Insurance proceeds from loss of vessel	---	7,118	---
Net cash used in investing activities	(157,825)	(77,994)	(48,612)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Exercise of stock warrants and options, net	4,084	2,980	2,043
Purchase of treasury stock	(2,575)	---	---
Sale of common stock, net of transaction costs	---	14,787	---
Borrowings under MARAD loan facility	59,494	40,054	---
Net cash provided by financing activities	61,003	57,821	2,043
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(7,715)	33,528	(21,070)
CASH AND CASH EQUIVALENTS:			
Balance, beginning of year	44,838	11,310	32,380
Balance, end of year	$ 37,123	$ 44,838	$ 11,310

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

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

1. ORGANIZATION:

Cal Dive International, Inc. (Cal Dive, CDI or the Company), headquartered in Houston, Texas, owns, staffs and operates twenty-one marine construction vessels and a derrick barge in the Gulf of Mexico. The Company provides a full range of services to offshore oil and gas exploration and production and pipeline companies, including underwater construction, well operations, maintenance and repair of pipelines and platforms, and salvage operations. Diving and vessel support services in the shallow water market are provided by Aquatica, Inc., a wholly-owned subsidiary based in Lafayette, Louisiana. In January 2002, the Company expanded its Deepwater services through acquisition of Canyon Offshore, Inc. See footnote 17.

In September 1992, Cal Dive formed a wholly-owned subsidiary, Energy Resource Technology, Inc. (ERT), to purchase non-core producing offshore oil and gas properties and those which are in the later stages of their economic lives. ERT is a fully bonded offshore operator and, in conjunction with the acquisition of properties, assumes the responsibility to decommission the property in full compliance with all governmental regulations. CDI has expanded the scope of its gas and oil operations by taking a working interest in *Gunnison*, a Deepwater development of Kerr-McGee Oil & Gas Corporation which has encountered significant reserves. The company is expanding its Deepwater Hub strategy by agreeing to participate in the ownership of the *Marco Polo* production facility.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Principles of Consolidation
The accompanying consolidated financial statements include the accounts of the Company and its subsidiaries. All significant intercompany accounts and transactions have been eliminated.

Goodwill
Through the end of 2001, goodwill was amortized on the straight-line method over its estimated useful life. Accumulated amortization as of December 31, 2001 and 2000 was $1.9 million and $1.2 million, respectively. The Company continually evaluated whether subsequent events or circumstances had occurred which indicated that the remaining useful life of goodwill might warrant revision or that the remaining balance of goodwill might not be recoverable. Management believes that there have been no events or circumstances which warrant revision to the remaining useful life or which affect recoverability of goodwill.

In July 2001, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 141, Business Combinations which supersedes Accounting Principles Board (APB) Opinion No. 16, Business Combinations. SFAS 141 eliminates the pooling-of-interests method of accounting for business combinations and modifies the application of the purchase accounting method. The provisions of SFAS 141 were effective for transactions accounted for using the purchase method completed after June 30, 2001. The Company had no business combination completed between June 30, 2001 and December 31, 2001.

In July 2001, the FASB also issued SFAS No. 142, Goodwill and Intangible Assets which supersedes APB Opinion No. 17, Intangible Assets. SFAS 142 eliminates the current requirement to amortize goodwill and indefinite-lived intangible assets, addresses the amortization of intangible assets with a defined life and addresses the impairment testing and recognition for goodwill and intangible assets. SFAS 142, which is effective for 2002, will apply to goodwill and intangible assets arising from transactions completed before and after the statement's effective date. The Company believes adoption of this standard will have an immaterial effect on CDI's financial position and results of operations.

Property and Equipment
Property and equipment are recorded at cost. Depreciation is provided primarily on the straight-line method over the estimated useful lives of the assets.

All of the Company's interests in natural gas and oil properties are located offshore in United States waters. The Company follows the successful efforts method of accounting for its interests in natural gas and oil 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.

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

In July 2001, the FASB released SFAS No. 143, Accounting for Asset Retirement Obligations, which is required to be adopted

by the Company no later than January 1, 2003. SFAS No. 143 addresses the financial accounting and reporting obligations and retirement costs related to the retirement of tangible long-lived assets. The Company is currently reviewing the provisions of SFAS No. 143 to determine the standard's impact, if any, on its financial statements upon adoption. Among other things SFAS No. 143 will require oil and gas companies to reflect decommissioning liabilities on the face of the balance sheet, something ERT has done since inception or an undiscounted basis.

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

	Estimated Useful Life	2001	2000
Construction in progress	N/A	$ 221,916	$ 111,250
Vessels	15	103,929	78,776
Offshore leases and equipment	UOP	72,157	60,679
Gunnison property under development	N/A	10,177	---
Machinery, equipment and leasehold improvements	5	15,563	15,397
Total property and equipment		$ 423,742	$ 266,102

In July 1999, the CDI Board of Directors approved the construction of the *Q4000*, a newbuild, ultra-deepwater multi-purpose vessel, for a total estimated cost of $150 million and, in June 2001, approved modification to the original construction contract increasing the total estimated costs to $182 million. Amounts incurred on this project and the conversion of the *Intrepid* pipelay vessel are included in Construction in Progress ($1.9 million of which is capitalized interest).

The cost of repairs and maintenance of vessels and equipment is charged to operations as incurred, while the cost of improvements is capitalized. Total repair and maintenance charges were $8,501,000, $4,343,000 and $6,031,000 for the years ended December 31, 2001, 2000 and 1999, respectively.

