

HELIX ENERGY SOLUTIONS GROUP INC
Form 10-K
February 25, 2011

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 10-K

(Mark One)

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

For the fiscal year ended December 31, 2010

or

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) of the
Securities Exchange Act of 1934

For the transition period from

to

Commission File Number 001-32936

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

Minnesota
(State or other jurisdiction
of incorporation or organization)

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

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

77060
(Zip Code)

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

Securities registered pursuant to Section 12(b) of the Act:

Title of each class
Common Stock (no par value)

Name of each exchange on which registered
New York Stock Exchange

Securities registered Pursuant to Section 12(g) of the Act:
None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405 of this chapter) 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 a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company

(Do not check if a smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

The aggregate market value of the voting and non-voting common equity held by non-affiliates of the registrant based on the last reported sales price of the Registrant's Common Stock on June 30, 2010 was approximately \$1.1 billion.

The number of shares of the registrant's Common Stock outstanding as of February 18, 2011 was 105,901,063.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the definitive Proxy Statement for the Annual Meeting of Shareholders to be held on May 11, 2011, are incorporated by reference into Part III hereof.

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Forward Looking Statements

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

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

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

- impact of continuing weak economic conditions and the future impact of such conditions on the oil and gas industry and the demand for our services;
- uncertainties inherent in the development and production of oil and gas and in estimating reserves;
- the geographic concentration of our oil and gas operations;
- the effect of new regulations on the offshore Gulf of Mexico oil and gas operations;

- uncertainties regarding our ability to replace depletion;
- unexpected capital expenditures (including the amount and nature thereof);
- impact of oil and gas price fluctuations and the cyclical nature of the oil and gas industry;
- the effects of indebtedness, which could adversely restrict our ability to operate, could make us vulnerable to general adverse economic and industry conditions, could place us at a competitive disadvantage compared to our competitors that have less debt and could have other adverse consequences to us;
- the effectiveness of our derivative activities;
- the results of our continuing efforts to control or reduce costs and improve performance;
- the success of our risk management activities;

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- the effects of competition;
- the availability (or lack thereof) of capital (including any financing) to fund our business strategy and/or operations and the terms of any such financing;
- the impact of current and future laws and governmental regulations, including tax and accounting developments;
- the effect of adverse weather conditions and/or other risks associated with marine operations;
- the effect of environmental liabilities that are not covered by an effective indemnity or insurance;
- the potential impact of a loss of one or more key employees; and
- the impact of general, market, industry or business conditions.

Our actual results could differ materially from those anticipated in any forward-looking statements as a result of a variety of factors, including those discussed in “Risk Factors” beginning on page 18 of this Annual Report. All forward-looking statements attributable to us or persons acting on our behalf are expressly qualified in their entirety by these risk factors. Forward-looking statements are only as of the date they are made, and other than as required under the securities laws, we assume no obligation to update or revise these forward-looking statements or provide reasons why actual results may differ.

PART I

Item 1. Business

OVERVIEW

Helix Energy Solutions Group, Inc. (together with its subsidiaries, unless context requires otherwise, “Helix,” “the Company,” “we,” “us” or “our”) is an international offshore energy company that provides field development solutions and other contracting services to the energy market as well as to our own oil and gas properties. We have three reporting business segments: Contracting Services, Production Facilities, and Oil and Gas. Our Contracting Services segment utilizes vessels, offshore equipment and methodologies to deliver services that may reduce finding and development costs and encompass the complete lifecycle of an offshore oil and gas field. Our Production Facilities segment consists of our ownership interest in certain production facilities in hub locations where there is potential for significant subsea tieback activity as well as our investment in a dynamically positioned floating production vessel (the “Helix Producer I or HP I”). Our Oil and Gas segment engages in prospect generation, exploration, development and production activities. Our operations are primarily located in the Gulf of Mexico, North Sea, Asia Pacific and West Africa regions.

Since 2008, we have focused the future of the Company around our Contracting Services businesses, including subsea construction, well operations and robotics services. For additional information regarding this strategy and about our contracting services operations, see sections titled “Our Strategy,” and “Contracting Services Operations” all included elsewhere within Item 1. “Business” of this Annual Report.

Our principal executive offices are located at 400 North Sam Houston Parkway East, Suite 400, Houston, Texas 77060; phone number 281-618-0400. Our common stock trades on the New York Stock Exchange (“NYSE”) under the ticker symbol “HLX”. Our Chief Executive Officer submitted the annual CEO certification to the NYSE as required under its listed Company Manual in May 2010. Our principal executive officer and our principal financial officer have made the certifications required under Section 302 of the Sarbanes-Oxley Act, which are included as exhibits to this Annual Report.

Please refer to the subsection “— Certain Definitions” on page 16 for definitions of additional terms commonly used in this Annual Report. Unless otherwise indicated any reference to Notes herein refers to our Notes to the Consolidated

Financial Statements located in Item 8. Financial Statements and Supplementary Data located elsewhere in this Annual Report.

BACKGROUND

Helix was incorporated in the state of Minnesota in 1979. In July 2006, Helix acquired Remington Oil and Gas Corporation (“Remington”), an exploration, development and production company with operations located primarily in the Gulf of Mexico. Until June 2009, Helix owned the majority of the common stock outstanding of a separate publicly-traded entity, Cal Dive International, Inc. (NYSE: DVR, and collectively with its subsidiaries referred to as “Cal Dive” or “CDI”), which performed shelf contracting services. Helix sold substantially all its remaining ownership interests in Cal Dive during 2009 (see “Contracting Services Operations – Shelf Contracting” below and Note 3). Prior to the divestiture of CDI, Shelf Contracting Services was a fourth reporting business segment.

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OUR STRATEGY

In December 2008, we announced our intention to focus and shape the future direction of the Company around our subsea construction, well operations and robotics services that comprise our Contracting Services business. To achieve this strategic objective we have focused on opportunities to sell certain non-core assets, such as:

* all or a portion of our oil and gas assets; and

* our remaining interest in CDI.

Since the beginning of 2009, dispositions of non-core business assets resulted in receipt of the following pre-tax proceeds:

* Approximately \$25 million from the sale of six oil and gas properties;

* \$100 million from the sale of a total of 15.2 million shares of CDI common stock held by us to CDI in separate transactions in January and June 2009;

* Approximately \$404.4 million, net of underwriting fees, from the sale of a total of 45.8 million shares of CDI common stock held by us to third parties in two separate public secondary offerings in June 2009 and September 2009 (for additional information regarding the sales of CDI common shares by us see Note 3); and

* \$25 million for the sale of our subsurface reservoir consulting business in April 2009.

In March 2010, we announced the engagement of advisors to further assist us with evaluating potential alternatives for the disposition of our oil and gas business. At the time of the filing of this Annual Report, we do not have an approved or definitive plan for the disposition of our oil and gas business. We are unable to be specific regarding a timetable for any disposition, the completion of which will be largely dependent on the evolving economic and financial market conditions as well as regulatory developments with respect to the Gulf of Mexico oil and gas business.

A primary goal of our Contracting Services business is to provide services and methodologies to the oil and natural gas industry which we believe are critical to finding and developing offshore reservoirs and maximizing the economics from marginal fields. A secondary goal is for our oil and gas operations to generate prospects and to find and develop oil and gas employing our key services and methodologies resulting in a reduction in finding and development costs. Meeting these objectives drives our ability to achieve our primary goal of maximizing the value for our shareholders. In order to achieve these goals we will:

Continue Expansion of Contracting Services Capabilities. We will focus on providing offshore services that deliver the highest financial return to us. We may make strategic investments in capital projects that expand our service capabilities or add capacity to existing services in our key operating regions. Our more recent capital investments have included: upgrading the capabilities of our Q4000 vessel, converting a ferry vessel into a dynamically positioned floating production unit vessel (the HP I), and converting a former dynamically positioned cable lay vessel into a deepwater pipelay vessel (the Caesar). We also completed the construction of the Well Enhancer that provides us with greater well servicing capabilities, including installation of a coiled-tubing unit in 2010.

We developed the Helix Fast Response System ("HFRS") as a culmination of our experience as a responder in the Macondo oil spill response and containment efforts. We have executed agreements for the HFRS to be named as a spill response resource for the U.S. Gulf of Mexico oil and gas producers in their submittal of the now required oil spill response plans with state and federal authorities. The HFRS centers on two vessels, the HP I and the Q4000, both of which played a key role in the Macondo oil spill response and containment efforts and are presently operating in the Gulf of Mexico. In 2011, we signed an agreement with Clean Gulf Associates ("CGA"), a non-profit industry group, making the HFRS available for a two-year term to CGA participants in the event of a Gulf of Mexico well

control incident in exchange for a retainer fee. In addition to the agreement with CGA, we also have signed separate utilization agreements with 20 CGA participant member companies to date specifying the day rates to be charged should the HFRS solution be deployed. The retainer fee associated with HFRS will be a component of our Production Facilities business segment.

