OCEANEERING INTERNATIONAL INC
Form 10-K
February 28, 2019
UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-K

þ ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2018
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 1-10945

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

Delaware	95-2628227
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
11911 FM 529 Houston, Texas	77041
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code: (713) 329-4500
Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common Stock, $0.25 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. þ Yes o 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. o Yes þ No
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. þ Yes o No
Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted 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 such files). þ Yes o 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. o Yes þ 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 definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer	þ	Accelerated filer	o
Non-accelerated filer	o	Smaller reporting company	o
		Emerging growth company	¨

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ¨

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

Aggregate market value of the voting stock held by nonaffiliates of the registrant computed by reference to the closing price of $25.46 of the Common Stock on the New York Stock Exchange as of June 29, 2018, the last business day of the registrant's most recently completed second quarter: $2.5 billion

Number of shares of Common Stock outstanding at February 22, 2019: 98,838,122.

Documents Incorporated by Reference:

Portions of the proxy statement relating to the registrant's 2019 annual meeting of shareholders, to be filed on or before April 30, 2019 pursuant to Regulation 14A of the Securities Exchange Act of 1934, are incorporated by reference to the extent set forth in Part III, Items 10-14 of this report.

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PART I

Item 1. Business.
GENERAL DEVELOPMENT OF BUSINESS
Oceaneering International, Inc. is a global provider of engineered services and products, primarily to the offshore oil and gas industry. Oceaneering also serves the offshore renewables, defense, aerospace and commercial theme park industries. Oceaneering was organized as a Delaware corporation in 1969 out of the combination of three diving service companies founded in the early 1960s. Since our establishment, we have concentrated on the development and marketing of underwater services and products to meet customer needs requiring the use of advanced technology. We believe we are one of the world's largest underwater services contractors. The services and products we provide to the energy industry include remotely operated vehicles, specialty subsea hardware, engineering and project management, subsea intervention services, including manned diving, survey and positioning services, seabed preparation and asset integrity and nondestructive testing services. Our foreign operations, principally in the North Sea, Africa, Brazil, Australia and Asia, accounted for approximately 50% of our revenue, or $1.0 billion, for the year ended December 31, 2018.
Our business segments are contained within two businesses – services and products provided primarily to the oil and gas industry, and to a lesser extent, the offshore renewables industry ("Energy Services and Products") and services and products provided to non-energy industries ("Advanced Technologies"). Our four business segments within the Energy Services and Products business are Remotely Operated Vehicles ("ROVs"), Subsea Products, Subsea Projects and Asset Integrity. We report our Advanced Technologies business as one segment. Unallocated Expenses are expenses not associated with a specific business segment. These consist of expenses related to our incentive and deferred compensation plans, including restricted stock and bonuses, as well as other general expenses.
Energy Services and Products. The primary focus of our Energy Services and Products business over the last several years has been toward increasing our asset base and capabilities for providing services and products for offshore operations and subsea completions. In recent years, we have focused on increasing our service and product offerings toward our oil and gas customers' operating expenses and the offshore renewable energy market.
During the past ten years, we have acquired businesses to expand and complement our service and product offerings. These include:

- a Canadian manufacturer of clamp connectors, check valves and universal ball joints;
- a Norwegian-based provider of inspection, maintenance, subsea engineering and field operations services, principally to the oil and gas industry;
- a Norwegian rental provider of specialized subsea dredging equipment, including ROV-deployed units, to the offshore oil and gas industry;
- a Norwegian oilfield technology company specializing in providing subsea tooling services and plugging, abandonment and decommissioning of offshore oil and gas production platforms and subsea wellheads;
- a Norwegian design and fabrication company specializing in subsea tools for the offshore oil and gas industry;
- a U.S.-based international provider of survey and positioning services;
- a business that uses ROVs to perform surveys on mobile offshore drilling units and floating production systems that satisfy the underwater inspection in lieu of drydocking (UWILD) requirements of all major classification societies;
- the assets of a provider of riserless light well intervention services;
- a majority interest in an Azerbaijani company that supports the provision of ROV and diving services in the Caspian Sea region; and
- a U.K. company that builds and operates tools for seabed preparation, route clearance and trenching for the installation of submarine cables and pipelines.

ROVs. We provide ROVs, which are tethered submersible vehicles remotely operated from the surface, to customers in the energy industry for drilling support and vessel-based services, including

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subsea hardware installation, construction, pipeline inspection, survey and facilities inspection, maintenance and repair. We design and build our new ROVs at in-house facilities, the largest of which is in Morgan City, LA. In 2018, we added six ROVs to our fleet and retired ten. Our work-class ROV fleet size was 275 at December 31, 2018, 279 at December 31, 2017 and 280 at December 31, 2016. We have decreased our ROV fleet size over the last four years as a result of lower market demand.

Subsea Products. Our Subsea Products segment consists of two business units: (1) manufactured products; and (2) service and rental. Manufactured products include production control umbilicals and specialty subsea hardware. Service and rental includes tooling, subsea work systems and installation and workover control systems, which we design and build but operate as a service.

We provide various types of subsea umbilicals through our Umbilical Solutions division from plants in the United States, Scotland and Brazil. Offshore operators use umbilicals to control subsea wellhead hydrocarbon flow rates, monitor downhole and wellhead conditions and perform chemical injection. Subsea umbilicals are also used to provide power and fluids to other subsea processing hardware, including pumps and gas separation equipment.

In 2016, we acquired the assets of Blue Ocean Technologies, LLC, a privately held provider of riserless light well intervention ("RLWI") services. Subsea well intervention services are intended to maximize production and increase the recovery rate from offshore oil and gas reservoirs or, alternatively, prepare wells to be plugged and abandoned. These RLWI systems have the capability to perform a wide variety of cost-effective services for well interventions, including well diagnostics, damaged well remediation and workovers, and well plugging and abandonment.

Subsea Projects. Our Subsea Projects segment consists of our subsea installation, inspection, diving, maintenance and repair services, principally in the U.S. Gulf of Mexico and offshore Angola and India, utilizing a fleet consisting of two owned and one chartered dynamically positioned deepwater vessels with integrated high-specification work-class ROVs onboard, and four owned shallow water diving and survey vessels, other spot-chartered vessels and other assets. Our owned vessels are Jones Act-compliant. The dynamically positioned vessels are equipped with thrusters that allow them to maintain a constant position at a location without the use of anchors. They are used in the inspection, maintenance and repair of subsea facilities, pipeline or flowline tie-ins, pipeline crossings and installations. These vessels can also carry and install equipment or umbilicals required to bring subsea well completions into production (tie-back to production facilities). With our acquisitions of C & C Technologies, Inc. ("C&C") in 2015 and Ecosse Subsea Limited ("Ecosse") in 2018, further described below, we provide survey services and route clearance and trenching services.

We previously had several deepwater vessels under long-term charter. The last of our long term charters expired in March 2018. With the current market conditions, our philosophy is to attempt to charter vessels for specific projects on a back-to-back basis with the vessel owners. This generally minimizes our contract exposure by closely matching our obligations with our revenue. Unless indicated otherwise, each of the chartered vessels discussed below is a deepwater multiservice subsea support vessel outfitted with two of our high-specification work-class ROVs.

In 2012, we moved the chartered vessel Ocean Intervention III to Angola and also chartered the Bourbon Oceanteam 101 to work on a three-year field support vessel services contract for a unit of BP plc. We had extended the charter of the Bourbon Oceanteam 101 to January 2017. However, in early 2016, the customer exercised its right, under the field support vessel services contract, to terminate its use of the Bourbon Oceanteam 101 at the end of May 2016. Under the terms of the contract, the costs incurred by us associated with the early release and demobilization of the vessel were reimbursed by the customer. Following the release of the vessel, we redelivered it to the vessel supplier. The charter for the Ocean Intervention III expired at the end of July 2017. Under the field support vessel services contract, which was extended through January 2019 and subsequently renewed under a new contract through January 2022, we are continuing to supply project management and engineering services. We also provide ROV tooling and asset integrity services as requested by the customer. Chartered vessels and barges are provided to the customer upon request.

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In March 2013, we commenced a five-year bareboat charter for a Jones Act-compliant multiservice support vessel, the Ocean Alliance, we have been using in the U.S. Gulf of Mexico. In January 2015, we commenced a two-year contract with a customer for the use of the Ocean Alliance which expired in January 2017. We returned the Ocean Alliance to the vessel owner in the first quarter of 2018 and continue to market the vessel, now renamed Cade Candies, for spot market work in the U.S. Gulf of Mexico on a back-to-back basis with the owner.

In December 2013, we commenced a three-year charter for the Normand Flower, a multiservice subsea marine support vessel. We made modifications to the vessel and used the vessel in the U.S. Gulf of Mexico to perform inspection, maintenance and repair projects and hardware installations. In December 2016, we declined our option to extend the charter and the vessel was released.

In November 2015, we commenced a two-year charter for the use of the Island Pride, a multiservice subsea marine support vessel. We used the vessel under a two-year contract to provide field support services off the coast of India for an oil and gas customer based in India. In November 2017, that field services contract expired and we declined our option to extend the vessel charter.

We also charter or lease vessels on a short-term basis as necessary to augment our fleet.

In 2010, we acquired a vessel, which we renamed the Ocean Patriot, and we have converted it to a dynamically positioned saturation diving and ROV service vessel. We installed a 12-man saturation ("SAT") diving system and one work-class ROV on the vessel, and we placed the vessel into service in December 2011.

During the third quarter of 2013, we signed an agreement with a shipyard for the construction of a subsea support vessel, to be named the Ocean Evolution. We expect to take delivery in the first quarter and place the vessel into service in the second quarter of 2019. We intend for the vessel to be U.S. flagged and documented with a coastwise endorsement by the U.S. Coast Guard. The vessel has an overall length of 353 feet, a Class 2 dynamic positioning system, accommodations for 110 personnel, a helideck, a 250-ton active heave-compensated crane, a working moonpool, and two of our high specification 4,000 meter work-class ROVs. The vessel is also equipped with a satellite communications system capable of transmitting streaming video for real-time work observation by shore personnel. We anticipate the vessel will be used to augment our ability to provide subsea intervention services in the U.S. Gulf of Mexico. These services are required to perform inspection, maintenance and repair projects and hardware installations.

In 2015, we acquired C&C, now known as Oceaneering Survey Services, for approximately $224 million. Our survey business is a global provider of ocean-bottom mapping services, utilizing customized autonomous underwater vehicles, and provides marine construction surveys for both surface and subsea assets, as well as satellite-based positioning services for drilling rigs and seismic and construction vessels. It also provides near-shore survey services along the U.S. Gulf Coast and in Mexico, and performs shallow water conventional geophysical surveys in the U.S. Gulf of Mexico.

In March 2018, we acquired Ecosse for approximately $68 million. Ecosse builds and operates seabed preparation, route clearance and trenching tools for submarine cables and pipelines on an integrated basis that includes vessels, ROVs and survey services. Enabling technologies acquired in the transaction include Ecosse's modular seabed system, capable of completing the entire trenching work scope (route preparation, boulder clearance, trenching and backfill), and its newly developed trenching system. These systems primarily serve the shallow water offshore renewables market.

Asset Integrity. Through our Asset Integrity division, we provide asset integrity management, corrosion management, inspection, and non-destructive testing services, principally to customers in the oil and gas, power generation, and petrochemical industries. We perform these services on both onshore and offshore facilities, both topside and subsea.

General. During the last five years, we have also made several small acquisitions to add complementary technology or niche markets. We intend to continue our strategy of acquiring, as opportunities arise, additional assets or businesses, to improve our market position or expand into related service and product lines.

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Advanced Technologies. Our Advanced Technologies segment consists of two business units: (1) government; and (2) commercial. Government services and products include engineering and related manufacturing in defense and space exploration activities, principally to U.S. Government agencies and their prime contractors. Our commercial business unit offers a turnkey solution that includes program management, engineering design, fabrication/assembly and installation to the commercial theme park industry and mobile robotics solutions including automated guided vehicle technology to a variety of industries.

DESCRIPTION OF BUSINESS

Energy Services and Products

Our Energy Services and Products business consists of ROVs, Subsea Products, Subsea Projects and Asset Integrity.

ROVs. ROVs are tethered submersible vehicles remotely operated from the surface. We use our ROVs in the offshore energy industry to perform a variety of underwater tasks, including drill support, vessel-based inspection, maintenance and repair, installation and construction support, pipeline inspection and surveys, and subsea production facility operation and maintenance. Work-class ROVs are outfitted with manipulators, sonar and video cameras, and can operate specialized tooling packages and other equipment or features to facilitate the performance of specific underwater tasks. At December 31, 2018, we owned 275 work-class ROVs. We believe we operate the largest fleet of ROVs in the world. We also believe we are the industry leader in providing ROV services for drill support, with an estimated 62% market share at the end of 2018.

ROV revenue:	Amount	Percent of Total Revenue
	(in thousands)	
2018	$ 394,801	21 %
2017	393,655	21 %
2016	522,121	23 %

Subsea Products. We construct a variety of specialty subsea hardware and provide related services. These include:

- various types of subsea umbilicals utilizing steel tubes and thermoplastic hoses, along with termination assemblies;
- tooling, ROV tooling and subsea work packages;
- production control equipment;
- installation and workover control systems ("IWOCS");
- riserless light well intervention services
- clamp connectors;
- pipeline connector and repair systems;
- subsea and topside control valves; and
- subsea chemical injection valves.

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Offshore well operators use subsea umbilicals and production control equipment to control subsea wellhead hydrocarbon flow, monitor downhole and wellhead conditions and perform chemical injection. They are also used to provide power and fluids to other subsea processing hardware, including pumps and gas/oil separation equipment. ROV tooling provides an additional operational interface between an ROV and permanently installed equipment located on the sea floor. Riserless light well intervention services, IWOCS and subsea work packages facilitate well and associated equipment intervention for the purposes of flow remediation and well stimulation.

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Subsea Products revenue:	Amount	Percent of Total Revenue
	(in thousands)	
2018	$ 515,000	27 %
2017	625,513	33 %
2016	692,030	30 %

Subsea Projects. We perform subsea oilfield hardware installation and inspection, maintenance and repair services. We provide seabed preparation, route clearance and trenching services for submarine cables in renewable energy markets. We service offshore projects with dynamically positioned vessels that typically have Oceaneering ROVs onboard. We service shallow water projects with our manned diving operation utilizing dive support vessels and saturation diving systems.

We perform subsea intervention and hardware installation services, principally in the U.S. Gulf of Mexico, offshore Angola and offshore India from multiservice vessels that have Oceaneering ROVs onboard. These services include: subsea well tie-backs; pipeline/flowline tie-ins and repairs; pipeline crossings; umbilical and other subsea equipment installations; subsea intervention; and inspection, maintenance and repair activities.

We service oil and gas industry shallow water projects in the U.S. Gulf of Mexico and offshore Angola with our manned diving operation utilizing the traditional diving techniques of air, mixed gas and saturation diving, all of which use surface-supplied breathing gas. We supply our diving services from four owned diving support vessels and other vessels and facilities. We do not use traditional diving techniques in water depths greater than 1,000 feet.

We also provide survey services and route clearance and trenching services.

Subsea Projects revenue:	Amount	Percent of Total Revenue
	(in thousands)	
2018	$ 329,163	17 %
2017	291,993	15 %
2016	472,979	21 %

Asset Integrity. Through our Asset Integrity division, we offer a wide range of asset integrity services to customers worldwide to help ensure the safety of their facilities onshore and offshore, while reducing their unplanned maintenance and repair costs. We also provide third-party inspections to satisfy contractual structural specifications, internal safety standards or regulatory requirements. We provide these services principally to customers in the oil and gas, petrochemical and power generation industries. In the U.K., we provide Independent Inspection Authority services for the oil and gas industry, which include first-pass integrity evaluation and assessment and nondestructive testing services. We use a variety of technologies to perform pipeline inspections, both onshore and offshore.

Asset Integrity revenue:	Amount	Percent of Total Revenue
	(in thousands)	
2018	$ 253,886	13 %
2017	236,778	12 %
2016	275,397	12 %

Advanced Technologies

Our Advanced Technologies segment provides engineering services and manufacturing to the U.S. Department of Defense, NASA and major government contractors. We also provide integrated mobile robotic system solutions to domestic and international theme parks, automotive manufacturers and retail warehousing. We work with our customers to understand their specialized requirements, identify and mitigate risks, and provide them value-added, maintainable, safe and certified solutions. The segment's largest customer is the U.S. Navy, for whom we perform

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engineering services, prototype design building services and repair and maintenance services on submarines and surface ships.

We provide support for the U.S. Navy, including underwater operations, data analysis, the design and development of new underwater tools and systems, and the development of the control software to operate those systems. We also install and maintain mechanical systems for the Navy's submarines and surface ships. We support space exploration and technology development by providing our products and services to NASA and aerospace contractors. Our U.S. Navy and NASA-related activities substantially depend on continued government funding.

For commercial markets, we provide engineering services and we manufacture patented motion-based “dark ride” vehicle systems and innovative customized robotic and mechanical solutions to the commercial theme park industry. For automotive manufacturers and retail warehousing markets, we develop, implement and maintain innovative, turnkey logistic solutions based on automated guided vehicle technology. Our commercial-related products and services are sold into both domestic and international markets.

Advanced Technologies revenue:	Amount	Percent of Total Revenue
	(in thousands)	
2018	$ 416,632	22 %
2017	373,568	19 %
2016	309,076	14 %

MARKETING

Energy Services and Products. Oil and gas exploration and development expenditures fluctuate from year to year. In particular, budgetary approval for more expensive drilling and production in deepwater, an area in which we have a high degree of focus, may be postponed or suspended during periods when exploration and production companies reduce their offshore capital spending. In recent years, we have focused on increasing our service and product offerings toward our oil and gas customers' operating expenses and the offshore renewable energy market.