In August 2001, the FASB issued SFAS No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets, which is effective for the Company beginning January 1, 2002. SFAS No. 144 supersedes SFAS No. 121, Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of, and the accounting and reporting provisions relating to the disposal of a segment of a business of APB Opinion No. 30. The Company believes the adoption of SFAS No. 144 will not have a material impact on its financial position or results of operations.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Earnings Per Share

The Company computes and presents earnings per share in accordance with SFAS No. 128, Earnings Per Share. SFAS 128 requires the presentation of "basic" EPS and "diluted" EPS on the face of the statement of operations. Basic EPS is computed by dividing the net income available to common shareholders by the weighted-average shares of outstanding common stock. The calculation of diluted EPS is similar to basic EPS except that the denominator includes dilutive common stock equivalents, which were stock options, less the number of treasury shares assumed to be purchased from the proceeds with the exercise of stock options.

Revenue Recognition

The Company earns the majority of its subsea service and salvage contracting revenues during the summer and fall months. Revenues are derived from billings under contracts (which are typically of short duration) that provide for either lump-sum turnkey charges or specific time, material and equipment charges which are billed in accordance with the terms of such contracts. The Company recognizes revenue as it is earned at estimated collectible amounts. Revenue on significant turnkey contracts is recognized on the percentage-of-completion method based on the ratio of costs incurred to total estimated costs at completion. Contract price and cost estimates are reviewed periodically as work progresses and adjustments are reflected in the period in which such estimates are revised. Provisions for estimated losses on such contracts are made in the period such losses are determined. Unbilled revenue represents revenue attributable to work completed prior to year-end which has not yet been invoiced. All amounts included in unbilled revenue at December 31, 2001 are expected to be billed and collected within one year.

Revenue Allowance on Gross Amounts Billed

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

Major Customers and Concentration of Credit Risk

The market for the Company's products and services is the offshore oil and gas industry. Oil and gas companies make capital expenditures on exploration, drilling and production operations offshore, the level of which is generally dependent on the prevailing view of the future oil and gas prices, which have been characterized by significant volatility in recent years. The Company's

customers consist primarily of major, well-established oil and pipeline companies and independent oil and gas producers. The Company performs ongoing credit evaluations of its customers and provides allowances for probable credit losses when necessary. The percent of consolidated revenue of major customers was as follows: 2001 - Horizon Offshore, Inc. (18 %), Enron Corporation (10%); 2000 - Enron Corporation (13%); and 1999 - EEX Corporation (13%).

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

Income Taxes

Deferred taxes are recognized for revenues and expenses reported in different years for financial statement purposes and income tax purposes in accordance with SFAS No. 109, Accounting for Income Taxes. The statement requires, among other things, the use of the liability method of computing deferred income taxes. The liability method is based on the amount of current and future taxes payable using tax rates and laws in effect at the balance sheet date.

Deferred Drydock Charges

The Company accounts for regulatory (U.S. Coast Guard, American Bureau of Shipping and Det Norske Veritas) related drydock inspection and certification expenditures by capitalizing the related costs and amortizing them over the 30-month period between regulatory mandated drydock inspections and certification. During the years ended December 31, 2001, 2000 and 1999 drydock amortization expense was $3.1 million, $2.2 million and $1.7 million, respectively. This predominant industry practice provides appropriate matching of expenses with the period benefitted (i.e., certification to operate the vessel for a 30-month period between required drydock inspections).

Statement of Cash Flow Information

The Company defines cash and cash equivalents as cash and all highly liquid financial instruments with original maturities of less than three months. During the years ended December 31, 2001, 2000 and 1999, the Company made cash payments for interest charges, net of interest capitalized, of $662,000, $-0- and $-0-, respectively, and made cash payments for federal income taxes of approximately $-0-, $1,800,000 and $4,075,000, respectively.

Reclassifications

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

3. ACQUISITION OF DEEPWATER VESSELS:

In May 2001, Cal Dive acquired a dynamically positioned (DP) marine construction vessel, the *Mystic Viking* (formerly the *Bergen Viking*). The 240 foot by 52 foot vessel is DP-2 class, similar to the *Witch Queen*. The *Mystic Viking* replaces the *Balmoral Sea* (lost during 2000) and the *Cal Dive Aker Dove* (Cal Dive's ownership was transferred to Aker effective April 1, 2001).

In October 2001, Cal Dive announced the acquisition of another DP marine construction vessel, the *Eclipse* (formerly the *C.S. Seaspread*). The 370 foot by 67 foot vessel is a sister ship to Coflexip Stena Offshore's *Constructor* and EMC's *Bar Protector*. She was sold out of the energy services industry into the telecom cable sector in the early 1990s. Following delivery in the first quarter of 2002, her original marine construction features will be restored by installing a saturation diving system (salvaged from the *Balmoral Sea*), restoring the ballast system, and upgrading the DP system to DP-2 standards. The total cost of the two vessels acquired and related upgrades will approximate $40 million, the majority of which has been expended as of December 31, 2001.

4. OFFSHORE PROPERTY TRANSACTIONS:

ERT purchased working interests of 3% to 75% in four offshore blocks during 2001 in exchange for assumption of the pro-rata share of the decommissioning obligations. In addition, during 2001 ERT purchased a working interest of 55% in Vermilion 201 for $2.5 million (See footnote 5). In the first quarter of 2000, ERT acquired interests in six offshore blocks from EEX Corporation and agreed to operate the remaining EEX properties on the Outer Continental Shelf (OCS). The acquired offshore blocks include working interests from 40% to 75% in five platforms, one caisson and 13 wells. ERT agreed to a purchase price of $4.9 million and assumed EEX's prorated share of the abandonment obligation for the acquired interests, and entered into a two-year contract to manage the remaining EEX operated properties. Additionally, in April 2000, ERT acquired a 20% interest in *Gunnison*. See further discussion in footnote 5. During the first four months of 1999, in four separate transactions, ERT acquired interests in 20 blocks and interests in six blocks involving two separate fields in exchange for cash as well as assumption of the pro-rata share of the related decommissioning liabilities. In connection with 2001, 2000 and 1999 offshore property acquisitions, ERT assumed net abandonment liabilities estimated at approximately $3,100,000, $4,200,000, and $19,500,000 respectively.