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Monetize Oil and Gas Reserves and Non-Core Assets. As previously disclosed, we are pursuing potential opportunities to sell all or a portion of our oil and gas interests. Until such time as we dispose of our oil and gas business, we will continue to pursue potential alternatives to sell or reduce our interests in oil and gas reserves once value has been created via prospect generation, discovery and/or development engineering. We may sell interests in oil and gas reserves at any time during the life of the properties. See “Contracting Services – Shelf Contracting below and Note 3 for information regarding our multiple sales transactions involving our ownership interest in Cal Dive.

Generate Prospects and Focus Exploration Drilling on Select Deepwater Prospects. Our oil and gas operations continue to function normally notwithstanding our publicly announced plans regarding efforts to dispose of all or part of this business and despite the effects of new regulations over oil and gas operations in the Gulf of Mexico. This means we will continue to generate prospects and expect to drill in areas we believe are likely to contain oil and natural gas reserves, and where our contracting services assets can be utilized and incremental returns can be achieved through control of and application of our development services and methodologies. We plan to seek partners on these prospects to mitigate risk associated with the cost of drilling and development work.

Continue Exploitation Activities and Converting PUD/PDNP Reserves into Production. Over the years, our oil and gas operations have been able to achieve incremental operating returns and increased operating cash flow due in part to our ability to convert proved undeveloped reserves (“PUD”) and proved developed non-producing reserves (“PDNP”) into producing assets through successful exploitation drilling and well work. As of December 31, 2010, our PUD category represented approximately 230 Bcfe or 61% of our total estimated proved reserves. We will focus on cost effectively developing these reserves to generate oil and gas production, or alternatively, selling full or partial interests in them to fund our core Contracting Services business and/or retire outstanding debt.

CONTRACTING SERVICES OPERATIONS

We provide offshore services and methodologies that we believe are critical to finding and developing offshore reservoirs and maximizing production economics. These “life of field” services are represented by four disciplines: (1) subsea construction, (2) well operations, (3) robotics and (4) production facilities. We have disaggregated our contracting service operations into two continuing reportable segments: Contracting Services and Production Facilities. We provide a full range of contracting services primarily in the Gulf of Mexico, North Sea, Asia Pacific and West Africa regions primarily in deepwater. Our services include:

• **Development.** Installation of subsea pipelines, flowlines, control umbilicals, manifold assemblies and risers; pipelay and burial; installation and tie-in of riser and manifold assembly; commissioning, testing and inspection; and cable and umbilical lay and connection;

• **Production.** Inspection, repair and maintenance (IRM) of production structures, risers, pipelines and subsea equipment; well intervention; life of field support; and intervention engineering; and

• **Reclamation.** Reclamation and remediation services; plugging and abandonment services; platform salvage and removal services; pipeline abandonment services; and site inspections.

• **Production facilities.** We provide oil and natural gas processing services to oil and natural gas companies, primarily those operating in the deepwater of the Gulf of Mexico using our HP I vessel. Currently, the HP I is being utilized to process production from one of our oil and gas fields. In addition to the services provided by our HP I vessel, we maintain an equity investment in two production hub facilities in the Gulf of Mexico.

As of December 31, 2010, our contracting services operations’ backlog supported by written agreements or contracts totaled \$267.3 million, of which \$218.8 million is expected to be performed in 2011. At December 31, 2009, our

backlog totaled \$251.0 million. These backlog contracts are cancellable without penalty in many cases. Backlog is not a reliable indicator of total annual revenue for our Contracting Services businesses as contracts may be added, cancelled and in many cases modified while in progress.

Demand for our contracting services operations is primarily influenced by the condition of the oil and gas industry and, in particular, the willingness of oil and gas companies to deploy capital for offshore exploration, drilling and production operations. Generally, spending for our contracting services business fluctuates directly with the direction of oil and natural gas prices. However, some of our Contracting Services will often lag drilling operations by a period of ranging from 6 to 18

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months, meaning that even if there were a sudden surge in deepwater drilling in the Gulf of Mexico it would probably still be some time before we would start servicing any awarded projects. The performance of our oil and gas operations is also largely dependent on the prevailing market prices for oil and natural gas, which are impacted by global economic conditions, hydrocarbon production and excess capacity, geopolitical issues, weather and several other factors.

Although we are still feeling the effects of the recent global recession and are beginning to experience the consequences of the additional regulatory requirements resulting from the Macondo well explosion and subsequent oil spill in the Gulf of Mexico, we believe that the long-term industry fundamentals are positive based on the following factors: (1) long term increasing world demand for oil and natural gas emphasizes the need for continual replenishment of oil and gas production; (2) peaking global production rates; (3) globalization of the natural gas market; (4) increasing number of mature and small reservoirs; (5) increasing offshore activity, particularly in deepwater; and (6) increasing number of subsea developments. Our strategy of combining contracting services operations and oil and gas operations allows us to focus on trends (4) through (6) in that we pursue long-term sustainable growth by applying specialized subsea services to the broad external offshore market but with a complementary focus on marginal fields and new reservoirs in which we currently have an equity stake.

Subsea Construction

For over 30 years, we have supported offshore oil and natural gas infrastructure projects by providing our construction services. Construction services which we believe are critical to the development of fields in the deepwater include the use of umbilical lay and pipelay vessels and ROVs. We currently own three subsea umbilical lay and pipelay vessels. The Intrepid is a 381-foot DP-2 vessel capable of laying rigid and flexible pipe (up to 8 inches in diameter) and umbilicals. The Express is a 502-foot DP-2 vessel also capable of laying rigid and flexible pipe (up to 14 inches in diameter) and umbilicals. In January 2006, we acquired the Caesar, a mono-hull built in 2002 for the cable lay market. The Caesar is 485 feet long and has a state-of-the-art DP-2 system. In January 2010, the Caesar arrived in the Gulf of Mexico after its conversion into a subsea pipelay asset capable of laying rigid pipe up to 36 inches in diameter. The Caesar was placed in service in May 2010 following completion of additional upgrades. We also periodically provide construction services from our well operations vessels, the Seawell, the Q4000 and the recently constructed Well Enhancer, which was placed in service in October 2009.

The results of our Subsea Construction operations are reported within our Contracting Services segment (Note 17).

Well Operations

We engineer, manage and conduct well construction, intervention and asset retirement operations in water depths ranging from 200 to 10,000 feet. The increased number of subsea wells installed and the periodic shortfall in both rig availability and equipment have resulted in an increased demand for Well Operations services in the regions in which we operate.

As major and independent oil and gas companies expand operations in the deepwater basins of the world, development of these reserves will often require the installation of subsea trees. Historically, drilling rigs were typically necessary for subsea well operations to troubleshoot or enhance production, shift sleeves, log wells or perform recompletions. Three of our vessels serve as work platforms for well operations services at costs significantly less than offshore drilling rigs. In the Gulf of Mexico, our multi-service semi-submersible vessel, the Q4000, has set a series of well operations “firsts” in increasingly deeper water without the use of a traditional drilling rig. The Q4000, also served as a key component in the Macondo well oil spill response and containment efforts in the Gulf of Mexico. In the North Sea, the Seawell has provided intervention and abandonment services for over 700 North Sea subsea wells since 1987. Competitive advantages of our vessels are derived from their lower operating costs, together

with an ability to mobilize quickly and to maximize production time by performing a broad range of tasks related to intervention, construction, inspection, repair and maintenance. These services provide a cost advantage in the development and management of subsea reservoir developments. With the expected long-term increased demand for these services due to the growing number of subsea tree installations, we have the potential for significant backlog for well operations activities and, as a result, we constructed a newbuild vessel, the Well Enhancer. The Well Enhancer joined our fleet in October 2009 in the North Sea region.

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Our operations expanded within the Asia Pacific region following the acquisition of a well established Australian well operations company in 2006. In February 2010, we announced the formation of a joint venture with Australian-based engineering and construction company Clough Limited, to provide a range of subsea services to offshore operators in the Asia Pacific region. Services provided by the joint venture, named Clough Helix Pty Ltd, will include subsea well intervention and well abandonment, SURF (subsea infrastructure, umbilical, riser and flowline installation), saturation and air diving and subsea inspection, repair and maintenance services.

The results of Well Operations are reported within our Contracting Services segment (Note 17).

Robotics

We have been actively engaged in Robotics for over 25 years. We operate ROVs, trenchers and ROVDrills designed for offshore construction. As marine construction support in the Gulf of Mexico and other areas of the world moves to deeper waters, use of ROV systems is increasing and the scope of their services is more significant. Our vessels add value by supporting deployment of our ROVs. We provide our customers with vessel availability and schedule flexibility to meet the technological challenges of these subsea construction developments in the Gulf of Mexico and internationally. Our 39 ROVs and five trencher systems operate in the Gulf of Mexico, North Sea, Asia Pacific and West Africa regions. We currently lease three vessels to support our Robotics services but we have historically engaged additional vessels on short term (spot) charters as needed.

