CAL DIVE INTERNATIONAL INC
Form 10-K/A
April 08, 2003

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-K/A

AMENDMENT NO. 1

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934

FOR THE FISCAL YEAR ENDED DECEMBER 31, 2002

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934

FOR THE TRANSITION PERIOD FROM TO

COMMISSION FILE NO. 0-22739

CAL DIVE INTERNATIONAL, INC.
(Exact name of registrant as specified in its charter)

MINNESOTA	95-3409686
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
400 N. SAM HOUSTON PARKWAY E., SUITE 400 HOUSTON, TEXAS	77060
(Address of Principal Executive Offices)	(Zip Code)

REGISTRANT'S TELEPHONE NUMBER, INCLUDING AREA CODE:
(281) 618-0400

SECURITIES REGISTERED PURSUANT TO SECTION 12(b) OF THE ACT:

TITLE OF EACH CLASS	NAME OF EACH EXCHANGE ON WHICH REGISTERED
None	None

SECURITIES REGISTERED PURSUANT TO SECTION 12(g) OF THE ACT:

COMMON STOCK (NO PAR VALUE)
(Title of Class)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes [X] No [ ]

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. [ ]

Indicate by check mark whether the registrant is an accelerated filer (as defined in Exchange Act Rule 12b-2). Yes [X] No [ ]

The aggregate market value of the voting stock held by non-affiliates of the registrant as of June 28, 2002 was $759,567,754 based on the last reported sales price of the Common Stock on June 28, 2002, as reported on the NASDAQ/National Market System.

The number of shares of the registrant's Common Stock outstanding as of March 17, 2003 was 37,632,058.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the definitive Proxy Statement for the Annual Meeting of Shareholders to be held on May 14, 2003, are incorporated by reference into Part III hereof.

CAL DIVE INTERNATIONAL, INC. ("CDI") INDEX -- FORM 10-K

This Amendment No. 1 on Form 10-K/A to Cal Dive International, Inc.'s Annual Report on Form 10-K for the year ended December 31, 2002, filed with the Securities and Exchange Commission on March 28, 2003, is being filed to reflect conforming reclassifications to Subsea and Salvage Identifiable Assets within "Notes to Consolidated Financial Statements -- Business Segment Information" included in Part III, Note 14.

PART I

ITEM 1. BUSINESS.

OVERVIEW

We are an energy services company specializing in subsea construction and well operations as well as providing oil and gas companies with alternatives to traditional approaches of equity sharing in offshore properties. We operate primarily in the Gulf of Mexico, or Gulf, and recently in the North Sea with services that cover the lifecycle of an offshore oil and gas field. We believe we have a longstanding reputation for innovation in our subsea construction techniques, equipment design and methods of partnering with customers. Our diversified fleet of 23 vessels and 21 remotely operated vehicles (or ROVs) and trencher systems perform services that support drilling, well completion, intervention, construction and decommissioning projects involving pipelines, production platforms, risers and subsea production systems. We also have acquired significant interests in oil and gas properties and related production facilities as part of our Production Partnering business. Our customers include major and independent oil and gas producers, pipeline transmission companies and offshore engineering and construction firms.

We have positioned ourselves for work in water depths greater than 1,000 feet, referred to as the Deepwater, by continuing to grow our technically advanced fleet of dynamically positioned, or DP, vessels, ROVs and the number of highly experienced support professionals we employ. In early 2002, we purchased our new ROV subsidiary, Canyon Offshore, Inc., that offers survey, engineering, repair, maintenance and international cable burial services in the Gulf, North Sea and Southeast Asia. Later in mid-2002, our Well Ops (U.K.) Limited subsidiary purchased the North Sea well operations business unit of Technip-Coflexip ("Technip") including one large DP vessel, work contracts and personnel. This fleet of DP vessels serves as advanced work platforms for the subsea solutions that we provide with our alliance partners, a group of

internationally recognized contractors and manufacturers. Most notably, the Q4000, our Deepwater semi-submersible multi-service vessel, or MSV, incorporates patented technologies that can improve Deepwater well completion, intervention and construction economics for our customers. Availability of the Q4000, and four other large vessels that we recently purchased or upgraded, the Eclipse, Mystic Viking, Intrepid and Seawell, enables us to offer a diverse fleet of DP subsea construction and intervention vessels (four of which are based in the Gulf).

On the Outer Continental Shelf, or OCS, in water depths up to 1,000 feet, we perform traditional subsea services, including air and saturation diving and salvage work. Our shallow operations division, Aquatica, provides a full complement of services in the shallow water market from the shore to a depth of 300 feet. Aquatica's eight vessels are permanently dedicated to performing traditional diving services. In depths from 300 feet to 1,000 feet, these services are provided by our two four-point saturation diving vessels, with another five DP vessels capable of providing such services, on the OCS. We provide marine construction services in the OCS "spot market" where projects are generally turnkey in nature, short in duration (two to thirty days), and require the availability of multiple vessels due to frequent rescheduling. The technical and operational experience of our personnel and the scheduling flexibility offered by our large fleet enable us to manage turnkey projects and to meet our customers' requirements. We have also established a presence in the salvage market by offering customers a number of options to address their decommissioning obligations in a cost-efficient manner, particularly the removal of smaller structures. Our alliance with Horizon Offshore, Inc. provides derrick barge and heavy lift capacity for the removal of larger structures.

In our Production Partnering business, our subsidiary Energy Resource Technology, Inc., or ERT, acquires and produces mature, non-core offshore property interests, offering customers a cost-effective

alternative to the decommissioning process required by law. Market conditions in 2002 allowed ERT to add significantly to its property base through large property acquisitions from Williams Production RMT Company (a subsidiary of the Williams Companies), Amerada Hess Corporation, subsidiaries of Shell Exploration and Production Company, and a venture consisting of Murphy Exploration & Production Company ("Murphy") and Callon Petroleum Operating Company ("Callon"), adding over 70 BCFe to ERT's reserves. In the acquisition from the Murphy/Callon joint venture, ERT acquired and successfully developed a "Stranded Field" property, i.e., one where the exploratory well had encountered proven reserves yet the reserves were of a marginal size to Murphy while Callon was constrained by capital expenditure requirements. We also expanded our Production Partnering strategy through participation in the ownership of the TLP production facility for the Marco Polo field, a Deepwater Gulf oil and gas exploration project operated by Anadarko Petroleum Corporation. We expect that owning this tension-leg platform, or TLP, in a 50/50 joint venture with El Paso Energy Partners, L.P. will generate income for us in the future and also provide us with additional construction work for Cal Dive and farm-in opportunities for ERT. ERT's reservoir engineering and geophysical expertise enabled us in 2000 to acquire a working interest in Gunnison, a Deepwater Gulf oil and natural gas exploration project, in partnership with the operator, Kerr-McGee Corporation. We anticipate that these investments will generate income for us in the future and will also help secure utilization for our subsea assets. At both Gunnison and Marco Polo, we participate in field development planning and have been contracted to perform subsea construction work.

Cal Dive was incorporated in Minnesota in 1983 as a successor to California Divers, Inc. a company originally incorporated in 1964. We make available

through our website, www.caldive.com, our Annual Report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Exchange Act as soon as reasonably practicable after we electronically file such material with, or furnish it to, the SEC.

Our overall corporate goal is to increase shareholder value by strengthening our market position to provide a return that leads our Peer Group. We have been able to achieve our return on capital objective by focusing on the following business strengths and strategies.

OUR STRENGTHS

Fleet of DP Vessels. Our fleet of DP vessels and ROVs is one of the largest permanently deployed in the Gulf, with one of the most diverse and technically advanced collections of subsea intervention and construction capabilities. The comprehensive services provided by our DP vessels are both complementary and overlapping, enabling us to provide customers the redundancy essential for most projects, especially in the Deepwater.

Formation of New Well Operations Subsidiary as a "First In" Advantage. In 2002 we formed a new wholly owned subsidiary, Well Ops Inc., to provide offshore oil and gas operators with the experience, expertise and technology for cost-effective subsea well operations. Establishment of the Well Ops group followed the construction of the purpose-built Q4000 and the acquisition of the Subsea Well Operations Business Unit of Technip in Aberdeen, Scotland. The mission of the new companies is to provide the industry with a single, comprehensive source for addressing current well operations needs and to engineer for future needs.

Experienced Personnel and Turnkey Contracting. A key element of our successful growth has been our ability to attract and retain experienced personnel who are among the best in the industry at providing turnkey contracting. We believe the recognized skill of our personnel and our successful operating history uniquely position us to capitalize on the trend in the oil and gas industry of increased outsourcing to contractors and suppliers.

Major Provider of Marine Construction Services on the OCS. We believe that our expansion of Aquatica, our alliance with Horizon, and our position in the Gulf for saturation diving services make us the largest supplier of marine construction services on the OCS. We expect the ongoing depletion of existing reserves, coupled with growing demand for natural gas, to require increased exploitation and development of OCS reservoirs.

Production Partnering. The strategy of ERT's oil and gas production business differentiates us from our competitors and helps to offset the cyclical nature of our marine construction operations. Each of ERT's oil and gas investments is designed to secure utilization of CDI construction vessels. Our long-term goal is that 40% of all of our construction utilization is provided by ERT's ownership of offshore fields and production facilities.

Decommissioning Operations. Over the last decade, we have established a presence in decommissioning offshore facilities, particularly in the removal of the smaller structures and caissons that make up approximately half of the structures in the Gulf. We expect demand for decommissioning services to increase due to the significant backlog of platforms and caissons that must be removed in accordance with government regulations.

OUR STRATEGIES

Focusing on the Gulf. We will continue to focus on the Gulf of Mexico, where we have provided marine construction services since 1975. We expect oil and gas exploration and development activity in the Gulf, particularly in the Deepwater, to increase over the next several years.

Capturing a Leading Presence in the Deepwater Market. We have recently expanded our fleet to service Deepwater projects by purchasing the Mystic Viking, a 242 foot DP vessel; the Eclipse, a large mono-hull vessel with significant deck load capacity; and the Seawell, a purpose built DP well operations vessel. In addition, in 2002 we took delivery of the Q4000 and the Intrepid. Our fleet now includes nine world-class DP vessels, seven of which are based in the Gulf of Mexico. In addition, through Canyon we now own and operate 21 ROV and trencher systems. Canyon represents an integration that is consistent with our strategy of controlling all aspects along the critical path of significant projects. In addition, we are presently building a "T750" Super Trencher as well as 3 Triton XLS ROV systems to fulfill requirements under a Master Service Agreement entered into with Technip.