ERT production activities are regulated by the federal government and require significant third-party involvement, such as

refinery processing and pipeline transportation. The Company records revenue from its offshore properties net of royalties paid to the Minerals Management Service (MMS). Royalty fees paid totaled approximately $15.2 million, $11.7 million and $4 million for the years ended 2001, 2000 and 1999, respectively. In accordance with federal regulations that require operators in the Gulf of Mexico to post an area wide bond of $3 million, the MMS has allowed the Company to fulfill such bonding requirements through an insurance policy.

During each of the past three years ERT has sold its interests in certain fields as well as the platforms and a pipeline. An ERT operating policy provides for the sale of assets when the expected future revenue stream can be accelerated in a single transaction. The net result of these sales was to add two cents, four cents and seven cents to diluted earnings per share for the years ending December 31, 2001, 2000 and 1999, respectively. These sales were structured as Section 1031 "Like Kind" exchanges for tax purposes. Accordingly, the cash received was restricted to use for subsequent acquisitions of additional natural gas and oil properties.

5. RELATED PARTY TRANSACTIONS:

In April 2000, ERT acquired a 20% working interest in *Gunnison*, a Deepwater Gulf of Mexico prospect of Kerr-McGee Oil & Gas Corporation. Consistent with CDI's philosophy of avoiding exploratory risk, financing for the exploratory costs (initially estimated at $15 million) was provided by an investment partnership (OKCD Investments, Ltd.), the investors of which are CDI senior management, in exchange for a 25% revenue override of CDI's 20% working interest. CDI provided no guarantees to the investment partnership. At this time, the Board of Directors established three criteria to determine a commercial discovery and the commitment of Cal Dive funds: 75 million barrels (gross) of reserves, total development costs of $500 million consistent with 75 MBOE, and a CDI estimated shareholder return of no less than 12%. Kerr-McGee, the operator, drilled several exploration wells and sidetracks in 3,200 feet of water at Garden Banks 667, 668 and 669 (the *Gunnison* prospect) and encountered significant potential reserves resulting in the three criteria being achieved during 2001. The exploratory phase was expanded to ensure field delineation resulting in the investment partnership which assumed the exploratory risk funding over $20 million of exploratory drilling costs, considerably above the initial $15 million estimate. With the sanctioning of a commercial discovery, the Company will fund ongoing development and production costs. Cal Dive's share of such project development costs is estimated in a range of $100 million to $110 million ($15.8 million of which had been incurred by December 31, 2001) with over half of that for construction of the spar. CDI has received a commitment from a financial institution to provide a construction funding for the spar, including an option for CDI to convert this loan facility into a long-term (20 year) leveraged lease after the spar is placed in service. See footnote 10. During the fourth quarter of 2000 another investment partnership composed of Company management and industry sources funded the drilling of a deep exploratory well at ERT's Vermilion 201 field. Effective January 1, 2001, ERT acquired approximately 55% of this investment partnership's interest in the reserves discovered for $2.5 million. As part of the process of obtaining funding for the exploratory costs of the above projects, several outside third parties were solicited. Management believes that the structure of these transactions was both consistent with the guidelines and at least as favorable to the Company and ERT as could have been obtained from third parties.

6. ACQUISITION OF PROFESSIONAL DIVERS OF NEW ORLEANS, INC. (PDNO) AND AQUATICA, INC.:

In March 2001, CDI acquired substantially all of the assets of Professional Divers of New Orleans, Inc. (PDNO) in exchange for $11.5 million. The assets purchased included the *Sea Level 21* (a 165-foot four-point moored DSV renamed the *Mr. Sonny*), three utility vessels and associated diving equipment including two saturation diving systems. This acquisition was accounted for as a purchase with the acquisition price of $11.5 million being allocated to the assets acquired and liabilities assumed based upon their estimated fair values with the balance of the purchase price ($2.8 million) being recorded as excess of cost over net assets acquired (goodwill).

In February 1998, CDI purchased a significant minority equity interest in Aquatica, Inc., a shallow water diving company. CDI accounted for this investment on the equity basis of accounting for financial reporting purposes. The related Shareholder Agreement provided that the remaining shares of Aquatica, Inc. could be converted into Cal Dive shares based on a formula which, among other things, valued the shares of Aquatica, Inc. Effective August 1, 1999, 1.4 million shares of common stock of Cal Dive were issued for all of the remaining common stock of Aquatica, Inc. pursuant to these terms. This acquisition was accounted for as a purchase with the acquisition price of $16.2 million being allocated to the assets acquired and liabilities assumed based upon their estimated fair values. The fair value of tangible assets acquired and liabilities assumed was $6.4 million and $2.2 million, respectively. The balance of the purchase price ($12 million) was recorded as excess of cost over net assets acquired (goodwill). Results of operations for Aquatica, Inc. are consolidated with those of Cal Dive for periods subsequent to August 1, 1999.