The results of Robotics are reported within our Contracting Services segment (Note 17).

Shelf Contracting

Our former Shelf Contracting segment represented the operations and results of CDI while CDI was a consolidated, majority-owned subsidiary of Helix. We deconsolidated CDI on June 10, 2009 when our ownership interest in CDI decreased below 50% (Note 3). Shelf Contracting services provided by CDI included manned diving services, pipelay and pipebure services, platform installation and salvage service. Shelf Contracting also performed saturation, surface and mixed gas diving which enabled us to provide a full complement of manned diving services in water depths of up to 1,000 feet. For the results of our former Shelf Contracting services segment see Note 17.

Production Facilities

We own interests in two production facilities in hub locations where there is potential for subsea tieback activity. There are a significant number of small discoveries that cannot justify the economics of a dedicated host facility. These discoveries are typically developed as subsea tie backs to existing facilities when capacity through the facility is available. We have historically invested in over-sized facilities that allow operators of these fields to tie back without burdening the operator of the hub reservoir. We are positioned to facilitate the tie back of certain of these smaller reservoirs to these hubs through our Contracting Services. Ownership of production facilities enables us to earn a transmission company type return through tariff charges while periodically providing construction work for our vessels. We own a 50% interest in Deepwater Gateway, which owns the Marco Polo TLP and is located in 4,300 feet of water in the Gulf of Mexico. We also own a 20% interest in Independence Hub which owns the Independence Hub platform, a 105-foot deep draft, semi-submersible platform located in a water depth of 8,000 feet that serves as a regional hub for up to one billion cubic feet of natural gas production per day from multiple ultra-deepwater fields in the previously untapped eastern Gulf of Mexico.

We also seek to employ oil and gas processing alternatives that permit the development of some fields that otherwise would be non-commercial to develop. For example, through an approximate 81% owned and consolidated entity, we

completed the conversion of a vessel (the HP I) into a ship-shaped dynamically positioning floating production unit capable of processing up to 45,000 barrels of oil and 70 MMcf of natural gas per day. The HP I is currently being used to process production from our Phoenix field, which we acquired in 2006 after the hurricanes of 2005 destroyed the TLP which was being used to produce the field. Once production in the Phoenix field ceases, this re-deployable facility is expected to be moved to a new location, contracted to a third party, or used to produce other internally-owned reservoirs.

As noted in “Our Strategy” above, we established the HFRS in 2011. The HFRS was contracted to certain members of CGA, a consortium of oil and gas industry participants in the Gulf of Mexico, who have executed a utilization agreement with us. CGA will pay us a fixed retainer fee for our vessels, the Q4000 and HP I, to be named as spill

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response resources in filed response plans filed with federal and state authorities. This retainer fee will be considered a component of our production facilities business segment.

The results of production facilities services are reported as our Production Facilities segment (Note 17).

OIL & GAS OPERATIONS

We formed our oil and gas business unit in 1992 to develop and provide more efficient solutions for offshore abandonment requirements, to expand the utilization of our contracting services assets and to achieve incremental returns. We have evolved this business model to include not only mature oil and gas properties but also unproved and proved reserves yet to be explored and developed. We have assembled services that allow us to create value at key points in the life of a reservoir from exploration through development, life of field management and operating through abandonment. At December 31, 2010, our estimated proved reserves totaled approximately 376 Bcfe, all of which are associated with properties located in the Gulf of Mexico.

As we have publicly announced, we are seeking opportunities to monetize the value of our oil and gas assets through the disposition of all or a portion of our oil and gas operations. Although this is our intention, until such time as an acceptable offer is made for our properties, we will continue to build on their value by operating them consistent with our past practices. We cannot provide assurances that the sale of all or any portion of our oil and gas operations will be completed or that we will be able to negotiate an acceptable price or acceptable terms. We believe that owning interests in oil and gas reservoirs, particularly in the deepwater, provides the following:

- a potential backlog for our contracting service assets as a hedge against cyclical service asset utilization;
- potential utilization for new non-conventional applications of contracting service assets to hedge against lack of initial market acceptance and utilization risk; and
- incremental returns.

Our oil and gas operations are currently involved in all stages of a reservoir's life. This complete life-cycle involvement allows us to meaningfully improve the economics of a reservoir that would otherwise be considered non-commercial or non-impact and has identified us as a value adding partner to many producers. Our expertise, along with similarly aligned interests, allows us to develop more efficient relationships with other producers. With a historical focus on acquiring non-impact reservoirs or mature fields, we have been successful in acquiring equity interests in several undeveloped reservoirs in the Deepwater. In the event we continue to own and operate our oil and gas assets, developing these fields over the next few years will require significant capital commitments by us and/or others and may provide significant backlog for our construction assets.

Our oil and gas operations have a significant prospect inventory, mostly in the Deepwater, which we believe may generate significant life of field services for our vessels. Our Oil and Gas segment has a proven track record of developing prospects into production in the U.S. Gulf of Mexico. We plan to seek partners on these prospects to mitigate risk associated with the costs of drilling and development.

We identify prospective oil and gas properties primarily by using 3-D seismic technology. After acquiring an interest in a prospective property, our strategy is to partner with others to drill one or more exploratory wells. If the exploratory well(s) find commercial oil and/or gas reserves, we complete the well(s) and install the necessary infrastructure to begin producing the oil and/or gas. Because our operations are located in the Gulf of Mexico, we must install facilities such as offshore platforms and gathering pipelines in order to produce the oil and gas and deliver it to the marketplace. Certain properties require additional drilling to fully develop the oil and gas reserves and maximize the production from a particular discovery.

Our oil and gas operations include an experienced team of personnel providing services in geology, geophysics, reservoir engineering, drilling, production engineering, facilities management, lease operations and petroleum land management. We seek to maximize profitability by lowering finding and development costs, lowering development time and cost, operating the field more effectively, and extending the reservoir life through well exploitation operations. When a company sells a property on the outer Continental Shelf (“OCS”), it retains the financial responsibility for the asset retirement obligations if its purchaser becomes financially unable to do so. Thus, it becomes important that a property be sold to a purchaser that has the financial wherewithal to perform its contractual obligations. We believe we have a strong reputation among major and independent oil companies. In addition, our reservoir engineering and geophysical expertise,

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along with our access to contracting service assets that can positively impact development costs, have enabled us to partner with many other oil and gas companies in offshore development projects. We share ownership in our oil and gas properties with various industry participants. We currently operate the majority of our offshore properties. An operator is generally able to maintain a greater degree of control over the timing and amount of capital expenditures than a non-operating interest owner. See Item 2. Properties “— Summary of Oil and Natural Gas Reserve Data” for detailed disclosures of our oil and gas properties.

The results of our oil and gas operations are reported as our Oil and Gas segment (Note 17).

GEOGRAPHIC AREAS

Revenue by geographic region is as follows (in thousands):

	Year Ended December 31,		
	2010	2009	2008
United States	\$ 827,597	\$ 923,481	\$ 1,394,108
United Kingdom	198,011	124,896	160,186
India	56,311	233,466	214,288
Other	117,919	179,844	345,492
Total	\$ 1,199,838	\$ 1,461,687	\$ 2,114,074

We include the property and equipment, net of accumulated depreciation, in the geographic region in which it is legally owned. The following table provides our property and equipment, net of depreciation, by geographic region (in thousands):

	Year Ended December 31,		
	2010	2009	2008
United States	\$ 2,236,455	\$ 2,564,673	\$ 3,170,866
United Kingdom	275,012	284,637	206,009
Other	15,613	14,396	41,568
Total	\$ 2,527,080	\$ 2,863,706	\$ 3,418,443

CUSTOMERS

Our customers include major and independent oil and gas producers and suppliers, pipeline transmission companies and offshore engineering and construction firms. The level of services required by any particular contracting customer depends on the size of that customer’s capital expenditure budget 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 from major customers, those whose total represented 10% or more of our consolidated revenues, was as follows: 2010 — Shell (29%) and BP Plc (17%); 2009—Shell (19%) and 2008 — Louis Dreyfus Energy Services (10%) and Shell (15%). These customers were primarily purchasers of our oil and natural gas production. We estimate that in 2010 we provided subsea services to over 100 customers.

Our contracting services projects were historically of short duration and generally were awarded shortly before mobilization. However, since 2007, we have entered into many longer term contracts for certain of our subsea construction, well operations and production facilities vessels. In addition, our production portfolio inherently provides a backlog of work for our services that we can complete at our option based on market conditions. As of December 31, 2010, our contracting services operations' backlog supported by written agreements or contracts totaled \$267.3 million, of which \$218.8 million is expected to be performed in 2011. These backlog contracts are cancellable without penalty in many cases. Backlog is not a reliable indicator of total annual revenue for our Contracting Services businesses as contracts may be added, cancelled and in many cases modified while in progress.

