

HELIX ENERGY SOLUTIONS GROUP INC
Form 10-Q
October 21, 2015

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
Form 10-Q

☒ Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the quarterly period ended September 30, 2015

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.)

3505 West Sam Houston Parkway North
Suite 400
Houston, Texas
(Address of principal executive offices)

77043
(Zip Code)

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

NOT APPLICABLE

(Former name, former address and former fiscal year, if changed since last report)

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 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.

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

As of October 16, 2015, 106,137,010 shares of common stock were outstanding.

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

HELIX ENERGY SOLUTIONS GROUP, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

(in thousands)

	September 30, 2015 (Unaudited)	December 31, 2014
ASSETS		
Current assets:		
Cash and cash equivalents	\$468,936	\$476,492
Accounts receivable:		
Trade, net of allowance for uncollectible accounts of \$7,775 and \$4,735, respectively	114,285	104,724
Unbilled revenue	31,870	28,542
Costs in excess of billing	774	2,034
Current deferred tax assets	36,059	31,180
Other current assets	44,500	51,301
Total current assets	696,424	694,273
Property and equipment	2,515,691	2,241,444
Less accumulated depreciation	(581,368)	(506,060)
Property and equipment, net	1,934,323	1,735,384
Other assets:		
Equity investments	143,481	149,623
Goodwill	61,648	62,146
Other assets, net	72,124	59,272
Total assets	\$2,908,000	\$2,700,698
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$75,781	\$83,403
Accrued liabilities	78,718	104,923
Income tax payable	—	9,143
Current maturities of long-term debt	71,640	28,144
Total current liabilities	226,139	225,613
Long-term debt	704,568	523,228
Deferred tax liabilities	257,596	260,275
Other non-current liabilities	46,412	38,108
Total liabilities	1,234,715	1,047,224
Commitments and contingencies		
Shareholders' equity:		
Common stock, no par, 240,000 shares authorized, 106,116 and 105,586 shares issued, respectively	944,718	934,447
Retained earnings	808,166	781,279
Accumulated other comprehensive loss	(79,599)	(62,252)
Total shareholders' equity	1,673,285	1,653,474
Total liabilities and shareholders' equity	\$2,908,000	\$2,700,698

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

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HELIX ENERGY SOLUTIONS GROUP, INC. AND SUBSIDIARIES
 CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
 (UNAUDITED)

(in thousands, except per share amounts)

	Three Months Ended September 30,	
	2015	2014
Net revenues	\$182,462	\$340,837
Cost of sales	150,493	214,590
Gross profit	31,969	126,247
Selling, general and administrative expenses	(13,597)	(19,916)
Income from operations	18,372	106,331
Equity in earnings (losses) of investments	(251)	508
Net interest expense	(8,713)	(3,856)
Other income (expense), net	(5)	598
Other income – oil and gas	571	1,837
Income before income taxes	9,974	105,418
Income tax provision	94	29,832
Net income applicable to common shareholders	\$9,880	\$75,586
Earnings per share of common stock:		
Basic	\$0.09	\$0.72
Diluted	\$0.09	\$0.71
Weighted average common shares outstanding:		
Basic	105,438	104,997
Diluted	105,438	105,338

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

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HELIX ENERGY SOLUTIONS GROUP, INC. AND SUBSIDIARIES
 CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
 (UNAUDITED)

(in thousands, except per share amounts)

	Nine Months Ended September 30,	
	2015	2014
Net revenues	\$538,119	\$899,996
Cost of sales	446,995	588,765
Gross profit	91,124	311,231
Gain on disposition of assets, net	—	10,418
Selling, general and administrative expenses	(42,750)	(69,614)
Income from operations	48,374	252,035
Equity in earnings (losses) of investments	(553)	709
Net interest expense	(18,018)	(12,856)
Other expense, net	(6,197)	(229)
Other income – oil and gas	4,396	15,709
Income before income taxes	28,002	255,368
Income tax provision	1,115	67,778
Net income, including noncontrolling interests	26,887	187,590
Less net income applicable to noncontrolling interests	—	(503)
Net income applicable to common shareholders	\$26,887	\$187,087
Earnings per share of common stock:		
Basic	\$0.25	\$1.77
Diluted	\$0.25	\$1.77
Weighted average common shares outstanding:		
Basic	105,362	105,038
Diluted	105,362	105,374