7. ACCRUED LIABILITIES:

Accrued liabilities consisted of the following (in thousands):

	2001	2000
Accrued payroll and related benefits	$ 6,880	$ 5,520
Workers' compensation claims	1,537	559
Workers' compensation claims to be reimbursed	6,276	6,133
Royalties payable	3,207	4,743
Other	3,111	4,480
Total accrued liabilities	$ 21,011	$ 21,435

8. LONG-TERM DEBT:

In August 2000, the Company closed a $138.5 million long-term financing for construction of the *Q4000*. This U.S. Government guaranteed financing is pursuant to Title XI of the Merchant Marine Act of 1936 which is administered by the Maritime Administration ("MARAD Debt"). In January 2002, the Maritime Administration agreed to expand the facility to $160 million to include the modifications to the vessel which had been approved during 2001. At the time the financing closed in 2000, the Company made an initial draw of $40.1 million toward construction costs. During 2001, the Company borrowed $59.5 million on this facility and expects to draw the remaining commitment during 2002.

The MARAD Debt will be payable in equal semi-annual installments beginning six months after delivery of the newbuild *Q4000* and maturing 25 years from such date. It is collateralized by the *Q4000*, with CDI guaranteeing 50% of the debt, and bears an interest rate which currently floats at a rate approximating AAA Commercial Paper yields plus 20 basis points (2.25% as of December 31, 2001). For a period up to two years from delivery of the vessel CDI has options to lock in a fixed rate. In accordance with the MARAD Debt agreements, CDI is required to comply with certain covenants and restrictions, including the maintenance of minimum net worth and debt-to-equity requirements. As of December 31, 2001, the Company was in compliance with these covenants.

Since April 1997, the Company has had a revolving credit facility of $40 million available. The Company drew upon this facility only 134 days during the past four years with maximum borrowing of $11.9 million. The Company had no outstanding balance under this facility as of December 31, 2001. In February 2002, the Company amended this facility, expanding the amount available to $60 million and extending the term three years. This facility is collateralized by accounts receivable and most of the remaining vessel fleet, bears interest at LIBOR plus 125-250 basis points depending on CDI leverage ratios and, among other restrictions, includes three financial covenants (cash flow leverage, minimum interest coverage and fixed charge coverage). As of February 18, 2002, the Company had drawn $22 million under this revolving credit facility. See project financing of *Gunnison* spar at footnote 10.

9. FEDERAL INCOME TAXES:

Federal income taxes have been provided based on the statutory rate of 35 percent adjusted for items which are allowed as deductions for federal income tax reporting purposes, but not for book purposes. The primary differences between the statutory rate and the Company's effective rate are as follows:

	2001	2000	1999
Statutory rate	35%	35%	35%
Research and development tax credits	(2)	(2)	(3)
Other	2	1	1
Effective rate	35%	34%	33%

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

	2001	2000	1999
Current	$ ---	$ ---	$ 4,167
Deferred	15,504	11,555	4,298
	$ 15,504	$ 11,555	$ 8,465

Deferred income taxes result from those transactions which affect financial and taxable income in different years. The nature of these transactions and the income tax effect of each as of December 31, 2001 and 2000, is as follows (in thousands):

	2001	2000
Deferred tax liabilities--		
Depreciation	$ 54,631	$ 38,272
Deferred tax assets--		
Reserves, accrued liabilities and other	(16,122)	(9,991)
Valuation allowance (R&D credit)	13,528	8,252
Net deferred tax liability	$ 52,037	$ 36,533

CDI effectively paid no federal income taxes in 2001 and 2000 due to the deduction of *Q4000* construction costs as research and development for federal tax purposes. The Company paid $1.8 million of federal taxes during 2000, but the amount was refunded in January 2001 upon completing our research and development analysis and filing for the refund. In addition, we filed amended tax returns for 1998 and 1999, deducting such costs, resulting in refunds of $8.2 million which were collected in January 2001. These amounts were reflected as Income Tax Receivable in the accompanying consolidated balance sheets as of December 31, 2000.

10. COMMITMENTS AND CONTINGENCIES:

Lease Commitments

During 1999, CDI acquired an interest in Cal Dive Aker CAHT I, LLC (CAHT I), the company which owned the *Cal Dive Aker Dove* (a newbuild DP anchor handling and subsea construction vessel which commenced operations in September 1999) for a total of $18.9 million. CDI effectively owned 56% of CAHT I and, accordingly, results of operations of this company were con-

solidated in the accompanying financial statements with Aker's share being reflected as minority interest. In December 1999, CAHT I entered into a sale-leaseback of the *Cal Dive Aker Dove*. Cal Dive's portion of the sale proceeds received totaled $20 million. The lease was accounted for as an operating lease. Effective April 1, 2001, Coflexip's acquisition of Aker enabled CDI to "put" its interest in CAHT I back to Aker in return for Aker assuming all of CDI's obligations and guarantees under the sale-leaseback.

In November 2001, ERT (with a corporate guarantee by CDI) entered into a five-year lease transaction with a special purpose entity owned by a third party to fund CDI's portion of the construction costs ($67 million) of the spar for the *Gunnison* field. This lease is expected to be accounted for as an operating lease upon completion of the construction, and includes an option for the Company to convert the lease into a long-term (20 year) leveraged lease after construction is completed. As of December 31, 2001, the special purpose entity had drawn down $5.6 million on this facility. Accrued interest cost on the outstanding balance is capitalized to the cost of the facility during construction and are payable monthly thereafter. The principal balance of $67 million is due at the end of five years if the long-term leverage lease option is not taken. The facility bears interest at LIBOR plus 225-300 basis points, depending on CDI leverage ratios and includes, among other restrictions, three financial covenants (cash flow leverage, minimum interest coverage and debt to total book capitalization). The Company was in compliance with these covenants as of December 31, 2001.