Developing Well Operations Niche. It is estimated that over 2,000 subsea trees will be installed in the years 2002 through 2006. Currently there are few cost-effective solutions for subsea well operations to troubleshoot or enhance production, shift zones or perform recompletions, as all such work today must generally be done from drilling rigs. Our three purpose-built vessels serve as work platforms for well operations services at costs significantly less than drilling rigs. In the Gulf of Mexico, the new, multi-service semi-submersible Q4000 and the Uncle John have set a series of "firsts" in increasingly deep water without the use of a rig. In the North Sea, the Seawell has provided intervention and abandonment services for more than 400 North Sea wells since her commissioning in 1987. Competitive advantages of the CDI vessels stem from their lower operating costs, ability to mobilize quickly and to maximize productive time by performing a broad range of tasks for intervention, construction, inspection, repair and maintenance.

Acquiring Mature Oil and Gas Properties. Through ERT we have been acquiring mature or sunset properties since 1992, thereby providing customers a cost effective alternative to the decommissioning process. In the last ten years we have acquired interests in 89 leases and currently are the operator of 42 of 63 active offshore leases. ERT has been able to achieve a significant return on capital by efficiently developing acquired reserves, lowering lease operating expenses and adding new reserves through well work. Our customers consider ERT a preferred buyer as ERT is a bonded offshore operator and has access to Cal Dive's decommissioning assets. As the industry wide leader of acquiring mature properties, ERT has a significant flow of potential acquisitions. At December 31, 2002, ERT's total proven reserves were 157.5 BCFe, including 73.8 BCFe of initial proved reserves assigned to our ownership position in Gunnison.

Expanding Ownership in Deepwater Developments. Cal Dive has a 20% working interest position in the Deepwater Gunnison field and owns 50% of the tension leg production platform being constructed with El Paso Energy Partners for the Marco Polo field. Ownership of the TLP provides a transmission type return which does not entail any reservoir or commodity price risk. The Company plans to seek additional opportunities to invest in such production facilities.

Expanding the Stranded Field Model. Drilling activity in the Gulf since 1998 has consistently exceeded 70 exploratory wells per year with approximately 30% resulting in new discoveries. Because of the smaller size of the reservoirs today, there are many commercial discoveries in the Deepwater Gulf of Mexico that have yet to be brought into production. In addition, many of the wells

deemed non-commercial or those in non-core areas are attractive to the Company. During 2002, the Company acquired and successfully developed its first proved undeveloped reserve ("PUD") prospect, East Cameron 374, a field acquired from Murphy Exploration and Callon. The Eclipse and Cal Diver I assisted in the successful development of this field. Depending upon the water depth, development of these fields may require state of the art equipment such as the Q4000, a more specialized asset such as the Intrepid, for pipelay or a combination of Cal Dive contracting assets. The Company is considering a number of alternatives that would provide outside investor funding to expand this market niche.

THE INDUSTRY

The offshore oilfield services industry in the Gulf originated in the early 1950s to assist companies as they began to explore and develop offshore fields. The industry has grown significantly since the early 1970s as the domestic oil and gas industry has increasingly relied upon these fields for new production. The oilfield services industry benefits from a number of trends including the following:

- lack of growth in natural gas production and failure to construct new subsea construction assets in the face of foreign dependency and increasing U.S. and world demand;

- advances in exploration, extraction and production technology that have enabled industry participants to more cost-effectively enter the Deepwater Gulf; and

- increased demand for decommissioning services as the offshore oil and gas industry continues to mature.

In response to the oil and gas industry's ongoing migration to the Deepwater, equipment and vessel requirements have changed. Most vessels currently operating in the Deepwater Gulf were designed in the 1970s and 1980s for work in a maximum depth of approximately 1,000 feet. These vessels have been modified to take advantage of new technologies and now operate in depths up to 4,000 feet. We believe there is demand in the Gulf for new generation vessels, such as the Q4000 and Intrepid, that are specifically designed to work in water depths up to 10,000 feet.

Defined below are certain terms and ideas helpful to understanding the services we perform in support of offshore development:

BCFe: When describing oil and gas, the term converts oil volumes to their energy equivalent in natural gas and combines them in billions of cubic feet equivalent.

Deepwater: Water depths beyond 1,000 feet.

Dive Support Vessel (DSV): Specially equipped vessel which performs services and acts as an operational base for divers, ROVs and specialized equipment.

Dynamic Positioning (DP): Computer-directed thruster systems that use satellite-based positioning and other positioning technologies to ensure the proper counteraction to wind, current and wave forces enable the vessel to maintain its position without the use of anchors. Two DP systems (DP-2) are necessary to provide the redundancy required to support safe deployment of divers, while only a single DP system is necessary to support ROV operations.

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.

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

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

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

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

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

MMcf: When describing natural gas, refers to 1 million cubic feet.

Moonpool: An opening in the center of a vessel through which a saturation diving system or ROV may be deployed, allowing safe deployment in adverse weather conditions.

Outer Continental Shelf (OCS): For purposes of our industry, areas in the Gulf from the shore to 1,000 feet of water depth.

Peer Group: Defined in this Annual Report as comprising Global Industries, Ltd. (Nasdaq: GLBL), Horizon Offshore, Inc. (Nasdaq: HOFF), McDermott International, Inc. (NYSE: MDR), Oceaneering International, Inc. (NYSE: OII), Stolt Offshore SA (Nasdaq: SOSA), Technip-Coflexip (NYSE: TKP), and Torch Offshore, Inc. (Nasdaq: TORC).

Production Partnering: Alternative approach (i) to equity sharing in offshore properties through the purchase of mature fields and those fields where exploratory drilling encountered less than expected reserves and (ii) to ownership of production facilities.

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

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

Saturation Diving: Saturation diving, required for work in water depths between 300 and 1,000 feet, involves divers working from special chambers for extended periods at a pressure equivalent to the pressure at the work site.

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

Spot Market: Prevalent market for subsea contracting in the Gulf, characterized by projects generally short in duration and often of a

turnkey nature. These projects often require constant rescheduling and the availability or interchangeability of multiple vessels.

Stranded Field: Smaller reservoir that standing alone may not justify the economics of a host production facility and/or infrastructure connections.

Subsea Construction Vessels: Subsea services are typically performed with the use of specialized construction vessels which provide an above-water platform that functions as an operational base for divers and ROVs. Distinguishing characteristics of subsea construction vessels include DP systems, saturation diving capabilities, deck space, deck load, craneage and moonpool launching. Deck space, deck load and craneage are important features of the vessel's ability to transport and fabricate hardware, supplies and equipment necessary to complete subsea projects.

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

Trencher or Trencher System: A subsea robotics system capable of providing post lay trenching, inspection and burial (PLIB) and maintenance of submarine cables and flowlines in water depths of 30 to 7,200 feet across a range of seabed and environmental conditions.

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

SUBSEA CONTRACTING

We and our alliance partners provide a full range of subsea construction services in both the shallow water and Deepwater Gulf including:

- Exploration. Pre-installation surveys; rig positioning and installation assistance; drilling inspection; subsea equipment maintenance; well completion; search and recovery operations.

- Development. Installation of production platforms; installation of subsea production systems; pipelay support including connecting pipelines to risers and subsea assemblies; pipeline stabilization, testing and inspection; cable and umbilical lay and connection.

- Production. Inspection, maintenance and repair of production structures, risers and pipelines and subsea equipment; well intervention; life of field support.

- Decommissioning. Decommissioning and remediation services; plugging and abandonment services; platform salvage and removal; pipeline abandonment; site inspections.

Deepwater Contracting and Well Operations

In 1994, we began to assemble a fleet of DP vessels in order to deliver subsea services in the Deepwater and Ultra-Deepwater. Today, our fleet consists of two semi-submersible DP MSVs, the Q4000 and the Uncle John; a dedicated well operations vessel, the Seawell; an umbilical and rigid pipelay vessel, the Intrepid; three construction DP DSVs, the Witch Queen, the Mystic Viking, and the Eclipse; and two ROV support vessels, the Merlin and the Northern Canyon. In 2001, we began vessel enhancements to the Q4000 (well completion) and the Intrepid (DP-2 capability and a 400-ton crane). The Q4000 and Intrepid were placed into service, respectively, in April and May 2002. We purchased the

Eclipse in October of 2001 and the Seawell in July of 2002.

In 2002, we increased our ROV and trenching fleet to 21 by acquiring Canyon Offshore, Inc. Canyon's ROVs and trenchers are designed for offshore construction, rather than drilling rig support, and its management team added industry experience in a setting where our vessels can add value in support of its ROVs. As marine construction support in the Gulf of Mexico moves to deeper waters, ROV systems will play an increasingly important role and will help to provide our customers with vessel availability and schedule flexibility to meet the technological challenges of Deepwater construction developments in the Gulf and internationally. Our ROVs operate in three regions: the Americas (8), Southeast Asia (5), and the North Sea (4). In addition to the ROVs, Canyon also has four trenchers that operate in Southeast Asia (2) and the North Sea (2). Furthermore, Canyon has ordered 3 new Triton XLS ROV systems and a state of the art 750 horsepower trenching unit to fulfill its future contract obligations under its agreement with Technip.

We assist customers in solving the operational challenges encountered in Deepwater projects by using methods or technologies we have developed. To enhance our ability to provide both full field development and life of field services, we have alliances with other offshore service and equipment providers. These alliances enable us to offer state-of-the-art products and service while maintaining our low overhead base. These alliances are:

- Fugro-McClelland Marine Geoscience, Inc. -- Geotechnical coring and survey

- Horizon Offshore, Inc. -- Small diameter reeled pipelay equipment

- Schlumberger Limited -- Deepwater downhole services

Utilization of 82% was very close to last year's record of 87% even though we added three new vessels and elected to take several vessels out of service in the third quarter for accelerated regulatory inspections. Major projects in 2001 and 2002 were:

FIELD	CUSTOMER	DESCRIPTION	DEPTH (FEET)
Diana	Exxon	Riser tie-in, spool and strake installations.....	4,600
Diana D-3	Exxon	Jumper and flying lead installations.....	4,600
Marshall/Madison	Exxon	Jumper and flying lead installations.....	4,960
Mica	Exxon	Manifold, suction pile and tree installations.....	4,500
Nansen/Boomvang	Kerr-McGee	Plet, flexible riser, umbilicals flying lead and jumper installations.....	3,700
King Kong	Mariner	Jumper and flying lead installations.....	3,400
Navajo	Kerr-McGee	Installed flex riser, 6-inch pipeline and umbilicals.....	3,700
Falcon	El Paso Energy Partners	Manifold installation and jumper metrology.....	3,450

In late 2002, we formed a new wholly owned subsidiary, Well Ops Inc., to provide offshore oil and gas operators with the industry's largest collection of experience, expertise and technology for cost-effective subsea well operations. Establishment of the Well Ops Group (Well Ops Inc. and Well Ops (U.K.) Limited) follows the construction of the purpose-built Q4000 and the acquisition of the subsea well operations business unit of CSO Ltd., a subsidiary of Technip. The mission of these new companies is to provide the industry with a single, comprehensive source for addressing current well operations needs and to engineer for future needs. Our purpose-built vessels serve as work platforms for well operations services at costs significantly less than drilling rigs. In the Gulf of Mexico, the Q4000 and the Uncle John have set a series of "firsts" in increasingly deep water without the use of a rig including: first "live subsea well" intervention; first through tubing subsea well decommission; first "live subsea well" intervention using wireline lubricator; first Deepwater full field decommission; first re-entry and decommission through horizontal tree; first removal and recovery of subsea well templates and horizontal trees; first use of test tree in open water as a lower riser package (LRP); first subsea transfer of tree from one well to another during decommissioning operations; first use of coil tubing drilling in subsea decommissioning; and first installation of a "storm choke" as replacement for subsurface safety control valve; all of which utilized a semi-submersible DP MSV instead of a drilling rig. The Seawell has provided intervention and abandonment services for more than 400 North Sea wells since her commissioning in 1987. Competitive advantages of our vessels stem from their lower operating costs and the ability to mobilize quickly and maximize productive time by performing a broad range of tasks for intervention, construction, inspection, repair and maintenance. Well Ops Inc. also collaborates with the leading downhole service providers to provide a superior, comprehensive solution. An alliance is currently in place with Schlumberger to provide these services.