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

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HELIX ENERGY SOLUTIONS GROUP, INC. AND SUBSIDIARIES
 CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
 (UNAUDITED)
 (in thousands)

	Three Months Ended September 30,	
	2015	2014
Net income applicable to common shareholders	\$9,880	\$75,586
Other comprehensive loss, net of tax:		
Unrealized loss on hedges arising during the period	(14,779)	(9,209)
Reclassification adjustments for loss included in net income	4,255	812
Income taxes on unrealized loss on hedges	3,772	2,939
Unrealized loss on hedges, net of tax	(6,752)	(5,458)
Foreign currency translation loss	(10,383)	(15,706)
Other comprehensive loss, net of tax	(17,135)	(21,164)
Comprehensive income (loss) applicable to common shareholders	\$(7,255)	\$54,422
	Nine Months Ended September 30,	
	2015	2014
Net income, including noncontrolling interests	\$26,887	\$187,590
Other comprehensive loss, net of tax:		
Unrealized loss on hedges arising during the period	(23,144)	(9,283)
Reclassification adjustments for loss included in net income	9,186	2,080
Income taxes on unrealized loss on hedges	4,974	2,521
Unrealized loss on hedges, net of tax	(8,984)	(4,682)
Foreign currency translation loss	(8,363)	(7,428)
Other comprehensive loss, net of tax	(17,347)	(12,110)
Comprehensive income	9,540	175,480
Less comprehensive income applicable to noncontrolling interests	—	(503)
Comprehensive income applicable to common shareholders	\$9,540	\$174,977
The accompanying notes are an integral part of these condensed consolidated financial statements.		

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HELIX ENERGY SOLUTIONS GROUP, INC. AND SUBSIDIARIES
 CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
 (UNAUDITED)
 (in thousands)

	Nine Months Ended September 30,	
	2015	2014
Cash flows from operating activities:		
Net income, including noncontrolling interests	\$26,887	\$187,590
Adjustments to reconcile net income, including noncontrolling interests, to net cash provided by operating activities:		
Depreciation and amortization	86,333	81,274
Amortization of deferred financing costs	4,117	3,653
Stock-based compensation expense	7,941	5,711
Amortization of debt discount	4,409	4,149
Deferred income taxes	(2,403)	) 24,728
Excess tax from stock-based compensation	98	(120)
Gain on disposition of assets, net	—	(10,418)
Unrealized loss and ineffectiveness on derivative contracts, net	2,222	69
Changes in operating assets and liabilities:		
Accounts receivable, net	(13,326)	) (16,496)
Other current assets	6,610	(19,388)
Income tax payable, net of income tax receivable	(12,152)	) 25,440
Accounts payable and accrued liabilities	(52,045)	) 25,127
Other noncurrent, net	(19,164)	) (9,758)
Net cash provided by operating activities	39,527	301,561
Cash flows from investing activities:		
Capital expenditures	(280,523)	) (204,528)
Distributions from equity investments, net	5,853	5,041
Proceeds from sale of assets	7,500	11,074
Acquisition of noncontrolling interests	—	(20,085)
Net cash used in investing activities	(267,170)	) (208,498)
Cash flows from financing activities:		
Proceeds from Nordea Q5000 Loan	250,000	—
Repayment of Nordea Q5000 Loan	(8,929)) —
Repayment of Term Loan	(15,000)	) (11,250)
Repayment of MARAD Debt	(5,644)	) (5,376)
Deferred financing costs	(1,611)	) (3,143)
Distributions to noncontrolling interests	—	(1,018)
Repurchases of common stock	(1,056)	) (8,538)
Excess tax from stock-based compensation	(98)	) 120
Proceeds from issuance of ESPP shares	3,484	3,223
Net cash provided by (used in) financing activities	221,146	(25,982)
Effect of exchange rate changes on cash and cash equivalents	(1,059)	) 1,248
Net increase (decrease) in cash and cash equivalents	(7,556)) 68,329
Cash and cash equivalents:		

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Balance, beginning of year	476,492	478,200
Balance, end of period	\$468,936	\$546,529

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

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HELIX ENERGY SOLUTIONS GROUP, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

Note 1 — Basis of Presentation and New Accounting Standards

The accompanying condensed consolidated financial statements include the accounts of Helix Energy Solutions Group, Inc. and its wholly and majority owned subsidiaries (collectively, “Helix” or the “Company”). Unless the context indicates otherwise, the terms “we,” “us” and “our” in this report refer collectively to Helix and its wholly and majority owned subsidiaries. All material intercompany accounts and transactions have been eliminated. These unaudited condensed consolidated financial statements have been prepared pursuant to instructions for the Quarterly Report on Form 10-Q required to be filed with the Securities and Exchange Commission (the “SEC”), and do not include all information and footnotes normally included in annual financial statements prepared in accordance with U.S. generally accepted accounting principles.