The Company occupies several facilities under noncancelable operating leases, with the more significant leases expiring in the years 2004 and 2007. Future minimum rentals under these leases are $2,380,000 at December 31, 2001 with $701,000 due in 2002, $669,000 in 2003, $605,000 in 2004, $135,000 in 2005, $135,000 in 2006 and $135,000 thereafter. Total rental expense under these operating leases was $779,000, $721,000 and $673,000 for the years ended December 31, 2001, 2000 and 1999, respectively.

In December 2001, CDI signed a letter of intent to form a 50-50 venture with El Paso Energy Partners to construct, install and own a Deepwater production hub platform and associated facilities primarily for Anadarko Petroleum Corporation's *Marco Polo* field discovery at Green Canyon 608 in the Gulf of Mexico. CDI's share of the construction costs is estimated to be $100 million. CDI, along with El Paso Energy Partners, is currently negotiating project financing for this venture, terms of which would include a 30% equity component for CDI.

Insurance
The Company carries Hull and Increased Value insurance which provides coverage for physical damage to an agreed amount for each vessel. The deductibles are based on the value of the vessel with a maximum deductible of $500,000 on the *Q4000*. Other vessels carry deductibles between $100,000 and $350,000. The Company also carries Protection and Indemnity insurance which covers liabilities arising from the operation of the vessel and General Liability insurance which covers liabilities arising from construction operations. The deductible on both the P&I and General Liability is $100,000 per occurrence. Onshore employees are covered by Workers' Compensation. Offshore employees, including divers and tenders and marine crews, are covered by an Excess Maritime Employers Liability insurance policy which covers Jones Act exposures and includes a deductible of $50,000 per occurrence. In excess of the liability policies named above, the Company carries various layers of Umbrella Liability for total limits of $135,000,000 excess of primary for all vessels except the *Q4000*. Total limits on the *Q4000* are $160,000,000 excess of primary. The Company's self insured retention on its medical and health benefits program for employees is $50,000 per claim.

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

The Company incurs workers' compensation claims in the normal course of business, which management believes are covered by insurance. The Company, its insurers and legal counsel analyze each claim for potential exposure and estimate the ultimate liability of each claim. Amounts accrued and receivable from insurance companies, above the applicable deductible limits, are reflected in other current assets in the consolidated balance sheet. Such amounts were $6,276,000 and $6,133,000 as of December 31, 2001 and 2000, respectively. See related accrued liabilities at footnote 7. The Company has not incurred any significant losses as a result of claims denied by its insurance carriers.

Litigation
The Company is involved in various routine legal proceedings primarily involving claims for personal injury under the General Maritime Laws of the United States and Jones Act as a result of alleged negligence. In addition, the Company from time to time incurs other claims, such as contract disputes, in the normal course of business. The Company believes that the outcome of all such proceedings would not have a material adverse effect on its consolidated financial position, results of operations or net cash flows.

In 1998, the Company entered into a subcontract with Seacore Marine Contractors Limited to provide the *Sea Sorceress* for subsea excavation in Canada. Seacore was in turn contracted by Coflexip Stena Offshore Newfoundland Limited, a subsidiary of

Coflexip ("CSO Nfl"), as representative of the consortium of companies contracted to perform services on the project. Due to difficulties with respect to the sea states and soil conditions the contract was terminated. Cal Dive provided Seacore a performance bond of $5 million with respect to the subcontract. No call has been made on this bond. Although CSO Nfl has alleged that the *Sea Sorceress* was unable to adequately perform the excavation work required under the subcontract, Seacore and the Company believe the contract was wrongfully terminated and are vigorously defending this claim and seeking damages in arbitration. In another commercial dispute, EEX Corporation sued Cal Dive and others alleging breach of fiduciary duty by a former EEX employee and damages resulting from certain construction and property acquisition agreements. Cal Dive has responded alleging EEX Corporation breached various provisions of the same contracts and is seeking a declaratory judgment that the defendants are not liable. Although such litigation has the potential of significant liability, the Company believes that the outcome of all such proceedings is not likely to have a material adverse effect on its consolidated financial position, results of operations or net cash flows.

11. EMPLOYEE BENEFIT PLANS:

Defined Contribution Plan

The Company sponsors a defined contribution 401(k) retirement plan covering substantially all of its employees. The Company's contributions are in the form of cash and are determined annually as 50 percent of each employee's contribution up to 5 percent of the employee's salary. The Company's costs related to this plan totaled $595,000, $423,000 and $375,000 for the years ended December 31, 2001, 2000 and 1999, respectively.

Stock-Based Compensation Plans

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

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

Effective May 12, 1998, the Company adopted a qualified, noncompensatory Employee Stock Purchase Plan ("ESPP"), which allows employees to acquire shares of common stock through payroll deductions over a six month period. The purchase price is equal to 85 percent of the fair market value of the common stock on either the first or last day of the subscription period, whichever is lower. Purchases under the plan are limited to 10 percent of an employee's base salary. Under this plan 38,849, 25,391 and 22,476 shares of common stock were purchased in the open market at a weighted average share price of $22.22, $21.55 and $12.19 during 2001, 2000 and 1999, respectively.

The above plans are accounted for using APB Opinion No. 25, and therefore no compensation expense is recorded. If SFAS Statement No. 123 had been used for the accounting of these plans, the Company's pro forma net income for 2001, 2000 and 1999 would have been $25,879,000, $21,665,000 and $16,218,000, respectively, and the Company's pro forma diluted earnings per share would have been $0.79, $0.67 and $0.53, respectively. These pro forma results exclude consideration of options granted prior to January 1, 1995, and therefore may not be representative of that to be expected in future years.