We market our ROVs, Subsea Products, Subsea Projects and Asset Integrity services and products to domestic, international and foreign national oil and gas companies engaged in offshore exploration, development and production. We also provide services and products as a subcontractor to other oilfield service companies operating as prime contractors. Customers for these services typically award contracts on a competitive-bid basis. These contracts are typically less than one year in duration, although we enter into multi-year contracts from time to time.

In connection with the services we perform in our Energy Services and Products business, we generally seek contracts that compensate us on a dayrate basis. Under dayrate contracts, the contractor provides the ROV, vessel or equipment and the required personnel to operate the unit and compensation is based on a rate per day for each day the unit is used. The typical dayrate depends on market conditions, the nature of the operations to be performed, the duration of the work, the equipment and services to be provided, the geographical areas involved and other variables. Dayrate contracts may also contain an alternate, lower dayrate that applies when a unit is moving to a new site or when operations are interrupted or restricted by equipment breakdowns, adverse weather or water conditions or other conditions beyond the contractor's control. Contracts for our product sales are generally for a fixed price.

Advanced Technologies. We market our engineered products and services primarily to U.S. Government agencies and their prime contractors in defense and space exploration activities, and to domestic and international theme park operators, automotive manufacturers and retail warehousing.

Major Customers. Our top five customers in 2018, 2017 and 2016 accounted for 39%, 40% and 43%, respectively, of our consolidated revenue. In 2018, 2017 and 2016, four of our top five customers were oil and gas exploration and production companies served by our Energy Services and Products business segments, with the other one being the U.S. Navy or other parts of the U.S. Government, which is served by our Advanced Technologies segment. During 2018, revenue from one customer, Royal Dutch Shell, accounted for 10% of our total consolidated annual revenue and in

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each of 2017 and 2016, revenue from another customer, BP plc and subsidiaries, accounted for 12% and 18%, respectively, of our total consolidated annual revenue.

Although we do not depend on any one customer, the loss of one of our significant customers could, at least on a short-term basis, have an adverse effect on our results of operations and cash flows.

RAW MATERIALS

Most of the raw materials we use in our manufacturing operations, such as steel in various forms, copper, electronic components and plastics, are available from many sources. However, some components we use to manufacture subsea umbilicals are available from limited sources. With the exception of certain kinds of steel tube, where we are limited in the number of available suppliers, we can offer alternative materials or technologies in many cases, which depends on the requisite approval of our customers. Currently, we are experiencing limited steel tube availability, due to several large project requirements, coupled with suppliers having reduced capacity during the industry downturn. We believe we have secured sufficient steel tubes to satisfy existing backlog and anticipated orders to be produced in 2019. We believe the situation is temporary and will resolve itself as the industry returns to a more normal run rate.

COMPETITION

Our businesses operate in highly competitive industry segments.

Energy Services and Products

We are one of several companies that provide underwater services and specialty subsea hardware on a worldwide basis. We compete for contracts with companies that have worldwide operations, as well as numerous others operating locally in various areas. We believe that our ability to provide a wide range of underwater services and products on a worldwide basis enables us to compete effectively in all phases of the offshore oilfield life cycle. In some cases involving projects that require less sophisticated equipment, small companies have been able to bid for contracts at prices uneconomical to us. Additionally, in some jurisdictions we are subject to foreign governmental regulations favoring or requiring the awarding of contracts to local contractors or requiring foreign contractors to employ citizens of, or purchase supplies from, a particular jurisdiction. These regulations may adversely affect our ability to compete.

ROVs. We believe we are the world's largest owner/operator of work-class ROVs employed in energy related operations. At December 31, 2018, we owned 275 work-class ROVs, and we estimate that this represented approximately 25% of the work-class ROVs utilized in the oilfield service industry. We compete with several major companies on a worldwide basis and with numerous others operating locally in various areas.

Competition for ROV services historically has been based on equipment availability, location of or ability to deploy the equipment, quality of service and price. The relative importance of these factors can vary over time based on market conditions. The ability to develop improved equipment and techniques and to train and retain skilled personnel is also an important competitive factor in our markets. Demand for ROVs has been decreasing since mid 2014 due to the oil price environment, and our margins have decreased in recent periods due to lower utilization and pricing pressure, as price has become a more important factor in the current market environment.

Subsea Products. There are many competitors offering specialized products and services. We are one of several companies that compete on a worldwide basis for the provision of steel tube and thermoplastic control umbilicals, and compared to current and forecasted market demand, we are faced with overcapacity in the umbilical manufacturing market.

Subsea Projects. We perform subsea intervention and hardware installation services, principally in the U.S. Gulf of Mexico, offshore Angola and the North Sea, from multiservice deepwater vessels. We are one of many companies that offer these services. In general, our competitors can move their vessels to where we operate from other locations with relative ease. Our survey and positioning services, along with our seabed preparation, route clearance and trenching services, operate in a

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similar competitive environment. We also have many competitors that supply commercial diving services to the oil and gas industry in the U.S. Gulf of Mexico.

Asset Integrity. The worldwide asset integrity and inspection markets consist of a wide range of inspection and certification requirements in many industries. We compete in only selected portions of this market. We believe that our broad geographic sales and operational coverage, long history of operations, technical reputation, application of various pipeline inspection technologies and accreditation to international quality standards enable us to compete effectively in our selected asset integrity and inspection services market segments.

Advanced Technologies

Engineering services is a very broad market with a large number of competitors. We compete in specialized areas in which we can combine our extensive program management experience, mechanical engineering expertise and the capability to continue the development of conceptual project designs into the manufacture of custom equipment for customers.

SEASONALITY AND BACKLOG

We generate a material amount of our consolidated revenue from contracts for services in the U.S. Gulf of Mexico in our Subsea Projects segment, which is usually more active in the second and third quarters, as compared to the rest of the year. The European operations of our Asset Integrity segment are also seasonally more active in the second and third quarters. Revenue in our ROV segment is subject to seasonal variations in demand, with our first quarter generally being the low quarter of the year. The level of our ROV seasonality depends on the number of ROVs we have engaged in vessel-based subsea infrastructure inspection, maintenance, repair and installation, which is more seasonal than drilling support. Revenue in each of our Subsea Products and Advanced Technologies segments generally has not been seasonal.

The amounts of backlog orders we believed to be firm as of December 31, 2018 and 2017 were as follows (in millions):

	As of December 31, 2018		As of December 31, 2017	
	Total	1+ yr*	Total	1+ yr*
Energy Services and Products				
ROVs	$497	$ 219	$432	$ 198
Subsea Products	332	96	276	50
Subsea Projects	76	7	153	38
Asset Integrity	248	52 87	301	111
Total Energy Services and Products	1,153	409	1,162	397
Advanced Technologies	312	51	218	47
Total	$1,465	$ 460	$1,380	$ 444

* Represents amounts that were not expected to be performed within one year.

No material portion of our business is subject to renegotiation of profits or termination of contracts by the U.S. government.

PATENTS AND LICENSES

We currently hold numerous U.S. and foreign patents and pending patent applications. We have acquired patents and licenses and granted licenses to others when we have considered it advantageous for us to do so. Although in the aggregate our patents and licenses are important to us, we do not regard any single patent or license or group of related patents or licenses as critical or essential to our business as a whole. In general, we depend on our technological capabilities and the application of know-how rather than patents and licenses in the conduct of our operations.

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REGULATION

Our operations are affected from time to time and in varying degrees by foreign and domestic political developments and foreign, federal and local laws and regulations, including those relating to:

- operating from and around offshore drilling, production and marine facilities;
- national preference for local equipment and personnel;
- marine vessel safety;
- protection of the environment;
- workplace health and safety;
- data privacy;
- taxation;
- license requirements for exportation of our equipment and technology; and
- currency conversion and repatriation.

In addition, our Energy Services and Products business primarily depends on the demand for our services and products from the oil and gas industry and, therefore, is affected by changing taxes, price controls and other laws and regulations relating to the oil and gas industry generally. The adoption of laws and regulations curtailing offshore exploration and development drilling for oil and gas for economic and other policy reasons would adversely affect our operations by limiting demand for our services. We cannot determine the extent to which new legislation, new regulations or changes in existing laws or regulations may affect our future operations.

Our operations and properties are subject to a wide variety of increasingly complex and stringent foreign, federal, state and local environmental laws and regulations, including those governing discharges into the air and water, the handling and disposal of solid and hazardous wastes, the remediation of soil and groundwater contaminated by hazardous substances and the health and safety of employees. Sanctions for noncompliance may include revocation of permits, corrective action orders, administrative or civil penalties and criminal prosecution. Some environmental laws provide for strict, joint and several liability for remediation of spills and other releases of hazardous substances, as well as damage to natural resources. In addition, companies may be subject to claims alleging personal injury or property damage as a result of alleged exposure to hazardous substances. These laws and regulations may also expose us to liability for the conduct of or conditions caused by others, or for our acts that were in compliance with all applicable laws at the time such acts were performed.

Environmental laws and regulations that apply to our operations include the Comprehensive Environmental Response, Compensation, and Liability Act of 1980, the Clean Air Act, the Clean Water Act, the Resource Conservation and Recovery Act (each, as amended) and similar laws that provide for responses to, and liability for, releases of hazardous substances into the environment. Environmental laws and regulations also include similar foreign, state or local counterparts to the above-mentioned federal laws, which regulate air emissions, water discharges, hazardous substances and waste, and require public disclosure related to the use of various hazardous substances. Our operations are also governed by laws and regulations relating to workplace safety and worker health, primarily, in the United States, the Occupational Safety and Health Act and regulations promulgated thereunder.

Compliance with federal, state and local provisions regulating the discharge of materials into the environment or relating to the protection of the environment has not had a material impact on our capital expenditures, earnings or competitive position. We cannot predict all of the environmental requirements or circumstances that will exist in the future but anticipate that environmental control and protection standards will become increasingly stringent and costly. Based on our experience to date, we do not currently anticipate any material adverse effect on our business or consolidated financial position, results of operations or cash flows as a result of future compliance with existing environmental laws and regulations. However, future events, such as changes in existing laws and regulations or their interpretation, more vigorous enforcement policies of regulatory agencies, or stricter or different interpretations of existing laws and regulations, may require additional expenditures by us, which may be material. Accordingly, there can be no assurance that we will not incur significant environmental compliance costs in the future.

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Our quality management systems are registered as being in conformance with ISO 9001:2015 and cover:

- all our Energy Services and Products services and products in the United Kingdom (the "U.K.") and Norway;
- our Remotely Operated Vehicle operations in the U.S. Gulf of Mexico, the U.K., Norway, Brazil, Canada, the Middle East, Australia and Asia;
- our Asset Integrity operations in the Western Hemisphere, the Middle East, Australia, the United States and Indonesia;
- our Subsea Projects operations;
- our Subsea Products segment; and
- the Oceaneering Space Systems, Oceaneering Technologies, Entertainment and Marine Services units of our Advanced Technologies segment.

ISO 9001 is an internationally recognized system for quality management established by the International Standards Organization, and the 2015 edition emphasizes customer satisfaction, risk assessment and continual improvement.

EMPLOYEES

As of December 31, 2018, we had approximately 8,600 employees. Our workforce varies seasonally and peaks during the second and third quarters. We consider our relations with our employees to be satisfactory.

CAUTIONARY STATEMENT CONCERNING FORWARD-LOOKING STATEMENTS

We are including the following discussion to inform our existing and potential security holders generally of some of the risks and uncertainties that can affect our company and to take advantage of the "safe harbor" protection for forward-looking statements that applicable federal securities law affords.

From time to time, our management or persons acting on our behalf make forward-looking statements to inform existing and potential security holders about our company. These statements may include projections and estimates concerning the timing and success of specific projects and our future orders, revenue, income and capital spending. Forward-looking statements are generally accompanied by words such as "estimate," "plan," "project," "predict," "believe," "expect," "anticipate," "plan," "forecast," "budget," "goal," "may," "should," or other words that convey the uncertainty of future events or outcomes. In addition, sometimes we will specifically describe a statement as being a forward-looking statement and refer to this cautionary statement.

In addition, various statements this report contains, including those that express a belief, expectation or intention are forward-looking statements. Those forward-looking statements appear in Part I of this report in Item 1 – "Business," Item 2 – "Properties" and Item 3 – "Legal Proceedings" and in Part II of this report in Item 7 – "Management's Discussion and Analysis of Financial Condition and Results of Operations," Item 7A – "Quantitative and Qualitative Disclosures About Market Risk" and in the Notes to Consolidated Financial Statements incorporated into Item 8 and elsewhere in this report. These forward-looking statements speak only as of the date of this report, we disclaim any obligation to update these statements, and we caution you not to rely unduly on them. We have based these forward-looking statements on our current expectations and assumptions about future events. While our management considers these expectations and assumptions to be reasonable, they are inherently subject to significant business, economic, competitive, regulatory and other risks, contingencies and uncertainties, most of which are difficult to predict and many of which are beyond our control. These risks, contingencies and uncertainties relate to, among other matters, the following:

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- factors affecting the level of activity in the energy industry, including worldwide demand for and prices of oil and natural gas, oil and natural gas production growth and the supply and demand of offshore drilling rigs;
- decisions about offshore developments to be made by oil and gas exploration, development and production companies;
- decisions about offshore developments to be made by offshore renewables companies;
- the use of subsea completions and our ability to capture associated market share;
- general economic and business conditions and industry trends;
- the strength of the industry segments in which we are involved;
- cancellations of contracts, change orders and other contractual modifications and the resulting adjustments to our backlog;
- collections from our customers;
- the levels of oil and gas production to be processed by the Medusa field production spar platform;
- our future financial performance, including as a result of the availability, terms and deployment of capital;
- the consequences of significant changes in currency exchange rates;
- the volatility and uncertainties of credit markets;
- changes in tax laws, regulations and interpretation by taxing authorities;
- changes in, or our ability to comply with, other laws and governmental regulations, including those relating to the environment;
- the continued availability of qualified personnel;
- our ability to obtain raw materials and parts on a timely basis and, in some cases, from limited sources;
- operating risks normally incident to offshore exploration, development and production operations;
- hurricanes and other adverse weather and sea conditions;
- cost and time associated with drydocking of our vessels;
- the highly competitive nature of our businesses;
- adverse outcomes from legal or regulatory proceedings;
- the risks associated with integrating businesses we acquire;
- the risks associated with the use of complex information technology systems, including cybersecurity risks and the risks associated with failures to protect data privacy in accordance with applicable legal requirements and contractual provisions binding upon us;
- rapid technological changes; and
- social, political, military and economic situations in foreign countries where we do business and the possibilities of civil disturbances, war, other armed conflicts or terrorist attacks.

We believe the items we have outlined above are important factors that could cause our actual results to differ materially from those expressed in a forward-looking statement made in this report or elsewhere by us or on our behalf. We have discussed most of these factors in more detail elsewhere in this report. These factors are not necessarily all the factors that could affect us. Unpredictable or unanticipated factors we have not discussed in this report could also have material adverse effects on actual results of matters that are the subject of our forward-looking statements. We do not intend to update our description of important factors each time a potential important factor arises. We advise our security holders that they should (1) be aware that important factors we do not refer to above could affect the accuracy of our forward-looking statements and (2) use caution and common sense when considering our forward-looking statements.

AVAILABLE INFORMATION

Our Web site address is www.oceaneering.com. We make available through this Web site under "Investor Relations — SEC Financial Reports," free of charge, our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, amendments to those reports and Section 16 filings by our directors and executive officers as soon as reasonably practicable after we, or our executive officers or directors, as the case may be, electronically file those materials with, or furnish those materials to, the SEC. In addition, the SEC maintains a Web site, www.sec.gov, which contains reports, proxy and other information statements, and other information regarding issuers that file electronically with the SEC.

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We have adopted, and posted on our Web site: our corporate governance guidelines; a code of ethics for our Chief Executive Officer and Senior Financial Officers; and charters for the Audit, Nominating and Corporate Governance and Compensation Committees of our Board of Directors.

EXECUTIVE OFFICERS OF THE REGISTRANT

Executive Officers. The following information relates to our executive officers as of February 22, 2019:

NAME	AGE	POSITION	EXECUTIVE OFFICER SINCE	EMPLOYEE SINCE
Roderick A. Larson	52	President and Chief Executive Officer and Director	2012	2012
Clyde W. Hewlett	64	Chief Operating Officer	2011	1988
Alan R. Curtis	53	Senior Vice President and Chief Financial Officer	2015	1995
David K. Lawrence	59	Senior Vice President, General Counsel and Secretary	2012	2005
Stephen P. Barrett	61	Senior Vice President, Business Development	2015	2015
W. Cardon Gerner	64	Senior Vice President and Chief Accounting Officer	2006	2006
William J. Boyle	58	Senior Vice President, Asset Integrity	2016	2016
Philip G. Beierl	60	Senior Vice President, Advanced Technologies	2018	2005
Martin J. McDonald	55	Senior Vice President, Remotely Operated Vehicles	2015	1989
Eric A. Silva	59	Senior Vice President, Operations Support	2017	2014

Each executive officer serves at the discretion of our Chief Executive Officer and our Board of Directors and is subject to reelection or reappointment each year after the annual meeting of our shareholders. We do not know of any arrangement or understanding between any of the above persons and any other person or persons pursuant to which he was selected or appointed as an officer.

Business Experience. The following summarizes the business experience of our executive officers. Except where we otherwise indicate, each of these persons has held his current position with Oceaneering for at least the past five years.

