

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, DC 20549

FORM 10-Q

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

for the quarterly period ended September 30, 1999

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number: 0-22739

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

Minnesota 95-3409686  
(State or Other Jurisdiction of (IRS Employer Identification  
Incorporation or Organization) Number)

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

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

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

Yes  No

At November 15, 1999 there were 15,485,323 shares of common stock, no par value outstanding.

CAL DIVE INTERNATIONAL, INC.  
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PART I. FINANCIAL STATEMENTS

Item 1. Financial Statements

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

|   | SEPT. 30,<br>1999    | DEC. 31,<br>1998 |
|---|----------------------|------------------|
|   | -----<br>(unaudited) | -----            |
| ASSETS                                      |                      |                  |
| CURRENT ASSETS:                             |                      |                  |
| Cash and cash equivalents .....             | \$ 9,325             | \$ 32,380        |
| Restricted Cash .....                       | 7,552                | 463              |
| Accounts receivable --                      |                      |                  |
| Trade, net of revenue allowance on gross    |                      |                  |
| amounts billed of \$2,180 and \$1,335 ..... | 33,830               | 20,350           |
| Unbilled .....                              | 11,951               | 10,703           |
| Other current assets .....                  | 12,659               | 9,190            |
|   | -----                | -----            |
| Total current assets .....                  | 75,317               | 73,086           |
|   | -----                | -----            |
| PROPERTY AND EQUIPMENT .....                | 174,904              | 107,421          |
| Less - Accumulated depreciation .....       | (41,436)             | (28,262)         |
|   | -----                | -----            |
|   | 133,468              | 79,159           |
|   | -----                | -----            |
| OTHER ASSETS:                               |                      |                  |
| Cash deposits restricted for salvage        |                      |                  |
| operations .....                            | 2,539                | 2,408            |
| Investment in Aquatica, Inc. ....           | 0                    | 7,656            |
| Goodwill .....                              | 13,941               | 0                |
| Other assets, net .....                     | 4,802                | 1,926            |
|   | -----                | -----            |
|   | \$ 230,067           | \$ 164,235       |
|   | =====                | =====            |
| LIABILITIES AND SHAREHOLDERS' EQUITY        |                      |                  |
| CURRENT LIABILITIES:                        |                      |                  |
| Accounts payable .....                      | \$ 26,019            | \$ 15,949        |
| Accrued liabilities .....                   | 9,632                | 10,020           |
| Income taxes payable .....                  | 3,050                | 1,201            |
|   | -----                | -----            |
| Total current liabilities .....             | 38,701               | 27,170           |
| LONG-TERM DEBT .....                        | 0                    | 0                |
| DEFERRED INCOME TAXES .....                 | 16,162               | 13,539           |
| DECOMMISSIONING LIABILITIES .....           | 28,420               | 9,883            |
| MINORITY INTEREST .....                     | 147                  | 0                |
| COMMITMENTS AND CONTINGENCIES               |                      |                  |
| SHAREHOLDERS' EQUITY:                       |                      |                  |
| Common stock, no par, 60,000 shares         |                      |                  |
| authorized, 22,297 and 21,402 shares issued |                      |                  |
| and outstanding .....                       | 72,230               | 52,981           |
| Retained earnings .....                     | 78,158               | 64,413           |
| Treasury stock, 6,821 shares, at cost ..... | (3,751)              | (3,751)          |
|   | -----                | -----            |
| Total shareholders' equity .....            | 146,637              | 113,643          |
|   | -----                | -----            |
|   | \$ 230,067           | \$ 164,235       |
|   | =====                | =====            |