Shelf Contracting

On the OCS in water depths up to 1,000 feet, we perform traditional subsea services including air and saturation diving in support of marine construction activities. Eleven of our vessels are permanently dedicated to performing traditional diving services, with another five DP vessels capable of providing such services, on the OCS. Seven of these vessels support saturation diving. In addition, our highly qualified personnel have the technical and operational experience to manage turnkey projects to satisfy customers' requirements and achieve our targeted profitability.

We deliver our services in the shallow water market, from the beach to a depth of 300 feet, through our shallow operations division, Aquatica. In addition, our saturation diving vessels can deliver services in depths up to 1,000 feet. We also perform numerous projects on the OCS in an alliance with Horizon. In the late 1980s, we demonstrated that pipelay operations would be much more effective if the expensive barge spreads

simply laid the pipe, allowing our DSVs to follow along and perform the more time-consuming task of commissioning the line. Under the alliance, we have the exclusive right to provide DSV and diving services for Horizon pipelay barges, while Horizon supplies pipelay, derrick barge and heavy lift capacity to us. Our interaction with Horizon is multi-faceted, including operations in addition to those that flow from the formal alliance to provide services on the OCS. For example, much of our work in Mexican waters has been subcontracted from Horizon.

Since 1989, we have undertaken a wide variety of decommissioning

assignments, mostly on a turnkey basis. We have established a leading position in the removal of smaller structures, such as caissons and well protectors, which represent approximately half of the structures in the Gulf.

PRODUCTION PARTNERING

We formed ERT in 1992 to exploit a market opportunity to provide a more efficient solution to offshore abandonment, to expand our off-season salvage and decommissioning activity, and to support full field production development projects. Through Production Partnering, we offer customers the option of selling mature offshore fields as an alternative to contracting and managing the many phases of the decommissioning process. The benefits of our Production Partnering strategy are fourfold. First, oil and gas revenues counteract the volatility in revenues we experience in offshore construction. Second, in periods of excess capacity, such as in 2002, we have the flexibility to stay out of the competitive bid market and instead focus on negotiated contracts. Third, our oil and gas operations generate significant cash flow that has partially funded construction and/or modification of assets such as the Q4000, Intrepid and Eclipse, enabling us to add technical talent to support our expansion into the new Deepwater frontier. Finally, a major objective of our investments in oil and gas properties is to secure the associated marine construction work.

There are over 100 discoveries in the Deepwater Gulf 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 Gulf will be developed in a hub and satellite field concept that resembles the approach the airline industry has used with regional hub locations. We expect significant opportunities as this occurs. For example, Gunnison, our first Deepwater field development project, is a hub location where we will provide infrastructure and tie-back marine construction services. At the Marco Polo field, our 50% ownership in the production facility will allow us to realize a return on investment consisting of both a fixed monthly demand charge and a volumetric tariff charge. In addition, we will assist with the installation of the TLP and work to develop the surrounding acreage that can be tied back to the platform by our construction vessels.

Within ERT we have assembled a team of personnel with experience in geology, geophysics, reservoir engineering, drilling, production engineering, facilities management, lease operations and land. ERT generates income in three ways: lowering salvage costs by using our assets, operating the field more cost effectively, and extending reservoir life through well exploitation operations. When a company sells an OCS property, they retain the financial responsibility for plugging and decommissioning if their purchaser becomes financially unable to do so. Thus, it becomes important that a property be sold to a purchaser who has the financial wherewithal to perform their contractual obligations. Although there is significant competition in this mature field market, ERT's reputation, supported by Cal Dive's financial strength, have made it the purchaser of choice of many major independent oil and gas companies. Despite this competition we significantly expanded our property base in 2002 with four large acquisitions, including one successful completion of a "stranded" field.

In June, ERT acquired a package of offshore properties from Williams Production RMT Company (a subsidiary of the Williams Companies). The blocks purchased represent an average 30% net working interest in 23 federal leases and three Texas leases with 23 wells that produce the equivalent of 7.5 MMcf per day. In August, ERT acquired the 74.8% working interest of subsidiaries of Shell Exploration & Production Company in the South Marsh Island 130 (SMI 130) field and completed the purchase of seven Gulf of Mexico fields from Amerada Hess Corporation, including Hess's 25% interest in SMI 130. Currently the SMI 130 Field, with approximately 155 wells on five 8-pile platforms, produces approximately 4,000 barrels of oil per day from

50 active wells. In August 2002, ERT completed the #1 well at East Cameron 374 in three zones using Cal Dive vessels. With production commingled from the lower two zones the well is currently producing at 15.5 MMCFD and 75 BOPD. The completion marked the first Gulf of Mexico application of Baker Oil Tools "Intelligent Well System". The "InForce(TM) Intelligent Well System" allows ERT to change zones via hydraulic controls on the production platform without requiring a rig re-enter the well. This type of completion also minimizes future well maintenance requirements.

The table below sets forth information, as of December 31, 2002, with respect to estimates of net proved reserves and the present value of estimated future net cash flows at such date, prepared in accordance with guidelines established by the Securities and Exchange Commission. The Company's estimates of reserves at December 31, 2002, excluding Gunnison, have been reviewed by Miller and Lents, Ltd., independent petroleum engineers. These non-Gunnison reserves totaled (as of December 31, 2002) 43,323 MMcf of natural gas and 6,727 MBbls of oil with a standardized measure of discounted future net cash flows (pre-tax) of $161,565,600 (see note (2) in table below). Since the Company does not own a license to the geophysical data, reserves attributable to Gunnison (which total 47% of our proved reserves as of December 31, 2002) have been determined based on information provided by the operator. These reserve estimates were reviewed by our engineers, including an assessment of the operator's assumptions and their engineering, geologic and evaluation principles and techniques. All of the Company's reserves are located in the United States. Proved reserves cannot be measured exactly because the estimation of reserves involves numerous judgmental determinations. Accordingly, reserve estimates must be continually revised as a result of new information obtained from drilling and production history, new geological and geophysical data and changes in economic conditions.

	TOTAL PROVED
Estimated Proved Reserves(1):	
Natural gas (MMcf)	85,224
Oil and condensate (MBbls)	12,037
Standardized measure of discounted future net cash flows (pre-tax)(2)	$291,705,010

---

(1) Includes both Company's reserves reviewed by Miller & Lents (as noted above) and Gunnison reserves reviewed by Company's engineers.

(2) The standardized measure of discounted future net cash flows attributable to our reserves was prepared using constant prices as of the calculation date, discounted at 10% per annum. As of December 31, 2002, we owned an interest in 157 gross (105 net) natural gas wells and 302 gross (265 net) oil wells located in federal and state offshore waters in the Gulf of Mexico.

CUSTOMERS

Our customers include major and independent oil and gas producers, pipeline transmission companies and offshore engineering and construction firms. The level of construction services required by any particular customer depends on the size of that customer's capital expenditure budget devoted to construction

plans in a particular year. Consequently, customers that account for a significant portion of contract revenues in one fiscal year may represent an immaterial portion of contract revenues in subsequent fiscal years. The percent of consolidated revenue of major customers was as follows: 2002 -- Horizon Offshore, Inc. (10%) and BP Trinidad & Tobago LLC (11%); 2001 -- Horizon Offshore, Inc. (18%) and Enron Corp. (10%) and 2000 -- Enron Corp. (13%). We estimate that in 2002 we provided subsea services to over 200 customers. Our projects are typically of short duration and are generally awarded shortly before mobilization. Accordingly, we believe backlog is not a meaningful indicator of future business results.

COMPETITION

The subsea services industry is highly competitive. While price is a factor, the ability to acquire specialized vessels, to attract and retain skilled personnel, and to demonstrate a good safety record are also

important. Our competitors on the OCS include Global Industries Ltd., Oceaneering International, Inc., Stolt Offshore S.A., Torch Offshore, Inc., and a number of smaller companies, some of which only operate a single vessel and often compete solely on price. For Deepwater projects, our principal competitors include Stolt Offshore S.A., Subsea 7, Technip-Coflexip and Torch.

ERT encounters significant competition for the acquisition of mature oil and gas properties. Our ability to acquire additional properties depends upon our ability to evaluate and select suitable properties and to consummate transactions in a highly competitive environment. Many potential purchasers of oil and gas properties are well-established companies with substantially larger operating staffs and greater capital resources.

TRAINING, SAFETY AND QUALITY ASSURANCE

We have established a corporate culture in which safety is expected to be among the highest priorities. Our corporate goal, based on the belief that all accidents are preventable, is to provide an injury-free workplace by focusing on correct safety behavior. Our safety procedures and training programs were developed by management personnel who came into the industry as divers and who know first hand the physical challenges of the ocean work site. As a result, management believes that our safety programs are among the best in the industry. We have introduced a company-wide effort to enhance a behavioral safety process 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 a fresh perspective. Results from this program were evident as our safety performance improved significantly in 2001 and 2002.

GOVERNMENT REGULATION

Many aspects of the offshore marine construction industry are subject to extensive governmental regulations. We are subject to the jurisdiction of the Coast Guard, the Environmental Protection Agency, the MMS and the U.S. Customs Service, as well as private industry organizations such as the American Bureau of Shipping. In the North Sea, regulations govern working hours and a specified working environment, as well as standards for diving procedures, equipment and diver health. These North Sea standards are some of the most stringent worldwide. In the absence of any specific regulation, our North Sea branch adheres to standards set by the International Marine Contractors Association and

the International Maritime Organisation.