The fair value of each option grant is estimated on the date of grant using the Black-Scholes option pricing model with the following weighted average assumptions used: expected dividend yields of 0 percent; expected lives ranging from three to ten years, risk-free interest rate assumed to be 5.5 percent in 1999, 5.0 percent in 2000 and 4.5 percent in 2001, and expected volatility to be 59 percent in 1999, 62 percent in 2000 and 61 percent in 2001. The fair value of shares issued under the ESPP was based on the 15% discount received by the employees.

All of the options outstanding at December 31, 2001, have exercise prices as follows: 97,554 shares at $3.95, 579,000 at $4.75, 108,520 shares at $10.28, 211,668 shares at $18.00, 119,508 shares at $18.06, 129,000 shares at $19.63, 297,000 shares at $21.88 and 636,996 shares ranging from $6.50 to $26.75 and a weighted average remaining contractual life of 3.98 years.

Options granted in 1999 include 287,278 shares issued in connection with the August 1, 1999 acquisition of Aquatica, Inc., which provided for conversion of Aquatica employee stock options into Cal Dive stock options at the same ratio which Aquatica common shares were converted into Cal Dive common shares. Options outstanding are as follows:

	2001		2000		1999	
	SHARES	WEIGHTED AVERAGE EXERCISE PRICE	SHARES	WEIGHTED AVERAGE EXERCISE PRICE	SHARES	WEIGHTED AVERAGE EXERCISE PRICE
Options outstanding, beginning of year	2,238,600	$ 11.34	1,957,208	$ 5.59	2,089,200	$ 4.70
Granted	589,000	21.84	810,420	19.26	477,938	6.04
Exercised	(354,838)	9.43	(484,344)	4.24	(585,930)	3.42
Terminated	(293,516)	15.69	(44,684)	4.10	(24,000)	2.25
Options outstanding, December 31	2,179,246	$ 13.66	2,238,600	$ 11.34	1,957,208	$ 5.59
Options exercisable, December 31	732,787	$ 8.97	518,308	$ 7.10	495,488	$ 4.30

12. COMMON STOCK:

The Company's amended and restated Articles of Incorporation provide for authorized Common Stock of 120,000,000 shares with no par value per share.

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

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

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

13. BUSINESS SEGMENT INFORMATION (IN THOUSANDS):

The following summarizes certain financial data by business segment:

	YEAR ENDED DECEMBER 31, 2001	2000	1999
Revenues --			
Subsea and salvage	$ 163,740	$ 110,217	$ 128,435
Natural gas and oil production	63,401	70,797	32,519
Total	$ 227,141	$ 181,014	$ 160,954
Income from operations --			
Subsea and salvage	$ 21,705	$ 2,368	$ 15,817
Natural gas and oil production	23,881	32,201	8,207
Total	$ 45,586	$ 34,569	$ 24,024
Net interest (income) expense and other --			
Subsea and salvage	$ 739	$ (63)	$ (264)
Natural gas and oil production	551	617	(585)
Total	$ 1,290	$ 554	$ (849)
Provision for income taxes --			
Subsea and salvage	$ 7,145	$ 436	$ 5,431
Natural gas and oil production	8,359	11,119	3,034
Total	$ 15,504	$ 11,555	$ 8,465
Identifiable assets --			
Subsea and salvage	$ 436,085	$ 301,416	$ 197,570
Natural gas and oil production	37,037	46,072	46,152
Total	$ 473,122	$ 347,488	$ 243,722
Capital expenditures --			
Subsea and salvage	$ 131,062	$ 82,697	$ 60,662
Natural gas and oil production	20,199	12,427	16,785
Total	$ 151,261	$ 95,124	$ 77,447
Depreciation and amortization --			
Subsea and salvage	$ 14,586	$ 11,621	$ 9,459
Natural gas and oil production	19,947	19,109	11,156
Total	$ 34,533	$ 30,730	$ 20,615

14. SUPPLEMENTAL OIL AND GAS DISCLOSURES (UNAUDITED):

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

Capitalized Costs

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

	AS OF DECEMBER 31,		
	2001	**2000**	**1999**
Gunnison capitalized costs	$ 10,177	$ ---	$ ---
Proved developed properties being amortized	72,157	60,679	49,037
Less -- Accumulated depletion, depreciation and amortization	(54,482)	(35,835)	(19,530)
Net capitalized costs	$ 27,852	$ 24,844	$ 29,507

Included in capitalized costs of proved developed properties being amortized is the Company's estimate of its proportionate share of decommissioning liabilities assumed relating to these properties. As of December 31, 2001 and 2000, such liabilities totaled $29.3 million and $27.5 million, respectively, and are also reflected as decommissioning liabilities in the accompanying consolidated balance sheets.

Costs Incurred in Oil and Gas Producing Activities

The following table reflects the costs incurred in oil and gas property acquisition and development activities during the years indicated:

	YEAR ENDED DECEMBER 31,		
	2001	**2000**	**1999**
Proved property acquisition costs	$ 4,350	$ 7,635	$ 22,610
Development costs	18,247	8,160	5,002
Total costs incurred	$ 22,597	$ 15,795	$ 27,612

Results of Operations For Oil and Gas Producing Activities

	YEAR ENDED DECEMBER 31,		
	2001	**2000**	**1999**
Revenues	$ 63,401	$ 70,797	$ 32,519
Production (lifting) costs	13,236	12,432	9,433
Depreciation, depletion and amortization	19,947	19,109	11,156
Pretax income from producing activities	30,218	39,256	11,930
Income tax expenses	8,359	11,119	3,034
Results of oil and gas producing activities	$ 21,859	$ 28,137	$ 8,896

Estimated Quantities of Proved Oil and Gas Reserves

Proved developed oil and gas reserve quantities are based on estimates prepared by Company engineers in accordance with guidelines established by the Securities and Exchange Commission. The Company's estimates of reserves at December 31, 2001, excluding *Gunnison*, have been reviewed by Miller and Lents, Ltd., independent petroleum engineers. Reserves attributable to *Gunnison* rely on the operator's estimate of proved reserves. The Company does not own a license to the geophysical data necessary for assessment of reserves and therefore, must rely on the operator's estimate of proved reserves. All of the Company's reserves are located in the United States. Proved reserves cannot be measured exactly because the estimation of reserves involves numerous judgmental determinations. Accordingly, reserve estimates must be continually revised as a result of new information obtained from drilling and production history, new geological and geophysical data and changes in economic conditions.