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

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CAL DIVE INTERNATIONAL, INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF OPERATIONS  
(IN THOUSANDS, EXCEPT PER SHARE DATA)

|   | THREE MONTHS ENDED SEPT. 30, |             |
|---|------------------------------|-------------|
|   | 1999                         | 1998        |
|   | -----                        | -----       |
|   |                              | (UNAUDITED) |
| NET REVENUES:                                   |                              |             |
| Subsea and salvage .....                        | \$ 42,861                    | \$ 40,782   |
| Natural gas and oil production .....            | 15,609                       | 2,131       |
|   | -----                        | -----       |
|   | 58,470                       | 42,913      |
| COST OF SALES:                                  |                              |             |
| Subsea and salvage .....                        | 31,781                       | 25,758      |
| Natural gas and oil production .....            | 8,734                        | 2,039       |
|   | -----                        | -----       |
| Gross profit .....                              | 17,955                       | 15,116      |
|   | -----                        | -----       |
| SELLING AND ADMINISTRATIVE EXPENSES:            |                              |             |
| Selling expenses .....                          | 273                          | 293         |
| Administrative expenses .....                   | 3,810                        | 4,121       |
|   | -----                        | -----       |
| Total selling and administrative expenses ..... | 4,083                        | 4,414       |
|   | -----                        | -----       |
| INCOME FROM OPERATIONS .....                    | 13,872                       | 10,702      |
| OTHER INCOME AND EXPENSE:                       |                              |             |
| Equity in earnings of Aquatica, Inc. ....       | 150                          | 700         |
| Net interest (income) and other .....           | (78)                         | (253)       |
|   | -----                        | -----       |
| INCOME BEFORE INCOME TAXES .....                | 14,100                       | 11,655      |
| Provision for income taxes .....                | 4,936                        | 4,078       |
| Minority interest .....                         | 147                          | 0           |
|   | -----                        | -----       |
| NET INCOME .....                                | \$ 9,017                     | \$ 7,577    |
|   | =====                        | =====       |
| EARNINGS PER COMMON SHARE:                      |                              |             |
| Basic .....                                     | \$ 0.59                      | \$ 0.52     |
| Diluted .....                                   | \$ 0.58                      | \$ 0.51     |
|   | =====                        | =====       |
| WEIGHTED AVERAGE COMMON SHARES OUTSTANDING      |                              |             |
| Basic .....                                     | 15,215                       | 14,553      |
| Diluted .....                                   | 15,641                       | 14,985      |
|   | =====                        | =====       |

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

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CAL DIVE INTERNATIONAL, INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF OPERATIONS  
(IN THOUSANDS, EXCEPT PER SHARE DATA)

NINE MONTHS ENDED SEPT. 30,

|   | -----<br>1999<br>----- | 1998<br>-----<br>----- |
|---|------------------------|------------------------|
|   | (unaudited)            |                        |
| NET REVENUES:                                   |                        |                        |
| Subsea and salvage .....                        | \$ 95,678              | \$ 105,351             |
| Natural gas and oil production .....            | 22,902                 | 9,245                  |
|   | -----                  | -----                  |
|   | 118,580                | 114,596                |
| COST OF SALES:                                  |                        |                        |
| Subsea and salvage .....                        | 74,940                 | 70,150                 |
| Natural gas and oil production .....            | 14,704                 | 6,632                  |
|   | -----                  | -----                  |
| Gross profit .....                              | 28,936                 | 37,814                 |
|   | -----                  | -----                  |
| SELLING AND ADMINISTRATIVE EXPENSES:            |                        |                        |
| Selling expenses .....                          | 911                    | 937                    |
| Administrative expenses .....                   | 8,200                  | 10,014                 |
|   | -----                  | -----                  |
| Total selling and administrative expenses ..... | 9,111                  | 10,951                 |
|   | -----                  | -----                  |
| INCOME FROM OPERATIONS .....                    | 19,825                 | 26,863                 |
| OTHER INCOME AND EXPENSE:                       |                        |                        |
| Equity in earnings of Aquatica, Inc. ....       | 600                    | 1,333                  |
| Net interest (income) and other .....           | (948)                  | (687)                  |
|   | -----                  | -----                  |
| INCOME BEFORE INCOME TAXES .....                | 21,373                 | 28,883                 |
| Provision for income taxes .....                | 7,481                  | 10,109                 |
| Minority interest .....                         | 147                    | 0                      |
|   | -----                  | -----                  |
| NET INCOME .....                                | \$ 13,745              | \$ 18,774              |
|   | =====                  | =====                  |
| EARNINGS PER COMMON SHARE:                      |                        |                        |
| Basic .....                                     | \$ 0.93                | \$ 1.29                |
| Diluted .....                                   | \$ 0.90                | \$ 1.25                |
|   | =====                  | =====                  |
| WEIGHTED AVERAGE COMMON SHARES OUTSTANDING:     |                        |                        |
| Basic .....                                     | 14,841                 | 14,544                 |
| Diluted .....                                   | 15,211                 | 14,977                 |
|   | =====                  | =====                  |