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COMPETITION

The contracting services industry is highly competitive. While price is a factor, the ability to acquire specialized vessels, attract and retain skilled personnel, and demonstrate a good safety record are also important. Our competitors on the outer continental shelf (“OCS”) include Global Industries, Ltd., Oceaneering International, 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, Allseas Group S.A., Subsea 7 S.A. and Technip. Our competitors in the well operations business are the international drilling contractors and specialized contractors.

Our oil and gas operations compete with large integrated oil and gas companies as well as independent exploration and production companies for offshore leases on properties. We also encounter significant competition for the acquisition of mature oil and gas properties. If we continue to own our oil and gas business, our potential ability to acquire additional future properties will depend upon our ability to evaluate and select suitable properties and consummate transactions in a historically highly competitive environment. Many of our competitors may have significantly more financial, personnel, technological, and other resources available to them. In addition, some of the larger integrated companies may be better able to respond to industry changes including price fluctuation, oil and natural gas demand, and governmental regulations. Small or mid-sized producers, and in some cases financial players, with a focus on acquisition of proved developed and undeveloped reserves, are often competition for development properties.

TRAINING, SAFETY AND QUALITY ASSURANCE

We have established a corporate culture in which QHSE remains among the highest of priorities. Our corporate goal, based on the belief that all accidents can be prevented, is to provide an incident-free workplace by focusing on correct and safe behavior. Our QHSE procedures, training programs and management system were developed by management personnel, common industry work practices and by employees with on-site experience who understand the physical challenges of the ocean work site. As a result, management believes that our QHSE programs are among the best in the industry. We maintain a company-wide effort to enhance and provide continuous improvements to our behavioral based safety process, as well as our training programs, that continue to focus on safety through open communication. The process includes the documentation of all daily observations, collection of data and data treatment to provide the mechanism of understanding both safe and unsafe behaviors at the worksite. In addition, we initiated scheduled Hazard Hunts by project management on each vessel, complete with assigned responsibilities and action due dates. Our Contracting Services business has been independently certified compliant in ISO 9001 (Quality Management Systems) and ISO 14001 (Environmental Management System).

GOVERNMENT REGULATION

Many aspects of the offshore marine construction industry are subject to extensive governmental regulations. We are subject to the jurisdiction of the U.S. Coast Guard (“Coast Guard”), the U.S. Environmental Protection Agency (“EPA”), the Bureau of Ocean Energy Management, Regulation, and Enforcement (“BOEMRE”) and the U.S. Customs Service, as well as private industry organizations such as the American Bureau of Shipping (“ABS”). In the North Sea, international 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 operations adhere to standards set by the International Marine Contractors Association and the International Maritime Organization. In addition, we operate in other foreign jurisdictions that have various types of governmental laws and regulations to which we are subject.

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 tax laws 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 BOEMRE.

The BOEMRE requires lessees of OCS properties to post bonds or provide other adequate financial assurance 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 \$0.5 million per producing lease. We have provided adequate financial assurance for our offshore leases as required by the BOEMRE.

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We acquire production rights to offshore mature oil and gas properties under federal oil and gas leases, which the BOEMRE administers. These leases contain relatively standardized terms and require compliance with detailed BOEMRE regulations and orders pursuant to the Outer Continental Shelf Lands Act (“OCSLA”). These BOEMRE directives are subject to change. The BOEMRE has promulgated regulations requiring offshore production facilities located on the OCS to meet stringent engineering and construction specifications. The BOEMRE also has issued regulations restricting the flaring or venting of natural gas and prohibiting the burning of liquid hydrocarbons without prior authorization. Similarly, the BOEMRE 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 BOEMRE may require any operations on federal leases to be suspended or terminated or may expel unsafe operators from existing OCS platforms and bar them from obtaining future leases. Suspension or termination of our operations or expulsion from operating on our leases and obtaining future leases could have a material adverse effect on our financial condition and results of operations.

In April 2010, the Deepwater Horizon drilling rig experienced an explosion and fire, and later sank into the Gulf of Mexico. The complete destruction of the Deepwater Horizon rig also resulted in a significant release of crude oil into the Gulf. As a result of this explosion and oil spill, a moratorium was placed on offshore deepwater drilling in the United States, which was subsequently lifted on October 12, 2010 and replaced with enhanced safety standards for offshore deepwater drilling. Under the enhanced safety standards, in order for an operator to resume deepwater drilling, it is required to comply with existing and newly developed regulations and standards, including Notice to Lessees (NTL), 2010-N05 (Safety NTL), NTL 2010-N06 (Environmental NTL) and the Interim Final Rule (Drilling Safety Rule), and NTL 2010-N10 (Compliance and Evaluation NTL). BOEMRE also plans to conduct inspections of each deepwater drilling operation for compliance with BOEMRE’s regulations, including but not limited to the testing of blow out preventers, before drilling resumes. As companies resume operations, they will also need to comply with the Workplace Safety Rule (SEMS Rule) within the deadlines specified by the regulation. Additionally, each operator must demonstrate that it has enforceable obligations that ensure that containment resources are available promptly in the event of a deepwater blowout, regardless of the company or operator involved. The Department of the Interior has a process underway regarding the establishment of a mechanism relating to the availability of blowout containment resources, and it is expected that this mechanism will be implemented in the near future. It is also expected that the BOEMRE will issue further regulations regarding deepwater offshore drilling.

Under the OCSLA and the Federal Oil and Gas Royalty Management Act, BOEMRE also administers oil and gas leases and establishes regulations that set the basis for royalties on oil and gas. The regulations address the proper way to value production for royalty purposes, including the deductibility of certain post-production costs from that value. Separate sets of regulations govern natural gas and oil and are subject to periodic revision by BOEMRE.

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 (“NGPA”), and the regulations promulgated thereunder by the Federal Energy Regulatory Commission (“FERC”). In the past, the federal government has regulated the prices at which oil and gas could be sold. 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, removing both price and non-price controls from natural gas sold in “first sales” no later than January 1, 1993. 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.

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 FERC since 1985 that affect the economics of natural gas production, transportation and sales. In addition, as a result of the Energy Policy Act of 2005, 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. In addition, however, changes in FERC rules and regulations may also affect the intrastate transportation of natural gas, as well as the sale of natural gas in interstate and intrastate commerce, 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, and to prevent fraud and manipulation of

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interstate transportation markets. We cannot predict what further action FERC will take on these matters, but we do not believe any such action will materially adversely affect us differently from 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 FERC will continue indefinitely.

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 (“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 \$854,400 or \$1,000 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 that 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 BOEMRE has promulgated regulations implementing these financial responsibility requirements for covered offshore facilities. Under the BOEMRE 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 BOEMRE requirements for financial responsibility under OPA and applicable regulations.

In addition, OPA 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 seven vessels over 300 gross tons. We have provided satisfactory evidence of financial responsibility 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 United States 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

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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 vessels 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. 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 (“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 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.

A variety of regulatory developments, proposals or requirements and legislative initiatives have been introduced in the domestic and international regions in which we operate that are focused on restricting the emissions of carbon dioxide, methane and other greenhouse gases.

On June 26, 2009, the U.S. House of Representatives approved adoption of the “American Clean Energy and Security Act of 2009,” also known as the “Waxman-Markey Cap and Trade legislation,” or “ACESA.” The purpose of ACESA is to control and reduce emissions of greenhouse gases in the United States. The U.S. Senate has begun work on its own legislation for controlling and reducing emissions of greenhouse gases in the United States. For legislation to become law, both chambers of U.S Congress would be required to approve identical legislation. It is not possible at this time to predict whether or when the Senate may act on climate change legislation, how any bill approved by the Senate would be reconciled with ACESA, or how federal legislation may be reconciled with state and regional

requirements.

In 2007, the U.S. Supreme Court held in *Massachusetts, et al. v. EPA* that greenhouse gases are an “air pollutant” under the federal Clean Air Act and thus subject to future regulation. In December 2009, the EPA issued an “endangerment and cause or contribute finding” for greenhouse gases under the federal Clean Air Act, which allowed the EPA to proceed with the adoption and implementation of regulations that would restrict emissions of greenhouse gases under existing provisions of the federal Clean Air Act. Since 2009, the EPA has issued regulations that, among other things, require a reduction in emissions of greenhouse gases from motor vehicles and that impose greenhouse gas emission limitations in Clean Air Act permits for certain stationary sources.

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Additionally, on October 30, 2009, the EPA published a final rule requiring the reporting of greenhouse gas emissions from specified large greenhouse gas sources in the United States on an annual basis, beginning in 2011 for emissions occurring in 2010. On November 9, 2010, the EPA expanded its greenhouse reporting rule to include onshore petroleum and natural gas production, offshore petroleum and natural gas production, onshore natural gas processing, natural gas transmission, underground natural gas storage, liquefied natural gas storage, liquefied natural gas import and export, and natural gas distribution facilities. Under these rules, reporting of greenhouse gas emissions from such facilities is required on an annual basis, with reporting beginning in 2012 for emissions in 2011.