The accompanying condensed consolidated financial statements have been prepared in conformity with U.S. generally accepted accounting principles (“U.S. GAAP”) and are consistent in all material respects with those applied in our 2014 Annual Report on Form 10-K (“2014 Form 10-K”). The preparation of these financial statements requires us to make estimates and judgments that affect the amounts reported in the financial statements and the related disclosures. Actual results may differ from our estimates. The operating results for the three- and nine-month periods ended September 30, 2015 are not necessarily indicative of the results that may be expected for the year ending December 31, 2015. Our balance sheet as of December 31, 2014 included herein has been derived from the audited balance sheet as of December 31, 2014 included in our 2014 Form 10-K. These unaudited condensed consolidated financial statements should be read in conjunction with the annual audited consolidated financial statements and notes thereto included in our 2014 Form 10-K.

We have made all adjustments (which were normal recurring adjustments) that we believe are necessary for a fair presentation of the condensed consolidated balance sheets, statements of operations, statements of comprehensive income (loss), and statements of cash flows, as applicable. Our operating results for the nine-month period ended September 30, 2015 included an out-of-period adjustment to correct an error related to a well intervention project performed in 2014 in which our revenues included certain income tax withholding payments made on our behalf and which now will have to be refunded to the counterparty. This adjustment affects our 2015 operating results by reducing our net revenues by \$2.5 million and increasing our net loss by \$1.7 million. The amounts were not deemed material with respect to prior year or the anticipated results and the trend of earnings for fiscal year 2015.

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

In May 2014, the Financial Accounting Standards Board (the “FASB”) issued Accounting Standards Update (“ASU”) No. 2014-09, “Revenue from Contracts with Customers (Topic 606).” This ASU provides a single five-step approach to account for revenue arising from contracts with customers. The ASU requires an entity to recognize revenue in a way that depicts the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. This revenue standard was originally effective prospectively for annual reporting periods beginning after December 15, 2016, including interim periods. In August 2015, the FASB issued ASU No. 2015-14 to defer the effective date of ASU No. 2014-09 by one year to December 15, 2017. Adoption as of the original effective date is permitted. The guidance permits companies to either apply the requirements retrospectively to all prior periods presented, or apply the requirements in the year of adoption through a cumulative adjustment. We are currently evaluating which transition approach to use and the potential impact the adoption of this standard may have on our consolidated financial statements.

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In April 2015, the FASB issued ASU No. 2015-03, “Simplifying the Presentation of Debt Issuance Costs.” This ASU requires that debt issuance costs related to a recognized debt liability be reported on the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. The guidance is effective retrospectively beginning in the first quarter of fiscal 2017 and early adoption is permitted. We do not expect this guidance to materially affect our balance sheets as amounts will be reclassified from long-term assets to partial offsets to long-term debt. The guidance will not affect our statements of operations or statements of cash flows.

In July 2015, the FASB issued ASU No. 2015-11, “Simplifying the Measurement of Inventory.” This ASU requires inventory that is measured using first-in, first-out or average cost method to be recorded at the lower of cost and net realizable value. The guidance is effective prospectively for annual reporting periods beginning after December 15, 2016, including interim periods. Early adoption is permitted. We do not expect this guidance to materially affect our consolidated financial statements.

Note 2 — Company Overview

We are an international offshore energy services company that provides specialty services to the offshore energy industry, with a focus on well intervention and robotics operations. We seek to provide services and methodologies that we believe are critical to developing offshore reservoirs and maximizing production economics. We provide services primarily in deepwater in the Gulf of Mexico, North Sea, Asia Pacific and West Africa regions, and expect to expand our operations offshore Brazil. Our “life of field” services are segregated into three reportable business segments: Well Intervention, Robotics and Production Facilities (Note 11).