We support and voluntarily comply with standards of the Association of Diving Contractors International. The Coast Guard sets safety standards and is authorized to investigate vessel and diving accidents, and to recommend improved safety standards. The Coast Guard also is authorized to inspect vessels at will. We are required by various governmental and quasi-governmental agencies to obtain various permits, licenses and certificates with respect to our operations. We believe that we have obtained or can obtain all permits, licenses and certificates necessary for the conduct of our business.

In addition, we depend on the demand for our services from the oil and gas industry and, therefore, our business is affected by laws and regulations, as well as changing taxes and policies relating to the oil and gas industry generally. In particular, the development and operation of oil and gas properties located on the OCS of the United States is regulated primarily by the MMS.

The MMS requires lessees of OCS properties to post bonds in connection with the plugging and abandonment of wells located offshore and the removal of all production facilities. Operators on the OCS are currently required to post an area-wide bond of $3.0 million, or $500,000 per producing lease. We currently have bonded our offshore leases as required by the MMS. Under certain circumstances, the MMS has the authority to suspend or terminate operations on federal leases. Any such suspensions or terminations of our operations could have a material adverse effect on our financial condition and results of operations.

We acquire production rights to offshore mature oil and gas properties under federal oil and gas leases, which the MMS administers. These leases contain relatively standardized terms and require compliance with detailed MMS regulations and orders pursuant to the Outer Continental Shelf Lands Act, or OCSLA. These MMS directives are subject to change. The MMS has promulgated regulations requiring offshore production facilities located on the OCS to meet stringent engineering and construction specifications. The MMS also has issued regulations restricting the flaring or venting of natural gas and prohibiting the burning of liquid hydrocarbons without prior authorization. Similarly, the MMS has promulgated other regulations governing the plugging and abandonment of wells located offshore and the removal of all production facilities. Finally, under certain circumstances, the MMS may require any operations on federal leases to be suspended or terminated. In December 1999, the MMS issued regulations that would allow it to expel unsafe operators from existing OCS platforms and bar them from obtaining future leases.

Under OCSLA and the Federal Oil and Gas Royalty Management Act, MMS also administers oil and gas leases and establishes regulations that set the basis for royalties on oil and gas produced from the leases. The MMS amends these regulations from time to time. For example, on March 15, 2000, the MMS issued a final rule governing the calculation of royalties and the valuation of crude oil produced from federal leases. The rule modifies the valuation procedures for both arm's length and non-arm's length crude oil transactions to decrease reliance on oil posted prices and assign a value to crude oil that better reflects market value. The rule has been challenged by two industry trade associations and is currently under judicial review in the United States District Court for the District of Columbia. In addition, the MMS recently issued a final rule amending its regulations regarding costs for natural gas transportation that are deductible for royalty valuation purposes when natural gas is sold off-lease. Among other matters, for purposes of computing royalties owed, the rule disallows as deductions certain costs, such as

aggregator/marketer fees and transportation imbalance charges and associated penalties. A United States District Court enjoined substantial portions of this rule on March 28, 2000. The United States appealed the district court decision. On February 8, 2002, the Court of Appeals for the District of Columbia reversed the District Court and reinstated the regulations. The United States Supreme Court denied the trade associations' petition for review on January 13, 2003.

Historically, the transportation and sale for resale of natural gas in interstate commerce has been regulated pursuant to the Natural Gas Act of 1938, the Natural Gas Policy Act of 1978, or NGPA, and the regulations promulgated thereunder by the Federal Energy Regulatory Commission, or FERC. In the past, the federal government has regulated the prices at which oil and gas could be sold. While sales by producers of natural gas, and all sales of crude oil, condensate and natural gas liquids currently can be made at uncontrolled market prices, Congress could reenact price controls in the future. Deregulation of wellhead sales in the natural gas industry began with the enactment of the NGPA. In 1989, the Natural Gas Wellhead Decontrol Act was enacted. This act amended the NGPA to remove both price and non-price controls from natural gas sold in "first sales" no later than January 1, 1993.

Sales of natural gas are affected by the availability, terms and cost of transportation. The price and terms for access to pipeline transportation remain subject to extensive federal and state regulation. Several major regulatory changes have been implemented by Congress and the FERC from 1985 to the present that affect the economics of natural gas production, transportation and sales. In addition, the FERC continues to promulgate revisions to various aspects of the rules and regulations affecting those segments of the natural gas industry, most notably interstate natural gas transmission companies that remain subject to FERC jurisdiction. These initiatives may also affect the intrastate transportation of natural gas under certain circumstances. The stated purpose of many of these regulatory changes is to promote competition among the various sectors of the natural gas industry. The ultimate impact of the complex rules and regulations issued by the FERC since 1985 cannot be predicted.

We cannot predict what further action the FERC will take on these matters, but we do not believe any such action will materially affect us differently than other companies with which we compete.

Additional proposals and proceedings before various federal and state regulatory agencies and the courts could affect the oil and gas industry. We cannot predict when or whether any such proposals may become effective. In the past, the natural gas industry has been heavily regulated. There is no assurance that the

regulatory approach currently pursued by the FERC will continue indefinitely. Notwithstanding the foregoing, we do not anticipate that compliance with existing federal, state and local laws, rules and regulations will have a material effect upon our capital expenditures, earnings or competitive position.

ENVIRONMENTAL REGULATION

Our operations are subject to a variety of national (including federal, state and local) and international laws and regulations governing the discharge of materials into the environment or otherwise relating to environmental protection. Numerous governmental departments issue rules and regulations to implement and enforce such laws that are often complex and costly to comply with and that carry substantial administrative, civil and possibly criminal penalties for failure to comply. Under these laws and regulations, we may be liable for remediation or removal costs, damages and other costs associated with releases

of hazardous materials including oil into the environment, and such liability may be imposed on us even if the acts that resulted in the releases were in compliance with all applicable laws at the time such acts were performed. Some of the environmental laws and regulations that are applicable to our business operations are discussed in the following paragraphs, but the discussion does not cover all environmental laws and regulations that govern our operations.

The Oil Pollution Act of 1990, as amended, or OPA, imposes a variety of requirements on "responsible parties" related to the prevention of oil spills and liability for damages resulting from such spills in waters of the United States. A "Responsible Party" includes the owner or operator of an onshore facility, a vessel or a pipeline, and the lessee or permittee of the area in which an offshore facility is located. OPA imposes liability on each Responsible Party for oil spill removal costs and for other public and private damages from oil spills. Failure to comply with OPA may result in the assessment of civil and criminal penalties. OPA establishes liability limits of $350 million for onshore facilities, all removal costs plus $75 million for offshore facilities and the greater of $500,000 or $600 per gross ton for vessels other than tank vessels. The liability limits are not applicable, however, if the spill is caused by gross negligence or willful misconduct; if the spill results from violation of a federal safety, construction, or operating regulation; or if a party fails to report a spill or fails to cooperate fully in the cleanup. Few defenses exist to the liability imposed under OPA. Management is currently unaware of any oil spills for which we have been designated as a Responsible Party under OPA that will have a material adverse impact on us or our operations.

OPA also imposes ongoing requirements on a Responsible Party, including preparation of an oil spill contingency plan and maintaining proof of financial responsibility to cover a majority of the costs in a potential spill. We believe we have appropriate spill contingency plans in place. With respect to financial responsibility, OPA requires the Responsible Party for certain offshore facilities to demonstrate financial responsibility of not less than $35 million, with the financial responsibility requirement potentially increasing up to $150 million if the risk posed by the quantity or quality of oil that is explored for or produced indicates that a greater amount is required. The MMS has promulgated regulations implementing these financial responsibility requirements for covered offshore facilities. Under the MMS regulations, the amount of financial responsibility required for an offshore facility is increased above the minimum amounts if the "worst case" oil spill volume calculated for the facility exceeds certain limits established in the regulations. We believe that we currently have established adequate proof of financial responsibility for our onshore and offshore facilities and that we satisfy the MMS requirements for financial responsibility under OPA and applicable regulations.

OPA also requires owners and operators of vessels over 300 gross tons to provide the Coast Guard with evidence of financial responsibility to cover the cost of cleaning up oil spills from such vessels. We currently own and operate six vessels over 300 gross tons. Satisfactory evidence of financial responsibility has been provided to the Coast Guard for all of our vessels.

The Clean Water Act imposes strict controls on the discharge of pollutants into the navigable waters of the U.S. and imposes potential liability for the costs of remediating releases of petroleum and other substances. The controls and restrictions imposed under the Clean Water Act have become more stringent over time, and it is possible that additional restrictions will be imposed in the future. Permits must be obtained to discharge pollutants into state and federal waters. Certain state regulations and the general permits issued

under the Federal National Pollutant Discharge Elimination System program

prohibit the discharge of produced waters and sand, drilling fluids, drill cuttings and certain other substances related to the exploration for and production of oil and gas into certain coastal and offshore waters. The Clean Water Act provides for civil, criminal and administrative penalties for any unauthorized discharge of oil and other hazardous substances and imposes liability on responsible parties for the costs of cleaning up any environmental contamination caused by the release of a hazardous substance and for natural resource damages resulting from the release. Many states have laws that are analogous to the Clean Water Act and also require remediation of releases of petroleum and other hazardous substances in state waters. Our vessels routinely transport diesel fuel to offshore rigs and platforms and also carry diesel fuel for their own use. Our supply boats transport bulk chemical materials used in drilling activities and also transport liquid mud which contains oil and oil by-products. Offshore facilities and vessels operated by us have facility and vessel response plans to deal with potential spills of oil or its derivatives. We believe that our operations comply in all material respects with the requirements of the Clean Water Act and state statutes enacted to control water pollution.

OCSLA provides the federal government with broad discretion in regulating the production of offshore resources of oil and gas, including authority to impose safety and environmental protection requirements applicable to lessees and permittees operating in the OCS. Specific design and operational standards may apply to OCS vessels, rigs, platforms, vehicles and structures. Violations of lease conditions or regulations issued pursuant to OCSLA can result in substantial civil and criminal penalties, as well as potential court injunctions curtailing operations and cancellation of leases. Because our operations rely on offshore oil and gas exploration and production, if the government were to exercise its authority under OCSLA to restrict the availability of offshore oil and gas leases, such action could have a material adverse effect on our financial condition and results of operations. As of this date, we believe we are not the subject of any civil or criminal enforcement actions under OCSLA.

The Comprehensive Environmental Response, Compensation, and Liability Act, or CERCLA, contains provisions requiring the remediation of releases of hazardous substances into the environment and imposes liability, without regard to fault or the legality of the original conduct, on certain classes of persons including owners and operators of contaminated sites where the release occurred and those companies who transport, dispose of or who arrange for disposal of hazardous substances released at the sites. Under CERCLA, such persons may be subject to joint and several liability for the costs of cleaning up the hazardous substances that have been released into the environment, for damages to natural resources and for the costs of certain health studies. Third parties may also file claims for personal injury and property damage allegedly caused by the release of hazardous substances. Although we handle hazardous substances in the ordinary course of business, we are not aware of any hazardous substance contamination for which we may be liable.