Management believes that we are in compliance in all material respects with the 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.

INSURANCE MATTERS

The subsea construction, well operations and robotics activities constituting our contracting services business involve 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 the suspension of operations. Damages arising from such occurrences may result in lawsuits asserting large claims. Insurance may not 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 our financial condition, results of operations and cash flow.

Similarly, our oil and gas operations are subject to risks incident to the operation of oil and gas wells, including but not limited to uncontrolled flows of oil, gas, brine or well fluids into the environment, blowouts, cratering, mechanical difficulties, fires, explosions or other physical damage, pollution or other risks, any of which could result in substantial losses to us. Although we maintain insurance against some of these risks we cannot insure against all possible losses. As a result, any damage or loss not covered by our insurance could have a material adverse effect on our financial condition, results of operations and cash flow.

As discussed above, we maintain insurance policies to cover some of our risk of loss associated with our operations. We maintain the amount of insurance we believe is prudent based on our estimated loss potential. However, not all of our business activities can be insured at the levels we desire because of either limited market availability or unfavorable economics (limited coverage for the underlying cost).

Our energy and marine insurance is renewed annually on July 1152ber 72005 Plan - Lovoi-12-0 and covers a twelve-month period from July 1 to June 30.

For our contracting services business we maintain Hull and Increased Value insurance, which provides coverage for physical damage up to an agreed amount for each vessel. The deductibles are \$1.0 million on the Q4000, HP I and Well Enhancer, \$500,000 on the Intrepid, Seawell and Express, and \$375,000 on the Caesar. In addition to the primary deductibles, the vessels are subject to an annual aggregate deductible of \$1.75 million. We also carry Protection and Indemnity ("P&I") insurance which covers liabilities arising from the operation of the vessels and General Liability insurance which covers liabilities arising from construction operations. The deductible on both the P&I and General Liability is \$100,000 per occurrence. Onshore employees are covered by Workers'

Compensation. Offshore employees and marine crews are covered by our Maritime Employers Liability insurance policy which covers Jones Act exposures and includes a deductible of \$100,000 per occurrence plus a \$1.0 million annual aggregate deductible. In addition to the liability policies described above, we currently carry various layers of Umbrella Liability for total limits of \$500 million in excess of primary limits. Our self-insured retention on our medical and health benefits program for employees is \$250,000 per participant.

We also maintain Operator Extra Expense coverage that provides up to \$150 million of coverage per each loss occurrence for a well control issue. Separately, we also maintain \$500 million of liability insurance and \$150 million of oil pollution insurance. For any given oil spill event we have up to \$650 million of insurance coverage. We have not insured for windstorm damage under traditional insurance policies for the past two years because premium and deductibles would

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be relatively substantial for the coverage provided. In order to mitigate potential loss with respect to our most significant oil and gas properties from hurricanes in the Gulf of Mexico, we purchased a Catastrophic Bond instrument for the periods July 1, 2009 through June 30, 2010 and July 1, 2010 through June 30, 2011. Our current Catastrophic Bond provides for payments of negotiated amounts should the eye of a Category 2 or Category 3 or greater hurricane pass within specific pre-defined areas encompassing our more significant oil and gas producing fields.

We customarily have reciprocal agreements with our customers and vendors in which each contracting party is responsible for its respective personnel. Under these agreements we are indemnified against third party claims related to the injury or death of our customers' or vendors' personnel. With respect to well work by our contracting services operations, the customer is generally contractually responsible for pollution emanating from the well. We separately maintain additional coverage for an amount up to \$100 million that would cover us under certain circumstances against any such third party claims associated with well control events.

EMPLOYEES

As of December 31, 2010, we had 1,590 employees, nearly 650 of which were salaried personnel. As of December 31, 2010, we also contracted with third parties to utilize 140 non-U.S. citizens to crew our foreign flag vessels. Except for a very limited number of our workshop employees in Australia, our employees do not belong to a union nor are they employed pursuant to any collective bargaining agreement or any similar arrangement. We believe our relationship with our employees and foreign crew members is favorable.

WEBSITE AND OTHER AVAILABLE INFORMATION

We maintain a website on the Internet with the address of www.HelixESG.com. Copies of this Annual Report for the year ended December 31, 2010, and copies of our Quarterly Reports on Form 10-Q for 2010 and 2011 and any Current Reports on Form 8-K for 2010 and 2011, and any amendments thereto, are or will be available free of charge at such website as soon as reasonably practicable after they are filed with, or furnished to, the SEC. In addition, the Investor Relations portion of our website contains copies of our Code of Conduct and Business Ethics and our Code of Ethics for Chief Executive Officer and Senior Financial Officers. We make our website content available for informational purposes only. Information contained on our website is not part of this report and should not be relied upon for investment purposes. Please note that prior to March 6, 2006, the name of the Company was Cal Dive International, Inc.

The general public may read and copy any materials we file with the SEC at the SEC's Public Reference Room at 450 Fifth Street, N.W., Washington, D.C. 20549. The public may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. We are an electronic filer, and the SEC maintains an Internet website that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC, including us. The Internet address of the SEC's website is www.sec.gov.

CERTAIN DEFINITIONS

Defined below are certain terms helpful to understanding our business that are located through this Annual Report:

Bcfe: One billion cubic feet equivalent, with one barrel of oil being equivalent to six thousand cubic feet of natural gas.

BOEMRE: The Bureau of Ocean Energy Management, Regulation and Enforcement, an agency of the Department of Interior, having responsibility for all aspects of offshore federal leasing, including for overseeing the development of

energy and mineral resources on the Outer Continental Shelf of the Gulf of Mexico. The multi-departmental BOEMRE is the successor to the Mineral Management Service (“MMS”), which until June 2010 was the federal regulatory body overseeing the development of mineral resources in the United States.

Deepwater: Water depths exceeding 1,000 feet.

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 enabling the vessel to maintain its position without the use of anchors.

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DP-2: Two DP systems on a single vessel providing the redundancy which allows the vessel to maintain position even with the failure of one DP system, required for vessels which support both manned diving and robotics and for those working in close proximity to platforms. DP-2 is necessary to provide the redundancy required to support safe deployment of divers, while only a single DP system is necessary to support ROV operations.

E&P: Oil and gas exploration and production activities.

F&D: Total cost of finding and developing oil and gas reserves.

G&G: Geological and geophysical.

IRM: Inspection, repair and maintenance.

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

MBbl: When describing oil or other natural gas liquid, refers to 1,000 barrels with each barrel containing 42 gallons.

Mcf: When describing natural gas, refers to 1 thousand cubic feet.

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

MSV: Multipurpose support vessel.

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

Peer Group-Contracting Services: For purposes of this Annual Report on Form 10-K, FMC Technologies, Inc. (NYSE: FTI), Global Industries, Ltd. (NASDAQ: GLBL), McDermott International, Inc. (NYSE: MDR), Oceaneering International, Inc. (NYSE: OII), Cameron International Corporation (NYSE: CAM), Pride International, Inc. (NYSE: PDE), Oil States International, Inc. (NYSE: OIS), Rowan Companies, Inc. (NYSE: RDC), and Tidewater Inc. (NYSE: TDW).

Peer Group-Oil and Gas: For purposes of this Annual Report, ATP Oil & Gas Corporation (NASDAQ: ATPG), W&T Offshore, Inc. (NYSE: WTI), and Energy XXI (Bermuda) Limited (NYSE: EXXI).

Proved Developed Non-Producing (PDNP): Proved developed oil and gas reserves that are expected to be recovered from (1) completion intervals which are open at the time of the estimate but which have not started producing, or (2) wells that require additional completion work or future recompletion prior to the start of production.

Proved Developed Shut-In (PDSI): Proved developed oil and gas reserves associated with wells that exhibited calendar year production, but were not online January 1, 2011.

Proved Developed Reserves (PDP): Reserves that geological and engineering data indicate with reasonable certainty to be recoverable today, or in the near future, with current technology and under current economic conditions.

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

recompletion.

QHSE: Quality, Health, Safety and Environmental programs to protect the environment, safeguard employee health and avoid injuries.

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.

ROVDrill: ROV deployed coring system developed to take advantage of existing ROV technology. The coring package, deployed with the ROV system, is capable of taking cores from the seafloor in water depths up to 3,000 meters. Because the system operates from the seafloor there is no need for surface drilling strings and the larger support spreads required for conventional coring.

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Saturation Diving: Saturation diving, required for work in water depths between 200 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 of Mexico, characterized by projects that are generally short in duration and often on a turnkey basis. These projects often require constant rescheduling and the availability or interchangeability of multiple vessels.

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 a vessel's ability to transport and fabricate hardware, supplies and equipment necessary to complete subsea projects.

Tension Leg Platform (TLP): A floating production facility anchored to the seabed with tendons.