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

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

|  | NINE MONTHS ENDED SEPT. 30,<br>-----<br>----- |           |
|--|---|-----------|
|  | 1999  | 1998      |
|  | -----<br>(unaudited)                          |           |
| CASH FLOWS FROM OPERATING ACTIVITIES:  |   |           |
| Net income .....   | \$ 13,745                                     | \$ 18,774 |
| Adjustments to reconcile net income to net cash<br>provided by operating activities -- |   |           |
| Depreciation and amortization .....  | 15,519  | 6,389     |
| Deferred income taxes .....  | 1,924   | 1,200     |
| Gain on sale of property .....   | (7,354)                                       | 0         |
| Equity in earnings of Aquatica, Inc. ....  | (600)   | (1,333)   |
| Minority interest in earnings .....  | 147   | 0         |
| Changes in operating assets and liabilities:   |   |           |

|  |          |           |
|--|----------|-----------|
| Accounts receivable, net .....                               | (11,904) | (3,637)   |
| Other current assets .....                                   | (2,801)  | (4,954)   |
| Accounts payable and accrued liabilities .....               | 9,879    | 3,290     |
| Income taxes payable/receivable .....                        | 3,823    | 5,033     |
| Other non-current, net .....                                 | (5,226)  | (876)     |
|  | -----    | -----     |
| Net cash provided by operating activities .....              | 17,152   | 23,886    |
|  | -----    | -----     |
| CASH FLOWS FROM INVESTING ACTIVITIES:                        |          |           |
| Capital expenditures .....                                   | (51,474) | (12,232)  |
| Prepayment of lease abandonment costs .....                  | 7,750    | 0         |
| Cash received in acquisition, net .....                      | 418      | 0         |
| Proceeds from sale of properties .....                       | 7,702    | 0         |
| Investment in Aquatica, Inc. ....                            | 0        | (5,023)   |
| Purchase of deposits restricted for salvage operations ..... | (131)    | 0         |
| Changes in restricted funds .....                            | (7,089)  | 0         |
|  | -----    | -----     |
| Net cash used in investing activities .....                  | (42,824) | (17,255)  |
|  | -----    | -----     |
| CASH FLOWS FROM FINANCING ACTIVITIES:                        |          |           |
| Borrowings under term loan facility .....                    | 0        | 0         |
| Exercise of stock options .....                              | 2,617    | 108       |
|  | -----    | -----     |
| Net cash provided by financing activities .....              | 2,617    | 108       |
|  | -----    | -----     |
| NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS .....   | (23,055) | 6,739     |
| CASH AND CASH EQUIVALENTS:                                   |          |           |
| Balance, beginning of period .....                           | 32,380   | 13,025    |
|  | -----    | -----     |
| Balance, end of period .....                                 | \$ 9,325 | \$ 19,764 |
|  | =====    | =====     |

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

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

NOTE 1 - BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES

The accompanying financial statements include the accounts of Cal Dive International, Inc. (Cal Dive or the Company) and its subsidiaries, Energy Resource Technology, Inc. (ERT), Aquatica, Inc., Cal Dive Aker CAHT I, LLC and Cal Dive Offshore, Ltd. All significant intercompany accounts and transactions have been eliminated. These financial statements are unaudited and have been prepared pursuant to instructions for the Quarterly Report on Form 10-Q required to be filed with the Securities and Exchange Commission and do not include all information and footnotes normally included in financial statements prepared in accordance with generally accepted accounting principles.

Management has reflected all adjustments (which were normal recurring adjustments) which it believes are necessary for a fair presentation of the consolidated balance sheets, results of operations, and cash flows, as applicable. Operating results for the periods ended September 30, 1999, are not necessarily indicative of the results that may be expected for the year ending December 31, 1999. These financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in the Company's Annual Report on Form 10-K.