We operate in foreign jurisdictions that have various types of governmental laws and regulations relating to the discharge of oil or hazardous substances and the protection of the environment. Pursuant to these laws and regulations, we could be held liable for remediation of some types of pollution, including the release of oil, hazardous substances and debris from production, refining or industrial facilities, as well as other assets we own or operate or which are owned or operated by either our customers or our sub-contractors.

Management believes that we are in compliance in all material respects with all applicable environmental laws and regulations to which we are subject. We do not anticipate that compliance with existing environmental laws and regulations will have a material effect upon our capital expenditures, earnings or competitive position. However, changes in the environmental laws and regulations, or claims for damages to persons, property, natural resources or

the environment, could result in substantial costs and liabilities, and thus there can be no assurance that we will not incur significant environmental compliance costs in the future.

EMPLOYEES

We rely on the high quality of our workforce. As of December 31, 2002, we had 1,184 employees, 227 of which were salaried. As of that date we also utilized approximately 450 non-U.S. citizens to crew our foreign flag vessels under a crewing contract with C-MAR Services (UK), Ltd. of Aberdeen, Scotland. None of our employees belong to a union or are employed pursuant to any collective bargaining agreement or any similar arrangement. We believe that our relationship with our employees and foreign crew members is good.

FACTORS INFLUENCING FUTURE RESULTS AND
ACCURACY OF FORWARD-LOOKING STATEMENTS

Shareholders should carefully consider the following risk factors in addition to the other information contained herein. This Annual Report on Form 10-K includes certain statements that may be deemed "forward-looking statements" within the meaning of Section 27A of the Securities Act and Section 21E of the Exchange Act. You can identify these statements by forward-looking words such as "anticipate," "believe," "budget," "could," "estimate," "expect," "forecast," "intend," "may," "plan," "potential," "should," "will" and "would' or similar words. You should read statements that contain these words carefully because they discuss our future expectations, contain projections of our future financial position or results of operations or state other forward-looking information. We believe that it is important to communicate our future expectations to our investors. However, there may be events in the future that we are not able to predict or control accurately. The factors listed below in this section, captioned "Factors Influencing Future Results and Accuracy of Forward-Looking Statements," as well as any cautionary language in this Annual Report, provide examples of risks, uncertainties and events that may cause our actual results to differ materially from the expectations we describe in our forward-looking statements. You should be aware that the occurrence of the events described in these risk factors and elsewhere in this Annual Report could have a material adverse effect on our business, results of operations and financial position.

OUR BUSINESS IS ADVERSELY AFFECTED BY LOW OIL AND GAS PRICES AND BY THE CYCLICALITY OF THE OIL AND GAS INDUSTRY.

Our business is substantially dependent upon the condition of the oil and gas industry and, in particular, the willingness of oil and gas companies to make capital expenditures for offshore exploration, drilling and production operations. The level of capital expenditures generally depends on the prevailing view of future oil and gas prices, which are influenced by numerous factors affecting the supply and demand for oil and gas, including, but not limited to:

- Worldwide economic activity,
- Economic and political conditions in the Middle East and other oil-producing regions,
- Coordination by the Organization of Petroleum Exporting Countries, or OPEC,
- The cost of exploring for and producing oil and gas,

- The sale and expiration dates of offshore leases in the United States and overseas,

- The discovery rate of new oil and gas reserves in offshore areas,

- Technological advances,

- Interest rates and the cost of capital,

- Environmental regulations, and

- Tax policies.

The level of offshore construction activity did not increase despite higher commodity prices in 2002. We cannot assure you that activity levels will increase anytime soon. A sustained period of low drilling and production activity or the return of lower commodity prices would likely have a material adverse effect on our financial position and results of operations.

THE OPERATION OF MARINE VESSELS IS RISKY, AND WE DO NOT HAVE INSURANCE COVERAGE FOR ALL RISKS.

Marine construction involves a high degree of operational risk. Hazards, such as vessels sinking, grounding, colliding and sustaining damage from severe weather conditions, are inherent in marine operations. These hazards can cause personal injury or loss of life, severe damage to and destruction of property and equipment, pollution or environmental damage and suspension of operations. Damage arising from such occurrences may result in lawsuits asserting large claims. We maintain such insurance protection as we deem

prudent, including Jones Act employee coverage, which is the maritime equivalent of workers' compensation, and hull insurance on our vessels. We cannot assure you that any such insurance will be sufficient or effective under all circumstances or against all hazards to which we may be subject. A successful claim for which we are not fully insured could have a material adverse effect on us. Moreover, we cannot assure you that we will be able to maintain adequate insurance in the future at rates that we consider reasonable. As a result of market conditions, premiums and deductibles for certain of our insurance policies have increased substantially, and could escalate further. In some instances, certain insurance could become unavailable or available only for reduced amounts of coverage. For example, insurance carriers are now requiring broad exclusions for losses due to war risk and terrorist acts. As construction activity expands into deeper water in the Gulf, a greater percentage of our revenues may be from Deepwater construction projects that are larger and more complex, and thus riskier, than shallow water projects. As a result, our revenues and profits are increasingly dependent on our larger vessels. The current insurance on our vessels, in some cases, is in amounts approximating book value, which is less than replacement value. In the event of property loss due to a catastrophic marine disaster, mechanical failure or collision, insurance may not cover a substantial loss of revenues, increased costs and other liabilities, and could have a material adverse effect on our operating performance if we were to lose any of our large vessels.

OUR CONTRACTING BUSINESS DECLINES IN WINTER, AND BAD WEATHER IN THE GULF OR NORTH SEA CAN ADVERSELY AFFECT OUR OPERATIONS.

Marine operations conducted in the Gulf and North Sea are seasonal and depend, in part, on weather conditions. Historically, we have enjoyed our

highest vessel utilization rates during the summer and fall when weather conditions are favorable for offshore exploration, development and construction activities. We typically have experienced our lowest utilization rates in the first quarter. As is common in the industry, we typically bear the risk of delays caused by some but not all adverse weather conditions. Accordingly, our results in any one quarter are not necessarily indicative of annual results or continuing trends.

IF WE BID TOO LOW ON A TURNKEY CONTRACT, WE SUFFER CONSEQUENCES.

A majority of our projects are performed on a qualified turnkey basis where described work is delivered for a fixed price and extra work, which is subject to customer approval, is billed separately. The revenue, cost and gross profit realized on a turnkey contract can vary from the estimated amount because of changes in offshore job conditions, variations in labor and equipment productivity from the original estimates, and the performance of others such as alliance partners. These variations and risks inherent in the marine construction industry may result in our experiencing reduced profitability or losses on projects.

ESTIMATES OF OUR OIL AND GAS RESERVES, FUTURE CASH FLOWS AND ABANDONMENT COSTS MAY BE SIGNIFICANTLY INCORRECT.

Our proved reserves at December 31, 2002, included the reserves assigned to our ownership position in the Gunnison project, a Deepwater Gulf of Mexico oil and gas field operated by Kerr-McGee Corporation. These reserves constitute 47% of our total proved reserves as of December 31, 2002. The reserves assigned to Gunnison were not generated by our reservoir engineers, as we do not own the seismic data for the three fields that comprise Gunnison. Instead, they were determined based on information provided by the operator, Kerr-McGee Oil & Gas Corporation. These reserve estimates were reviewed by our engineers, including an assessment of the operator's assumptions and their engineering, geologic and evaluation principles and techniques. This Annual Report also contains estimates of our other proved oil and gas reserves and the estimated future net cash flows therefrom based upon reports for the years ended December 31, 2000, 2001 and 2002, reviewed by Miller and Lents, Ltd., independent petroleum engineers. These reports rely upon various assumptions, including assumptions required by the Securities and Exchange Commission, as to oil and gas prices, drilling and operating expenses, capital expenditures, abandonment costs, taxes and availability of funds. The process of estimating oil and gas reserves is complex, requiring significant decisions and assumptions in the evaluation of available geological, geophysical, engineering and economic data for each reservoir. As a result, these estimates are inherently imprecise. Actual future production, cash flows,

development expenditures, operating and abandonment expenses and quantities of recoverable oil and gas reserves may vary substantially from those estimated in these reports. Any significant variance in these assumptions could materially affect the estimated quantity and value of our proved reserves. You should not assume that the present value of future net cash flows from our proved reserves referred to in this prospectus is the current market value of our estimated oil and gas reserves. In accordance with Securities and Exchange Commission requirements, we base the estimated discounted future net cash flows from our proved reserves on prices and costs on the date of the estimate. Actual future prices and costs may differ materially from those used in the net present value estimate. In addition, if costs of abandonment are materially greater than our estimates, they could have an adverse effect on earnings.

THE GUNNISON PROJECT MAY NOT RESULT IN THE EXPECTED CASH FLOWS OR SUBSEA ASSET

UTILIZATION WE ANTICIPATE AND COULD INVOLVE SIGNIFICANT FUTURE CAPITAL OUTLAYS.

The Gunnison project is subject to a number of assumptions and uncertainties, including estimates of the capital outlays necessary to develop the prospect and the cash flows that we may ultimately derive. We cannot assure you that we will be able to fund all required capital outlays or that these outlays will be profitable. Moreover, although we have contracts for subsea construction work, the extent of utilization of our subsea assets for such work has not been fully determined. We have a $35.0 million loan facility to provide for the financing of part of our portion of the construction costs of the spar, of which we had drawn down $29.3 million as of December 31, 2002. See "Management's Discussion and Analysis of Financial Condition and Results of Operations -- Liquidity and Capital Resources."

EXPECTED CASH FLOWS FROM THE Q4000, INTREPID AND SEAWELL, AS WELL AS CANYON, MAY NOT BE IMMEDIATE OR AS HIGH AS EXPECTED.

The Q4000, Intrepid and the Seawell are vessels that were placed into service during 2002. In addition, during 2002 we acquired Canyon Offshore, Inc., a supplier of ROVs to the offshore construction and telecommunications industry. We will not receive any material increase in revenue or cash flow from their operation until there is significant utilization of these vessels and Canyon's services. We cannot assure you that customer demand for these vessels and Canyon's services will be as high as currently anticipated and, as a result, our future cash flows may be adversely affected. New vessels from third parties may also enter the market in the coming years and compete with the Q4000, Intrepid and the Seawell for contracts.

OUR OIL AND GAS OPERATIONS INVOLVE SIGNIFICANT RISKS, AND WE DO NOT HAVE INSURANCE COVERAGE FOR ALL RISKS.

Our oil and gas operations are subject to risks incident to the operation of oil and gas wells, including, but not limited to, uncontrollable flows of oil, gas, brine or well fluids into the environment, blowouts, cratering, mechanical difficulties, fires, explosions, pollution and other risks, any of which could result in substantial losses to us. We maintain insurance against some, but not all, of the risks described above.