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.

Well operations services: Activities related to well maintenance and production management/enhancement services. Our well intervention operations include the utilization of slickline and electric line services, pumping services, specialized tooling and coiled tubing services.

Working Interest: The interest in an oil and natural gas property (normally a leasehold interest) that gives the owner the right to drill, produce and conduct operations on the property and to a share of production, subject to all royalties, overriding royalties and other burdens and to all costs of exploration, development and operations and all risks in connection therewith.

Item 1A. Risk Factors.

Shareholders should carefully consider the following risk factors in addition to the other information contained herein. 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.

Risks Relating to General Corporate Matters

Business Risks

Our results of operations could be adversely affected if our business assumptions do not prove to be accurate or if adverse changes occur in our business environment, including the following areas:

- general global economic and business conditions, which affect demand for oil and natural gas and, in turn, our business;
- our ability to manage risks related to our business and operations;
-

our ability to compete against companies that provide more services and products than we do, including “integrated service companies”;

- our ability to attract and retain skilled, trained personnel to provide technical services and support for our business;
- our ability to procure sufficient supplies of materials essential to our business in periods of high demand, and to reduce our commitments for such materials in periods of low demand;

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- consolidation by our customers, which could result in loss of a customer; and
- changes in laws or regulations, including laws relating to the environment or to the oil and gas industry in general, and other factors, many of which are beyond our control.

The Deepwater Horizon drilling rig explosion in the Gulf of Mexico, the subsequent oil spill and the resulting enhanced regulations for deepwater drilling offshore the United States may impact our oil and gas business located offshore in the Gulf of Mexico and reduce the need for our services in the Gulf of Mexico.

In April 2010, the Deepwater Horizon drilling rig experienced an explosion and fire, and later sank into the Gulf of Mexico. The complete destruction of the Deepwater Horizon rig also resulted in a significant release of crude oil into the Gulf. As a result of this explosion and oil spill, a moratorium was placed on offshore deepwater drilling in the United States, which was subsequently lifted on October 12, 2010 and replaced with enhanced safety standards for offshore deepwater drilling. Under the enhanced safety standards, in order for an operator to resume deepwater drilling, it is required to comply with existing and newly developed regulations and standards, including Notice to Lessees (NTL), 2010-N05 (Safety NTL), NTL 2010-N06 (Environmental NTL) and the Interim Final Rule (Drilling Safety Rule), and NTL 210-N10 (Compliance and Evaluation NTL). BOEMRE also plans to conduct inspections of each deepwater drilling operation for compliance with BOEMRE's regulations, including but not limited to the testing of blow out preventers, before drilling resumes. As companies resume operations, they will also need to comply with the Workplace Safety Rule (SEMS Rule) within the deadlines specified by the regulation. Additionally, each operator must demonstrate that it has enforceable obligations that ensure that containment resources are available promptly in the event of a deepwater blowout, regardless of the company or operator involved. The Department of the Interior has a process underway regarding the establishment of a mechanism relating to the availability of blowout containment resources, and it is expected that this mechanism will be implemented in the near future. It is also expected that the BOEMRE will issue further regulations regarding deepwater offshore drilling. Our contracting services business, a significant portion of which is in the Gulf of Mexico, provides development services to newly drilled wells, and therefore relies heavily on the industry's drilling of new oil and gas wells. In addition, growth in our oil and gas business and any potential disposition of that business will be affected by the ability to develop our portfolio of prospects. Although the moratorium has been lifted, to date no new permits for offshore deepwater drilling have been issued. We can provide no assurance regarding the grant or timing of permits. If permits are not issued or there is a significant delay in issuance, and with respect to our services business, if our vessels are not redeployed to other locations where we can provide our services at a profitable rate, our business, financial condition and results of operations would be materially affected.

The potential increased costs of complying with new regulations on offshore drilling in the U.S. Gulf of Mexico following the Deepwater Horizon rig explosion and potentially in other areas around the world, may impact our oil and gas business and reduce the need for our services in those areas.

The Deepwater Horizon rig explosion in the Gulf of Mexico and its aftermath has resulted in new regulations in the United States, which may result in substantial increases in costs or delays in drilling or other operations in the Gulf of Mexico, oil and gas projects becoming potentially non-economic, and a corresponding reduced demand for our services. We cannot predict with any certainty the substance or effect of any new or additional regulations in the United States or in other areas around the world. In addition, safety requirements or other governmental regulations could increase our costs of operation of our oil and gas business and impact our ability to divest the assets of that business. Likewise this could also result in increased costs of operating our contracting services business, and our potential consumers' oil and gas projects becoming non-economic, which could also negatively affect the demand for our contracting services business. If the United States or other countries where we operate enact stricter restrictions on offshore drilling or further regulate offshore drilling or contracting services operations, our business, financial condition and results of operations could be materially affected.

Government Regulation, including recent legislative initiatives, may affect demand for our services.

Numerous federal and state regulations affect our operations. Current regulations are constantly reviewed by the various agencies at the same time that new regulations are being considered and implemented. In addition, because we hold federal leases, the federal government requires us to comply with numerous additional regulations that focus on government contractors. The regulatory burden upon the oil and gas industry increases the cost of doing business and consequently affects our profitability. Potential legislation and/or regulatory actions could increase our costs and reduce

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our liquidity, delay our operations or otherwise alter the way we conduct our business. Exploration and development activities and the production and sale of oil and gas are subject to extensive federal, state, local and international regulations.

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 domestic and foreign governmental agencies 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.

A variety of regulatory developments, proposals or requirements and legislative initiatives have been introduced in the domestic and international regions in which we operate that are focused on restricting the emission of carbon dioxide, methane and other greenhouse gases.

On June 26, 2009, the U.S. House of Representatives approved adoption of the “American Clean Energy and Security Act of 2009,” also known as the “Waxman-Markey Cap-and-Trade legislation,” or “ACESA.” The purpose of ACESA is to control and reduce emissions of greenhouse gases in the United States. The U.S. Senate has begun work on its own legislation for controlling and reducing emissions of greenhouse gases in the United States. For legislation to become law, both chambers of U.S. Congress would be required to approve identical legislation. It is not possible at this time to predict whether or when the Senate may act on climate change legislation, how any bill approved by the Senate would be reconciled with ACESA, or how federal legislation may be reconciled with state and regional requirements.

In 2007, the U.S. Supreme Court held in *Massachusetts, et al. v. EPA* that greenhouse gases are an “air pollutant” under the federal Clean Air Act and thus subject to future regulation. In December 2009, the U.S. Environmental Protection Agency (the “EPA”) issued an “endangerment and cause or contribute finding” for greenhouse gases under the federal Clean Air Act, which allowed the EPA to proceed with the adoption and implementation of regulations that would restrict emissions of greenhouse gases under existing provisions of the federal Clean Air Act. Since 2009, the EPA has issued regulations that, among other things, require a reduction of emissions of greenhouse gases from motor vehicles and that impose greenhouse gas emission limitations in Clean Air Act permits for certain stationary sources.

Additionally, on October 30, 2009, the EPA published a final rule requiring the reporting of greenhouse gas emissions from specified large greenhouse gas sources in the United States on an annual basis, beginning in 2011 for emissions occurring in 2010. On November 9, 2010, the EPA expanded its greenhouse reporting rule to include onshore petroleum natural gas production, offshore petroleum and natural gas production, onshore natural gas processing, natural gas transmission, underground natural gas storage, liquefied natural gas storage, liquefied natural gas import and export, and natural gas distribution facilities. Under these rules, reporting of greenhouse gas emissions from such facilities is required on an annual basis, with reporting beginning in 2012 for emissions in 2011.

These regulatory developments and legislative initiatives may curtail production and demand for fossil fuels such as oil and gas in areas of the world where our customers operate and thus adversely affect future demand for our products and services, which may in turn adversely affect our future results of operations. In addition, changes in 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. Such environmental liability could substantially reduce our net income and could have a significant impact on our financial ability to carry out our operations.

In 2009, U.S. Customs and Border Protection (“CBP”) issued a proposed modification to its prior rulings regarding the application of the Jones Act to the carriage by foreign flag vessels of items relating to certain offshore activities on the OCS. CBP withdrew the proposed modifications later that year. In early 2010, CBP and its parent agency , Department of Homeland Security (“DHS”), initiated a proposed rulemaking that would have been subject to public comment following publication in the Federal Register. The proposed rulemaking would have implemented the same modifications as the CBP 2009 proposal. The agencies subsequently withdrew the proposed rulemaking before it was published in the Federal Register. If DHS or CBP re-proposes a change to the application of the Jones Act similar to that originally proposed by CBP, and such proposal is adopted, this development could potentially lead to operational delays or increased operating costs in instances where we would be required to hire coastwise qualified vessels that we currently do not own, in order to

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transport certain merchandise to projects on the OCS. This could increase our costs of compliance and doing business and make it more difficult to perform pipelay or well operation services.