NOTE 2 - OFFSHORE PROPERTY TRANSACTIONS

During the first quarter, ERT acquired interests in ten blocks involving seven separate fields from Sonat Exploration Company, five offshore blocks from Shell Offshore, Inc. and two blocks from Vastar Resources, Inc. in exchange for cash consideration, as well as assumption of the pro rata share of the related decommissioning liabilities. In the second quarter, ERT acquired interests in

two fields from Spirit Energy and one from Newfield, along with the acquisition of additional interest in a currently owned ERT property from Samedan, in exchange for cash consideration, as well as assumption of the seller's pro rata share of the related decommissioning liability. Decommissioning obligations of \$19.5 million were assumed in these six transactions.

During the third quarter, ERT substantially completed its 1999 Well Exploitation Program, which included five rig recompletions and which led to the sale of its interest in two offshore blocks. It is an operating policy that ERT will sell assets (offshore leases, platforms, compressors, etc.) when the expected future revenue stream can be accelerated in a single transaction. Since inception ERT has acquired interests in 41 offshore leases, sold six (two in 1997 and two in 1998), and taken one field full cycle to decommissioning. The well exploitation work completed during the third quarter also enabled ERT to assess and write down the carrying value of three ERT fields, including one where a third party vendor damaged the reservoir formation. The net result of the sale and the 1999 Well Exploitation Program was to add approximately ten cents to third quarter diluted earnings per share.

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NOTE 3 - BUSINESS SEGMENT INFORMATION (IN THOUSANDS)

|                                      | SEPT. 30, 1999 | DECEMBER 31, 1998 |
|--------------------------------------|----------------|-------------------|
|                                      | -----          | -----             |
|                                      | (UNAUDITED)    |                   |
| Identifiable Assets --               |                |                   |
| Subsea and Salvage .....             | \$179,949      | \$142,629         |
| Natural Gas and Oil Production ..... | 50,118         | 21,606            |
|                                      | -----          | -----             |
| Total .....                          | \$230,067      | \$164,235         |
|                                      | -----          | -----             |

NOTE 4 - ACQUISITION OF DP VESSEL

In June 1999, CDI acquired Hvide Marine's interest in Cal Dive Aker CAHT I, LLC, the Company which owns the CAL DIVE AKER DOVE (a newbuild DP anchor handling and subsea construction vessel) for \$15.6 million. CDI is also committed to fund up to (and not to exceed) an additional \$3.3 million for the completion of the construction of the vessel. During the third quarter CDI funded \$2.4 million of such commitment. Results of operations of this company are consolidated in the accompanying financial statements with Aker's share being reflected as minority interest.

NOTE 5 - ACQUISITION OF AQUATICA, INC.

In February 1998, CDI purchased a significant minority equity interest in Aquatica, Inc., a surface 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 at a ratio based on a formula which, among other things, values their shares of Aquatica, Inc. and must be accretive to Cal Dive shareholders. Effective August 1, 1999, 696,000 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 in the third quarter with the purchase 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) and is being amortized over twenty-five years on a straight-line basis. Results of operations for Aquatica, Inc. are consolidated with Cal Dive's results for periods subsequent to August 1, 1999.

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

## FORWARD LOOKING STATEMENTS AND ASSUMPTIONS

This Quarterly Report on Form 10-Q may contain or incorporate by reference certain forward-looking statements, including by way of illustration and not of limitation, statements relating to liquidity, margins, the Company's business strategy, plans for future operations, and the industry conditions. The Company strongly encourages readers to note that some or all of the assumptions, upon which such forward-looking statements are based, are beyond the Company's ability to control or estimate precisely, and may in some cases be subject to rapid and material changes. Accordingly, evaluation of future prospects of the Company must be made with caution when relying on forward-looking information.

## RESULTS OF OPERATIONS

### COMPARISON OF THREE MONTHS ENDED SEPTEMBER 30, 1999 AND 1998

REVENUES. During the three months ended September 30, 1999, the Company's revenues increased 36% to \$58.5 million compared to \$42.9 million for the three months ended September 30, 1998 due principally to the natural gas and oil production segment and improved salvage operations. In addition, approximately \$3.9 million of revenue was generated by new assets in 1999: the August 1 acquisition of the 55% of Aquatica not previously owned and the DP vessel CAL DIVE AKER DOVE which commenced operations in September 1999.