Roderick A. Larson joined Oceaneering in May 2012 as Senior Vice President and Chief Operating Officer, became President in February 2015 and became President and Chief Executive Officer and Director in May 2017. Mr. Larson previously held positions with Baker Hughes Incorporated from 1990 until he joined Oceaneering, serving most recently as President, Latin America Region from January 2011. Previously, he served as Vice President of Operations, Gulf of Mexico Region from 2009 to 2011, Gulf Coast Area Manager from 2007 to 2009, and Special Projects Leader Technical Training Task from 2006 to 2007.

Clyde W. Hewlett, Chief Operating Officer, has extensive experience in the offshore and subsea oilfield markets. He joined Oceaneering in 1988 and has held increasingly responsible positions. He has served as our Vice President of Mobile Offshore Production Systems, Vice President of Subsea Projects, Senior Vice President of Subsea Projects and Senior Vice President, Subsea Services. He was promoted to his current position in August 2015.

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Alan R. Curtis, Senior Vice President and Chief Financial Officer, joined Oceaneering in 1995 as the Financial and Operations Controller for our Subsea Products segment, and became Vice President and Controller of Subsea Products in 2013 and Senior Vice President, Operations Support in 2014. He was appointed to his current position in August 2015.

David K. Lawrence, Senior Vice President, General Counsel and Secretary, joined Oceaneering in 2005 as Assistant General Counsel. He was appointed Associate General Counsel effective January 2011, Vice President, General Counsel and Secretary in January 2012 and to his current position in February 2014. He has over 25 years of experience as in-house counsel in the oilfield services and products industry and manufacturing.

Stephen P. Barrett, Senior Vice President, Business Development, joined Oceaneering in July 2015 as Senior Vice President, Subsea Products. He was appointed to his current position in November 2016. Prior to joining Oceaneering, he served at FMC Technologies beginning in 1982, progressing through a variety of engineering, sales and marketing, and general management roles, most recently as Global Subsea Services Director from 2013 to 2015.
W. Cardon Gerner, Senior Vice President and Chief Accounting Officer, joined Oceaneering in 2006 as Vice President and Chief Accounting Officer, and became a Senior Vice President in August 2011 and served as our Chief Financial Officer from that date until August 2015. From 1999 to 2006, he held various financial positions with Service Corporation International, a global provider of death-care services, serving as Vice President Accounting from 2002 to 2006. He also served as Senior Vice President and Chief Financial Officer of Equity Corporation International from 1995 to 1999. He is a Certified Public Accountant.

William J. Boyle, Senior Vice President, Asset Integrity, joined Oceaneering in March 2016. Prior to joining Oceaneering, Mr. Boyle held the position of Chief Executive Officer with Underwater Integrity Solutions from November 2014 until December 2015. Previously, Mr. Boyle held senior leadership positions at Forum Energy Technologies, Inc. from 2013 to 2014, Clough Limited from 2008 to 2012, Subsea 7 S.A. from 2005 to 2008, John Wood Group PLC from 2003 to 2005 and Technip S.A. from 1991 to 2003.

Philip G. Beierl, Senior Vice President, Advanced Technologies joined Oceaneering in 2005. Before joining Oceaneering in 2005, he served as a U.S. Navy diving and salvage officer for over 25 years. He served and held leadership positions in the Oceaneering Technologies unit, most recently as its Vice President and General Manager from August 2014. He was appointed as Vice President, Advanced Technologies in January 2018 and then to his current position in May 2018.

Martin J. McDonald, Senior Vice President, Remotely Operated Vehicles, joined Oceaneering in 1989. He has held a variety of domestic and international positions of increasing responsibility in our ROV segment and most recently served as Vice President and General Manager for our ROV operations in the Eastern Hemisphere from 2006 until being appointed to his current position effective January 2016.

Eric A. Silva, Senior Vice President, Operations Support joined Oceaneering in February 2014 as Chief Information Officer and Vice President. He was appointed to his current position in August 2015 and was appointed an executive officer in 2017. Prior to joining Oceaneering, Mr. Silva was a consultant from May 2012 to February 2014 and served as the Chief Information Officer at El Paso Corporation from 2010 to May 2012. Prior to such time, he was Vice President of Information Technology of LyondellBasell Industries N.V. (formerly LyondellBasell Industries AF S.C.A.) from December 2007 to 2010, and was Vice President of Information Technology of Lyondell Chemical Company from 2002 to 2007.

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Item 1A. Risk Factors.

We are subject to various risks and uncertainties in the course of our business. The following summarizes significant risks and uncertainties that may materially and adversely affect our business, financial condition, results of operations or cash flows and the market value of our securities. Investors in our company should consider these matters, in addition to the other information we have provided in this report and the documents we incorporate by reference.

We derive most of our revenue from companies in the offshore oil and gas industry, a historically cyclical industry with levels of activity that are significantly affected by the levels and volatility of oil and gas prices.

We derive most of our revenue from customers in the offshore oil and gas exploration, development and production industry. The offshore oil and gas industry is a historically cyclical industry characterized by significant changes in the levels of exploration and development activities. Oil and gas prices, and market expectations of potential changes in those prices, significantly affect the levels of those activities. Worldwide political, economic and military events have contributed to oil and gas price volatility and are likely to continue to do so in the future. Since the general decline in the price of oil from mid 2014, many oil and gas companies made significant reductions in their capital and operating expenditures, which are adversely impacting demand for the services and products provided by our Energy Services and Products business. Any prolonged reduction in the overall level of offshore oil and gas exploration and development activities, whether resulting from changes in oil and gas prices or otherwise, could materially and adversely affect our financial condition and results of operations in our segments within our Energy Services and Products business. Some factors that have affected and are likely to continue affecting oil and gas prices and the level of demand for our services and products include the following:

- worldwide demand for oil and gas;
- general economic and business conditions and industry trends;
- the ability of the Organization of Petroleum Exporting Countries, or OPEC, to set and maintain production levels;
- the level of production by non-OPEC countries, including U.S. shale oil;
- the ability of oil and gas companies to generate funds for capital expenditures;
- domestic and foreign tax policy;
- laws and governmental regulations that restrict exploration and development of oil and gas in various offshore jurisdictions;
- technological changes;
- the political environment of oil-producing regions;
- the price and availability of alternative energy; and
- overall economic conditions.

Our operations could be adversely impacted by the effects of new regulations.

During 2010, the U.S. government established new regulations relating to the design of wells and testing of the integrity of wellbores, the use of drilling fluids, the functionality and testing of well control equipment, including blowout preventers, and other safety and environmental regulations. The U.S. government requires that operators demonstrate their compliance with those regulations before commencing deepwater drilling operations. Changes in laws or regulations regarding offshore oil and gas exploration and development activities, the cost or availability of insurance and the impacts of these factors on decisions by customers or other industry participants could further reduce demand for our services, which would have a negative impact on our operations.

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Our international operations involve additional risks not associated with domestic operations.

A significant portion of our revenue is attributable to operations in foreign countries. These activities accounted for approximately 50% of our consolidated revenue in 2018. Risks associated with our operations in foreign areas include risks of:

- regional and global economic downturns;
- disturbances or other risks that may limit or disrupt markets;
- expropriation, confiscation or nationalization of assets;
- renegotiation or nullification of existing contracts;
- foreign exchange restrictions;
- foreign currency fluctuations, particularly in countries highly dependent on oil revenue;
- foreign taxation, including the application and interpretation of tax laws;
- the inability to repatriate earnings or capital;
- changing political conditions;
- changing foreign and domestic monetary policies; and
- social, political, military and economic situations in foreign areas where we do business and the possibilities of civil disturbances, war, other armed conflict, terrorist attacks or acts of piracy.

Additionally, in some jurisdictions we are subject to foreign governmental regulations favoring or requiring the awarding of contracts to local contractors or requiring foreign contractors to employ citizens of, or purchase supplies from, a particular jurisdiction. These regulations may adversely affect our ability to compete.

Our exposure to the risks we described above varies from country to country. In recent periods, economic conditions, political instability and civil unrest in Africa have been our greatest concerns. There is a risk that a continuation or worsening of these conditions could materially and adversely impact our future business, operations, financial condition and results of operations. Of our total consolidated revenue for 2018, we generated approximately 13% from our operations in Africa, primarily in Angola.

Foreign exchange risks and fluctuations may affect our profitability on certain projects.

We operate on a worldwide basis with substantial operations outside the U.S. that subject us to U.S. dollar translation and economic risks. In order to manage some of the risks associated with foreign currency exchange rates, we may enter into foreign currency derivative (hedging) instruments, especially when there is currency risk exposure that is not naturally mitigated via our contracts. However, these actions may not always eliminate all currency risk exposure, in particular for our long-term contracts. A disruption in the foreign currency markets, including the markets with respect to any particular currencies, could adversely affect our hedging instruments and subject us to additional currency risk exposure. Based on fluctuations in currency, the U.S. dollar value of our backlog may from time to time increase or decrease significantly. We do not enter into derivative instruments for trading or other speculative purposes. Our operational cash flows and cash balances, though predominately held in U.S. dollars, may consist of different currencies at various points in time in order to execute our contracts globally. Non-U.S. asset and liability balances are subject to currency fluctuations when measured period to period for financial reporting purposes in U.S. dollars.

Our backlog is subject to unexpected adjustments and cancellations and is, therefore, an uncertain indicator of our future revenue and earnings.

There can be no assurance that the revenue included in our backlog will be realized or, if realized, will result in profits. Because of project cancellations or potential changes in the scope or schedule of our customers' projects, we cannot predict with certainty when or if backlog will be realized. Material delays, suspensions, cancellations or payment defaults could materially affect our financial condition, results of operations and cash flows. We may be at risk of delays, suspensions and cancellations in the current market environment.

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Reductions in our backlog due to cancellation by a customer or for other reasons would adversely affect, potentially to a material extent, the revenue and earnings we actually receive from contracts included in our backlog. Many of our ROV contracts have 30-day notice termination clauses. Some of the contracts in our backlog provide for cancellation fees in the event customers cancel projects. These cancellation fees usually provide for reimbursement of our out-of-pocket costs, revenue for work performed prior to cancellation and a varying percentage of the profits we would have realized had the contract been completed. We typically have no contractual right upon cancellation to the total contract revenue as reflected in our backlog. If we experience significant project terminations, suspensions or scope adjustments to contracts reflected in our backlog, our financial condition, results of operations and cash flows may be adversely impacted.

A global financial crisis could impact our business and financial condition in ways that we currently cannot predict.

A recurrence of the credit crisis and related turmoil in the global financial system that occurred in 2008 and 2009 could have an impact on our business and our financial condition. In particular, the cost of capital increased substantially while the availability of funds from the capital markets diminished significantly. Although the capital markets have recovered, in a recurrence, our ability to access the capital markets in the future could be restricted or be available only on terms we do not consider favorable. Limited access to the capital markets could adversely impact our ability to take advantage of business opportunities or react to changing economic and business conditions and could adversely impact our ability to continue our growth strategy. Ultimately, we could be required to reduce our future capital expenditures substantially. Such a reduction could have a material adverse effect on our business and our consolidated financial condition, results of operations and cash flows. A recurrence of such a global financial crisis could have further impacts on our business that we currently cannot predict or anticipate.

A global financial crisis or economic recession could have an impact on our suppliers and our customers, causing them to fail to meet their obligations to us, which could have a material adverse effect on our revenue, income from operations and cash flows.

If one or more of the lenders under our revolving credit facility were to become unable or unwilling to perform their obligations under that facility, our borrowing capacity could be reduced. Our inability to borrow under our revolving credit facility could limit our ability to fund our future operations and growth.

In addition, we maintain our cash balances and short-term investments in accounts held by major banks and financial institutions located principally in North America, Europe, Africa and Asia, and some of those accounts hold deposits that exceed available insurance. It is possible that one or more of the financial institutions in which we hold our cash and investments could become subject to bankruptcy, receivership or similar proceedings. As a result, we could be at risk of not being able to access material amounts of our cash, which could result in a temporary liquidity crisis that could impede our ability to fund operations.

Employee, agent or partner misconduct or our overall failure to comply with laws or regulations could weaken our ability to win contracts, which could result in reduced revenue and profits.

Misconduct, fraud, non-compliance with applicable laws and regulations, or other improper activities by one or more of our employees, agents or partners could have a significant negative impact on our business and reputation. Such misconduct could include the failure to comply with the U.S. Foreign Corrupt Practices Act ("FCPA"), which prohibits companies and their intermediaries from making improper payments to non-U.S. officials, as well as the failure to comply with government procurement regulations, regulations on lobbying or similar activities, regulations pertaining to the internal controls over financial reporting and various other applicable laws or regulations, including the U.K. Bribery Act. We operate in some countries that international corruption monitoring groups have identified as having high levels of corruption. Our activities create the risk of unauthorized payments or offers of payments by one of our employees or agents that could be in violation of the FCPA or other applicable anti-corruption laws. The precautions we take to prevent and detect misconduct, fraud or non-compliance with applicable laws and regulations may not be effective, and

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we could face unknown risks or losses. Our failure to comply with applicable laws or regulations or acts of misconduct could subject us to fines, penalties or other sanctions, which could have a material adverse effect on our business and our consolidated financial condition, results of operations and cash flows.

Our business strategy contemplates future acquisitions. Acquisitions of other businesses or assets present various risks and uncertainties.

We may pursue growth through the acquisition of businesses or assets that will enable us to broaden our service and product offerings and expand into new markets. We may be unable to implement this element of our growth strategy if we cannot identify suitable businesses or assets, reach agreement on potential strategic acquisitions on acceptable terms or for other reasons. Moreover, acquisitions involve various risks, including:

- difficulties relating to the assimilation of personnel, services and systems of an acquired business and the assimilation of marketing and other operational capabilities;
- challenges resulting from unanticipated changes in customer and other third-party relationships subsequent to acquisition;
- additional financial and accounting challenges and complexities in areas such as tax planning, treasury management, financial reporting and internal controls;
- assumption of liabilities of an acquired business, including liabilities that were unknown at the time the acquisition transaction was negotiated;
- possible liabilities under the FCPA and other anti-corruption laws;
- diversion of management's attention from day-to-day operations;
- failure to realize anticipated benefits, such as cost savings and revenue enhancements;
- potentially substantial transaction costs associated with acquisitions; and
- potential impairment resulting from the overpayment for an acquisition.

Future acquisitions may require us to obtain additional equity or debt financing, which may not be available on attractive terms. Moreover, to the extent an acquisition transaction financed by non-equity consideration results in goodwill, it will reduce our tangible net worth, which might have an adverse effect on credit availability. Additionally, an acquisition may bring us into businesses we have not previously conducted and expose us to additional business risks that are different from those we have previously experienced.

Our business strategy also includes development and commercialization of new technologies to support our growth. The development and commercialization of new technologies require capital investment and involve various risks and uncertainties.

Our future growth will depend on our ability to continue to innovate by developing and commercializing new service and product offerings. Investments in new technologies involve varying degrees of uncertainties and risk. Commercial success depends on many factors, including the levels of innovation, the development costs and the availability of capital resources to fund those costs, the levels of competition from others developing similar or other competing technologies, our ability to obtain or maintain government permits or certifications, the effectiveness of production, distribution and marketing efforts, and the costs to customers to deploy and provide support for the new technologies. We may not achieve significant revenue from new service and product investments for a number of years, if at all. Moreover, new services and products may not be profitable, and, even if they are profitable, our operating margins from new services and products may not be as high as the margins we have experienced historically.

The loss of the services of one or more of our key personnel, or our failure to attract, assimilate and retain trained personnel in the future, could disrupt our operations and result in loss of revenue.

Our success depends on the continued active participation of our executive officers and key operating personnel. The unexpected loss of the services of any one of these persons could adversely affect our operations.

Our operations require the services of employees having the technical training and experience necessary to obtain the proper operational results. As a result, if we should suffer any material loss of personnel to competitors or be unable to employ additional or replacement personnel with the requisite level of training and experience to adequately operate our equipment, our operations could be adversely affected. A significant increase in the wages paid by other employers could result in a reduction in our workforce, increases in wage rates, or both.

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

Our businesses operate in highly competitive industry segments. Some of our competitors or potential competitors have greater financial or other resources than we have. Our operations may be adversely affected if our current competitors or new market entrants introduce new products or services with better features, performance, prices or other characteristics than those of our services and products. This factor is significant to our segments' operations, particularly in the segments within our Energy Services and Products business, where capital investment is critical to our ability to compete.

We rely on intellectual property law and confidentiality agreements to protect our intellectual property. We also rely on intellectual property we license from third parties. Our failure to protect our intellectual property rights, or our inability to obtain or renew licenses to use intellectual property of third parties, could adversely affect our business.

We rely on a variety of intellectual property rights that we use in our services and products, and our success depends, in part, on our ability to protect our proprietary information and other intellectual property. Our intellectual property could be challenged, invalidated, circumvented or rendered unenforceable. In addition, effective intellectual property protection may be limited or unavailable in some foreign countries where we operate.

Our failure to protect our intellectual property rights may result in the loss of valuable technologies or adversely affect our competitive business position. We rely significantly on proprietary technology, information, processes and know-how that are not subject to patent or copyright protection. We seek to protect this information through trade secret or confidentiality agreements with our employees, consultants, subcontractors or other parties, as well as through other security measures. These agreements and security measures may be inadequate to deter or prevent misappropriation of our confidential information. In the event of an infringement of our intellectual property rights, a breach of a confidentiality agreement or divulgence of proprietary information, we may not have adequate legal remedies to protect our intellectual property.