Beginning in 2011, the federal government has proposed to levy a tax on offshore production and to repeal a number of existing tax preferences for domestic oil and gas producers. The tax preferences include, but are not limited, to the elimination of the immediate expensing of intangible drilling costs, the use of percentage depletion methodology in respect to oil and gas wells, the ability to claim the domestic manufacturing deduction against income derived from oil and gas production and other preference items. The elimination of one or all of these tax preferences may have an adverse impact on our financial results in future years. In addition, it is uncertain as to whether we will be able to recoup these additional tax costs from our customers.

Economic downturn and lower oil and natural gas prices could negatively impact our business.

Our operations are affected by local, national and worldwide economic conditions and the condition of the oil and gas industry. Certain economic data indicates the United States economy and the worldwide economy may require some time to recover from the recent recession. The consequences of a prolonged period of little or no economic growth will likely result in a lower level of activity and increased uncertainty regarding the direction of energy prices and the capital and commodity markets, which will likely contribute to decreased offshore exploration and drilling. A lower level of offshore exploration and drilling could have a material adverse effect on the demand for our services. In addition, a general decline in the level of economic activity might result in lower commodity prices, which may also adversely affect our revenues from our oil and gas business and indirectly, our service business. The extent of the impact of these factors on our results of operations and cash flow depends on the length and severity of the decreased demand for our services and lower commodity prices.

Continued market deterioration could also jeopardize the performance of certain counterparty obligations, including those of our insurers, customers and financial institutions. Although we assess the creditworthiness of our counterparties, prolonged business decline or disruptions as a result of economic slow down or lower commodity prices could lead to changes in a counterparty's liquidity and increase our exposure to credit risk and bad debts. In the event any such party fails to perform, our financial results could be adversely affected and we could incur losses and our liquidity could be negatively impacted.

Lack of access to the credit market could negatively impact our ability to operate our business and to execute our business strategy.

Access to financing may be limited and uncertain, especially in times of economic weakness as witnessed in 2008 and 2009. If the capital and credit markets are limited, we may incur increased costs associated with any additional financing we may require for future operations. Additionally, if the capital and credit markets are limited, it could potentially result in our customers curtailing their capital and operating expenditure programs, which could result in a decrease in demand for our vessels and a reduction in fees and/or utilization. In addition, certain of our customers could experience an inability to pay suppliers, including us, in the event they are unable to access the capital markets as needed to fund their business operations. Likewise, our suppliers may be unable to sustain their current level of operations, fulfill their commitments and/or fund future operations and obligations, each of which could adversely affect our operations. Continued lower levels of economic activity and weakness in the credit markets could also adversely affect our ability to implement our strategic objectives and dispose of all or any portion of the oil and gas assets or the production facilities.

Our forward-looking statements assume that our lenders, insurers and other financial institutions will be able to fulfill their obligations under our various credit agreements, insurance policies and contracts. If any of our significant financial institutions were unable to perform under such agreements, and if we were unable to find suitable

replacements at a reasonable cost, our results of operations, liquidity and cash flows could be adversely impacted.

Our substantial indebtedness and the terms of our indebtedness could impair our financial condition and our ability to fulfill our debt obligations.

As of December 31, 2010, we had approximately \$1.4 billion of consolidated indebtedness outstanding. The significant level of indebtedness may have an adverse effect on our future operations, including:

- limiting our ability to obtain additional financing on satisfactory terms to fund our working capital requirements, capital expenditures, acquisitions, investments, debt service requirements and other general corporate requirements;

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- increasing our vulnerability to a continued general economic downturn, competition and industry conditions, which could place us at a disadvantage compared to our competitors that are less leveraged;
- increasing our exposure to potential rising interest rates because a portion of our current and potential future borrowings are at variable interest rates;
- reducing the availability of our cash flow to fund our working capital requirements, capital expenditures, acquisitions, investments and other general corporate requirements because we will be required to use a substantial portion of our cash flow to service debt obligations;
- limiting our flexibility in planning for, or reacting to, changes in our business and the industry in which we operate; and
- limiting our ability to expand our business through capital expenditures or pursuit of acquisition opportunities due to negative covenants in senior secured credit facilities that place annual and aggregate limitations on the types and amounts of investments that we may make, and limiting our ability to use proceeds from asset sales for purposes other than debt repayment (except in certain circumstances where proceeds may be reinvested under criteria set forth in our credit agreements).

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

Our operations outside of the United States subject us to additional risks.

Our operations outside of the United States are subject to risks inherent in foreign operations, including, without limitation:

- the loss of revenue, property and equipment from expropriation, nationalization, war, insurrection, acts of terrorism and other political risks;
- increases in taxes and governmental royalties;
- changes in laws and regulations affecting our operations, including changes in customs, assessments and procedures, and changes in similar laws and regulations that may affect our ability to move our assets in and out of foreign jurisdictions;
- renegotiation or abrogation of contracts with governmental entities;
- changes in laws and policies governing operations of foreign-based companies;
- currency restrictions and exchange rate fluctuations;
- world economic cycles;
- restrictions or quotas on production and commodity sales;
- limited market access; and
- other uncertainties arising out of foreign government sovereignty over our international operations.

In addition, laws and policies of the United States affecting foreign trade and taxation may also adversely affect our international operations.

We may not be able to compete successfully against current and future competitors.

The businesses in which we operate are 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 of Mexico, North Sea, Asia Pacific or West Africa regions, levels of competition may increase and our business could be adversely affected. In the exploration and production business, some of the larger integrated companies may be better able to respond to industry changes including price fluctuations, oil and gas demand, political change and government regulations.

In addition, in a few countries, the national oil companies have formed subsidiaries to provide oilfield services for them, competing with services provided by us. To the extent this practice expands, our business could be adversely impacted.

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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 professionals over the years due to its cyclical nature, which is attributable, 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.

In addition, the delivery of our products and services require personnel with specialized skills and experience. As a result, our ability to remain productive and profitable will depend upon our ability to employ and retain skilled workers. Our ability to expand our operations depends in part on our ability to increase the size of our skilled labor force. The demand for skilled workers in our industry is high, and the supply is limited. In addition, although our employees are not covered by a collective bargaining agreement, the marine services industry has in the past been targeted by maritime labor unions in an effort to organize Gulf of Mexico employees. A significant increase in the wages paid by competing employers or the unionization of our Gulf of Mexico employees could result in a reduction of our labor force, increases in the wage rates that we must pay or both. If either of these events were to occur, our capacity 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 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.

Certain provisions of our corporate documents and Minnesota law may discourage a third party from making a takeover proposal.

In addition to the 1,000 shares of preferred stock held by Fletcher International, Ltd. pursuant to the First Amended and Restated Agreement dated January 17, 2003, but effective as of December 31, 2002, by and between Helix and Fletcher International, Ltd., our Articles of Incorporation give our board of directors the authority, without any action by our shareholders, to fix the rights and preferences on up to 4,994,000 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 arrangements with all of our executive officers that require cash payments in the event of a “change of control.” Any or all of the provisions or factors described above may discourage 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.

Risks Relating to our Contracting Services Operations

Our contracting services operations are adversely affected by low oil and gas prices and by the cyclicity of the oil and gas industry.

Conditions in the oil and natural gas industry are subject to factors beyond our control. Our contracting services operations are 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, development, 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;
- demand for oil and natural gas, especially in the United States, Europe, China and India;
- economic and political conditions in the Middle East and other oil-producing regions;
- actions taken by the Organization of Petroleum Exporting Countries (“OPEC”);
- the availability and discovery rate of new oil and natural gas reserves in offshore areas;
- the cost of offshore exploration for and production and transportation of oil and gas;

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- the ability of oil and natural gas companies to generate funds or otherwise obtain external capital for exploration, development and production operations;
- the sale and expiration dates of offshore leases in the United States and overseas;
- technological advances affecting energy exploration, production, transportation and consumption;
- weather conditions;
- environmental and other governmental regulations; and
- tax laws, regulations and policies.

A sustained period of low drilling and production activity or lower commodity prices would likely have a material adverse effect on our financial position, cash flows 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. Insurance may not 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 and limitations for wind storm damages. As construction activity expands into deeper water in the Gulf of Mexico and other deepwater basins of the world and with our divestiture of Cal Dive, a greater percentage of our revenues will 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 could be less than replacement value. In the event of property loss due to a catastrophic marine disaster, mechanical failure, collision or other event, insurance may not cover a substantial loss of revenues, increased costs and other liabilities, and therefore, the loss of any of our large vessels could have a material adverse effect on us.

Our contracting business typically declines in winter, and bad weather in the Gulf of Mexico or North Sea can adversely affect our operations.

Marine operations conducted in the Gulf of Mexico 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 adverse weather conditions. Accordingly, our results in any one quarter are not necessarily indicative of annual results or continuing trends.