Our Well Intervention segment includes our vessels and equipment used to perform well intervention services primarily in the Gulf of Mexico and North Sea regions. Our Well Intervention segment also includes intervention riser systems (“IRSs”) that may be available on a rental basis. Our well intervention vessels include the Q4000, the Helix 534, the Seawell, the Well Enhancer and the Skandi Constructor, which is a chartered vessel. Our well intervention fleet also includes the Q5000, a newbuild semi-submersible well intervention vessel that was delivered to us at the end of April 2015 and is currently working for a client in the Gulf of Mexico. We are currently constructing another well intervention vessel, the Q7000. We have also contracted to charter two newbuild monohull vessels, to be used in connection with our contracts to provide well intervention services offshore Brazil.

Our Robotics segment includes remotely operated vehicles (“ROVs”), trenchers and ROVDrills designed to complement offshore construction and well intervention services, and currently operates five chartered ROV and trencher support vessels including the Grand Canyon II, which was delivered to us in late April 2015.

Our Production Facilities segment includes the Helix Producer I vessel (“HP I”) as well as our equity investments in Deepwater Gateway, L.L.C. (“Deepwater Gateway”) and Independence Hub, LLC (“Independence Hub”) (Note 5). The Production Facilities segment also includes the Helix Fast Response System (“HFRS”), which provides certain operators access to our Q4000 and HP I vessels in the event of a well control incident in the Gulf of Mexico.

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Note 3 — Details of Certain Accounts

Other current assets and other assets, net consist of the following (in thousands):

	September 30, 2015	December 31, 2014
Note receivable ⁽¹⁾	\$10,000	\$17,500
Other receivables	597	423
Prepaid insurance	7,968	6,582
Other prepaids	9,295	15,541
Spare parts inventory	5,022	1,857
Income tax receivable	3,477	—
Value added tax receivable	8,060	9,326
Other	81	72
Total other current assets	\$44,500	\$51,301
	September 30, 2015	December 31, 2014
Note receivable ⁽¹⁾	\$10,000	\$10,000
Deferred dry dock expenses, net	27,207	11,631
Deferred financing costs, net (Note 6)	21,182	23,399
Intangible assets with finite lives, net	736	696
Charter fee deposit (Note 12)	12,544	12,544
Other	455	1,002
Total other assets, net	\$72,124	\$59,272

Relates to the remaining balance of the promissory note we received in connection with the sale of our Ingleside spoolbase in January 2014. The balance at December 31, 2014 included \$7.5 million, which was paid in (1) January 2015. Interest on the note is payable quarterly at a rate of 6% per annum. Under the terms of the note, the remaining \$20 million principal balance is required to be paid with a \$10 million payment on December 31, 2015 and December 31, 2016.

Accrued liabilities consist of the following (in thousands):

	September 30, 2015	December 31, 2014
Accrued payroll and related benefits	\$19,598	\$61,246
Current asset retirement obligations	553	575
Unearned revenue	17,879	11,461
Accrued interest	2,086	4,221
Derivative liability (Note 14)	22,790	13,222
Taxes payable excluding income tax payable	7,229	6,236
Other	8,583	7,962
Total accrued liabilities	\$78,718	\$104,923

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Note 4 — Statement of Cash Flow Information

We define cash and cash equivalents as cash and all highly liquid financial instruments with original maturities of three months or less. The following table provides supplemental cash flow information (in thousands):

	Nine Months Ended September 30,	
	2015	2014
Interest paid, net of interest capitalized	\$11,823	\$11,671
Income taxes paid	\$16,008	\$53,390

Our non-cash investing activities include accruals for property and equipment capital expenditures. These non-cash investing accruals totaled \$20.4 million and \$14.1 million as of September 30, 2015 and December 31, 2014, respectively. Additionally, our investing activities for the nine-month period ended September 30, 2014 included a \$30 million non-cash transaction related to the promissory note we received in connection with the sale of our Ingleside spoolbase in January 2014 (Note 3).

Note 5 — Equity Investments

As of September 30, 2015, we had two investments that we account for using the equity method of accounting: Deepwater Gateway and Independence Hub, both of which are included in our Production Facilities segment.