In some instances, we have augmented our technology base by licensing the proprietary intellectual property of third parties. However, it is possible that the tools, techniques, methodologies, programs and components we use to provide our services or products may infringe on the intellectual property rights of others. In the future, we may not be able to obtain necessary licenses on commercially reasonable terms. Royalty payments under licenses from third parties, if available, or developing non-infringing technologies could materially increase our costs. Additionally, if a license or non-infringing technology were not available, we might not be able to continue providing a particular service or product, which could materially and adversely affect our financial condition, results of operations and cash flows. Litigation to determine the scope of intellectual property rights, even if ultimately successful, could be costly and could divert management's attention away from other aspects of our business. In addition, our trade secrets may otherwise become known or be independently developed by competitors.

Our information technology systems are subject to interruption and cybersecurity risks that could adversely impact our operations.

We continue to evaluate potential replacements or upgrades of existing key information technology systems. The implementation of new information technology systems or upgrades to existing systems subjects us to inherent costs and risks associated with replacing or changing these systems, including potential disruption of our internal control structure, substantial capital expenditures, demands on management time and other risks. Our possible new information technology systems implementations or upgrades may not result in productivity improvements at the levels anticipated, or at all. In addition, the implementation of new or upgraded information technology systems may cause disruptions in our business operations. Any such disruption, and any other information

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technology system disruptions, if not anticipated and appropriately mitigated, could have a material adverse effect on our operations.

Our operations (both onshore and offshore) are highly dependent on information technology systems, including systems that collect, organize, store or use personal data. Threats to information technology systems associated with cybersecurity risks and cyber incidents or attacks continue to grow. In addition, breaches to our systems or third-party systems utilized by us could go unnoticed for some period of time. Risks associated with these threats include disruptions of certain systems on our vessels or utilized to operate our ROVs; other impairments of our ability to conduct our operations; loss of or damage to intellectual property, proprietary information or employee or customer data; disruption of our customers' operations; loss or damage to our customer data delivery systems; and increased costs to prevent, respond to or mitigate cybersecurity incidents. If such a cyber-incident were to occur, it could have a material adverse effect on our business and our consolidated financial condition, results of operations and cash flows. In addition, the regulatory environment surrounding data privacy and protection is evolving and can be subject to significant change. New laws and regulations relating to data privacy and the unauthorized disclosure of confidential information, including the European Union General Data Protection Regulation and recent legislation and regulations adopted in various U.S. jurisdictions, pose complex compliance challenges and may result in increased costs, and any failure to comply with those laws and regulations (or contractual provisions requiring similar compliance), including as a result of security and privacy breaches, could result in negative publicity and significant penalties or other liabilities. Additionally, if we acquire an entity that has violated or is not in compliance with applicable data privacy and protection laws or regulations (or contractual provisions), we may experience similar adverse consequences.

Our offshore oilfield operations involve a variety of operating hazards and risks that could cause losses.

Our operations are subject to the hazards inherent in the offshore oilfield business. These include blowouts, explosions, fires, collisions, capsizings and severe weather conditions. These hazards could result in personal injury and loss of life, severe damage to or destruction of property and equipment, pollution or environmental damage and suspension of operations. We may incur substantial liabilities or losses as a result of these hazards. While we maintain insurance protection against some of these risks, and seek to obtain indemnity agreements from our customers requiring the customers to hold us harmless from some of these risks, our insurance and contractual indemnity protection may not be sufficient or effective to protect us under all circumstances or against all risks. The occurrence of a significant event not fully insured or indemnified against or the failure of a customer to meet its indemnification obligations to us could materially and adversely affect our results of operations and financial condition.

Laws and governmental regulations may add to our costs or adversely affect our operations.

Our business is affected by changes in public policy and by federal, state, local and foreign laws and regulations relating to the offshore oil and gas industry. Offshore oil and gas exploration and production operations are affected by tax, environmental, safety and other laws, by changes in those laws, application or interpretation of existing laws, and changes in related administrative regulations. It is also possible that these laws and regulations may in the future add significantly to our operating costs or those of our customers or otherwise directly or indirectly affect our operations.

Environmental laws and regulations can increase our costs, and our failure to comply with those laws and regulations can expose us to significant liabilities.

Risks of substantial costs and liabilities related to environmental compliance issues are inherent in our operations. Our operations are subject to extensive federal, state, local and foreign laws and regulations relating to the generation, storage, handling, emission, transportation and discharge of materials into the environment. Permits are required for the operation of various facilities, and those permits are subject to revocation, modification and renewal. Governmental authorities have the power to enforce compliance with their regulations, and violations are subject to fines, injunctions or both. In some cases, those governmental requirements can impose liability for the entire cost of cleanup on any responsible party without regard to negligence or fault and impose liability on us for the conduct of or conditions others have caused, or for our acts that complied with all applicable

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requirements when we performed them. It is possible that other developments, such as stricter environmental laws and regulations, and claims for damages to property or persons resulting from our operations, would result in substantial costs and liabilities. Our insurance policies and the contractual indemnity protection we seek to obtain from our customers may not be sufficient or effective to protect us under all circumstances or against all risks involving compliance with environmental laws and regulations.

Our internal controls may not be sufficient to achieve all stated goals and objectives.

Our internal controls and procedures were developed through a process in which our management applied its judgment in assessing the costs and benefits of such controls and procedures, which, by their nature, can provide only reasonable assurance regarding the control objectives. The design of any system of internal controls and procedures is based, in part, on various assumptions about the likelihood of future events. We cannot assure that any design will succeed in achieving its stated goals under all potential future conditions, regardless of how remote.

The use of estimates could result in future adjustments to our assets, liabilities and results of operations.

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires that our management make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expense during the reporting period. Actual results could differ from those estimates.

Uncertainties in the future interpretation and application of the 2017 U.S. tax reform legislation could materially affect our tax obligations and effective tax rate.

U.S. tax reform legislation commonly referred to as the Tax Cuts and Jobs Act (the "Tax Act") was enacted on December 22, 2017, and significantly affected U.S. tax law by changing how the United States imposes income tax on multinational corporations. The U.S. Department of the Treasury has broad authority to issue regulations and interpretative guidance that may significantly impact how we will apply the law and could impact our results of operations beginning in the period issued. Although we have reflected the effects of the Tax Act in our financial statements, regulatory guidance continues to be issued by the U.S. tax authorities. Any changes in the interpretation of the Tax Act as a result of such future regulatory guidance, which could materially affect our tax obligations and effective tax rate, will be recorded in the period that current or future proposed regulations become law.

We may issue preferred stock whose terms could adversely affect the voting power or value of our common stock.

Our certificate of incorporation authorizes us to issue, without the approval of our shareholders, one or more classes or series of preferred stock having such preferences, powers and relative, participating, optional and other rights, including preferences over our common stock respecting dividends and distributions, as our board of directors may determine. The terms of one or more classes or series of preferred stock could adversely impact the voting power or value of our common stock. For example, we might grant holders of preferred stock the right to elect some number of our directors in all events or on the happening of specified events or the right to veto specified transactions. Similarly, the repurchase or redemption rights or liquidation preferences we might assign to holders of preferred stock could affect the residual value of the common stock.

Provisions in our corporate documents and Delaware law could delay or prevent a change in control of our company, even if that change would be beneficial to our shareholders.

The existence of some provisions in our corporate documents and Delaware law could delay or prevent a change in control of our company, even if that change would be beneficial to our shareholders. Our certificate of incorporation and bylaws contain provisions that may make acquiring control of our company difficult, including:

- provisions relating to the classification, nomination and removal of our directors;
- provisions regulating the ability of our shareholders to bring matters for action at annual meetings of our shareholders;

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- provisions requiring the approval of the holders of at least 80% of our voting stock for a broad range of business combination transactions with related persons; and
- the authorization given to our board of directors to issue and set the terms of preferred stock.

In addition, the Delaware General Corporation Law imposes restrictions on mergers and other business combinations between us and any holder of 15% or more of our outstanding common stock.

Item 1B. Unresolved Staff Comments.

None.

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Item 2. Properties.

We maintain office, shop and yard facilities in various parts of the world to support our operations. We consider these facilities, which we describe below, to be suitable for their intended use and adequate for our current operations. In these locations, we typically own or lease office facilities for our administrative and engineering staff, shops equipped for fabrication, testing, repair and maintenance activities and warehouses and yard areas for storage and mobilization of equipment to work sites. All sites are available to support any of our business segments as the need arises. The groupings that follow associate our significant offices with the primary business segment they serve.

Energy Services and Products. In general, our Energy Services and Products business segments share facilities. Our location in Morgan City, Louisiana consists of ROV manufacturing and training facilities, vessel docking facilities, open and covered warehouse space and offices. The Morgan City facilities primarily support operations in the United States. We have regional support offices for our North Sea, Africa, Brazil and Southeast Asia operations in: Aberdeen, Scotland; Stavanger and Bergen, Norway; Dubai, U.A.E.; Rio de Janeiro and Macaé, Brazil; Luanda, Angola; Chandigarh, India; Perth, Australia; Kuala Lumpur, Malaysia; Baku, Azerbaijan; and Singapore. We also have operational bases in various other locations.

We use workshop and office space in Houston, Texas in our Subsea Products, Subsea Projects and Asset Integrity business segments. Our principal manufacturing facilities for our Subsea Products segment are located in or near: Houston, Texas; Panama City, Florida; Aberdeen and Rosyth, Scotland; Nodeland and Stavanger, Norway; Perth, Australia; Luanda, Angola; and Niterói and Macaé, Brazil. Each of these manufacturing facilities is suitable for its intended purpose and has sufficient capacity to respond to increases in demand for our subsea products that may be reasonably anticipated in the foreseeable future.

For a description of the vessels we use in our Subsea Projects operations, see the discussion in Item 1. "Business" under the heading "GENERAL DEVELOPMENT OF BUSINESS – Energy Services and Products – Subsea Projects."

Advanced Technologies. Our primary facilities for our Advanced Technologies segment are leased offices and workshops in Hanover, Maryland. We have regional offices in Chesapeake, Virginia; Bremerton, Washington; Pearl Harbor, Hawaii; and San Diego, California, which support our services for the U.S. Navy. We also have an office in Orlando, Florida, which supports our commercial theme park animation activities, facilities in Utrecht, Netherlands, to support robotic activities, and facilities in Houston, Texas, to support our space industry activities.

Item 3. Legal Proceedings.

For information regarding legal proceedings, see the discussion under the caption "Litigation" in Note 7, "Commitments and Contingencies," of our Notes to Consolidated Financial Statements included in this report, which discussion we incorporate by reference into this Item.

Item 4. Mine Safety Disclosures.

Not applicable.

Part II

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.

Our common stock is listed on the New York Stock Exchange under the symbol OII. Our company Web site address is www.oceaneering.com

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On February 22, 2019, there were 577 holders of record of our common stock. On that date, the closing sales price, as quoted on the New York Stock Exchange, was $15.80. In 2017, we declared quarterly dividends of $0.15 per share in the first three quarters. With an outlook for diminishing cash flow from operations for 2018, we felt it prudent to focus our resources on growth and positioning the company for the future. Consequently, our Board did not declare quarterly dividends to be paid in the fourth quarter of 2017 or during 2018. Although we will continue to review our dividend position on a quarterly basis, we do not anticipate our Board reinstating a quarterly cash dividend until we see a significant improvement in our market outlook and projected free cash flow.

In December 2014, our Board of Directors approved a share repurchase program under which we may repurchase up to 10 million shares of our common stock on a discretionary basis. The program calls for the repurchases to be made in the open market, or in privately negotiated transactions from time to time, in compliance with applicable laws, rules and regulations, including Rule 10b-18 under the Securities Exchange Act of 1934, as amended, subject to market and business conditions, levels of available liquidity, cash requirements for other purposes, applicable legal requirements and other relevant factors. The timing and amount of any repurchases will be determined by management based on its evaluation of these factors. We expect that any shares repurchased under the program will be held as treasury stock for future use. The new program does not obligate us to repurchase any particular number of shares. Under the program, we had repurchased 2.0 million shares of our common stock for $100 million through December 31, 2015. We have not repurchased any shares under the program since December 31, 2015.

EQUITY COMPENSATION PLAN INFORMATION

The following presents equity compensation plan information as of December 31, 2018:

Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants and rights	Weighted-average exercise price of outstanding options, warrants and rights	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in the first column)
Equity compensation plans approved by security holders	1,443,897	N/A	2,178,923
Equity compensation plans not approved by security holders	—	N/A	—
Total	1,443,897	N/A	2,178,923

In the table above, the number of securities to be issued upon exercise of outstanding options, warrants and rights shown as of December 31, 2018 are restricted stock units and shares of restricted stock granted under our 2010 incentive plan, as amended.

At December 31, 2018, there were: (1) no shares of Oceaneering common stock under equity compensation plans not approved by security holders available for grant; and (2) 2,178,923 shares of Oceaneering common stock under equity compensation plans approved by security holders available for grant in the form of stock options, stock appreciation rights or stock awards. We have not granted any stock options since 2005 and the Compensation Committee of our Board of Directors has expressed its intention to refrain from using stock options as a component of employee compensation for our executive officers and other employees for the foreseeable future. Additionally, our Board of Directors has expressed its intention to refrain from using stock options as a component of nonemployee director compensation for the foreseeable future. For a description of the material features of our equity compensation arrangements, see the discussion under the heading "Incentive Plan" in Note 9 of Notes to Consolidated Financial

Statements included in this report.

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PERFORMANCE GRAPH

The following graph compares our total shareholder return to the Standard & Poor's 500 Stock Index ("S&P 500") and the PHLX Oil Service Sector Index from December 31, 2013 through December 31, 2018. The PHLX Oil Service Sector Index is designed to track the performance of a set of companies involved in the oil services sector.

It is assumed in the graph that: (1) $100 was invested in Oceaneering Common Stock, the S&P 500 and the PHLX Oil Service Sector Index on December 31, 2013; and (2) any Oceaneering dividends are reinvested. The shareholder return shown is not necessarily indicative of future performance.

	December 31,					
	2013	2014	2015	2016	2017	2018
Oceaneering	100.00	75.68	49.38	38.40	29.30	16.77
S&P 500	100.00	113.69	115.26	129.05	157.22	150.33
PHLX Oil Service Sector	100.00	76.23	58.40	69.49	57.54	31.52

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Item 6. Selected Financial Data.

The following table sets forth certain selected historical consolidated financial data and should be read in conjunction with Management's Discussion and Analysis of Financial Condition and Results of Operation and our Consolidated Financial Statements and Notes included in this report. The following information may not be indicative of our future operating results.

Results of Operations:

	Year Ended December 31,				
(in thousands, except per share amounts)	2018	2017	2016	2015	2014
Revenue	$1,909,482	$1,921,507	$2,271,603	$3,062,754	$3,659,624
Cost of services and products	1,780,256	1,726,897	1,992,376	2,457,325	2,800,423
Gross margin	129,226	194,610	279,227	605,429	859,201
Selling, general and administrative expense	198,259	183,954	208,463	231,619	230,871
Goodwill impairment	76,449	—	—	—	—
Income (loss) from operations	$(145,482)	$10,656	$70,764	$373,810	$628,330
Net income (loss)	$(212,327)	$166,398	$24,586	$231,011	$428,329
Cash dividends declared per Share	$—	$0.45	$0.96	$1.08	$1.03
Diluted earnings (loss) per share	$(2.16)	$1.68	$0.25	$2.34	$4.00
Depreciation and amortization	$293,590	$213,519	$250,247	$241,235	$229,779
Capital expenditures, including business acquisitions	$178,038	$104,958	$142,513	$423,988	$426,671

Other Financial Data:

	As of December 31,				
(dollars in thousands)	2018	2017	2016	2015	2014
Working capital ratio	2.52	2.72	2.48	2.46	2.52
Working capital	$750,148	$751,605	$754,231	$901,537	$1,034,413
Total assets	$2,824,998	$3,023,950	$3,130,315	$3,429,536	$3,504,940
Long-term debt	$786,580	$792,312	$793,058	$795,836	$743,469
Shareholders' equity	$1,409,235	$1,659,164	$1,516,643	$1,578,734	$1,657,471
Goodwill as a percentage of Shareholders' equity	29 %	27 %	29 %	27 %	20 %

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Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.

Certain statements in this annual report on Form 10-K, including, without limitation, statements regarding the following matters, are forward-looking statements made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995:

- our business strategy;
- industry conditions;
- seasonality;
- our expectations about 2019 results of operations, items below the operating income line and segment operating results, and the factors underlying those expectations, including our expectations about demand and pricing for our energy services and products as a result of the factors we specify in "Overview" and "Results of Operations" below;
- our backlog;
- projections relating to floating rig demand and subsea tree installations;
- the adequacy of our liquidity, cash flows and capital resources to support our operations and internally generated growth initiatives;
- our projected capital expenditures for 2019;
- our plans for future operations (including planned additions to and retirements from our remotely operated vehicle ("ROV") fleet, our intent regarding the new multiservice subsea support vessel scheduled to be placed into service in the second quarter of 2019 and other capital expenditures);
- our ability and intent to redeem Angolan bonds and repatriate cash;
- our anticipation of a discrete tax item in the first quarter of 2019;
- our expectations regarding shares repurchased under our share repurchase plan;
- our expectations regarding the implementation of new accounting standards and related policies, procedures and controls;
- our expectations about our ROV fleet utilization in the future; and
- our expectations regarding the effect of inflation in the near future.

These forward-looking statements are subject to various risks, uncertainties and assumptions, including those we refer to under the headings "Cautionary Statement Concerning Forward-Looking Statements" and "Risk Factors" in Part I of this report. Although we believe that the expectations reflected in such forward-looking statements are reasonable, because of the inherent limitations in the forecasting process, as well as the relatively volatile nature of the industries in which we operate, we can give no assurance that those expectations will prove to have been correct. Accordingly, evaluation of our future prospects must be made with caution when relying on forward-looking information.