WE MAY NOT BE ABLE TO COMPETE SUCCESSFULLY AGAINST CURRENT AND FUTURE COMPETITORS.

The business in which we operate is highly competitive. Several of our competitors are substantially larger and have greater financial and other resources than we have. If other companies relocate or acquire vessels for operations in the Gulf or the North Sea, levels of competition may increase and our business could be adversely affected.

THE LOSS OF THE SERVICES OF ONE OR MORE OF OUR KEY EMPLOYEES, OR OUR FAILURE TO ATTRACT AND RETAIN OTHER HIGHLY QUALIFIED PERSONNEL IN THE FUTURE, COULD DISRUPT OUR OPERATIONS AND ADVERSELY AFFECT OUR FINANCIAL RESULTS.

Our industry has lost a significant number of experienced subsea people over the years due to, among other reasons, the volatility in commodity prices. Our continued success depends on the active participation of our key employees. The loss of our key people could adversely affect our operations. We believe that our

success and continued growth are also dependent upon our ability to attract and retain skilled personnel. We believe that our wage rates are competitive;

however, unionization or a significant increase in the wages paid by other employers could result in a reduction in our workforce, increases in the wage rates we pay, or both. If either of these events occurs for any significant period of time, our revenues and profitability could be diminished and our growth potential could be impaired.

IF WE FAIL TO EFFECTIVELY MANAGE OUR GROWTH, OUR RESULTS OF OPERATIONS COULD BE HARMED.

We have a history of growing through acquisitions of large assets and acquisitions of companies. We must plan and manage our acquisitions effectively to achieve revenue growth and maintain profitability in our evolving market. If we fail to effectively manage current and future acquisitions, our results of operations could be adversely affected. Our growth has placed, and is expected to continue to place, significant demands on our personnel, management and other resources. We must continue to improve our operational, financial, management and legal/compliance information systems to keep pace with the growth of our business.

WE MAY NEED TO CHANGE THE MANNER IN WHICH WE CONDUCT OUR BUSINESS IN RESPONSE TO CHANGES IN GOVERNMENT REGULATIONS.

Our subsea construction, intervention, inspection, maintenance and decommissioning operations and our oil and gas production from offshore properties, including decommissioning of such properties, are subject to and affected by various types of government regulation, including numerous federal, state and local environmental protection laws and regulations. These laws and regulations are becoming increasingly complex, stringent and expensive to comply with, and significant fines and penalties may be imposed for noncompliance. We cannot assure you that continued compliance with existing or future laws or regulations will not adversely affect our operations.

CERTAIN PROVISIONS OF OUR CORPORATE DOCUMENTS AND MINNESOTA LAW MAY DISCOURAGE A THIRD PARTY FROM MAKING A TAKEOVER PROPOSAL.

In addition to the 55,000 shares of preferred stock issued or issuable to Fletcher International, Ltd. under the First Amended and Restated Agreement dated January 17, 2003, but effective as of December 31, 2002, by and between Cal Dive and Fletcher International, Ltd., our board of directors has the authority, without any action by our shareholders, to fix the rights and preferences on up to 4,945,000 shares of undesignated preferred stock, including dividend, liquidation and voting rights. In addition, our by-laws divide the board of directors into three classes. We are also subject to certain anti-takeover provisions of the Minnesota Business Corporation Act. We also have employment contracts with all of our senior officers that require cash payments in the event of a "change of control." Any or all of the provisions or factors described above may have the effect of discouraging a takeover proposal or tender offer not approved by management and the board of directors and could result in shareholders who may wish to participate in such a proposal or tender offer receiving less for their shares than otherwise might be available in the event of a takeover attempt.

ITEM 2. PROPERTIES

OUR VESSELS

We own a fleet of 22 vessels and 21 ROVs and trenchers. We believe that the Gulf market requires specially designed and/or equipped vessels to competitively deliver subsea construction services. Nine of our vessels have DP capabilities specifically designed to respond to the Deepwater market requirements. Eight of our vessels (seven of which are based in the Gulf) have the capability to provide saturation diving services. Recent developments in our fleet include:

Q4000: We began construction of our newest Ultra-Deepwater MSV, the Q4000, in 1999, and accepted her delivery in early 2002. The vessel cost $182 million and incorporates our latest semi-submersible technologies, including various patented elements such as the absence of lower hull cross bracing. A variable deck load of over 4,000 metric tons and upgraded well completions capability make

the vessel particularly well suited for large offshore construction projects in the Ultra-Deepwater. Its Huisman-Itrec multi-purpose tower has an open face which allows free access from three sides, an advantage for a construction and intervention vessel.

Intrepid: The Intrepid (formerly Sea Sorceress) offers customers a pipelay/construction vessel capable of carrying an 8,000 metric ton deck load. She began work in June of 2002.

Eclipse: This large DP DSV is 370 feet long, 67 feet wide and has recently been refitted into a DSV by installing a saturation diving system, restoring the ballast system and upgrading to DP-2. The Eclipse began work in March 2002.

Seawell: This purpose-built 364 foot mono-hull DP vessel, capable of supporting both manned diving and ROVs, was recently upgraded for coiled tubing deployment and well testing. The Seawell was purchased in July 2002.

Northern Canyon: Canyon took delivery of this purpose-built, 270 foot state-of-the-art ROV support vessel in July 2002. The vessel, which is deployed in the North Sea, is leased from a third party.

ROVs: To enable us to control critical path equipment involved in our deepwater projects, we acquired Canyon in January 2002. Canyon currently operates 17 ROVs and four trencher systems. In 2001, Canyon introduced the next-generation work-class ROV, the Quest. Advantages of the Quest include: electric instead of hydraulic systems, 50% smaller footprint, fewer moving parts (i.e., lower operating costs), a dynamic positioning system and improved depth rating. The average age of the Canyon ROV fleet is approximately two years. Furthermore, Canyon has ordered three new Triton XLS ROV systems and a state of the art 750 horsepower trenching unit to fulfill its future contract obligations under its agreement with Technip.

LISTING OF VESSELS, BARGE AND ROVS

	DATE CAL DIVE PLACED IN SERVICE	LENGTH (FEET)	CLEAR DECK SPACE (SQ. FEET)	DECK LOAD (TONS)	BERTHS	MOONPOOL LAUNCH/ SAT DIVING	FOUR POINT ANCHOR MOORED	
DP MSVS:								
Uncle John.....	11/96	254	11,834	460	102	X	--	
Q4000(2).....	4/02	310	26,400	4,000	138	X	--	1 De
FLOWLINE LAY:								

Intrepid(4).....	8/97	374	17,730	8,000	50	--	--
WELL OPERATIONS:							
Seawell(6).....	7/02	368	900	700	129	X	--
DP DSVS:							
Eclipse(5).....	3/02	380	8,611	2,436	109	X	--
Witch Queen.....	11/95	278	5,600	500	60	X	--
Mystic Viking.....	6/01	253	5,600	1,340	60	X	--
DP ROV SUPPORT Vessels:							
Merlin.....	12/97	198	955	308	42	--	--
Northern Canyon(3).....	2002	276	9,677	2,400	60	--	--
DSVS:							
Cal Diver I.....	7/84	196	2,400	220	40	X	X
Cal Diver II.....	6/85	166	2,816	300	32	X	X
Cal Diver V.....	9/91	168	2,324	490	30	--	X
Cal Diver IV.....	3/01	120	1,440	60	24	--	--
Mr. Fred.....	3/00	167	2,465	500	36	--	X
Mr. Sonny(7).....	3/01	175	3,480	409	28	--	X
UTILITY VESSELS:							
Mr. Jim.....	2/98	110	1,210	64	19	--	--
Mr. Jack.....	1/98	120	1,220	66	22	--	--
Polo Pony(7).....	3/01	110	1,240	69	25	--	--
Sterling Pony(7)...	3/01	110	1,240	64	25	--	--
White Pony(7).....	3/01	116	1,230	64	25	--	--
OTHER:							
Cal Dive Barge I...	8/90	150	N/A	200	26	--	X
Talisman.....	11/00	195	3,000	675	15	--	--
21 ROVs and trenchers(8).....	Various(4)	--	--	--	--	--	--

---

(1) Under government regulations and our insurance policies, we are required to maintain our vessels in accordance with standards of seaworthiness and safety set by government regulations and classification organizations. We maintain our fleet to the standards for seaworthiness, safety and health set by the American Bureau of Shipping, or ABS, Det Norske Veritas, or DNV, and the U.S. Coast Guard, or USCG. The ABS is one of several classification societies used by ship owners to certify that their vessels meet certain structural, mechanical and safety equipment standards, including Lloyd's Register, Bureau Veritas and DNV among others.

(2) The Q4000 commenced work in April 2002.

(3) This leased vessel became available in June 2002.

(4) The Intrepid modifications were completed in May 2002 and the vessel began work in June 2002.

(5) The Eclipse was purchased in October 2001 and began work in March 2002.

(6) The Seawell was purchased and began work in July 2002.

(7) In March 2001, we acquired substantially all of the assets of Professional Divers including the Mr. Sonny (a 165-foot four-point moored DSV), three utility vessels and associated diving equipment including two saturation diving systems.

(8) Average age of ROV fleet is two years.

We incur routine drydock inspection, maintenance and repair costs pursuant to Coast Guard regulations and in order to maintain ABS or DNV classification for our vessels. In addition to complying with these requirements, we have our own vessel maintenance program that we believe permits us to continue to provide our customers with well maintained, reliable vessels. In the normal course of business, we charter other vessels on a short-term basis, such as tugboats, cargo barges, utility boats and dive support vessels. All of our vessels are subject to ship mortgages to secure our $70.0 million revolving credit facility, except the Northern Canyon (leased),and the Q4000 (subject to liens to secure the MARAD financing guarantees).

SUMMARY OF NATURAL GAS AND OIL RESERVE DATA

The table below sets forth information, as of December 31, 2002, with respect to estimates of net proved reserves and the present value of estimated future net cash flows at such date, prepared in accordance with guidelines established by the Securities and Exchange Commission. The Company's estimates of reserves at December 31, 2002, excluding Gunnison, have been reviewed by Miller and Lents, Ltd., independent petroleum engineers. These non-Gunnison reserves totaled (as of December 31, 2002) 43,323 MMcf of natural gas and 6,727 MBbls of oil with a standardized measure of discounted future net cash flows (pre-tax) of $161,565,600 (see note (2) in table below). Since the Company does not own a license to the geophysical data, reserves attributable to Gunnison (which total 47% of the proved reserves as of December 31, 2002) have been determined based on information provided by the operator. These reserve estimates were reviewed by our engineers, including an assessment of the operator's assumptions and their engineering, geologic and evaluation principles and techniques. All of the Company's reserves are located in the United States. Proved reserves cannot be measured exactly because the estimation of reserves involves numerous judgmental determinations. Accordingly, reserve estimates must be continually revised as a result of new information obtained from drilling and production history, new geological and geophysical data and changes in economic conditions.