Deepwater Gateway, L.L.C. In June 2002, we, along with Enterprise Products Partners L.P. (“Enterprise”), formed Deepwater Gateway, each with a 50% interest, to design, construct, install, own and operate a tension leg platform production hub primarily for Anadarko Petroleum Corporation’s Marco Polo field in the Deepwater Gulf of Mexico. Our investment in Deepwater Gateway totaled \$77.5 million and \$80.9 million as of September 30, 2015 and December 31, 2014, respectively (including net capitalized interest of \$1.2 million at September 30, 2015 and December 31, 2014, respectively).

Independence Hub, LLC. In December 2004, we acquired a 20% interest in Independence Hub, then an affiliate of Enterprise. Independence Hub owns the “Independence Hub” platform located in Mississippi Canyon Block 920 in a water depth of 8,000 feet. Our investment in Independence Hub was \$66.0 million and \$68.8 million as of September 30, 2015 and December 31, 2014, respectively (including capitalized interest of \$3.7 million and \$3.9 million at September 30, 2015 and December 31, 2014, respectively).

In July 2015, Enterprise sold its offshore Gulf of Mexico pipelines and services business to Genesis Energy, L.P. for approximately \$1.5 billion. Enterprise’s ownership interests in both Deepwater Gateway and Independence Hub were included in the sale.

We received the following distributions from our equity method investments (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Deepwater Gateway	\$1,200	\$500	\$3,900	\$4,250
Independence Hub	560	200	1,400	1,500
Total	\$1,760	\$700	\$5,300	\$5,750

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Note 6 — Long-Term Debt

Scheduled maturities of our long-term debt outstanding as of September 30, 2015 are as follows (in thousands):

	Term Loan	Nordea Q5000 Loan	MARAD Debt	2032 Notes ⁽¹⁾	Total
Less than one year	\$30,000	\$35,714	\$5,926	\$—	\$71,640
One to two years	30,000	35,715	6,222	—	71,937
Two to three years	202,500	35,714	6,532	—	244,746
Three to four years	—	35,714	6,858	—	42,572
Four to five years	—	98,214	7,200	—	105,414
Over five years	—	—	56,410	200,000	256,410
Total debt	262,500	241,071	89,148	200,000	792,719
Current maturities	(30,000)	(35,714)	(5,926)	—	(71,640)
Long-term debt, less current maturities	232,500	205,357	83,222	200,000	721,079
Unamortized debt discount ⁽²⁾	—	—	—	(16,511)	(16,511)
Long-term debt	\$232,500	\$205,357	\$83,222	\$183,489	\$704,568

(1) Beginning in March 2018, the holders of our Convertible Senior Notes due 2032 may require us to repurchase these notes or we may at our option elect to repurchase these notes. The notes will mature in March 2032.

(2) Our Convertible Senior Notes due 2032 will increase to their face amount through accretion of non-cash interest charges through March 2018.

Below is a summary of certain components of our indebtedness:

Credit Agreement

In June 2013, we entered into a credit agreement (the “Credit Agreement”) with a group of lenders pursuant to which we borrowed \$300 million under the Credit Agreement’s term loan (the “Term Loan”) and, subject to the terms of the Credit Agreement, may borrow additional amounts (the “Revolving Loans”) and/or obtain letters of credit under a revolving credit facility (the “Revolving Credit Facility”) up to \$600 million. Subject to existing lender participation and/or the participation of new lenders, and subject to standard conditions precedent, we may obtain an increase of up to \$200 million in aggregate commitments with respect to the Revolving Credit Facility, additional term loans or a combination thereof. At September 30, 2015, we had no borrowings under the \$600 million Revolving Credit Facility and our available borrowing capacity under that facility, based on the leverage ratio covenant, totaled \$243.4 million, net of \$17.5 million of letters of credit issued.

The Term Loan and the Revolving Loans (together, the “Loans”) bear interest, at our election, in relation to either the base rate established by Bank of America N.A. or to a LIBOR rate, provided that all Swing Line Loans (as defined in the Credit Agreement) will be base rate loans.