As of December 31, 1999, 337,500 Bbls. of oil and 284,800 Mcf. of gas were undeveloped. As of December 31, 2000, -0- Bbls. of oil and -0- Mcf. of gas of the Company's proven reserves were undeveloped. As of December 31, 2001, 6,829,000 Bbls. of oil and 35,525,000 Mcf. of gas were undeveloped, all of which is attributable to *Gunnison*.

RESERVE QUANTITY INFORMATION	OIL (MBbls.)	GAS (MMcf.)
Total proved reserves at December 31, 1998	70	22,434
Revisions of previous estimates	1,091	(2,392)
Production	(339)	(6,819)
Purchases of reserves in place	888	17,218
Sales of reserves in place	(8)	(5,060)
Total proved reserves at December 31, 1999	1,702	25,381
Revisions of previous estimates	24	3,024
Production	(739)	(14,959)
Purchases of reserves in place	99	9,416
Sales of reserves in place	(5)	(1,151)
Total proved reserves at December 31, 2000	1,081	21,711
Revision of previous estimates	623	4,479
Production	(743)	(9,473)
Purchases of reserves in place	53	1,644
Sales of reserves in place	---	(22)
Extensions and discoveries	6,844	35,597
Total proved reserves at December 31, 2001	7,858	53,936

Standardized Measure of Discounted Future Net Cash Flows Relating to Proved Oil and Gas Reserves

The following table reflects the standardized measure of discounted future net cash flows relating to the Company's interest in proved oil and gas reserves as of December 31:

	2001	2000	1999
Future cash inflows	$ 261,613	$ 219,620	$ 101,686
Future costs --			
Production	(46,031)	(42,608)	(30,550)
Development and abandonment	(147,885)	(27,690)	(30,303)
Future net cash flows before income taxes	67,697	149,322	40,833
Future income taxes	(24,223)	(57,018)	(16,191)
Future net cash flows	43,474	92,304	24,642
Discount at 10% annual rate	(22,029)	(14,591)	(1,799)
Standardized measure of discounted future net cash flows	$ 21,445	$ 77,713	$ 22,843

Changes in Standardized Measure of Discounted Future Net Cash Flows

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

	2001	2000	1999
Standardized measure, beginning of year	$ 77,713	$ 22,843	$ 10,156
Sales, net of production costs	(50,165)	(57,720)	(23,086)
Net change in prices, net of production costs	(68,811)	87,427	15,968
Changes in future development costs	(2,421)	(3,695)	(1,227)
Development costs incurred	18,247	8,160	5,002
Accretion of discount	3,013	3,785	1,537
Net change in income taxes	30,192	(32,996)	(9,776)
Purchases of reserves in place	433	48,229	31,309
Extensions and discoveries	16,612	---	---
Sales of reserves in place	20	2,021	(14,456)
Net change due to revision in quantity estimates	1,604	20,084	7,591
Changes in production rates (timing) and other	(4,992)	(20,425)	(175)
Standardized measure, end of year	$ 21,445	$ 77,713	$ 22,843

15. REVENUE ALLOWANCE ON GROSS AMOUNTS BILLED:

The following table sets forth the activity in the Company's Revenue Allowance on Gross Amounts Billed for each of the three years in the period ended December 31, 2001 (in thousands):

	2001	2000	1999
Beginning balance	$ 1,770	$ 1,789	$ 1,335
Additions	6,875	4,535	1,923
Deductions	(4,383)	(4,554)	(1,469)
Ending balance	$ 4,262	$ 1,770	$ 1,789

See Note 2 for a detailed discussion regarding the Company's accounting policy on the Revenue Allowance on Gross Amounts Billed. Approximately $1.8 million of such reserves at December 31, 2001 are related to the Enron Corporation bankruptcy.

16. QUARTERLY FINANCIAL INFORMATION (UNAUDITED):

The offshore marine construction industry in the Gulf of Mexico is highly seasonal as a result of weather conditions and the timing of capital expenditures by the oil and gas companies. Historically, a substantial portion of the Company's services has been performed during the summer and fall months. As a result, historically a disproportionate portion of the Company's revenues and net income is earned during such period. The following is a summary of consolidated quarterly financial information for 2001 and 2000.