Overview

The table that follows sets out our revenue and operating results for 2018, 2017 and 2016.

	Year Ended December 31,		
(dollars in thousands)	2018	2017	2016
Revenue	$1,909,482	$1,921,507	$2,271,603
Gross Margin	129,226	194,610	279,227
Gross Margin %	7 %	10 %	12 %
Operating Income (Loss)	(145,482)	10,656	70,764
Operating Income (Loss) %	(8)%	1 %	3 %
Net Income (Loss)	(212,327)	166,398	24,586

Our business depends substantially on the level of spending on offshore developments by our customers in the energy industry. During 2018, we generated approximately 78% of our revenue, from services and products we provide to the energy industry. The full year of 2018 unfolded as we expected, with increased levels of energy services and products activity being more than offset by

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lower pricing for our energy services and products. Overall, our 2018 revenue approximated our 2017 revenue, with increases in our ROV, Subsea Projects, Asset Integrity and Advance Technologies segments, offset by a substantial decrease in our Subsea Products segment.
In 2018, on a consolidated level, we had a net loss of $212 million, or diluted loss of $2.16 per share, compared to net income of $166 million, or diluted earnings of $1.68 per share, in 2017. The $378 million decrease from 2017 net income was primarily attributable to income taxes. In 2018, we had income tax expense of $26 million, due primarily to discrete tax expense adjustments, and in 2017, we had an income tax benefit of $184 million, due primarily to a $189 million tax benefit resulting from the December 2017 enactment of U.S. tax reform legislation commonly referred to as the 2017 Tax Cuts and Jobs Act (the "Tax Act"). Year-over-year, our change in tax expense (benefit) represented $210 million of the previously mentioned decrease in net income.

Additionally, we had an operating loss of $145 million in 2018 compared to operating income of $11 million in 2017. For 2018, our revenue was essentially flat with 2017 as we experienced increased levels of offshore energy activities, however, competitive pressures resulted in lower pricing for our services and products in our energy related segments. Due to lower profit contributions from our energy services and products businesses, operating results decreased $156 million from 2017. The declines in profitability were most notably in:

- our Subsea Projects segment, which had a $96 million decrease in the operating results on $37 million higher revenue, with a pre-tax goodwill impairment of $76 million in 2018, largely resulting from the protracted downturn in survey and vessel activity;
- our Subsea Products segment, which had a $40 million decrease in operating income on $111 million less revenue; and
- our ROV segment, which had a $21 million decrease in operating income on relatively flat revenue.

In 2018, we invested in the following capital initiatives:

- $100 million to add capabilities in our Subsea Projects segment, including the acquisition of Ecosse Subsea Limited ("Ecosse") for $68 million and the continued construction of a new subsea support vessel, Ocean Evolution, scheduled to be placed into service during the second quarter of 2019;
- $46 million to upgrade our work-class ROVs; and
- $25 million to add capabilities in our Subsea Products segment.

We expect our 2019 operating results to improve year-over-year based on increased activity across all of our segments. Apart from seasonality, we view pricing and margins in the current market to be relatively stable. Operationally, we anticipate all of our segments, with the exception of Asset Integrity, to generate improved yearly results, with the largest increase in profitability occurring in Subsea Products and Advanced Technologies, beginning in the second quarter. Our 2019 forecast is based on the expectation of higher overall activity and stabilized pricing within our energy segments, modest activity improvement within our government businesses and improved performance in our commercial businesses.

We use our ROVs to provide drilling support, vessel-based inspection, maintenance and repair, subsea hardware installation, construction, and pipeline inspection services to customers in the energy industry. Most of our ROVs have historically been used to provide drill support services. Therefore, the number of floating drilling rigs on hire is a leading market indicator for this business. The following table shows average floating rigs under contract and our ROV utilization.

	2018	2017	2016
Average number of floating rigs under contract	148	150	177
ROV days on hire (in thousands)	52	47	60
ROV utilization	51%	46%	53%

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Demand for floating rigs is the primary leading indicator of the strength of the deepwater market. According to industry data published by IHS Petrodata, excluding rigs under construction, at the end of 2018 there were 244 floating drilling rigs in operation or available for work throughout the world, with 146 of those rigs under contract. Of the 146 rigs under contract, 37 have contract terms expiring during the first six months of 2019. The offshore rig count in 2018 was relatively stable, at approximately 148 rigs.

In addition to floating rig demand, the number of subsea tree completions is another leading indicator, and the primary demand driver for our Subsea Products lines. According to industry data published by Wood MacKenzie in December 2018, there will be 254 subsea tree installations in 2019, compared to 275 in 2018, 274 in 2017 and 280 in 2016. As many as 25 projects in water depths greater than 400 meters are expected to reach "final investment decision" in 2019, up from less then 10 in 2018.

Below the operating income line, we expect:

- a loss on our equity investment in Medusa Spar LLC, due to depreciation more than offsetting cash earnings;
- increased interest expense as a result of a full year of payments on the $300 million of Senior Notes we issued in February 2018 and higher floating interest rates, and less than a full year of capitalized interest on the Ocean Evolution; and
- lower foreign currency exchange losses as a result of lower cash balances in the Angolan kwanza.

In 2019, our income tax payments, estimated to total $25 million, are expected to relate to taxes incurred in countries that impose tax on the basis of in-country revenue, without regard to the profitability of such operations. At this time, we do not foresee realizing a current-year tax benefit from our projected consolidated pre-tax loss, so any discussion of an estimated effective tax rate would not be meaningful.

Critical Accounting Policies and Estimates

We have based the following discussion and analysis of our financial condition and results of operations on our consolidated financial statements, which we have prepared in conformity with accounting principles generally accepted in the United States. These principles require us to make various estimates, judgments and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenue and expense during the periods we present. We base our estimates on historical experience, available information and other assumptions we believe to be reasonable under the circumstances. On an ongoing basis, we evaluate our estimates; however, our actual results may differ from these estimates under different assumptions or conditions. The following discussion summarizes the accounting policies we believe (1) require our management's most difficult, subjective or complex judgments and (2) are the most critical to our reporting of results of operations and financial position.

Revenue Recognition. Effective January 1, 2018, we adopted Accounting Standard Update ("ASU") 2014-09, "Revenue from Contracts with Customers," which implemented Accounting Standards Codification Topic 606 ("ASC 606"). We have used the modified retrospective method applied to those contracts that were not completed as of January 1, 2018, and have utilized the practical expedient to reflect the effect on contract modifications in the aggregate. The cumulative effect of applying ASC 606 has been recognized as an adjustment to retained earnings as of January 1, 2018. The comparative information with respect to prior periods has not been retrospectively restated and continues to be reported under the accounting standards in effect for those periods.

All of our revenue is realized through contracts with customers. We recognize our revenue according to the contract type. On a daily basis, we recognize service revenue over time for contracts that provide for specific time, material and equipment charges, which we bill periodically, ranging from weekly to monthly. We use the input method to faithfully depict revenue recognition, because each day of service provided represents value to the customer. The performance obligations in these contracts are satisfied, and revenue is recognized, as the work is performed. We have used the

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expedient available to recognize revenue when the billing corresponds to the value realized by the customer where appropriate.

We account for significant fixed-price contracts, mainly relating to our Subsea Products segment, and to a lesser extent in our Subsea Projects and Advanced Technologies segments, by recognizing revenue over time using an input, cost-to-cost measurement percentage-of-completion method. We use the input cost-to-cost method to faithfully depict revenue recognition. This commonly used method allows appropriate calculation of progress on our contracts. A performance obligation is satisfied as we create a product on behalf of the customer over the life of the contract. The remainder of our revenue is recognized at the point in time when control transfers to the customer, thus satisfying the performance obligation.

We have elected to recognize the cost for freight and shipping as an expense when incurred. Taxes assessed by a governmental authority that are both imposed on and concurrent with a specific revenue-producing transaction, and that are collected by us from customers, are excluded from revenue.

In our service-based business lines, which principally charge on a day rate basis for services provided, there is no significant impact in the pattern of revenue and profit recognition as a result of implementation of ASC 606. In our product-based business lines, there are impacts on the pattern of our revenue and profit recognition in our contracts using the percentage-of-completion method, as a result of the requirement to exclude uninstalled materials and significant inefficiencies from the measure of progress. This occurs in our Subsea Products segment.

We apply judgment in the determination and allocation of transaction price to performance obligations, and the subsequent recognition of revenue, based on the facts and circumstances of each contract. We routinely review estimates related to our contracts and, where required, reflect revisions to profitability in earnings immediately. If an element of variable consideration has the potential for a significant future reversal of revenue, we will constrain that variable consideration to a level intended to remove the potential future reversal. If a current estimate of total contract cost indicates an ultimate loss on a contract, we recognize the projected loss in full when we determine it. In prior years, we have recorded adjustments to earnings as a result of revisions to contract estimates. We strive to estimate our contract costs and profitability accurately. However, there could be significant adjustments to overall contract costs in the future, due to changes in facts and circumstances.

In general, our payment terms consist of those services billed regularly as provided and those products delivered at a point in time, which are invoiced after the performance obligation is satisfied. Our product and service contracts with milestone payments due at agreed progress points during the contract are invoiced when those milestones are reached, which may differ from the timing of revenue recognition. Our payment terms generally do not provide financing of contracts to customers, nor do we receive financing from customers as a result of these terms.

Property and Equipment and Long-lived Intangible Assets. We periodically and upon the occurrence of a triggering event review the realizability of our property and equipment and long-lived intangible assets to determine whether any events or changes in circumstances indicate that the carrying amount of the asset may not be recoverable. For long-lived assets to be held and used, we base our evaluation on impairment indicators such as the nature of the assets, the future economic benefits of the assets, any historical or future profitability measurements and other external market conditions or factors that may be present. If such impairment indicators are present or other factors exist that indicate that the carrying amount of an asset may not be recoverable, we determine whether an impairment has occurred through the use of an undiscounted cash flows analysis of the asset at the lowest level for which identifiable cash flows exist. If an impairment has occurred, we recognize a loss for the difference between the carrying amount and the fair value of the asset. For assets held for sale or disposal, the fair value of the asset is measured using fair market value less cost to sell. Assets are classified as held-for-sale when we have a plan for disposal of certain assets and those assets meet the held for sale criteria.

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We charge the costs of repair and maintenance of property and equipment to operations as incurred, while we capitalize the costs of improvements that extend asset lives or functionality.

Goodwill. Our goodwill is evaluated for impairment annually and whenever we identify certain triggering events or circumstances that would more likely than not reduce the fair value of a reporting unit below its carrying amount. Events or circumstances that might indicate an interim evaluation is warranted include, among other things, unexpected adverse business conditions, macro and reporting unit specific economic factors (for example, interest rate and foreign exchange rate fluctuations, and loss of key personnel), supply costs, unanticipated competitive activities and acts by governments and courts.

In our evaluation of goodwill, we perform a qualitative or quantitative impairment test. Under the qualitative approach, if we determine that it is more likely than not that the fair value of a reporting unit is less than its carrying amount, we are required to perform the quantitative analysis to determine the fair value for the reporting unit. Thereafter, we compare the fair value of the reporting unit with its carrying amount and recognize an impairment loss for the amount by which the carrying amount exceeds the fair value of the reporting unit. The loss recognized should not exceed the total amount of goodwill allocated to the reporting unit. We also consider income tax effects from any tax deductible goodwill on the carrying amount of the reporting unit when measuring the goodwill impairment loss, if applicable.

The fair value of all our reporting units in our 2017 quantitative analysis exceeded their respective carrying amounts by a significant margin with the exception of one reporting unit, Subsea Projects, the fair value of which only exceeded its carrying value by approximately 20%. Our Subsea Projects reporting unit had the largest balance of goodwill and newer goodwill that would be subject to impairment if business conditions deteriorated subsequent to the acquisitions generating the goodwill.

In our 2018 annual goodwill evaluation, we performed a qualitative assessment for our Subsea Projects reporting unit. Due to the protracted downturn in survey and vessel activity, we determined that it was more likely than not that the fair value was less than the carrying value. As a result, we determined that a quantitative assessment was necessary for our Subsea Projects reporting unit.

In our 2018 quantitative analysis for the Subsea Projects reporting unit, we estimated the fair value by weighing the results from the income approach and the market approach. These valuation approaches consider a number of factors that include, but are not limited to, prospective financial information, growth rates, terminal value, discount rates and comparable multiples of similar companies in our industry and require us to make certain assumptions and estimates regarding industry economic factors and future profitability of our business. Based on this quantitative test, we determined that the fair value for Subsea Projects was less than its carrying value and, as a result, we recorded a pre-tax goodwill impairment loss of $76 million in the Subsea Project reporting unit. The goodwill impairment was included as a component of "Income (Loss) From Operations" in our Consolidated Statement of Operations for the year ended December 31, 2018. For the remaining reporting units, qualitative assessments were performed and we concluded that it was more likely than not that the fair value of the reporting unit was more than the carrying value of the reporting unit.

Income Taxes. Our tax provisions are based on our expected taxable income, statutory rates and tax-planning opportunities available to us in the various jurisdictions in which we operate. The determination of taxable income in any jurisdiction requires the interpretation of the related tax laws. We are at risk that a taxing authority's final determination of our tax liabilities may differ from our interpretation. Our effective tax rate may fluctuate from year to year, as our operations are conducted in different taxing jurisdictions, the amount of pre-tax income fluctuates and our estimates regarding the realizability of items such as foreign tax credits may change.

We account for any applicable interest and penalties on uncertain tax positions as a component of our provision for income taxes on our financial statements. Current income tax expense represents either nonresident withholding taxes or the liabilities expected to be reflected on our income tax returns for the current year, while the net deferred income tax expense or benefit represents the change in the balance of deferred tax assets or liabilities as reported on our balance sheet.

We establish valuation allowances to reduce deferred tax assets when it is more likely than not that some portion or all of the deferred tax assets will not be realized in the future. Provisions for valuation allowances impact our income tax provision in the period in which such adjustments are identified and recorded.

In March 2016, the FASB issued ASU 2016-09, "Compensation – Stock Compensation Improvements to Employee Share-Based Payment Accounting." This update requires that all excess tax benefits and tax deficiencies (including tax benefits of dividends on share-based payment awards) should be recognized as income tax expense or benefit in the statement of operations. The tax effects of exercised or vested awards should be treated as discrete items in the reporting period in which they occur. An entity also should recognize excess tax benefits regardless of whether the benefit reduces taxes payable in the current period. Currently, an entity must determine, for each award, whether the difference between the deduction for tax purposes and the compensation cost recognized for financial reporting purposes results in either an excess tax benefit or a tax deficiency. The amendments in this update are effective for us beginning January 1, 2017. Through December 31, 2016, we recognized excess tax benefits in additional paid-in capital, and tax deficiencies have been recognized as an offset to accumulated excess tax benefits. In 2017 and 2018, we recorded a tax deficiency in the first quarter and, under this new standard, we recognized it as a discrete item in our statement of operations rather than in additional paid-in capital. We also expect a tax deficiency in the first quarter of 2019, which will be recognized as a discrete item in our statement of operations.

As further discussed in Note 4, "Income Taxes," of our Notes to Consolidated Financial Statements included in this report, the Tax Act was enacted on December 22, 2017, and significantly affected how the United States imposes income tax on multinational corporations. The U.S. Department of the Treasury and other regulatory bodies continue to finalize changes to existing laws and regulations which may result from the Tax Act. In accordance with SEC Staff Accounting Bulletin No. 118 ("SAB No. 118"), we recorded provisional estimates to reflect the effects of the provisions of the Tax Act on our income tax assets and liabilities as of December 31, 2017. We have collected additional information to complete our assessment of the impacts of these changes on our operations and recorded income tax assets and liabilities as of December 31, 2018.
For a summary of our major accounting policies and a discussion of recently adopted accounting standards, please see Note 1 of our Notes to Consolidated Financial Statements included in this report.
Liquidity and Capital Resources

We consider our liquidity and capital resources adequate to support our operations and growth initiatives. At December 31, 2018, we had working capital of $750 million, including cash and cash equivalents of $354 million. Additionally, we had $500 million available through our revolving credit facility under a credit agreement further described below.

In November 2014, we completed the public offering of $500 million aggregate principal amount of 4.650% Senior Notes due 2024 (the "2024 Senior Notes"). We pay interest on the 2024 Senior Notes on May 15 and November 15 of each year. The 2024 Senior Notes are scheduled to mature on November 15, 2024.

In February 2018, we completed the public offering of $300 million aggregate principal amount of 6.000% Senior Notes due 2028 (the "2028 Senior Notes"). We pay interest on the 2028 Senior Notes on February 1 and August 1 of each year. The 2028 Senior Notes are scheduled to mature on February 1, 2028.

We may redeem some or all of the 2024 Senior Notes and the 2028 Senior Notes (collectively, the "Senior Notes") at specified redemption prices. We used the net proceeds from the 2028 Senior Notes to repay our term loan indebtedness described further below.

In October 2014, we entered into a credit agreement (as amended, the "Credit Agreement") with a group of banks. The Credit Agreement initially provided for a $500 million five-year revolving credit

facility (the "Revolving Credit Facility"). Subject to certain conditions, the aggregate commitments under the Revolving Credit Facility may be increased by up to $300 million at any time upon agreement between us and existing or additional lenders. Borrowings under the Revolving Credit Facility may be used for general corporate purposes. The Credit Agreement also provided for a $300 million term loan, which we repaid in full in February 2018, using net proceeds from the issuance of our 2028 Senior Notes referred to above, and cash on hand.