	TOTAL PROVED
Estimated Proved Reserves(1):	
Natural gas (MMcf)	85,224
Oil and condensate (MBbls)	12,037
Standardized measure of discounted future net cash flows (pre-tax)(2)	$291,705,010

---

(1) Includes both Company's reserves reviewed by Miller & Lents (as noted above) and Gunnison reserves reviewed by Company's engineers.

(2) The standardized measure of discounted future net cash flows attributable to our reserves was prepared using constant prices as of the calculation date, discounted at 10% per annum. As of December 31, 2002, we owned an interest in 157 gross (105 net) natural gas wells and 302 gross (265 net) oil wells located in federal and state offshore waters in the Gulf of Mexico.

FACILITIES

Our corporate headquarters are located at 400 N. Sam Houston Parkway E., Suite 400, Houston, Texas. Our primary subsea and marine services operations are based in Morgan City, Louisiana. All of our facilities are leased.

PROPERTIES AND FACILITIES SUMMARY

	FUNCTION	SIZE
Houston, Texas.....	Cal Dive International , Inc. (CDI) Corporate Headquarters, Project Management, and Sales Office;	37,800 square feet
	Energy Resource Technology, Inc.; and Well Ops Inc. Canyon Corporate Headquarters, Management and Sales Office	15,000 square feet
Aberdeen, Scotland.....	Canyon Sales Office	12,000 square feet
	Well Ops (U.K.) Limited Operations	4,600 square feet
Singapore.....	Canyon Operations	10,000 square feet
Morgan City, Louisiana.....	CDI Operations	28.5 acres
	CDI Warehouse	30,000 square feet
	CDI Offices	4,500 square feet
Lafayette, Louisiana.....	Aquatica Operations	8 acres
	Aquatica Warehouse	12,000 square feet
	Aquatica Offices	5,500 square feet
New Orleans, Louisiana.....	Aquatica Sales Office	2,724 square feet

ITEM 3. LEGAL PROCEEDINGS

INSURANCE AND LITIGATION

Our operations are subject to the inherent risks of offshore marine activity, including accidents resulting in personal injury and the loss of life or property, environmental mishaps, mechanical failures, fires and collisions. We insure against these risks at levels consistent with industry standards. We also carry workers' compensation, maritime employer's liability, general liability and other insurance customary in our business. All insurance is carried at levels of coverage and deductibles that we consider financially prudent. Our services are provided in hazardous environments where accidents involving catastrophic damage or loss of life could occur, and litigation arising from such an event may result in our being named a defendant in lawsuits asserting large claims. To date, we have been involved in only one such claim, where the cost of our vessel, the Balmoral Sea, was fully covered by insurance. Although there can be no assurance that the amount of insurance we carry is sufficient to protect us fully in all events, or that such insurance will continue to be available at current levels of cost or coverage, we believe that our insurance protection is adequate for our business operations. A successful liability claim for which we are underinsured or uninsured could have a material adverse effect on our business.

We are involved in various legal proceedings, primarily involving claims for personal injury under the General Maritime Laws of the United States and the Jones Act as a result of alleged negligence. In addition, we from time to time incur other claims, such as contract disputes, in the normal course of business. In that regard, in 1998, one of our subsidiaries entered into a subcontract with

Seacore Marine Contractors Limited ("Seacore") to provide the Sea Sorceress to a Coflexip subsidiary in Canada ("Coflexip"). Due to difficulties with respect to the sea states and soil conditions the contract was terminated and an arbitration to recover damages was commenced. A preliminary liability finding has been made by the arbitrator against Seacore and in favor of the Coflexip subsidiary. We were not a party to this arbitration proceeding. Seacore and Coflexip

settled this matter prior to the conclusion of the arbitration proceeding with Seacore paying Coflexip $6.95 million CDN. Seacore has now made demand on Cal Dive Offshore Ltd. ("CDO"), a subsidiary of Cal Dive, for one-half of this amount. Because only one of the grounds in the preliminary findings by the arbitrator is applicable to CDO, and because CDO holds substantial counterclaims against Seacore, management believes that in the event Seacore continues to seek contribution from our subsidiary, which would require another arbitration, it is anticipated that our subsidiary's exposure, if any, should be less than $500,000.

During 2002, the Company engaged in a large construction project and, in late September, supports engineered by a subcontractor failed resulting in over a month of downtime for two of CDI's vessels. Management believes that under the terms of the contract the Company is entitled to the contractual stand-by rate for the vessels during their downtime. The customer is currently disputing these invoices along with certain other change orders. Of the amounts billed by CDI for this project, $12.1 million had not been collected as of February 18, 2003. Due to the size of the dispute, inherent uncertainties with respect to a mediation and relationship issues with the customer, CDI provided a reserve in the fourth quarter of 2002 resulting in a loss for the Company on the project as a whole. In another lengthy commercial dispute, EEX Corporation sued Cal Dive and others alleging breach of fiduciary duty by a former EEX employee and damages resulting from certain construction and property acquisition agreements. Cal Dive had responded alleging EEX Corporation breached various provisions of the same contracts. EEX's acquisition by Newfield during the fourth quarter 2002 enabled CDI to enter meaningful settlement discussions prior to the trial date, which was set for February 2003. This resulted in a settlement including CDI making a cash payment, subsequent to yearend, and agreeing to provide work credits for its services over the next three years. The total value of the settlement was recorded in the Company's statement of operations for the year ended December 31, 2002. This settlement combined with the reserves on the project discussed above resulted in approximately $10 million of pre-tax charges recorded in the accompanying statement of operations.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS.

None.

ITEM (UNNUMBERED). EXECUTIVE OFFICERS OF THE COMPANY

The executive officers of Cal Dive are as follows:

NAME	AGE	POSITION
Owen Kratz	48	Chairman and Chief Executive Officer and Director
Martin R. Ferron	46	President and Chief Operating Officer and Director

S. James Nelson, Jr.	61	Vice Chairman and Director
James Lewis Connor, III	45	Senior Vice President, General Counsel and Corporate Secretary
A. Wade Pursell	38	Senior Vice President, Chief Financial Officer and Treasurer
Johnny Edwards	49	President -- Energy Resource Technology, Inc.

Owen Kratz is Chairman and Chief Executive Officer of Cal Dive International, Inc. He was appointed Chairman in May 1998 and has served as our Chief Executive Officer since April 1997. Mr. Kratz served as President from 1993 until February 1999, and as a Director since 1990. He served as Chief Operating Officer from 1990 through 1997. Mr. Kratz joined Cal Dive in 1984 and has held various offshore positions, including saturation diving supervisor, and has had management responsibility for client relations, marketing and estimating. From 1982 to 1983, Mr. Kratz was the owner of an independent marine construction company operating in the Bay of Campeche. Prior to 1982, he was a superintendent for Santa Fe and various international diving companies, and a saturation diver in the North Sea.

Martin R. Ferron has served on our board of directors since September 1998. Mr. Ferron became President in February 1999 and has served as Chief Operating Officer since January 1998. Mr. Ferron has 20 years of experience in the oilfield industry, including seven in senior management positions with the international operations of McDermott Marine Construction and Oceaneering International Services, Limited. Mr. Ferron has a civil engineering degree, a master's degree in marine technology, an MBA and is a chartered civil engineer.

S. James Nelson, Jr. is Vice Chairman and has been a Director of Cal Dive since 1990. Prior to October 2000, he was Executive Vice President and Chief Financial Officer. From 1985 to 1988, Mr. Nelson was the Senior Vice President and Chief Financial Officer of Diversified Energies, Inc., the former parent of Cal Dive, at which time he had corporate responsibility for Cal Dive. From 1980 to 1985, Mr. Nelson served as Chief Financial Officer of Apache Corporation, an oil and gas exploration and production company. From 1966 to 1980, Mr. Nelson was employed with Arthur Andersen & Co., and, from 1976 to 1980, he was a partner serving on the firm's worldwide oil and gas industry team. Mr. Nelson received an undergraduate degree from Holy Cross College (B.S.) and an MBA from Harvard University; he is also a Certified Public Accountant.

James Lewis Connor, III became Senior Vice President and General Counsel of Cal Dive in May 2002 and Corporate Secretary in July 2002. He had previously served as Deputy General Counsel since May 2000. Mr. Connor has been involved with the oil and gas industry for nearly 20 years, including 11 years in his capacity as legal counsel to both companies and individuals. Prior to joining Cal Dive, Mr. Connor was a Senior Counsel at El Paso Production Company (formerly Sonat Exploration Company) from 1997 to 2000 and previously from 1995 to 1997 was a senior associate in the oil, gas and energy law section of Hutcheson & Grundy, L.L.P. Mr. Connor received his Bachelor of Science degree from Texas A&M University in 1979 and his law degree, with honors, from the University of Houston in 1991.

A. Wade Pursell is Senior Vice President and Chief Financial Officer of Cal Dive International, Inc. In this capacity, which he was appointed to in October 2000, Mr. Pursell oversees the treasury, accounting, information technology, tax, administration and corporate planning functions. He joined Cal Dive in May 1997, as Vice President -- Finance and Chief Accounting Officer. From 1988 through 1997 he was with Arthur Andersen LLP, lastly as an Experienced Manager

specializing in the offshore services industry (which included servicing the Cal Dive account from 1990 to 1997). Mr. Pursell received an undergraduate degree (B.S.) from the University of Central Arkansas and is a Certified Public Accountant.

Johnny Edwards has been President of ERT since March 2000. He joined ERT in 1994 as Engineering and Acquisitions Manager, where he has been instrumental in the growth of the company. Prior to joining ERT, Mr. Edwards worked for ARCO Oil & Gas Company for 19 years and held various technical and management positions in engineering and operations. Mr. Edwards received a Bachelor of Science degree in Chemical Engineering from Louisiana Tech University in 1975.

PART II

ITEM 5. MARKET FOR THE REGISTRANT'S COMMON EQUITY AND RELATED SHAREHOLDER MATTERS

Our common stock is traded on the Nasdaq National Market under the symbol "CDIS." The following table sets forth, for the periods indicated, the high and low closing sale prices per share of our common stock:

	COMMON STOCK PRICE	
	HIGH	LOW
Calendar Year 2001		
First quarter	$31.00	$22.00
Second quarter	30.66	21.88
Third quarter	23.04	15.98
Fourth quarter	25.86	16.01
Calendar Year 2002		
First quarter	$25.20	$20.50
Second quarter	$27.22	$21.70
Third quarter	$21.90	$15.36
Fourth quarter	$25.20	$20.00
Calendar Year 2003		
First quarter (through March 17, 2003)	$24.46	$16.99

On March 17, 2003, the closing sale price of our common stock on the Nasdaq National Market was $18.64 per share. As of March 17, 2003, there were an estimated 8,467 beneficial holders of our common stock.