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The Loans or portions thereof bearing interest at the base rate currently bear interest at a per annum rate equal to the base rate plus a margin ranging from 1.00% to 3.00%. The Loans or portions thereof bearing interest at a LIBOR rate currently bear interest at the LIBOR rate selected by us plus a margin ranging from 2.00% to 4.00%. A letter of credit fee is payable by us equal to our applicable margin for LIBOR rate Loans multiplied by the daily amount available to be drawn under outstanding letters of credit. Margins on the Loans will vary in relation to the consolidated coverage ratio, as provided by the Credit Agreement. We currently also pay a fixed commitment fee of 0.50% on the unused portion of our Revolving Credit Facility. The Term Loan currently bears interest at the one-month LIBOR rate plus 2.50%. In September 2013, we entered into various interest rate swap contracts to fix the one-month LIBOR rate on \$148.1 million of our borrowings under the Term Loan. The fixed LIBOR rates are between 74 and 75 basis points.

The Term Loan is repayable in scheduled principal installments of 5% in each of the initial two loan years (\$15 million per year), and 10% in each of the remaining three loan years (\$30 million per year), payable quarterly, with a balloon payment of \$180 million at maturity. These installment amounts are subject to adjustment for any prepayments on the Term Loan. We may elect to prepay amounts outstanding under the Term Loan without premium or penalty, but may not reborrow any amounts prepaid. We may prepay amounts outstanding under the Revolving Loans without premium or penalty, and may reborrow any amounts paid up to the amount of the Revolving Credit Facility. The Loans mature on June 19, 2018. In certain circumstances, we will be required to prepay the Loans.

The Credit Agreement and the other documents entered into in connection with the Credit Agreement (together, the “Loan Documents”) include terms and conditions, including covenants, which we consider customary for this type of transaction. The covenants include restrictions on our and our subsidiaries’ ability to grant liens, incur indebtedness, make investments, merge or consolidate, sell or transfer assets, pay dividends and incur capital expenditures. In addition, the Credit Agreement obligates us to meet certain financial ratios, including the Consolidated Interest Coverage Ratio and the Consolidated Leverage Ratio (as defined in the Credit Agreement). In May 2015, we amended the Credit Agreement to revise the maximum permitted Consolidated Leverage Ratio as follows: 4.00 to 1.00 for the second quarter of 2015, 4.50 to 1.00 for the third quarter of 2015 through the fourth quarter of 2016, 4.00 to 1.00 for the first quarter of 2017, and 3.50 to 1.00 for the second quarter of 2017 and thereafter. Prior to the amendment, the leverage ratio was 3.50 to 1.00, which applied to all periods after January 1, 2014.

We have designated five of our foreign subsidiaries, and may designate any newly established foreign subsidiaries, as subsidiaries that are not generally subject to the covenants in the Credit Agreement (the “Unrestricted Subsidiaries”), provided we meet certain liquidity requirements, in which case EBITDA (net of cash distributions to the parent) of the Unrestricted Subsidiaries is not included in the calculations with respect to our financial covenants. Our obligations under the Credit Agreement are guaranteed by our wholly owned domestic subsidiaries (except Cal Dive I – Title XI, Inc.) and Canyon Offshore Limited, a wholly owned Scottish subsidiary. Our obligations under the Credit Agreement, and of the guarantors under their guaranty, are secured by most of our assets of the parent and our wholly owned domestic subsidiaries (except Cal Dive I – Title XI, Inc.) and Canyon Offshore Limited, plus pledges of up to two-thirds of the shares of certain foreign subsidiaries.

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Convertible Senior Notes Due 2032

In March 2012, we completed a public offering and sale of \$200 million in aggregate principal amount of Convertible Senior Notes due 2032 (the “2032 Notes”). The 2032 Notes bear interest at a rate of 3.25% per annum, and are payable semi-annually in arrears on March 15 and September 15 of each year, beginning on September 15, 2012. The 2032 Notes mature on March 15, 2032 unless earlier converted, redeemed or repurchased. The 2032 Notes are convertible in certain circumstances and during certain periods at an initial conversion rate of 39.9752 shares of common stock per \$1,000 principal amount (which represents an initial conversion price of approximately \$25.02 per share of common stock), subject to adjustment in certain circumstances as set forth in the Indenture governing the 2032 Notes. We have the right and the intention to settle any such future conversions in cash.