In February 2018, we entered into Agreement and Amendment No. 4 to the Credit Agreement ("Amendment No. 4"). Amendment No. 4 amended the Credit Agreement to, among other things, extend the maturity of the Revolving Credit Facility to January 25, 2023 with the extending Lenders, which represent 90% of the existing commitments of the Lenders, such that the total commitments for the Revolving Credit Facility will be $500 million until October 25, 2021, and thereafter $450 million until January 25, 2023.

Borrowings under the Revolving Credit Facility bear interest at an Adjusted Base Rate or the Eurodollar Rate (both as defined in the Credit Agreement), at our option, plus an applicable margin based on our Leverage Ratio (as defined in the Credit Agreement) and, at our election, based on the ratings of our senior unsecured debt by designated ratings services, thereafter to be based on such debt ratings. The applicable margin varies: (1) in the case of advances bearing interest at the Adjusted Base Rate, from 0.125% to 0.750%; and (2) in the case of advances bearing interest at the Eurodollar Rate, from 1.125% to 1.750%. The Adjusted Base Rate is the highest of (1) the per annum rate established by the administrative agent as its prime rate, (2) the federal funds rate plus 0.50% and (3) the daily one-month LIBOR plus 1%. We pay a commitment fee ranging from 0.125% to 0.300% on the unused portion of the Revolving Credit Facility, depending on our Leverage Ratio. The commitment fees are included as interest expense in our consolidated financial statements.

The Credit Agreement contains various covenants that we believe are customary for agreements of this nature, including, but not limited to, restrictions on our ability and the ability of each of our subsidiaries to incur debt, grant liens, make certain investments, make distributions, merge or consolidate, sell assets and enter into certain restrictive agreements. We are also subject to a maximum adjusted total Capitalization Ratio (as defined in the Credit Agreement) of 55%. The Credit Agreement includes customary events of default and associated remedies. As of December 31, 2018, we were in compliance with all the covenants set forth in the Credit Agreement.

We have two interest rate swaps in place on a total of $200 million of the 2024 Senior Notes for the period to November 2024. See Note 7 of Notes to Consolidated Financial Statements included in this report for a description of these interest rate swaps.

We incurred $6.9 million and $4.2 million of issuance costs related to the 2024 Senior Notes and the 2028 Senior Notes, respectively, and $2.6 million of new loan costs, including costs of the amendments prior to Amendment No. 4, related to the Credit Agreement. The costs, net of accumulated amortization, are included as a reduction of Long-term debt in our Consolidated Balance Sheet, as it pertains to the Senior Notes, and in Other non-current assets as it pertains to the Credit Agreement. We are amortizing these costs to Interest expense through the maturity date for the Senior Notes and to January 2023 for the Credit Agreement.

Our maximum outstanding indebtedness during 2018 under the Credit Agreement and the Senior Notes was $800 million, and our total interest costs, including commitment fees, were $45 million.

Our capital expenditures, including business acquisitions, for 2018, 2017 and 2016 were $178 million, $105 million and $143 million, respectively. Our capital expenditures in 2018 included $46 million in our ROV segment, $25 million in our Subsea Products segment and $100 million in our Subsea Projects segment. Our capital expenditures in 2018 included the acquisition of Ecosse for approximately $68 million in our Subsea Projects segment. Ecosse builds and operates seabed preparation, route clearance and trenching tools for submarine cables and pipelines on an integrated basis that includes vessels, ROVs and survey services. Enabling technologies acquired in the transaction include Ecosse's modular seabed system, capable of completing the entire trenching

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work scope (route preparation, boulder clearance, trenching and backfill), and its newly developed trenching system. These systems primarily serve the shallow water offshore renewables market.

Our capital expenditures in 2017 included $40 million in our ROV segment, $28 million in our Subsea Products segment and $30 million in our Subsea Projects segment. Our capital expenditures in 2016 included: $50 million in our ROV segment; $57 million in our Subsea Products segment and $26 million in our Subsea Projects segment.

For 2019, we expect our capital expenditures to be in the range of $105 million to $125 million, exclusive of business acquisitions. This includes approximately $40 million to $50 million of maintenance capital expenditures and $65 million to $75 million of growth capital expenditures, including the purchase of equipment needed to support the Brazil drill pipe riser contract awarded in 2018 and the final payments to complete the Jones Act vessel Ocean Evolution in our Subsea Projects segment. We expect to place the Ocean Evolution into service during the second quarter of 2019.

Our capital expenditures during 2018, 2017 and 2016 included $46 million, $40 million and $50 million, respectively, in our ROV segment, principally for upgrades to our ROV fleet and to replace certain units we retired and for facilities infrastructure to support our ROV fleet. We currently plan to add new ROVs only to meet contractual commitments. We added six, seven and six ROVs to our fleet and retired ten, eight and 41 units during 2018, 2017 and 2016, respectively, resulting in a total of 275 work-class systems in our fleet at December 31, 2018. Over the past three years, we retired a greater number of ROVs than we have added due to market conditions and outlook.

We previously had several deepwater vessels under long-term charter. The last of our long-term charters expired in March 2018. With the current market conditions, our philosophy is to attempt to charter vessels for specific projects on a back-to-back basis with the vessel owners. This generally minimizes our contract exposure by closely matching our obligations with our revenue. Unless indicated otherwise, each of the chartered vessels discussed below is a deepwater multiservice subsea support vessel outfitted with two of our high-specification work-class ROVs.

In 2012, we moved the chartered vessel Ocean Intervention III to Angola and also chartered the Bourbon Oceanteam 101 to work on a three-year field support vessel services contract for a unit of BP plc. We had extended the charter of the Bourbon Oceanteam 101 to January 2017. However, in early 2016, the customer exercised its right, under the field support vessel services contract, to terminate its use of the Bourbon Oceanteam 101 at the end of May 2016. Under the terms of the contract, the costs incurred by us associated with the early release and demobilization of the vessel were reimbursed by the customer. Following the release of the vessel, we redelivered it to the vessel supplier. The charter for the Ocean Intervention III expired at the end of July 2017. Under the field support vessel services contract, which was extended through January 2022, we are continuing to supply project management and engineering services. We also provide ROV tooling and asset integrity services as requested by the customer. Chartered vessels and barges are provided to the customer upon request.

In March 2013, we commenced a five-year bareboat charter for a Jones Act-compliant multiservice support vessel, the Ocean Alliance, we have been using in the U.S. Gulf of Mexico. In January 2015, we commenced a two-year contract with a customer for the use of the Ocean Alliance, which expired in January 2017. We returned the Ocean Alliance to the vessel owner in the first quarter of 2018 and continue to market the vessel, now renamed the Cade Candies, for spot market work in the U.S. Gulf of Mexico on a back-to-back basis with the owner.

In December 2013, we commenced a three-year charter for the Normand Flower, a multiservice subsea marine support vessel. We made modifications to the vessel and used the vessel in the U.S. Gulf of Mexico to perform inspection, maintenance and repair projects and hardware installations. In December 2016, we declined our option to extend the charter and the vessel was released.

In November 2015, we commenced a two-year charter for the use of the Island Pride, a multiservice subsea marine support vessel. We used the vessel under a two-year contract to provide field support services off the coast of India for an oil and gas customer based in India. In

November 2017, that field services contract expired and we declined our option to extend the vessel charter.
We also charter or lease vessels on a short-term basis as necessary to augment our fleet.
During the third quarter of 2013, we signed an agreement with a shipyard for the construction of a subsea support vessel, to be named the Ocean Evolution. We expect to take delivery in the first quarter and place the vessel into service in the second quarter of 2019. We intend for the vessel to be U.S. flagged and documented with a coastwise endorsement by the U.S. Coast Guard. The vessel has an overall length of 353 feet, a Class 2 dynamic positioning system, accommodations for 110 personnel, a helideck, a 250-ton active heave-compensated crane, a working moonpool, and two of our high specification 4,000 meter work-class ROVs. The vessel is also equipped with a satellite communications system capable of transmitting streaming video for real-time work observation by shore personnel. We anticipate the vessel will be used to augment our ability to provide subsea intervention services in the U.S. Gulf of Mexico. These services are required to perform inspection, maintenance and repair projects and hardware installations.
Our principal source of cash from operating activities is our net income (loss), adjusted for the non-cash expenses of depreciation and amortization, deferred income taxes and noncash compensation under our restricted stock plans. Our $37 million, $136 million and $339 million of cash provided from operating activities in 2018, 2017 and 2016, respectively, were affected by cash increases (decreases) of: (1) $(87) million, $13 million and $123 million, respectively, of changes in accounts receivable; (2) $(12) million, $66 million and $18 million, respectively, of changes in inventory; and (3) $29 million, $(76) million and $(115) million, respectively, of changes in accounts payable and accrued liabilities. The decrease in cash related to accounts receivable in 2018 reflected higher business levels in the fourth quarter of 2018, as compared to the fourth quarter of 2017, along with timing of customer payments. The increase in cash related to changes in current liabilities in 2018 reflected timing of vendor payments. In each of 2017 and 2016, our accounts receivable, inventory and accounts payable and accrued liabilities all decreased as a result of lower revenue and activity in general from the immediately preceding year. The 2016 decrease in inventory was in addition to write-downs totaling $30 million in our ROV and Subsea Products segments.
In 2018, we used $99 million in net investing activities. We used $109 million to purchase property and equipment, $68 million for the acquisition of Ecosse and $10 million for the purchase of Angolan central bank bonds indexed to the U.S. dollar. These outlays were partially offset by $70 million of proceeds received from maturities and redemptions of Angola bonds and $15 million of proceeds received from the sale of a cost method investment. In 2017, we used a net of $112 million in investing activities, with $105 million used to fund the capital expenditures and business acquisitions and $11 million used to purchase Angolan central bank bonds indexed to the U.S. dollar. In 2016, we used a net of $169 million in investing activities, with $143 million used to fund the capital expenditures and business acquisitions, and $39 million used to purchase Angolan central bank bonds indexed to the U.S. dollar.
In 2018, we used $6 million in financing activities, with $300 million for a repayment of the term loan facility, substantially offset by $296 million of the proceeds received from the issuance of the 2028 Senior Notes, net of issuance costs. In 2017, we used $46 million in financing activities, primarily for the $44 million of cash dividends we paid. In 2016, we used $96 million in financing activities, primarily for the $94 million of cash dividends we paid.
In December 2014, our Board of Directors approved a share repurchase program under which we may repurchase up to 10 million shares of our common stock on a discretionary basis. The program calls for the repurchases to be made in the open market, or in privately negotiated transactions from time to time, in compliance with applicable laws, rules and regulations, including Rule 10b-18 under the Securities Exchange Act of 1934, as amended, subject to market and business conditions, levels of available liquidity, cash requirements for other purposes, applicable legal requirements and other relevant factors. The timing and amount of any repurchases will be determined by management based on its evaluation of these factors. We expect that any shares repurchased under the new program will be held as treasury stock for future use. The program does not obligate us to repurchase any particular number of shares. We account for the shares we hold in treasury under

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the cost method, at average cost. Through December 31, 2015 under the program, we repurchased 2 million shares of our common stock for $100 million. We have not repurchased any shares under the program since December 31, 2015.

As of December 31, 2018, we retained 12.3 million of the shares we had repurchased through this and a prior program. We expect to hold the shares repurchased for future use.

Because of our significant foreign operations, we are exposed to currency fluctuations and exchange rate risks. We generally minimize these risks primarily through matching, to the extent possible, revenue and expense in the various currencies in which we operate. Cumulative translation adjustments as of December 31, 2018 relate primarily to our net investments in, including long-term loans to, our foreign subsidiaries. A stronger U.S. dollar against the U.K. pound sterling, Norwegian kroner and Brazilian real would result in lower operating income. See Item 7A – "Quantitative and Qualitative Disclosures About Market Risk."

Results of Operations

Additional information on our business segments is shown in Note 8 of the Notes to Consolidated Financial Statements included in this report.

Energy Services and Products. The table that follows sets out revenue and profitability for the business segments within our Energy Services and Products business. In the ROV section of the table that follows, "Days available" includes all days from the first day that an ROV is placed in service until the ROV is retired. All days in this period are considered available days, including periods when an ROV is undergoing maintenance or repairs. Our ROVs do not have scheduled maintenance or repair that requires significant time when the ROVs are not available for utilization.

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	Year Ended December 31,		
(dollars in thousands)	2018	2017	2016
Remotely Operated Vehicles			
Revenue	$394,801	$393,655	$522,121
Gross Margin	32,652	50,937	59,038
Gross Margin %	8 %	13 %	11 %
Operating Income	1,641	22,366	25,193
Operating Income %	— %	6 %	5 %
Days available	101,464	101,951	112,588
Days utilized	52,084	47,282	59,963
Utilization %	51 %	46 %	53 %
Subsea Products			
Revenue	515,000	625,513	692,030
Gross Margin	59,984	97,086	140,275
Gross Margin %	12 %	16 %	20 %
Operating Income	5,614	45,539	75,938
Operating Income %	1 %	7 %	11 %
Backlog at end of period	332,000	276,000	431,000
Subsea Projects			
Revenue	329,163	291,993	472,979
Gross Margin	9,596	25,021	51,392
Gross Margin %	3 %	9 %	11 %
Operating Income (Loss)	(86,008)	10,279	34,476
Operating Income (Loss)%	(26)%	4 %	7 %
Asset Integrity			
Revenue	253,886	236,778	275,397
Gross Margin	34,995	37,382	41,458
Gross Margin %	14 %	16 %	15 %
Operating Income	8,660	11,231	7,551
Operating Income %	3 %	5 %	3 %
Total Energy Services and Products			
Revenue	$1,492,850	$1,547,939	$1,962,527
Gross Margin	137,227	210,426	292,163
Gross Margin %	9 %	14 %	15 %
Operating Income (Loss)	(70,093)	89,415	143,158
Operating Income (Loss)%	(5)%	6 %	7 %

Historically, we built new ROVs to increase the size of our fleet in response to demand to support deepwater drilling and vessel-based inspection, maintenance and repair ("IMR") and installation work. These vehicles are designed for use around the world in water depths of 10,000 feet or more. In 2015, as a result of declining market conditions, we began building fewer ROVs, generally limiting additions to meet contractual commitments. We added six, seven and six ROVs in 2018, 2017 and 2016, respectively, while retiring 59 units over the three-year period. Our ROV fleet size was 275 at December 31, 2018, 279 at December 31, 2017 and 280 at December 31, 2016. We have decreased our ROV fleet size over the last four years in response to lower market demand.

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For the year ended December 31, 2018, our ROV operating income declined on revenue that was relatively flat compared to 2017, due to lower average dayrates and higher costs, slightly offset by increased days-on-hire. Lower dayrates resulted from the continued competitive market conditions for offshore drilling and production driven by lower levels of offshore drilling activity. Higher costs were due to shorter duration of the contracts and additional costs associated with mobilizations and work performed to reactivate the systems that had previously been idle.

For the year ended December 31, 2017, our ROV operating income declined slightly compared to 2016, on a revenue decline of 25%. Revenue declined on fewer days-on-hire and lower average dayrates, both as a result of the continued decline in market conditions for offshore drilling and production. ROV revenue in 2017 also included a $7.3 million sale of accessory equipment that was integrated into a customer's rigs. Our 2016 operating results included $41 million of charges, which consisted of: (1) $25.2 million for a reserve for excess inventory, (2) $10.8 million for the retirement of 39 ROVs, (3) $3.8 million of restructuring expenses and (4) $1.2 million of bad debt expenses. These 2016 charges were reflected in our cost of services and products, except for the charges related to bad debts, which were reflected in general and administrative expenses in our financial statements.

For ROVs in 2019, we expect improved results based on increased days on hire, minor shifts in geographic mix and generally stable pricing, while dealing with continued mobilization and make-ready challenges. We historically have expected to retire, on average, 4% to 5% of our fleet on an annual basis, although we retired a greater number in 2016 due to market conditions and we retired a lower number in each of 2018 and 2017 as a result of the reduced existing fleet size. Our overall ROV fleet utilization is expected to be in the mid 50% range for 2019.

Our Subsea Products segment consists of two business units: (1) manufactured products; and (2) service and rental. Manufactured products include production control umbilicals and specialty subsea hardware, while service and rental includes tooling, subsea work systems and installation and workover control systems. The following table presents revenue from manufactured products and service and rental, as their respective percentages of total Subsea Products revenue:

	Year Ended December 31,		
	2018	2017	2016
Manufactured Products	55%	64%	65%
Service and Rental	45%	36%	35%

For the year ended December 31, 2018, our Subsea Products operating results decreased from 2017 across both business units, due to lower umbilical-related backlog from the beginning of the year as a result of lower demand for our manufactured products and reduced activity in our service and rental business attributable to progress completed on a significant custom-engineered project during 2017, a significant decline in Asia and Australia market activity, start-up costs pertaining to our light well intervention equipment, as well as the write-offs of certain obsolete equipment.

For the year ended December 31, 2017, our Subsea Products revenue and operating income decreased from 2016 across both business units, but most notably due to lower pricing of service and rental. Our 2016 results included the following charges:

- $8.2 million, predominantly for tools and inventory in our portfolio used to support deepwater drilling and operations;
- $3.7 of restructuring expenses; and
- $1.9 million of allowances for bad debts.