Natural gas and oil production revenue for the three months ended September 30, 1999 increased 632% to \$15.6 million from \$2.1 million during the comparable prior year period. Production increased 140% during the third quarter of 1999 compared to the same period of 1998 due to the acquisition of 20 offshore blocks during the first four months of 1999 and an intense well exploitation program. Also contributing to the increase in revenue was an increase in natural gas prices which averaged \$2.62/mcf during the three months ended September 30, 1999 as compared to \$1.99/mcf for the three months ended September 30, 1998. Finally, during the third quarter of 1999 CDI completed the sale of its interest in two offshore blocks pursuant to our policy of selling assets when the expected future revenue stream can be accelerated in a single transaction.

GROSS PROFIT. Gross profit of \$18.0 million for the third quarter of 1999 represents a 19% increase compared to the \$15.1 million recorded in the comparable prior year period. The natural gas and oil production segment generated a \$6.8 million increase due mainly to the improved pricing and production (including the sale of interests in two blocks) as discussed above offsetting a \$3.9 million decline in the subsea and salvage segment due mainly to much stronger demand for offshore construction services during last year's third quarter compared to this year. This negative variance for subsea and salvage was minimized by two unique, deepwater projects during the quarter in which CDI functioned as prime contractor. The Uncle John performed

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installation tasks in 4,800 feet of water at Exxon Diana which had never been performed from a construction vessel. In addition, CDI commenced the Cooper field abandonment, the first ever deepwater subsea decommissioning project in the Gulf of Mexico. Margins of 26% for subsea and salvage (vs. 37% during the third quarter 1998) reflect in part the competitive market and the high volume of third party "pass through" costs associated with the increased mix of work as prime contractor.

Natural gas and oil production gross profit increased from \$92,000 in the third quarter of 1998 to \$6.9 million for the three months ended September 30, 1999, due to the aforementioned reasons. The sale of interests in two blocks during quarter and the well exploitation work completed during the quarter enabled management to assess and reduce the carrying value of three ERT fields. The net result of the sale and the 1999 Well Exploitation Program was to add approximately \$3.1 million to gross profit.

SELLING & ADMINISTRATIVE EXPENSES. Selling and administrative expenses were \$4.1 million in the third quarter of 1999, which is 7% less than the \$4.4 million incurred in the third quarter of 1998 due mainly to lower labor costs in Subsea and salvage. This was partially offset by ERT administrative costs

increasing \$1.4 million as we added personnel to handle a three fold increase in the number of wells operated by ERT and there has been a significant increase in accrued incentive compensation. Finally, consolidating two months of Aquatica operations added \$500,000 of overhead. Administrative costs represented 7% of revenues in the third quarter compared to 10% in the same period of 1998 due to lower personnel costs and improvements to our supply chain management system.

NET INTEREST. The Company reported net interest income and other of \$78,000 for the three months ended September 30, 1999 in contrast to \$253,000 for the three months ended September 30, 1998 due mainly to lower invested cash balances.

INCOME TAXES. Income taxes increased to \$4.9 million for the three months ended September 30, 1999, compared to \$4.1 million in the comparable prior year period due to increased profitability.

NET INCOME. Net income of \$9.0 million for the three months ended September 30, 1999 was \$1.4 million, or 19%, greater than the comparable period in 1998 as a result of factors described above.

#### COMPARISON OF NINE MONTHS ENDED SEPTEMBER 30, 1999 AND 1998

REVENUES. During the nine months ended September 30, 1999, the Company's revenues increased 3% to \$118.6 million from \$114.6 million in the nine months ended September 30, 1998 with the natural gas and oil production segment providing a \$13.7 million increase offsetting a \$9.7 million decline in subsea and salvage segment revenues. This level of subsea and salvage sales volume is actually within 2% of last year's first nine months after eliminating \$8 million of Coflexip charter revenue from 1998 sales figures.