Prior to March 20, 2018, the 2032 Notes are not redeemable. On or after March 20, 2018, we, at our option, may redeem some or all of the 2032 Notes in cash, at any time upon at least 30 days’ notice, at a price equal to 100% of the principal amount plus accrued and unpaid interest (including contingent interest, if any) up to but excluding the redemption date. In addition, the holders of the 2032 Notes may require us to purchase in cash some or all of their 2032 Notes at a repurchase price equal to 100% of the principal amount of the 2032 Notes, plus accrued and unpaid interest (including contingent interest, if any) up to but excluding the applicable repurchase date, on March 15, 2018, March 15, 2022 and March 15, 2027, or, subject to specified exceptions, at any time prior to the 2032 Notes’ maturity following a fundamental change (as defined in the Indenture governing the 2032 Notes).

In connection with the issuance of the 2032 Notes, we recorded a discount of \$35.4 million as required under existing accounting rules. To arrive at this discount amount, we estimated the fair value of the liability component of the 2032 Notes as of the date of their issuance (March 12, 2012) using an income approach. To determine this estimated fair value, we used borrowing rates of similar market transactions involving comparable liabilities at the time of issuance and an expected life of 6.0 years. In selecting the expected life, we selected the earliest date the holders could require us to repurchase all or a portion of the 2032 Notes (March 15, 2018). The effective interest rate for the 2032 Notes is 6.9% after considering the effect of the accretion of the related debt discount that represented the equity component of the 2032 Notes at their inception. We recorded \$22.5 million related to the carrying amount of the equity component of the 2032 Notes.

MARAD Debt

This U.S. government guaranteed financing (the “MARAD Debt”) is pursuant to Title XI of the Merchant Marine Act of 1936 administered by the Maritime Administration, and was used to finance the construction of the Q4000. The MARAD Debt is payable in equal semi-annual installments beginning in August 2002 and matures in February 2027. The MARAD Debt is collateralized by the Q4000, is guaranteed 50% by us, and initially bore interest at a floating rate that approximated AAA Commercial Paper yields plus 20 basis points. As required by the MARAD Debt agreements, in September 2005, we fixed the interest rate on the debt through the issuance of a 4.93% fixed-rate note with the same maturity date.

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Nordea Credit Agreement

In September 2014, a wholly owned subsidiary incorporated in Luxembourg, Helix Q5000 Holdings S.à r.l. (“Q5000 Holdings”), entered into a credit agreement (the “Nordea Credit Agreement”) with a syndicated bank lending group for a term loan (the “Nordea Q5000 Loan”) in an amount of up to \$250 million. The Nordea Q5000 Loan was funded in the amount of \$250 million at the end of April 2015 at the time the Q5000 vessel was delivered. The parent company of Q5000 Holdings, Helix Vessel Finance S.à r.l., also a wholly owned Luxembourg subsidiary, guaranteed the Nordea Q5000 Loan. The loan is secured by the Q5000 and its charter earnings as well as by a pledge of the shares of Q5000 Holdings. This indebtedness is nonrecourse to Helix.

The Nordea Q5000 Loan bears interest at a LIBOR rate plus a margin of 2.5%, with an undrawn fee of 0.875% prior to funding on April 30, 2015. The Nordea Q5000 Loan matures on April 30, 2020 and is repayable in scheduled principal installments of \$8.9 million, payable quarterly, with a balloon payment of \$80.4 million at maturity. Q5000 Holdings may elect to prepay amounts outstanding under the Nordea Q5000 Loan without premium or penalty, but may not reborrow any amounts prepaid. Installment amounts are subject to adjustment for any prepayments on this debt. In certain circumstances, Q5000 Holdings will be required to prepay the loan. In June 2015, we entered into various interest rate swap contracts to fix the one-month LIBOR rate on \$187.5 million of our borrowings under the Nordea Q5000 Loan. The fixed LIBOR rates are between 149 and 152 basis points.

The Nordea Credit Agreement and related loan documents include terms and conditions, including covenants, that are considered customary for this type of transaction. The covenants include restrictions on Q5000 Holdings’s ability to grant liens, incur indebtedness, make investments, merge or consolidate, sell or transfer assets, and pay dividends. In addition, the Nordea Credit Agreement obligates Q5000 Holdings to meet certain minimum financial requirements, including liquidity, consolidated debt service coverage and collateral maintenance. As of September 30, 2015, Q5000 Holdings was in compliance with these covenants.