In our financial statements, the charges incurred in 2016 are reflected in our cost of services and products, except for the charges related to the allowances for bad debts, which are reflected in

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general and administrative expenses. The restructuring expenses related to severance costs for incurred and designated future workforce reductions and costs associated with closing excess facilities.
We anticipate our Subsea Products segment operating income in 2019 to improve as a result of securing good order intake in 2018 and anticipated awards in early 2019, driving increased throughput within our manufactured products business unit, and higher activity levels and contribution from the services and rental business unit. With increased overall activity and better absorption of our fixed costs, we anticipate that our operating income margin will be in the mid-single digit range. Our Subsea Products backlog was $332 million at December 31, 2018, approximately 20%, higher than it was at December 31, 2017. The backlog increase from 2017 was largely attributable to an increase in order intake for our service and rental offerings.

Our Subsea Projects operating results for the year ended December 31, 2018 were lower compared to 2017, due to a goodwill impairment charge largely resulting from the protracted downturn in survey and vessel activity, reduced project activity and diving work in Angola and the write-offs of obsolete equipment and intangible assets associated with exiting the land survey business. These results were partially offset by increased diving and deepwater activity in the U.S. Gulf of Mexico.

For the year ended December 31, 2017, our Subsea Projects revenue and operating income decreased from 2016, as a result of generally lower vessel demand and pricing, and the release in May 2016 of the Bourbon Oceanteam 101, which was previously deployed under the field support vessel services contract offshore Angola.

In 2019, our Subsea Projects segment is expected to generate better results with improvements in survey and renewables work, modestly offset by reduced international and Gulf of Mexico vessel activity. Vessel dayrates remain very competitive but appear to have stabilized. We expect to place the Ocean Evolution into service during the second quarter of 2019.

For the year ended December 31, 2018, compared to 2017, Asset Integrity's operating income decreased due to lower contract pricing for the purpose of contracts retention.
For the year ended December 31, 2017, Asset Integrity operating income improved from the 2016 on lower revenue, as we benefited from restructuring efforts we made in prior periods. Our 2016 operating results included bad debt expense of $5.0 million, which was reflected in selling, general and administrative expense, and $1.4 million of restructuring charges, which were reflected in our cost of services and products.
We anticipate our 2019 operating results for Asset Integrity to be relatively flat compared to 2018, as contract pricing remains extremely competitive.
Advanced Technologies. The table that follows sets out revenue and profitability for this segment.

	Year Ended December 31,					
(dollars in thousands)	2018		2017		2016	
Revenue	$416,632		$373,568		$309,076	
Gross Margin	58,959		44,421		33,784	
Gross Margin %	14	%	12	%	11	%
Operating Income	33,920		22,039		11,809	
Operating Income %	8	%	6	%	4	%

Our Advanced Technologies segment consists of two business units: (1) government; and (2) commercial. Government services and products include engineering and related manufacturing in defense and space exploration activities. Our commercial business unit offers a turnkey solution that includes program management, engineering design, fabrication/assembly and installation to the commercial theme park industry and mobile robotics solutions including automated guided vehicle technology to a variety of industries. The following table presents revenue from government and commercial, as their respective percentages of total Advanced Technologies revenue:

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	Year Ended December 31,		
	2018	2017	2016
Government	67 %	74 %	78 %
Commercial	33 %	26 %	22 %

For the year ended December 31, 2018, compared to 2017, our Advanced Technologies segment achieved record operating income, due to steady growth in our government business and a significant increase in activity in our commercial business, specifically entertainment.

For the year ended December 31, 2017, compared to 2016, Advanced Technologies operating income was higher, from improved volume of theme park-related projects in our entertainment business.

We project our Advanced Technologies operating results in 2019 to increase, due to continued high demand and activity levels in our entertainment business, improvements in our automated guided vehicle operations, and modest growth in our government-related units.

Unallocated Expenses. Our unallocated expenses, i.e., those not associated with a specific business segment, within gross margin consist of expenses related to our incentive and deferred compensation plans, including restricted stock and bonuses, as well as other general expenses. Our unallocated expenses within operating income consist of those within gross margin plus general and administrative expenses related to corporate functions.

The table that follows sets out our unallocated expenses.

	Year Ended December 31,		
(dollars in thousands)	2018	2017	2016
Gross margin expenses	$(66,960)	$(60,237)	$(46,720)
% of revenue	4 %	3 %	2 %
Operating expenses	(109,309)	(100,798)	(84,203)
% of revenue	6 %	5 %	4 %

Our unallocated expenses for the year ended December 31, 2018 increased compared to 2017, primarily due to higher expenses related to information technology and incentive compensation from our performance units and bonuses.

Our unallocated expenses for the year ended December 31, 2017 increased compared to 2016, primarily due to higher 2017 estimated expenses related to incentive compensation from our performance units and bonuses.

We anticipate Unallocated Expenses in 2019 to increase due to the expectation for higher projected short- and long-term performance based incentive compensation expense. Our Unallocated Expenses have been running at decreased levels over the last few years, as our financial results have not achieved performance targets, primarily due to the prolonged downturn in the offshore oilfield markets we serve. Based on an expected increase in offshore activities, a more stable pricing environment, realized benefits from ongoing cost and performance initiatives, and continued growth in our Advanced Technologies segment, we expect to achieve higher performance targets for 2019, as well as over the longer-term. Therefore, as we re-establish accruals for our annual and long-term incentive compensation programs, Unallocated Expenses are expected to be approximately $140 million during 2019.

Other. The table that follows sets forth our financial statement items below the operating income line.

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	Year Ended December 31,		
(dollars in thousands)	2018	2017	2016
Interest income	$9,962	$7,355	$3,900
Interest expense, net of amounts capitalized	(37,742)	(27,817)	(25,318)
Equity earnings (loss) of unconsolidated affiliates	(3,783)	(1,983)	244
Other income (expense), net	(8,788)	(6,055)	(6,244)
Provision (benefit) for income taxes	26,494	(184,242)	18,760

Interest income increased in 2018 from an increase in the short-term interest rates received on our cash equivalents in the U.S.

In addition to interest on borrowings, interest expense includes amortization of loan costs, fees for lender commitments under our revolving credit agreement and fees for standby letters of credit and bank guarantees that banks issue on our behalf for performance bonds, bid bonds and self-insurance requirements.

Interest expense increased in 2018 compared to 2017 due to higher interest rate from the 2028 Senior Notes issued in February 2018 replacing our Term Loan and higher interest rates from our interest rate swaps, partially offset by an increase in our capitalized interest. We capitalized $7.3 million, $4.6 million and $3.7 million of interest in 2018, 2017 and 2016, respectively, associated with the new-build vessel, the Ocean Evolution, described under "Liquidity and Capital Resources" above.

Included in other income (expense), net are foreign currency transaction losses of $18 million, $5.2 million and $4.8 million for 2018, 2017 and 2016, respectively. The losses in 2018 and 2016 primarily related to Angola, which devalued its currency by 46% in 2018 and 18% in 2016. We did not incur significant currency transaction losses in any one currency in 2017. We could incur further foreign currency exchange losses in Angola if further currency devaluations occur. However, in 2019, we expect lower foreign currency exchange losses, due to lower cash balances in Angolan kwanza.

In 2018, Other income (expense), net also included a pre-tax gain of $9.3 million resulting from the sale of our cost method investment in ASV Global, LLC in September 2018. The total consideration from the sale was $15 million, which is subject to final working capital adjustments and customary holdbacks. In 2016, other income (expense), net also includes curtailment costs of $1.1 million related to a defined benefit plan for employees in Norway.

On December 22, 2017, the Tax Act was enacted, most notably reducing the U.S. corporate income tax rate from 35% to 21% effective January 1, 2018, and creating a quasi-territorial tax system with a one-time mandatory transition tax on applicable previously-deferred foreign earnings of foreign subsidiaries. In 2018, based on regulations issued by the U.S. Department of the Treasury and additional accounting analysis, we reflected the effects of the Tax Act in our financial statements to include a tax impact of $8.8 million related to the one-time mandatory transition tax. As regulatory guidance continues to be issued by the U.S. tax authorities, any difference in the interpretation of the Tax Act resulting from final or newly issued regulations will be recorded in the period that current or future proposed regulations become law. In 2017, as a result of the Tax Act, we estimated and recorded a $189 million non-cash benefit in the fourth quarter of 2017, making the effective tax rate for 2017 not meaningful. Various components of the Tax Act contributed to the $189 million non-cash benefit. At December 31, 2017, we remeasured our deferred tax assets and liabilities to reflect the reduction in the U.S. corporate income tax rate from 35% to 21%, resulting in a provisional $23 million decrease in income tax expense for the year ended December 31, 2017. Prior to enactment, we provided deferred taxes liabilities associated with certain unrepatriated earnings that will now be subject to tax-free repatriation, resulting in a provisional $222 million decrease in income tax expense for the year ended December 31, 2017. The transition tax and resulting quasi-territorial type tax regime impacts the utilization of our remaining foreign tax credits, resulting in a provisional valuation allowance of $56 million against such deferred tax assets and a corresponding increase to income tax expense for the year ended December 31, 2017.

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Off-Balance Sheet Arrangements

We do not have any off-balance sheet arrangements, as defined by SEC rules.

Contractual Obligations

At December 31, 2018, we had payments due under contractual obligations as follows:

(dollars in thousands)	Payments due by period				
	Total	2019	2020-2021	2022-2023	After 2023
Long-term Debt	$800,000	$—	$ —	$ —	$800,000
Other Operating Leases	387,751	35,064	61,230	55,296	236,161
Purchase Obligations	299,117	282,646	15,262	402	807
Other Long-term Obligations reflected on our Balance Sheet under GAAP	58,419	1,567	2,359	1,601	52,892
TOTAL	$1,545,287	$319,277	$ 78,851	$ 57,299	$1,089,860

At December 31, 2018, we had outstanding purchase order commitments totaling $299 million, including approximately $10 million for the construction of the new subsea support vessel, the Ocean Evolution, scheduled to be placed into service during the second quarter of 2019.

We previously had several deepwater vessels under long-term charter. The last of our long-term charters expired in March 2018. With the current market conditions, our philosophy is to attempt to charter vessels for specific projects on a back-to-back basis with the vessel owners. This generally minimizes our contract exposure by closely matching our obligations with our revenue.

In 2001, we entered into an agreement with our Chairman of the Board of Directors (the "Chairman") who was also then our Chief Executive Officer. That agreement was amended in 2006 and in 2008. Pursuant to the amended agreement, the Chairman relinquished his position as Chief Executive Officer in May 2006 and began his post-employment service period on December 31, 2006, which continued through August 15, 2011, during which service period the Chairman, acting as an independent contractor, agreed to serve as nonexecutive Chairman of our Board of Directors. The agreement provides the Chairman with post-employment benefits for ten years following August 15, 2011. The agreement also provides for medical coverage on an after-tax basis to the Chairman, his spouse and children for their lives. We recognized the net present value of the post-employment benefits over the expected service period. Our total accrued liabilities, current and long-term, under this post-employment benefit were $3.2 million and $3.9 million at December 31, 2018 and 2017, respectively.

Effects of Inflation and Changing Prices

Our financial statements are prepared in accordance with generally accepted accounting principles in the United States, using historical U.S. dollar accounting, or historical cost. Statements based on historical cost, however, do not adequately reflect the cumulative effect of increasing costs and changes in the purchasing power of the dollar, especially during times of significant and continued inflation.

In order to minimize the negative impact of inflation on our operations, we attempt to cover the increased cost of anticipated changes in labor, material and service costs, either through an estimate of those changes, which we reflect in the original price, or through price escalation clauses in our contracts. Our success in achieving price escalation clauses has become more challenging, due to the protracted downturn and over-capacity in the energy market in which we compete. Inflation has not had a material effect on our revenue or income from operations in the past three years, and no such effect is expected in the near future.

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Item 7A. Quantitative and Qualitative Disclosures About Market Risk.

We are currently exposed to certain market risks arising from transactions we have entered into in the normal course of business. These risks relate to interest rate changes and fluctuations in foreign exchange rates. Except for our exposure in Angola, we do not believe these risks are material. We have not entered into any market risk sensitive instruments for speculative or trading purposes. When we have a significant amount of borrowings, we typically manage our exposure to interest rate changes through the use of a combination of fixed- and floating-rate debt. See Note 7 of Notes to Consolidated Financial Statements included in this report for a description of our revolving credit facility and interest rates on our borrowings. We have two interest rate swaps in place on a total of $200 million of the 2024 Senior Notes for the period to November 2024. See Note 6 of Notes to Consolidated Financial Statements included in this report for a description of these interest rate swaps. We believe significant interest rate changes would not have a material near-term impact on our future earnings or cash flows.

Because we operate in various regions in the world, we conduct a portion of our business in currencies other than the U.S. dollar. The functional currency for most of our international operations is the applicable local currency. A stronger U.S. dollar against the U.K. pound sterling, the Norwegian kroner and the Brazilian real would result in lower operating income. We manage our exposure to changes in foreign exchange rates principally through arranging compensation in U.S. dollars or freely convertible currency and, to the extent possible, by limiting compensation received in other currencies to amounts necessary to meet obligations denominated in those currencies. We use the exchange rates in effect as of the balance sheet date to translate assets and liabilities as to which the functional currency is the local currency, resulting in translation adjustments that we reflect as accumulated other comprehensive income or loss in the equity section of our Consolidated Balance Sheets. We recorded net adjustments of $(47) million, $11 million and $(6) million to our equity accounts in 2018, 2017 and 2016, respectively. Negative adjustments reflect the net impact of the strengthening of the U.S. dollar against various foreign currencies for locations where the functional currency is not the U.S. dollar. Conversely, positive adjustments reflect the effect of a weakening U.S. dollar.

We recorded foreign currency transaction losses of $18 million, $5.2 million and $4.8 million for 2018, 2017 and 2016, respectively. Those losses are included in Other income (expense), net in our Consolidated Statements of Operations in those respective periods. Since the second quarter of 2015, the exchange rate for the Angolan kwanza relative to the U.S. dollar generally has been declining, with the exception of the exchange rate being relatively stable during 2017. As our functional currency in Angola is the U.S. dollar, we recorded foreign currency transaction losses related to the kwanza of $19 million, $0.1 million and $7.3 million in 2018, 2017 and 2016, respectively. The currency transaction losses in Angola are related primarily to the remeasurement of our Angolan kwanza cash balances to U.S. dollars. Angola devalued its currency by 46% and 18% in 2018 and 2016, respectively. Any conversion of cash balances from kwanza to U.S. dollars is controlled by the central bank in Angola, and the central bank slowed this process from mid-2015 to 2017, causing our kwanza cash balances to increase during that period of time. However, beginning in 2018, the Angolan central bank has allowed us to repatriate cash from Angola. During 2018, we were able to repatriate $74 million of cash from Angola.

As of December 31, 2018 and December 31, 2017, we had the equivalent of approximately $9.3 million and $27 million of kwanza cash balances, respectively, in Angola, reflected on our balance sheet. The decrease in kwanza cash balances in 2018 was mainly attributable to the repatriation of cash from Angola and cash used in our Angolan operations.

To mitigate our currency exposure risk in Angola, we have used kwanza to purchase equivalent Angolan central bank (Banco Nacional de Angola) bonds. The bonds are denominated as U.S. dollar equivalents, so that, upon payment of semi-annual interest and principal upon maturity, payment is made in kwanza, equivalent to the respective U.S. dollars at the then-current exchange rate. In 2018, we received a total of $70 million proceeds from maturities and redemptions of Angola bonds and reinvested $10 million of the proceeds in similar assets. We previously believed the chance of selling the bonds before maturity and repatriating cash out of Angola was remote. Our intention was to hold the bonds to maturity, and to reinvest funds from maturing bonds in similar long-term

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assets. Because we intend to sell the bonds if we are able to repatriate the proceeds, we changed our accounting for these bonds from held-to-maturity securities to available-for-sale securities.

We estimated the fair market value of the Angolan bonds to be $10 million at December 31, 2018 using quoted prices. Since the market for the Angolan bonds is not an active market, the fair value of the Angolan bonds is classified within Level 2 in the fair value hierarchy under U.S. GAAP. As of December 31, 2018, we have not recorded the difference between the fair market value and carrying amount of the outstanding bonds through the Consolidated Statement of Comprehensive Income (Loss) due to the insignificant difference between the fair market value and the carrying amount of the bonds.

As of December 31, 2018, we classified $10 million of bonds due to mature in 2023 as Other current assets on our Consolidated Balance Sheet because we intend to sell these bonds to meet the needs of current operations in Angola.

Item 8. Financial Statements and Supplementary Data.

In this report, our consolidated financial statements and supplementary data appear following the signature page to this report and are incorporated into this item by reference.

Item 9. Changes in and Disagreements With Accountants on Accounting and Financial Disclosure.

None.

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Item 9A. Controls and Procedures.

Disclosure Controls and Procedures

In accordance with Rules 13a-15 and 15d-15 under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), we carried out an evaluation, under the supervision and with the participation of management, including our principal executive officer and principal financial officer, of the effectiveness of our disclosure controls and procedures (as that term is defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) as of the end of the period covered by this report. Based on that evaluation, our principal executive officer and principal financial officer concluded that our disclosure controls and procedures were effective as of December 31, 2018 to provide reasonable assurance that information required to be disclosed in our reports filed or submitted under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms.

Internal Control over Financial Reporting

There has been no change in our internal control over financial reporting that occurred during the quarter ended December 31, 2018 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Management's Report on Internal Control Over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting (as that term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act). Our internal control over financial reporting is a process designed to provide reasonable, but not absolute, assurance regarding the reliability of financial reporting and the preparation of financial statements for external reporting purposes in accordance with accounting principles generally accepted in the United States of America. We developed our internal control over financial reporting through a process in which our management applied its judgment in assessing the costs and benefits of various controls and procedures, which, by their nature, can provide only reasonable assurance regarding the control objectives. You should note that the design of any system of controls is based in part on various assumptions about the likelihood of future events, and we cannot assure you that any system of controls will succeed in achieving its stated goals under all potential future conditions, regardless of how remote. Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies and procedures may deteriorate.