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Natural gas and oil production revenue for the nine months ended September 30, 1999 increased as a result of a 65% increase in production (due to properties acquired during the first half of 1999), a slight increase in average natural gas prices (\$2.20/mcf in the first nine months of 1999 compared to \$2.15/mcf during the comparable period in 1998) and the third quarter 1999 sale of two offshore blocks.

GROSS PROFIT. Gross profit of \$28.9 million for the first nine months of 1999 is 23% less than the \$37.8 million gross profit recorded in the comparable prior year period due mainly to a nine point decline in margins (from 33% to 24%). Subsea and salvage gross profit declined by \$14.5 million due primarily to the more competitive market conditions and to the impact of the Uncle John being out of service for six weeks for thruster repairs. In addition, the pass through costs associated with CDI functioning as prime contractor resulted in third party costs that were 37% of subsea and salvage revenues in contrast to 28% in the first nine months of 1998.

Natural gas and oil production gross profit increased \$5.6 million from \$2.6 million in the first three quarters of 1998 to \$8.2 million for the first nine months of 1999, due to increased revenues as described above offset somewhat by the effect of the third quarter 1999 carrying value adjustments associated with the 1999 Well Exploitation Program.

SELLING & ADMINISTRATIVE EXPENSES. Selling and administrative expenses were \$9.1 million in the first nine months of 1999, which is 17% less than the \$11.0 million incurred in the comparable period of 1998 due mainly to lower labor costs in Subsea and salvage. This was partially offset by ERT administrative costs increasing \$1.5 million for the reasons mentioned above.

NET INTEREST. The Company reported net interest income and other of \$948,000 for the nine months ended September 30, 1999 which is 38% more than the \$687,000 reported for the nine months ended September 30, 1998 due to an increase in average cash balances during the first three quarters of 1999 as compared to the first three quarters of 1998.

INCOME TAXES. Income taxes decreased to \$7.5 million for the nine months ended September 30, 1999, compared to \$10.1 million in the comparable prior year period due to lower profitability.

NET INCOME. Net income of \$13.7 million for the nine months ended September 30, 1999 was \$5.0 million, or 27%, less than the comparable period in



1998 as a result of factors described above.

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#### LIQUIDITY AND CAPITAL RESOURCES

The Company has historically funded its operating activities principally from internally generated cash flow, even during industry-depressed years such as 1992 and 1998/1999. The Company completed an initial public offering of common stock on July 7, 1997, with the sale of 2,875,000 shares generating net proceeds to the Company of approximately \$39.5 million, which resulted in \$15 million of cash on hand after paying off all debt outstanding. In the past 27 months internally generated cash flow has funded approximately \$90 million of capital expenditures while enabling the Company to remain debt free. As of September 30, 1999, the Company had \$36.6 million of working capital (including \$9.3 million of unrestricted cash on hand) and no debt outstanding. Additionally, CDI had approximately \$40.0 million available under a Revolving Credit Agreement at the end of the quarter.

**OPERATING ACTIVITIES.** Net cash provided by operating activities was \$17.2 million in the nine months ended September 30, 1999, as compared to \$23.9 million in the first nine months of 1998. This reduction was due mainly to decreased profitability during the first nine months of 1999. Accounts receivable and accounts payable balances as of September 30, 1999 were significantly greater than December 31, 1998 due mainly to the substantial increase in operating activity during the third quarter 1999 compared to the fourth quarter 1998, along with the consolidation of Aquatica accounts effective August 1, 1999. Depreciation and amortization increased \$9.1 million to \$15.5 million for the first nine months of 1999 due mainly to increased ERT depletion as a result of the increased production and carrying value adjustments.

**INVESTING ACTIVITIES.** The Company incurred \$51.4 million of capital expenditures during the first nine months of 1999 compared to \$17.3 million during the comparable prior year period. Included in the \$51.4 million of capital expenditures in the first three quarters of 1999 is \$18 million for the acquisition of Hvide Marine's interest in Cal Dive Aker CAHT I, LLC, the Company which owns the CAL DIVE AKER DOVE (a newbuild DP anchor handling and subsea construction vessel) and \$12.5 million related to the construction of the Q4000, a newbuild, ultra-deepwater multi-service vessel. In addition, \$14.8 million is related to ERT property acquisitions and well recompletion work on the ERT properties acquired. In connection with the aforementioned ERT property acquisitions the seller prepaid \$7.8 million of the decommissioning liability. The third quarter, 1999, sale of interests in two offshore blocks was structured as a Section 1031 "Like Kind" exchange for tax purposes. Accordingly, the cash received is restricted for acquisition of additional natural gas and oil properties.