Certain areas in and near the Gulf of Mexico and North Sea experience unfavorable weather conditions including hurricanes and other extreme weather conditions on a relatively frequent basis. Substantially all of our facilities and assets offshore and along the Gulf of Mexico and the North Sea, including our vessels and structures on our offshore oil and gas properties, are susceptible to damage and/or total loss by these storms. Damage caused by high winds and turbulent seas could potentially cause us to curtail both service and production operations for significant periods of time until damage can be assessed and repaired. Moreover, even if we do not experience direct damage from any of

these storms, we may experience disruptions in our operations because customers may curtail their development activities due to damage to their platforms, pipelines and other related facilities.

If we bid too low on a turnkey contract, we suffer adverse economic consequences.

A significant amount 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, the performance of third parties such as equipment suppliers, or other factors. These variations and risks inherent in the marine construction industry may result in our experiencing reduced profitability or losses on projects.

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Risks Relating to our Oil and Gas Operations

Exploration and production of oil and natural gas is a high-risk activity and is subject to a variety of factors that we cannot control.

Our oil and gas business is subject to all of the risks and uncertainties normally associated with the exploration for and development and production of oil and natural gas, including uncertainties as to the presence, size and recoverability of hydrocarbons. We may not encounter commercially productive oil and natural gas reservoirs. We may not recover all or any portion of our investment in new wells. The presence of unanticipated pressures or irregularities in formations, miscalculations or accidents may cause our drilling activities to be unsuccessful and/or result in a total loss of our investment, which could have a material adverse effect on our financial condition, results of operations and cash flows. In addition, we often are uncertain as to the future cost or timing of drilling, completing and operating wells.

Projecting future natural gas and oil production is imprecise. Producing oil and gas reservoirs eventually have declining production rates. Projections of production rates rely on certain assumptions regarding historical production patterns in the area or formation tests for a particular producing horizon. Actual production rates could differ materially from such projections. Production rates also can depend on a number of additional factors, including commodity prices, market demand and the political, economic and regulatory climate.

Our business is subject to all of the operating risks associated with drilling for and producing oil and natural gas, including:

- fires;
- title problems;
- explosions;
- pressures and irregularities in formations;
- equipment availability;
- blow-outs and surface cratering;
- uncontrollable flows of underground natural gas, oil and formation water;
- natural events and natural disasters, such as loop currents, hurricanes and other adverse weather conditions;
- pipe or cement failures;
- casing collapses;
- lost or damaged oilfield drilling and service tools;
- abnormally pressured formations; and
- environmental hazards, such as natural gas leaks, oil spills, pipeline ruptures and discharges of toxic gases.

If any of these events occurs, we could incur substantial losses as a result of injury or loss of life, severe damage to and destruction of property, natural resources and equipment, pollution and other environmental damage, clean-up responsibilities, regulatory investigation and penalties, suspension of our operations and repairs to resume operations.

Natural gas and oil prices are volatile, which makes future revenue uncertain.

Our financial condition, cash flow and results of operations depend in part on the prices we receive for the oil and gas we produce. The market prices for oil and gas are subject to fluctuation in response to events beyond our control, such as:

- supply of and demand for oil and gas;
- market uncertainty;
- worldwide political and economic instability; and
- government regulations.

Oil and gas prices have historically been volatile, and such volatility is likely to continue. Our ability to estimate the value of producing properties for acquisition or disposition, and to budget and project the financial returns of exploration and development projects is made more difficult by this volatility. In addition, to the extent we do not forward sell or enter into costless collars or swap financial contracts in order to hedge our exposure to price volatility, a dramatic decline in such prices could have a substantial and material effect on:

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- our revenues;
- results of operations;
- cashflow;
- financial condition;
- our ability to increase production and grow reserves in an economically efficient manner; and
- our access to capital.

If the prices for crude oil and natural gas decrease from current levels, and we have not entered into additional forward sale or financial hedge contracts to stabilize our cash flows, our oil and gas revenues may decrease in 2011 and beyond, perhaps significantly, absent offsetting increases in production amounts.

Our commodity price risk management related to some of our oil and gas production may reduce our potential gains from increases in oil and gas prices.

Oil and gas prices can fluctuate significantly and have a direct impact on our revenues. To manage our exposure to the risks inherent in such a volatile market, from time to time we have forward sold for future physical delivery a portion of our future production. This means that a portion of our production is sold at a fixed price as a shield against dramatic price declines that could occur in the market. We have hedged a significant portion of our anticipated production for 2011 and some natural gas production for 2012 with swap financial contracts. We may from time to time engage in other hedging activities. These hedging activities may limit our benefit from commodity price increases.

We are vulnerable to risks associated with the Gulf of Mexico because we currently operate exclusively in that area and our proved reserves are concentrated in a limited number of fields.

Our concentration of oil and gas properties in the Gulf of Mexico makes us more vulnerable to the risks associated with operating in that area than our competitors with more geographically diverse operations. These risks include:

- tropical storms and hurricanes, which are common in the Gulf of Mexico during certain times of the year;
- extensive governmental regulation (including regulations that may, in certain circumstances, impose strict liability for pollution damage); and
- interruption or termination of operations by governmental authorities based on environmental, safety or other considerations.

Any event affecting this area in which we operate our oil and gas properties may have an adverse effect on our financial position, results of operations and cash flow. We also may incur substantial liabilities to third parties or governmental entities, which could have a material adverse effect on our financial condition, results of operations and cash flow.

All of our estimated proved reserves are located in the Gulf of Mexico and we have one field, Bushwood located at Garden Banks Blocks 462, 463, 506 and 507, that represents approximately 36% of our total estimated proved reserves as of December 31, 2010. If the proved reserves at Bushwood are affected by any combination of adverse factors our future estimates of proved reserves could be decreased, perhaps significantly, which may have an adverse effect on our future results of operations and cash flows. Separately, without Bushwood's future reserve potential, the value that we may be able to realize in any potential disposition of our oil and gas business would likely be significantly diminished. In February 2011, our average daily production from the Phoenix field located at Green Canyon Blocks 236, 237, 238 and 282 was approximately 9,500 barrels of oil and 15 MMcf of natural gas (or approximately 72 MMcfe per day), net to our interest, which represents approximately 57% of our daily oil production

and 45% of our daily total production for the month. If an adverse event were to occur to our wells or the HP I, which serves as the processing unit for the field's production, our results of operations and cash flows would be adversely affected.

Estimates of crude oil and natural gas reserves depend on many factors and assumptions, including various assumptions that are based on conditions in existence as of the dates of the estimates. Any material change in those conditions, or other factors affecting those assumptions, could impair the quantity and value of our crude oil and natural gas reserves.

This Annual Report contains estimates of our proved oil and natural gas reserves and the estimated future net cash flows therefrom based upon reports for the years ended December 31, 2010 and 2009, prepared by independent

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petroleum engineers. These reports rely upon various assumptions, including assumptions required by the SEC, as to oil and gas prices, drilling and operating expenses, capital expenditures, asset retirement 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 and production expenditures, operating expenses and asset retirement costs and quantities of recoverable oil and gas reserves may vary 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 Annual Report is the current market value of our estimated oil and gas reserves. In accordance with SEC requirements, we base the estimated discounted future net cash flows from our proved reserves on the average of oil and gas prices on the first day of the month for the past twelve months 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 financial position, cash flows and results of operations.

Approximately 81% of our total estimated proved reserves are either PDNP, PDSI or PUD and those reserves may not ultimately be produced or developed.

As of December 31, 2010, approximately 17% of our total estimated proved reserves were PDNP, 4% were PDSI and approximately 61% were PUD. These reserves may not ultimately be developed or produced. Furthermore, not all of our PUD or PDNP may be ultimately produced during the time periods we have planned, at the costs we have budgeted, or at all, which in turn may have a material adverse effect on our results of operations and cash flow.

Reserve replacement may not offset depletion.

Oil and gas properties are depleting assets. We replace reserves through acquisitions, exploration and exploitation of current properties. Approximately 81% of our proved reserves at December 31, 2010 are PUD, PDSI and PDNP. Further, our proved producing reserves at December 31, 2010 are expected to experience annual decline rates ranging from 30% to 40% over the next ten years. If we are unable to acquire additional properties or if we are unable to find additional reserves through exploration or exploitation of our properties, our future cash flows from oil and gas operations could decrease.

We are, in part, dependent on third parties with respect to the transportation of our oil and gas production and in certain cases, third party operators who influence our productivity.

Notwithstanding our ability to produce hydrocarbons, we are dependent on third party transporters to bring our oil and gas production to the market. In the event a third party transporter experiences operational difficulties, due to force majeure including weather damage, pipeline shut-ins, or otherwise, this can directly influence our ability to sell commodities that we are able to produce. In addition, with respect to oil and gas projects that we do not operate, we have limited influence over operations, including limited control over the maintenance of safety and environmental standards. The operators of those properties may, depending on the terms of the applicable joint operating agreement:

