HELIX ENERGY SOLUTIONS GROUP INC
Form 10-K
February 24, 2012

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

Form 10-K

(Mark One)

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

For the fiscal year ended December 31, 2011

or

o 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	Name of each exchange on which registered
Common Stock (no par value)	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. þYes oNo

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. oYes þNo

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. þYes oNo

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). þYes oNo

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. o

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

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

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, 2011 was approximately $1.6 billion.

The number of shares of the registrant's Common Stock outstanding as of February 16, 2012 was 105,627,721.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the definitive Proxy Statement for the Annual Meeting of Shareholders to be held on May 9, 2012, are incorporated by reference into Part III hereof.

HELIX ENERGY SOLUTIONS GROUP, INC. INDEX — FORM 10-K

Table of Contents

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,” “cont “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 anticipated legislative, governmental, regulatory, administrative or other public body actions, requirements, permits or decisions;
- statements regarding the collectability of our trade receivables;
- statements regarding anticipated developments, industry trends, performance or industry ranking;
- statements regarding general economic or political conditions, whether international, national or in the regional and local market areas in which we do business;
- statements related to our ability to retain key members of our senior management and key employees;
- statements related to the underlying assumptions related to any projection or forward-looking statement; and
- any other statements that relate to non-historical or future information.

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

- impact of weak domestic and global economic conditions and the future impact of such conditions on the oil and gas industry and the demand for our services;
- uncertainties inherent in the development and production of oil and gas and in estimating reserves;
- the geographic concentration of our oil and gas operations;
- the effect of regulations on the offshore Gulf of Mexico oil and gas operations;
- uncertainties regarding our ability to replace depletion;
- unexpected future capital expenditures (including the amount and nature thereof);
- impact of oil and gas price fluctuations and the cyclical nature of the oil and gas industry;

Table of Contents

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

Our actual results could differ materially from those anticipated in any forward-looking statements as a result of a variety of factors, including those 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. These Contracting Services operations are primarily located in the Gulf of Mexico, North Sea, Asia Pacific and West Africa regions. 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, our investment in a dynamically positioned floating production vessel (the “Helix Producer I” or “HP I”) and the recently established Helix Fast Action Response System (“HFRS” see “Our Strategy” below). All of our Production Facilities activities are located in the Gulf of Mexico. Our Oil and Gas segment engages in prospect generation, exploration, development and production activities all within in the Gulf of Mexico.

The future focus of the Company is on its Contracting Services businesses, including, well operations, robotics and subsea construction 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 2011. 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.

Table of Contents

Please refer to the subsection "— Certain Definitions" on page 18 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 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 of its ownership interests in Cal Dive during 2009 and its remaining ownership interest in 2011 (see "Contracting Services Operations – Shelf Contracting" below and Note 3). Prior to the divestiture of CDI, Shelf Contracting Services was our fourth reporting business segment.

OUR STRATEGY

Over the past three years, we have focused on improving our balance sheet by increasing our liquidity through dispositions of non-core business assets, decreasing our planned capital spending and reducing the amount of our debt outstanding. Our focus is to shape the future direction of the Company around the Contracting Services business comprised of our well operations, robotics and subsea construction services. We plan to supplement the expansion of our Contracting Services business with the cash generated by our production facilities business activities and the substantial cash flow associated with our oil and gas business. We can generate cash from our oil and gas operations through a combination of existing and/or future production from our properties and/or the sale of all or a portion of our oil and gas assets.

Since the beginning of 2009, we have generated approximately $600 million in pre-tax proceeds from dispositions of non-core business assets. These transactions included approximately $55 million from the sale of individual oil and gas properties, over $500 million from the sale of our stockholdings in CDI and $25 million for the sale of our former reservoir consulting business.

The 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 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 goals drives our ability to achieve our overall objective 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 are planning to make strategic investments in capital projects that expand our service capabilities or add capacity to existing services in our key operating regions. We recently announced that we are initiating construction of a new multi-service semi-submersible well intervention and well operations vessel similar to our existing Q4000 vessel. This vessel is expected to be completed and placed in service in 2015 at an approximate estimated cost of $525 million. Our most recent completed capital investments include: 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 intervention servicing capabilities, including installation of a coiled-tubing unit in 2010.

As recent evidence of our commitment to expand our contracting services capabilities we developed the HFRS. The HFRS was developed as a culmination of our experience as a responder in the Gulf oil spill response and containment efforts in 2010. The HFRS centers on two vessels, the HP I and the Q4000, both of which played a key role in Gulf 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

Table of Contents

("CGA"), a non-profit industry group, allowing, in exchange for a retainer fee, the HFRS to be named as a response resource in permit applications to federal and state agencies and making the HFRS available for a two-year term to certain CGA participants who have executed utilization agreements with us. In addition to the agreement with CGA, we currently have signed separate utilization agreements with 24 of the CGA participant member companies specifying the day rates to be charged should the HFRS be deployed in connection with a well control incident. The retainer fee for the HFRS became effective April 1, 2011.

Monetize Oil and Gas Reserves and Non-Core Assets. As previously disclosed, we may pursue potential opportunities to sell all or a portion of our oil and gas assets. Until such time as we dispose of our oil and gas assets, 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.

Focus Exploration Drilling on Select Deepwater Prospects. We are continuing to generate oil and gas prospects and expect to drill in areas we believe are likely to contain largely oil reserves, and where our contracting services assets may 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, 2011, our PUD category represented approximately 16.1 MMBOE or 42% 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 developing offshore reservoirs and maximizing production economics. These “life of field” services are represented by four disciplines: (1) well operations, (2) robotics, (3) subsea construction and (4) production facilities. We have disaggregated our contracting service operations into two 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. In 2011, we experienced increased demand for our services from the alternative energy industry. Some of the services we provide to these alternative energy businesses include subsea power cable installation, trenching and burial, along with seabed coring and preparation for construction of windmill foundations.

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

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

- Production facilities. We are able to 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 our Phoenix field (Note 5). 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. We also established the HFRS as a response resource in permit applications to federal and state agencies.

Table of Contents

As of December 31, 2011, our contracting services operations' backlog supported by written agreements or contracts totaled $539.6 million, of which $505.0 million is expected to be performed in 2012. At December 31, 2010, our backlog totaled $267.3 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 operations 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 make capital expenditures for offshore exploration, drilling and production operations. Generally, spending for our contracting services fluctuates directly with the direction of oil and natural gas prices. However, some of our Contracting Services, generally our subsea construction activities, will often lag drilling operations by a period of 6 to 18 months, meaning that even if there were a sudden increase in deepwater permitting and subsequent drilling in the Gulf of Mexico, it probably would still be some time before we would start securing any awarded projects. The performance of our oil and gas operations is also largely dependent on the prevailing market prices for oil and natural gas, which are impacted by global economic conditions, hydrocarbon production and capacity, geopolitical issues, weather, and several other factors.

Although we are still feeling the effects of the recent global recession and are experiencing the consequences of the additional regulatory requirements resulting from the Macondo well explosion and subsequent oil spill in the Gulf of Mexico in 2010, 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.

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 that are typically 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. In 2010, the Q4000 served as a key component in the Gulf well control and containment efforts. The Q4000 serves an important role in the HFRS that was established in 2011 (see "Our Strategy" above). 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 the Well Enhancer and it joined our fleet in October 2009 in the North Sea region.

In February 2012, we announced that we are initiating construction of a new multi-service semi-submersible well intervention and well operations vessel similar to our existing Q4000 vessel. This vessel is expected to be completed and placed in service in 2015 at an approximate estimated cost of $525 million.

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 becoming 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 41 ROVs and three trencher systems operate in the Gulf of Mexico, North Sea, Asia Pacific and West Africa regions. We currently lease five vessels to support our Robotics services and we have historically engaged additional vessels on short-term (spot) charters as needed. In 2012, we expect to take possession of a new-build vessel, the Grand Canyon, that was commissioned specifically for our use under terms of a long-term charter agreement. The Grand Canyon will initially be deployed to support our new T1200 trencher system.

Over the past few years there has been a dramatic increase in offshore activity associated with the growing alternative energy industry. Specifically there has been a large increase in the amount of services performed on behalf of the wind farm industry. As the level of activity for offshore alternative energy projects has increased, so has the need for reliable services and related equipment. Historically, this work was performed with the use of barges and other less suitable vessels but these types of services are now contracted to vessels such as our