	QUARTER ENDED			
	March 31	June 30	September 30	December 31
	(in thousands, except per share amounts)			
Fiscal 2001				
Revenues	$ 58,482	$ 48,786	$ 51,570	$ 68,303
Gross profit	22,258	16,914	13,207	14,532
Net income	10,774	7,546	5,244	5,368
Net income per share:				
Basic	0.33	0.23	0.16	0.17
Diluted	0.33	0.23	0.16	0.16
Fiscal 2000				
Revenues	$ 40,109	$ 39,901	$ 49,707	$ 51,297
Gross profit	8,397	10,418	17,186	19,368
Net income	3,214	3,660	7,686	8,766
Net income per share:				
Basic	0.10	0.12	0.24	0.27
Diluted	0.10	0.11	0.24	0.27

17. SUBSEQUENT EVENTS:

Canyon Offshore, Inc. Acquisition

In January 2002, CDI acquired approximately 85% of Canyon Offshore, Inc. (Canyon), a supplier of remotely operated vehicles (ROVs) and robotics to the offshore construction and telecommunications industries, in exchange for cash of $51 million, the assumption of $5 million of Canyon net debt and 181,000 shares of CDI common stock (143,000 shares of which were purchased by the Company during the fourth quarter of 2001). Cal Dive will purchase the remaining 15% at a price to be determined by Canyon's performance during the years 2002 through 2004, a portion of which could be compensation expense. The total purchase price is estimated to range from $66 million to $74 million. The acquisition will be accounted for as a purchase with the acquisition price being allocated to the assets acquired and liabilities assumed based upon their estimated fair values, with the excess being recorded as goodwill, which is initially estimated at approximately $40 million.

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

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

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

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

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

ARTHUR ANDERSEN LLP

Houston, Texas
February 18, 2002

CORPORATE DIRECTORY

BOARD OF DIRECTORS

Gordon F. Ahalt, 74
Independent Consultant

Bernard J. Duroc-Danner, 48
Chairman & Chief Executive Officer
Weatherford International, Inc.

Martin R. Ferron, 45
President & Chief Operating Officer
Cal Dive International, Inc.

Owen E. Kratz, 47
Chairman & Chief Executive Officer
Cal Dive International, Inc.

S. James Nelson, Jr., 59
Vice Chairman
Cal Dive International, Inc.

William L. Transier, 47
Executive Vice President &
Chief Financial Officer
Ocean Energy, Inc.

EXECUTIVE OFFICERS

Owen E. Kratz, 47
Chairman & Chief Executive Officer

Martin R. Ferron, 45
President & Chief Operating Officer

S. James Nelson, Jr., 59
Vice Chairman

Michael V. Ambrose, 55
Senior Vice President -
Deepwater Contracting

Andrew C. Becher, 56
Senior Vice President &
General Counsel

A. Wade Pursell, 37
Senior Vice President &
Chief Financial Officer

CORPORATE OFFICERS

Wayne J. Bywater, 47
Vice President - Deepwater Sales
& Marketing

A. Mark McWatters, 42
Vice President - Project Support Services

Scott T. Naughton, 47
Vice President - Shelf Contracting

J. Wayne Seelbach, 50
Vice President - Environment,
Health & Safety

Stephanie L. Vrshek, 28
Corporate Controller

James Lewis Connor, III, 44
Deputy General Counsel

SUBSIDIARY OFFICERS

Steve Brazda, 51
President
Aquatica, Inc.

John S. Edwards, 45
Co-President & Chief
Operating Officer
Canyon Offshore, Inc.

Martin O'Carroll, 43
Co-President & Chief
Financial Officer
Canyon Offshore, Inc.

Johnny E. Edwards, 48
President
Energy Resource Technology, Inc.

CORPORATE LOCATIONS

CORPORATE HEADQUARTERS
Houston
400 N. Sam Houston Parkway E.
Suite 400 • Houston, TX 77060
Office: 281-618-0400
Fax: 281-618-0500

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

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

CANYON OFFSHORE, INC.
Houston
5212 Brittmoore Road
Houston, TX 77041
Office: 713-856-6010
Fax: 713-856-6020

SHAREHOLDER INFORMATION

COMMON STOCK LISTING

Nasdaq National Market • Symbol: CDIS

ANNUAL MEETING

Stockholders are invited to attend CDI's Annual Shareholder Meeting on Wednesday, May 15 at 11:00 a.m. Central Daylight Time at the Hotel Sofitel, 425 N. Sam Houston Pkwy. E., Houston, Texas.

STOCK HELD IN "STREET NAME"

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

INVESTOR RELATIONS

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

STOCK TRANSFER AGENT

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

CORPORATE COUNSEL

Fulbright & Jaworski LLP • Houston, TX

WEBSITE

http://www.caldive.com
Our website includes a profile of your company, the services we offer and a complete and exciting review of each of our vessels, including an animation of the unique features of the *Q4000*. The Investors Relations section enables you to access the most recent quarterly and annual reports as soon as they are issued. All shareholders are invited to participate in the quarterly conference calls with analysts. Simply click on "Live Webcast" in the Investor Relations module to listen; replays of the conference calls are also available by clicking on Audio Archives.

FORM 10-K

The information, including financial statements and footnotes thereto, included in this Annual Report to Shareholders should be read in conjunction with the company's annual report on Form 10-K for the year ended December 31, 2001, which report is incorporated herein by reference. This Annual Report and related Form 10-K are both provided to shareholders in connection with the company's Annual Meeting. Shareholders interested in obtaining, without cost, a printed copy of the Form 10-K filed with the Securities and Exchange Commission may do so by writing to Andrew C. Becher, General Counsel, at the corporate headquarters in Houston. The Form 10-K can also be accessed and downloaded from our website.

This Annual Report includes certain statements that may be deemed "forward looking statements" under applicable law. Forward looking statements are not statements of historical fact and such statements are not guarantees of future performance or events and involve risks and assumptions that could cause actual results to vary materially from those predicted, including among other things, unexpected delays and operational issues associated with turnkey projects, the price of crude oil and natural gas, weather conditions in offshore markets, change in site conditions, and capital expenditures by customers. The company strongly encourages readers to note that some or all of the assumptions upon which such forward looking statements are based are beyond the company's ability to control or estimate precisely and may in some cases be subject to rapid and material change.

The New Generation Energy Services Company

www.caldive.com