Under the supervision and with the participation of our management, including our principal executive, financial and accounting officers, we have conducted an evaluation of the effectiveness of our internal control over financial reporting based on the framework in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework). This evaluation included a review of the documentation surrounding our financial reporting controls, an evaluation of the design effectiveness of these controls, testing of the operating effectiveness of these controls and an evaluation of our overall control environment. Based on that evaluation, our management has concluded that our internal control over financial reporting was effective as of December 31, 2018.

Ernst & Young LLP, the independent registered public accounting firm that audited our financial statements, has audited our internal control over financial reporting, as stated in their report that follows.

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Report of Independent Registered Public Accounting Firm
To the Shareholders and Board of Directors of Oceaneering International, Inc.

Opinion on Internal Control over Financial Reporting
We have audited Oceaneering International, Inc. and subsidiaries' internal control over financial reporting as of December 31, 2018, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) (the "COSO criteria"). In our opinion, Oceaneering International, Inc. and subsidiaries (the Company) maintained, in all material respects, effective internal control over financial reporting as of December 31, 2017, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the accompanying consolidated balance sheets of the Company as of December 31, 2018 and 2017, and the related consolidated statements of operations, comprehensive income (loss), equity and cash flows for each of the three years in the period ended December 31, 2018, and the related notes and our report dated February 28, 2019 expressed an unqualified opinion thereon.

Basis for Opinion
The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment for the effectiveness of internal control over financial reporting included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to Oceaneering International, Inc. in accordance with the U.S. federal securities laws and applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects.

Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

Definition and Limitations of Internal Control Over Financial Reporting

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ ERNST & YOUNG LLP
Houston, Texas
February 28, 2019

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Item 9B. Other Information.

None.

Part III

Item 10. Directors, Executive Officers and Corporate Governance.

The information with respect to the directors and nominees for election to our Board of Directors is incorporated by reference from the section "Election of Directors" in our definitive proxy statement to be filed on or before April 30, 2019, relating to our 2019 Annual Meeting of Shareholders.

Information concerning our Audit Committee and the audit committee financial experts is incorporated by reference from the sections entitled "Corporate Governance" and "Committees of the Board – Audit Committee" in the proxy statement referred to in this Item 10. Information concerning our Code of Ethics is incorporated by reference from the section entitled "Code of Ethics" for the Chief Executive Officer and Senior Financial Officers in the proxy statement previously referred to in this Item 10.

The information with respect to our executive officers is provided under the heading "Executive Officers of the Registrant" following Item 1 of Part I of this report. There are no family relationships between any of our directors or executive officers.

The information with respect to the reporting by our directors and executive officers and persons who own more than 10% of our Common Stock under Section 16 of the Securities Exchange Act of 1934 is incorporated by reference from the section entitled "Section 16(a) Beneficial Ownership Reporting Compliance" in the proxy statement previously referred to in this Item 10.

Item 11. Executive Compensation.

The information required by Item 11 is incorporated by reference from the sections entitled "Compensation Committee Interlocks and Insider Participation," "Compensation Discussion and Analysis," "Report of the Compensation Committee," "Compensation of Executive Officers," and "Compensation of Nonemployee Directors" in the proxy statement referred to in Item 10 above.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.

The information required by Item 12 is incorporated by reference from (1) the Equity Compensation Plan Information table appearing in Item 5 – "Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities" in Part II of this report and (2) the section "Security Ownership of Management and Certain Beneficial Owners" in the proxy statement referred to in Item 10 above.

Item 13. Certain Relationships and Related Transactions, and Director Independence.

The information required by Item 13 is incorporated by reference from the sections entitled "Corporate Governance" and "Certain Relationships and Related Transactions" in the proxy statement referred to in Item 10 above.

Item 14. Principal Accounting Fees and Services.

The information required by Item 14 is incorporated by reference from the section entitled "Ratification of Appointment of Independent Auditors – Fees Incurred for Audit and Other Services provided by Ernst & Young LLP" in the proxy statement referred to in Item 10 above.

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Part IV

Item 15. Exhibits, Financial Statement Schedules.

(a) Documents filed as part of this report.

1. Financial Statements:

(i) Report of Independent Registered Public Accounting Firm
(ii) Consolidated Balance Sheets
(iii) Consolidated Statements of Operations
(iv) Consolidated Statements of Comprehensive Income (Loss)
(v) Consolidated Statements of Cash Flows
(vi) Consolidated Statements of Equity
(vii) Notes to Consolidated Financial Statements

2. Financial Statement Schedules:

All schedules for which provision is made in the applicable regulations of the Securities and Exchange Commission have been omitted because they are not required under the relevant instructions or because the required information is not significant.

3. Exhibits:

Exhibit Index

		Registration or File Number	Form of Report	Report Date	Exhibit Number
*3.01	Restated Certificate of Incorporation	1-10945	10-K	Dec. 2000	3.1
*3.02	Certificate of Amendment to Restated Certificate of Incorporation	1-10945	8-K	May 2008	3.1
*3.03	Certificate of Amendment to Restated Certificate of Incorporation	1-10945	8-K	May 2014	3.1
*3.04	Amended and Restated Bylaws	1-10945	8-K	Aug. 2015	3.1
*4.01	Specimen of Common Stock Certificate	1-10945	10-Q	Sep. 2018	4.3
*4.02	Credit Agreement, dated as of October 27, 2014, by and among Oceaneering International, Inc., Wells Fargo Bank, National Association, as administrative agent and swing line lender, and certain lenders party thereto	1-10945	8-K	Oct. 2014	4.1
*4.03	Agreement and Amendment No. 1 to Credit Agreement	1-10945	8-K	Nov. 2015	4.1
*4.04	Agreement and Amendment No. 2 to Credit Agreement	1-10945	8-K	Nov. 2016	4.1
*4.05	Agreement and Amendment No. 3 to Credit Agreement	1-10945	8-K	June 2017	4.1
*4.06	Agreement and Amendment No. 4 to Credit Agreement	1-10945	8-K	Feb. 2018	4.1
*4.07	Indenture dated, November 21, 2014, between Oceaneering International, Inc. and Wells Fargo Bank, National Association, as Trustee, relating to senior debt securities of Oceaneering International, Inc.	1-10945	8-K	Nov. 2014	4.1

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*4.08	First Supplemental Indenture, dated November 21, 2014, between Oceaneering International, Inc. and Wells Fargo Bank, National Association, as Trustee, providing for the issuance of Oceaneering International, Inc.'s 4.650% Senior Notes due 2024 (including Form of Notes)	1-10945	8-K	Nov. 2014	4.2
*4.09	Second Supplemental Indenture, dated February 6, 2018, between Oceaneering International, Inc. and Wells Fargo Bank, National Association, as Trustee, providing for the issuance of Oceaneering International, Inc.'s 6.000% Senior Notes due 2028 (including Form of Notes)	1-10945	8-K	Feb. 2018	4.2

We and certain of our consolidated subsidiaries are parties to debt instruments under which the total amount of securities authorized does not exceed 10% of our total consolidated assets. Pursuant to paragraph 4(iii)(A) of Item 601(b) of Regulation S-K, we agree to furnish a copy of those instruments to the Securities and Exchange Commission on request.

*10.01+	Amended and Restated Service Agreement dated as of December 21, 2006 between Oceaneering and John R. Huff	1-10945	8-K	Dec. 2006	10.1
*10.02+	Modification to Service Agreement dated as of December 21, 2006 between Oceaneering and John R. Huff	1-10945	8-K	Dec. 2008	10.9
*10.03+	Trust Agreement dated as of May 12, 2006 between Oceaneering and United Trust Company, National Association (the "Huff Trust Agreement")	1-10945	8-K	May 2006	10.2
*10.04+	First Amendment to Huff Trust Agreement dated as of May 12, 2006 between Oceaneering International, Inc. and Bank of America National Association, as successor trustee	1-10945	8-K	Dec. 2008	10.10
*10.05+	Oceaneering International, Inc. Supplemental Executive Retirement Plan, as amended and restated effective January 1, 2009	1-10945	8-K	Dec. 2008	10.5
*10.06+	Amended and Restated Oceaneering International, Inc. Supplemental Executive Retirement Plan, as amended and restated effective January 1, 2000 (for Internal Revenue Code Section 409A-grandfathered benefits)	1-10945	8-K	Dec. 2008	10.6
*10.07+	Form of Change-of-Control Agreement and Annex for Roderick A. Larson	1-10945	8-K	Aug. 2015	10.3
*10.08+	Form of Change-of-Control Agreement	1-10945	8-K	May 2011	10.5
*10.09+	Form of Indemnification Agreement	1-10945	8-K	May 2011	10.4
*10.10+	2010 Incentive Plan	333-166612	S-8	May 2010	4.6
*10.11+	Amended and Restated 2010 Incentive Plan	1-10945	DEF 14A	Apr. 2015	Appendix A
*10.12+	Second Amended and Restated 2010 Incentive Plan	1-10945	DEF 14A	Mar. 2017	Appendix A
*10.13+	Form of 2016 Restricted Stock Unit Agreement	1-10945	8-K	Feb. 2016	10.1
*10.14+	Form of 2016 Performance Unit Agreement	1-10945	8-K	Feb. 2016	10.2
*10.15+	Form of 2016 Performance Award: Goals and Measures, relating to the form of 2016 Performance Unit Agreement	1-10945	8-K	Feb. 2016	10.3
*10.16+	Form of 2016 Nonemployee Director Restricted Stock Agreement	1-10945	8-K		10.4

				Feb. 2016	
*10.17+	2016 Annual Cash Bonus Award Program Summary	1-10945	8-K	Feb. 2016	10.5

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*10.18	+	Form of 2017 Performance Unit Agreement, including 2017 Performance Award: Goals and Measures	1-10945	8-K	Feb. 2017	10.1
*10.19	+	Form of 2017 Restricted Stock Unit Agreement	1-10945	8-K	Feb. 2017	10.2
*10.20	+	Form of 2017 Nonemployee Director Restricted Stock Agreement	1-10945	8-K	Feb. 2017	10.3
*10.21	+	Form of 2017 Nonemployee Director Restricted Stock Agreement for Mr. Hughes	1-10945	8-K	Feb. 2017	10.4
*10.22	+	2017 Nonemployee Director Restricted Stock Agreement for Mr. McEvoy	1-10945	8-K	May 2017	10.3
*10.23	+	2017 Annual Cash Bonus Award Program Summary	1-10945	8-K	Feb. 2017	10.5
*10.24	+	Supplemental 2017 Performance Unit Agreement for Mr. Larson	1-10945	8-K	May 2017	10.1
*10.25	+	Supplemental 2017 Restricted Stock Unit Agreement for Mr. Larson	1-10945	8-K	May 2017	10.2
*10.26	+	Retention Agreement dated February 24, 2017 for Mr. Gerner	1-10945	8-K	Feb. 2017	10.6
*10.27	+	Form of 2018 Performance Unit Agreement, including 2018 Performance Award: Goals and Measures	1-10945	8-K	Mar. 2018	10.1
*10.28	+	Form of 2018 Restricted Stock Unit Agreement	1-10945	8-K	Mar. 2018	10.2
*10.29	+	Form of 2018 Nonemployee Director Restricted Stock Agreement	1-10945	8-K	Mar. 2018	10.3
*10.30	+	2018 Annual Cash Bonus Award Program Summary	1-10945	8-K	Mar. 2018	10.4
10.31	+	Oceaneering International, Inc. Retirement Investment Plan, amended and restated with effective January 1, 2019				
10.32	+	Change of Control Plan and Form of Participation Agreement				
10.33	+	Second Amendment to Huff Trust Agreement dated as of May 12, 2006 between Oceaneering International, Inc. and Evercore Trust Company, National Association, as successor trustee				
10.34	+	Third Amendment to Huff Trust Agreement dated as of May 12, 2006 between Oceaneering International, Inc. and Newport Trust Company, as successor trustee				
10.35	+	Oceaneering Retirement Investment Plan Trust Agreement with Fidelity Management Trust Company effective January 1, 2019				
21.01		Subsidiaries of Oceaneering				
23.01		Consent of Independent Registered Public Accounting Firm				
31.01		Rule 13a – 14(a)/15d – 14(a) certification of principal executive officer				
31.02		Rule 13a – 14(a)/15d – 14(a) certification of principal financial officer				
32.01		Section 1350 certification of principal executive officer				
32.02		Section 1350 certification of principal financial officer				
101.INS		XBRL Instance Document				
101.SCH		XBRL Taxonomy Extension Schema Document				
101.CAL		XBRL Taxonomy Extension Calculation Linkbase Document				
101.DEF		XBRL Taxonomy Extension Definition Linkbase Document				
101.LAB		XBRL Taxonomy Extension Label Linkbase Document				
101.PRE		XBRL Taxonomy Extension Presentation Linkbase Document				

*	Exhibit previously filed with the Securities and Exchange Commission, as indicated, and incorporated herein by reference.
+	Management contract or compensatory plan or arrangement.

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

OCEANEERING INTERNATIONAL, INC.

Date:	February 28, 2019	By:	/S/ RODERICK A.LARSON
			Roderick A. Larson
			Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Signature	Title	Date
/S/ RODERICK A. LARSON Roderick A. Larson	Chief Executive Officer and Director (Principal Executive Officer)	February 28, 2019
/S/ ALAN R. CURTIS Alan R. Curtis	Senior Vice President and Chief Financial Officer (Principal Financial Officer)	February 28, 2019
/S/ W. CARDON GERNER W. Cardon Gerner	Senior Vice President and Chief Accounting Officer (Principal Accounting Officer)	February 28, 2019
/S/ JOHN R. HUFF John R. Huff	Chairman of the Board	February 28, 2019
/S/ WILLIAM B. BERRY William B. Berry	Director	February 28, 2019
/S/ T. JAY COLLINS T. Jay Collins	Director	February 28, 2019
/S/ DEANNA L. GOODWIN Deanna L. Goodwin	Director	February 28, 2019
/S/ M. KEVIN MCEVOY M. Kevin McEvoy	Director	February 28, 2019
/S/ PAUL B. MURPHY, JR. Paul B. Murphy, Jr.	Director	February 28, 2019
/S/ JON ERIK REINHARDSEN Jon Erik Reinhardsen	Director	February 28, 2019
/S/ STEVEN A. WEBSTER Steven A. Webster	Director	February 28, 2019

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INDEX TO FINANCIAL STATEMENTS AND SCHEDULES

Index to Financial Statements

Index to Schedules

All schedules for which provision is made in the applicable regulations of the Securities and Exchange Commission have been omitted because they are not required under the relevant instructions or because the required information is not significant.

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM
To the Shareholders and Board of Directors of Oceaneering International, Inc.

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of Oceaneering International, Inc. and subsidiaries (the Company) as of December 31, 2018 and 2017, and the related consolidated statements of operations, comprehensive income (loss), equity and cash flows for each of the three years in the period ended December 31, 2018, and the related notes (collectively referred to as the "consolidated financial statements"). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company at December 31, 2018 and 2017, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2018, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company's internal control over financial reporting as of December 31, 2018, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) and our report dated February 28, 2019 expressed an unqualified opinion thereon.

Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company’s financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ ERNST & YOUNG LLP
We have served as the
Company's auditor since
2002.

Houston, Texas
February 28, 2019

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OCEANEERING INTERNATIONAL, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

(in thousands, except share data)	December 31, 2018	2017
ASSETS		
Current Assets:		
Cash and cash equivalents	$354,259	$430,316
Accounts receivable, net of allowances for doubtful accounts of $7,116 and $6,217	625,086	476,903
Inventory	194,507	215,282
Other current assets	71,037	64,901
Total Current Assets	1,244,889	1,187,402
Property and Equipment, at cost	2,837,587	2,815,579
Less accumulated depreciation	1,872,917	1,751,375
Net Property and Equipment	964,670	1,064,204
Other Assets:		
Goodwill	413,121	455,599
Other non-current assets	202,318	316,745
Total Other Assets	615,439	772,344
Total Assets	$2,824,998	$3,023,950
LIABILITIES AND EQUITY		
Current Liabilities:		
Accounts payable	$102,636	$85,539
Accrued liabilities	392,105	350,258
Total Current Liabilities	494,741	435,797
Long-term Debt	786,580	792,312
Other Long-term Liabilities	128,379	131,323
Commitments and Contingencies		
Equity:		
Common Stock, par value $0.25 per share; 360,000,000 shares authorized; 110,834,088 shares issued	27,709	27,709
Additional paid-in capital	220,421	225,125
Treasury stock; 12,294,873 and 12,554,714 shares, at cost	(704,066)	(718,946)
Retained earnings	2,204,548	2,417,412
Accumulated other comprehensive loss	(339,377)	(292,136)
Oceaneering Shareholders' Equity	1,409,235	1,659,164
Noncontrolling Interest	6,063	5,354
Total Equity	1,415,298	1,664,518
Total Liabilities and Equity	$2,824,998	$3,023,950

The accompanying Notes are an integral part of these Consolidated Financial Statements.

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OCEANEERING INTERNATIONAL, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS

	Year Ended December 31,			
(in thousands, except per share data)	2018		2017	2016
Revenue	$1,909,482		$1,921,507	$2,271,603
Cost of services and products	1,780,256		1,726,897	1,992,376
Gross Margin	129,226		194,610	279,227
Selling, general and administrative expense	198,259		183,954	208,463
Goodwill impairment	76,449		—	—
Income (Loss) From Operations	(145,482	)	10,656	70,764
Interest income	9,962		7,355	3,900
Interest expense, net of amounts capitalized	(37,742			