Other

In accordance with our Credit Agreement, the 2032 Notes, the MARAD Debt agreements, and the Nordea Credit Agreement, we are required to comply with certain covenants, including certain financial ratios such as a consolidated interest coverage ratio and consolidated leverage ratio, as well as the maintenance of minimum net worth, working capital and debt-to-equity requirements. As of September 30, 2015, we were in compliance with these covenants.

Unamortized deferred financing costs are included in “Other assets, net” in the accompanying condensed consolidated balance sheets and are amortized over the life of the respective debt agreements. The following table reflects the components of our deferred financing costs (in thousands):

	September 30, 2015			December 31, 2014		
	Gross Carrying Amount	Accumulated Amortization	Net	Gross Carrying Amount	Accumulated Amortization	Net
Term Loan (matures June 2018)	\$3,638	\$(1,637)	) \$2,001	\$3,638	\$(1,091)	) \$2,547
Revolving Credit Facility (matures June 2018)	14,787	(6,137)	) 8,650	13,275	(3,982)	) 9,293
2032 Notes (mature March 2032)	3,759	(2,224)	) 1,535	3,759	(1,763)	) 1,996
MARAD Debt (matures February 2027)	12,200	(6,589)	) 5,611	12,200	(6,223)	) 5,977
Nordea Q5000 Loan (matures April 2020)	3,685	(300)) 3,385	3,586	—) 3,586

Total deferred financing costs	\$38,069	\$(16,887)	\$21,182	\$36,458	\$(13,059)	\$23,399
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The following table details the components of our net interest expense (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Interest expense	\$10,897	\$8,952	\$29,057	\$24,474
Interest income	(470)	(2,741)	(1,577)	(4,113)
Capitalized interest	(1,714)	(2,355)	(9,462)	(7,505)
Net interest expense	\$8,713	\$3,856	\$18,018	\$12,856
Note 7 — Income Taxes				

Our estimated annual effective tax rate, adjusted for discrete tax items, is applied to interim periods' pretax earnings. We believe that our recorded assets and liabilities are reasonable; however, tax laws and regulations are subject to interpretation and tax litigation is inherently uncertain, and therefore our assessments can involve a series of complex judgments about future events and rely heavily on estimates and assumptions.

The effective tax rates for the three- and nine-month periods ended September 30, 2015 were 0.9% and 4.0%, respectively. The effective tax rates for the three- and nine-month periods ended September 30, 2014 were 28.3% and 26.5%, respectively. The variance was primarily attributable to the earnings mix between our higher and lower tax rate jurisdictions.

Income taxes have been provided based on the U.S. statutory rate of 35% and at the local statutory rate for each foreign jurisdiction. The primary differences between the U.S. statutory rate and our effective rate are as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
U.S. statutory rate	35.0	% 35.0	% 35.0	% 35.0
Foreign provision	(35.3)	) (7.2)	) (32.9)	) (7.8)
Other	1.2	0.5	1.9	(0.7)
Effective rate	0.9	% 28.3	% 4.0	% 26.5

Note 8 — Accumulated Other Comprehensive Income (Loss) ("OCI")

The components of Accumulated OCI are as follows (in thousands):

	September 30, 2015	December 31, 2014
Cumulative foreign currency translation adjustment	\$(38,524)	\$(30,161)
Unrealized loss on hedges, net ⁽¹⁾	(41,075)	(32,091)
Accumulated other comprehensive loss	\$(79,599)	\$(62,252)

Amounts relate to foreign currency hedges for the Grand Canyon, the Grand Canyon II and the Grand Canyon III charters as well as interest rate swap contracts for the Term Loan and the Nordea Q5000 Loan, and are net of deferred income taxes totaling \$22.3 million at September 30, 2015 and \$17.3 million at December 31, 2014 (Note 14).

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Note 9 — Earnings Per Share

We have shares of restricted stock issued and outstanding, which currently are unvested. Holders of such shares of unvested restricted stock are entitled to the same liquidation and dividend rights as the holders of our outstanding unrestricted common stock and the shares are thus considered participating securities. Under applicable accounting guidance, the undistributed earnings for each period are allocated based on the participation rights of both the common shareholders and holders of any participating securities as if earnings for the respective periods had been distributed. Because both the liquidation and dividend rights are identical, the undistributed earnings are allocated on a proportionate basis. Further, we are required to compute earnings per share (“EPS”) amounts under the two class met