In January 1998, ERT acquired interests in six blocks involving two separate fields from Sonat Exploration Company and incurred costs to put the MERLIN and SEA SORCERESS into service. In February 1998, the Company purchased a significant minority equity investment in Aquatica, Inc. (a surface diving company) for \$5.0 million. Effective August 1, 1999, 696,000 shares of common stock of Cal Dive were issued for the remaining common stock of Aquatica, Inc. which Cal Dive had not previously acquired. This acquisition was accounted for as a purchase in the third quarter with the purchase price being allocated to the assets acquired and liabilities assumed based upon their estimated fair values resulting in goodwill of approximately \$12 million. Results of operations for Aquatica, Inc. are consolidated with Cal Dive's results for periods subsequent to August 1, 1999. At the date of this acquisition, Aquatica had \$2.6 million of cash on hand which was used to retire the \$2.2 million outstanding under their loan facility.

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**FINANCING ACTIVITIES.** The only financing activity during the first three quarters of 1999 and 1998 represents exercise of employee stock options.

**CAPITAL COMMITMENTS.** In July 1999, the Company's Board of Directors approved the construction of the Q4000, a newbuild, ultra-deepwater multi-service vessel, at a total estimated cost of \$150,000,000. Funding for this project is expected to come from cash balances on hand, long-term borrowings and perhaps the issuance of additional equity. In addition, as

discussed previously, in connection with its business strategy, management expects the Company to acquire additional vessels as well as buy additional natural gas and oil properties.

#### IMPACT OF YEAR 2000 ISSUE

The Company has assessed what computer software and hardware will require modification or replacement so that its computer systems will properly utilize dates beyond December 31, 1999. The Company has purchased, and has implemented, a new project management accounting system which is Year 2000 compliant. This system, which fully integrates all of its modules, provides project managers and accounting personnel with up-to-date information enabling them to better control jobs in addition to providing benefits in inventory control and planned vessel maintenance. CDI's vessel computer DP systems are partially dependent on government satellites and the government has not yet confirmed that they have solved Year 2000 data problems. If necessary, the vessels could operate for sometime safely on redundant systems other than satellite information. Accordingly, the Company believes that the Year 2000 issue will be resolved in a timely manner and presently does not believe that the cost to become Year 2000 compliant will have a material adverse effect on the Company's consolidated financial statements. The foregoing statements are intended to be and are hereby designated "Year 2000 Readiness Disclosure" within the meaning of the Year 2000 Information Readiness and Disclosure Act.

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#### PART II. OTHER INFORMATION

##### Item 1. Legal Proceedings

The Company is involved in various routine legal proceedings primarily involving claims for personal injury under the General Maritime Laws of the United States and Jones Act as a result of alleged negligence. 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.

##### Item 5. Other Matters

Effective September 13, 1999, Jean-Bernard Fay and Thomas Ehret resigned as directors of the Company and were replaced by Aline Montel and Claire Giraut who were designated by Coflexip as provided under an agreement with the Company. Effective May 5, 1999, William E. Macaulcy resigned as a director of the Company after the sale of shares of the Company's common stock by First Reserve Corporation and affiliates, also in accordance with the same agreement. Cal Dive's current Directors are:

Owen Kratz  
Jim Nelson  
Martin Ferron  
Gordon Ahalt  
Bernard Duroc-Danner  
Ben Guill  
Aline Montel  
Claire Giraut  
Kevin Wood

##### Item 6. Exhibits and Reports on Form 8-K

###### (a) Exhibits -

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

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

SIGNATURES

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

CAL DIVE INTERNATIONAL, INC.

Date: November 15, 1999

By: \_\_\_\_\_  
S. James Nelson, Executive Vice President  
and Chief Financial Officer

Date: November 15, 1999

By: \_\_\_\_\_  
A. Wade Pursell, Vice President-Finance  
and Chief Accounting Officer

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