On January 2, 2002, CDI purchased Canyon Offshore, Inc. for cash of $52.8 million, the assumption of $9.0 million of Canyon debt (offset by $3.1 million of cash acquired), securities exchangeable for 181,000 shares of Cal Dive common stock and a commitment to purchase the redeemable stock in Canyon for cash at a price to be determined by Canyon's performance during the years 2002 through 2004 from continuing employees at a minimum purchase price of $13.53 per share. The securities exchangeable for Cal Dive common stock were issued to certain former shareholders of Canyon in reliance on the exemption from registration provided by Section 4(2) of the Securities Act of 1933, as amended. The three persons acquiring the securities exchangeable for Cal Dive common stock are sophisticated investors who represented to Cal Dive that the securities were being acquired for investment purposes and not with a view to distribution.

DIVIDEND POLICY

We have never declared or paid cash dividends on our common stock and do not intend to pay cash dividends in the foreseeable future. We currently intend to retain earnings, if any, for the future operation and growth of our business. In addition, our financing arrangements prohibit the payment of cash dividends on our common stock. See "Management's Discussion and Analysis of Financial Condition and Results of Operations -- Liquidity and Capital Resources."

ITEM 6. SELECTED FINANCIAL DATA

The financial data presented below for each of the five years ended December 31, 2002, should be read in conjunction with Management's Discussion and Analysis of Financial Condition and Results of Operations

and the Consolidated Financial Statements and Notes to Consolidated Financial Statements included elsewhere in this Form 10-K (in thousands, except per share amounts).

	1998	1999	2000	2001	2002
Net Revenues	$151,887	$160,054	$181,014	$227,141	$302,705
Gross Profit	49,209	37,251	55,369	66,911	53,792
Net Income	24,125	16,899	23,326	28,932	12,377
Net Income per share:					
Basic	0.83	0.56	0.74	0.89	0.35
Diluted	0.81	0.55	0.72	0.88	0.35
Total Assets	164,235	243,722	347,488	473,122	845,858
Long-Term Debt	--	--	40,054	98,048	223,576
Shareholders' Equity	113,643	150,872	194,725	226,349	337,517

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

OVERVIEW

Oil and gas prices, the offshore mobile rig count, and Deepwater construction activity are three of the primary indicators we use to forecast the future performance of our business. Our construction services generally follow successful drilling activities by six to eighteen months on the OCS and twelve months or longer in the Deepwater arena. The level of drilling activity is related to both short- and long-term trends in oil and gas prices. In the second quarter of 1999, oil prices reached their highest levels since the First Gulf War and natural gas prices reached $10.00 per Mcf in early 2001, pushing offshore mobile rig utilization rates back to virtually full utilization. However, a slowing world economy and record levels of natural gas in storage resulted in significantly lower offshore mobile rig utilization rates in the second half of 2001 and throughout 2002. Commodity prices have recently recovered to very robust levels; however, with the instability in the Middle East and a slow world economy, drilling activity has yet to respond. Our primary leading indicator, the number of offshore mobile rigs contracted, is currently

at approximately 115 rigs employed in the Gulf of Mexico, compared to 182 during the first quarter of 2001. The Deepwater Gulf is principally being developed for oil, with the complexity of developing these reservoirs resulting in significant lead times to first production.

Product prices impact our oil and gas operations in several respects. We seek to acquire producing oil and gas properties that are generally in the later stages of their economic life. The sellers' potential abandonment liabilities are a significant consideration with respect to the offshore properties we have purchased to date. Although higher natural gas prices tend to reduce the number of mature properties available for sale, these higher prices typically contribute to improved operating results for ERT. In contrast, lower natural gas prices, typically contribute to lower operating results for ERT and a general increase in the number of mature properties available for sale. We have expanded the scope of our gas and oil operations by taking a working interest in Gunnison, a Deepwater Gulf development of Kerr-McGee Oil & Gas Corporation which has discovered significant reserves, and participating in the ownership of the Marco Polo production facility.

Vessel utilization is historically lower during the first quarter due to winter weather conditions in the Gulf and the North Sea. Accordingly, we plan our drydock inspections and other routine and preventive maintenance programs during this period. During the first quarter, a substantial number of our customers finalize capital budgets and solicit bids for construction projects. The bid and award process during the first two quarters typically leads to the commencement of construction activities during the second and third quarters. As a result, we have historically generated up to 65% of our marine contracting revenues in the last six months of the year. Our operations can also be severely impacted by weather during the fourth quarter. Our salvage barge, which has a shallow draft, is particularly sensitive to adverse weather conditions, and its utilization rate tends to be lower during such periods. Operation of oil and gas properties and production facilities tends to offset the impact of weather since the first and fourth quarters are typically periods of high demand and strong prices for natural gas. Due to this seasonality, full year results are not likely to be a direct multiple of any particular quarter or combination of quarters.

The following table sets forth for the periods presented average U.S. natural gas prices, our equivalent natural gas production, the average number of offshore rigs under contract in the Gulf, the number of platforms installed and removed in the Gulf and the vessel utilization rates for each of the major categories of our fleet.

	2002				2001			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
U.S. natural gas prices(1).....	$2.52	$3.47	$4.27	$5.29	$7.09	$4.67	$2.88	$2.45
ERT oil and gas production (MMcfe).....	3,321	4,169	4,271	3,725	4,290	3,552	3,289	2,797
Rigs under contract in the Gulf(2).....	148	160	175	178	182	189	165	125
Platform installations(3).....	9	19	27	19	12	19	20	11
Platform removals(3).....	--	25	61	7	13	11	19	16
Our average vessel utilization rate:(4)								

DP	71%	38%	45%	56%	61%	76%	85%	95%
Saturation DSV	57	57	78	60	72	67	82	91
Surface diving	31	58	55	57	61	81	72	60
Derrick barge	8	41	53	59	30	54	67	47

---

(1) Average of the monthly Henry Hub cash prices per Mcf, as reported in Natural Gas Week.

(2) Average monthly number of rigs contracted, as reported by Offshore Data Services.

(3) Source: Offshore Data Services; installation and removal of platforms with two or more piles in the Gulf.

(4) Average vessel utilization rate is calculated by dividing the total number of days the vessels in this category generated revenues by the total number of days in each quarter.

CRITICAL ACCOUNTING POLICIES

Our results of operations and financial condition, as reflected in the accompanying financial statements and related footnotes, are subject to management's evaluation and interpretation of business conditions, changing capital market conditions and other factors which could affect the ongoing viability of our business segments and/or our customers. We believe the most critical accounting policies in this regard are the estimation of revenue allowance on gross amounts billed and evaluation of recoverability of property and equipment and goodwill balances. While these issues require us to make judgments that are somewhat subjective, they are generally based on a significant amount of historical data and current market data. Another area which requires us to make subjective judgments is that of revenue recognition. Our 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. We recognize 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.

ERT acquisitions of producing offshore properties are recorded at the fair 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, we perform detailed estimating procedures, including engineering studies. We follow the successful efforts method of accounting for our interests in oil and gas properties. Under the successful efforts method, the costs of successful wells and leases containing productive reserves are capitalized. Costs incurred to drill and equip development wells, including unsuccessful development wells, are capitalized.

The Company also considers the following accounting policies to be the most critical to the preparation of its financial statements:

GOODWILL AND INDEFINITE-LIVED INTANGIBLES

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

PROPERTY AND EQUIPMENT

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

In accordance with Statement of Financial Accounting Standards ("SFAS") No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets ("SFAS No. 144"), long-lived assets, excluding goodwill and indefinite-lived intangibles, to be held and used by the Company are reviewed to determine whether any events or changes in circumstances indicate that the carrying amount of the asset may not be recoverable. SFAS No. 144 modifies SFAS No. 121, Accounting for the Impairment or Disposal of Long-Lived Assets to be Disposed of ("SFAS No. 121"). For long-lived assets to be held and used, the Company bases its evaluation on impairment indicators such as the nature of the assets, the future economic benefit of the assets, any historical or future profitability measurements and other external market conditions or factors that my be present. If such impairment indicators are present or other factors exist that indicate that the carrying amount of the asset may not be recoverable, the Company determines whether an impairment has occurred through the use of an undiscounted cash flows analysis of the asset at the lowest level for which identifiable cash flows exist. If an impairment has occurred, the Company recognizes a loss for the difference between the carrying amount and the fair value of the asset. The fair value of the asset is measured using quoted market prices or, in the absence of quoted market prices, is based on management's estimate of discounted cash flows. Assets are classified as held for sale when the Company has a plan for disposal of certain assets and those assets meet the held for sale criteria of SFAS No. 144.

FOREIGN CURRENCY

The functional currency for the Company's foreign subsidiary Well Ops (U.K.) Limited is the applicable local currency (British Pound). Results of operations for this subsidiary are translated into U.S. dollars using average exchange rates during the period. Assets and liabilities of this foreign subsidiary are translated into U.S. dollars using the exchange rate in effect at the balance sheet date and the resulting translation adjustment which was a gain of $2.5 million, net of taxes, in 2002 is accumulated as a component of shareholders' equity. All foreign currency transaction gains and losses are recognized currently in the statements of operations.

Canyon Offshore, the Company's ROV subsidiary, has operations in the United Kingdom and Southeast Asia sectors. Canyon conducts the majority of its affairs in these regions in U.S. dollars which it considers the functional currency.

When currencies other than the U.S. dollar are to be paid or received the resulting gain or loss from translation is recognized in the statements of operations. These amounts for the year ended December 31, 2002 were not material to the Company's results of operations or cash flows.

ACCOUNTING FOR PRICE RISK MANAGEMENT ACTIVITIES

The Company's price risk management activities involve the use of derivative financial instruments to hedge the impact of market price risk exposures primarily related to our oil and gas production. Under SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities, all derivatives are reflected in our balance sheet at their fair market value.

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

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

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

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

NEW ACCOUNTING PRONOUNCEMENTS

In July 2001, the Financial Accounting Standards Board ("FASB") released SFAS No. 143, Accounting for Asset Retirement Obligations, which is required to be adopted no later than January 1, 2003. SFAS 143 addresses the financial accounting and reporting obligations and retirement costs related to the

retirement of tangible long-lived assets. Among other things, SFAS 143 will require oil and gas companies to reflect decommissioning liabilities on the face of the balance sheet at fair value on a discounted basis. Historically, ERT has reflected this liability on the balance sheet on an undiscounted basis. The Company will adopt this standard, as required, effective January 1, 2003. Management currently believes adoption of this standard will result in additional diluted earnings per share in the first quarter of 2003 of between $0.01 and $.03 and adjustment