

HELIX ENERGY SOLUTIONS GROUP INC
Form 10-Q
October 24, 2018

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

Form 10-Q

Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the quarterly period ended September 30, 2018

or

Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the transition period from _____ to _____

Commission File Number 001-32936

HELIX ENERGY SOLUTIONS GROUP, INC.
(Exact name of registrant as specified in its charter)
Minnesota
(State or other jurisdiction
of incorporation or organization)

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

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

77043
(Zip Code)

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

NOT APPLICABLE

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

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

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

(Do not check if a smaller reporting 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). Yes No

As of October 19, 2018, 148,152,672 shares of common stock were outstanding.

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

HELIX ENERGY SOLUTIONS GROUP, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

(in thousands)

	September 30, 2018	December 31, 2017
	(Unaudited)	
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 325,092	\$ 266,592
Accounts receivable:		
Trade, net of allowance for uncollectible accounts of \$2,752	91,001	113,336
Unbilled and other	66,396	29,947
Other current assets	47,450	41,768
Total current assets	529,939	451,643
Property and equipment	2,727,760	2,695,772
Less accumulated depreciation	(956,209) (889,783
Property and equipment, net	1,771,551	1,805,989
Other assets, net	76,985	105,205
Total assets	\$ 2,378,475	\$ 2,362,837
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 62,844	\$ 81,299
Accrued liabilities	84,431	71,680
Income tax payable	5,859	2,799
Current maturities of long-term debt	46,784	109,861
Total current liabilities	199,918	265,639
Long-term debt	401,265	385,766
Deferred tax liabilities	102,742	103,349
Other non-current liabilities	42,382	40,690
Total liabilities	746,307	795,444
Shareholders' equity:		
Common stock, no par, 240,000 shares authorized, 148,147 and 147,740 shares issued, respectively	1,306,703	1,284,274
Retained earnings	396,781	352,906
Accumulated other comprehensive loss	(71,316) (69,787
Total shareholders' equity	1,632,168	1,567,393
Total liabilities and shareholders' equity	\$ 2,378,475	\$ 2,362,837
The accompanying notes are an integral part of these condensed consolidated financial statements.		

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

(in thousands, except per share amounts)

	Three Months Ended September 30,	
	2018	2017
Net revenues	\$212,575	\$163,260
Cost of sales	160,582	142,119
Gross profit	51,993	21,141
Gain on disposition of assets, net	146	—
Selling, general and administrative expenses	(20,762)	(16,374)
Income from operations	31,377	4,767
Equity in losses of investment	(107)	(153)
Net interest expense	(3,249)	(3,615)
Loss on extinguishment of long-term debt	(2)	—
Other expense, net	(709)	(551)
Other income – oil and gas	652	303
Income before income taxes	27,962	751
Income tax provision (benefit)	841	(1,539)
Net income	\$27,121	\$2,290
Earnings per share of common stock:		
Basic	\$0.18	\$0.02
Diluted	\$0.18	\$0.02
Weighted average common shares outstanding:		
Basic	146,700	145,958
Diluted	146,964	145,958

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

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

(in thousands, except per share amounts)

	Nine Months Ended September 30,	
	2018	2017
Net revenues	\$581,462	\$418,117
Cost of sales	473,589	379,434
Gross profit	107,873	38,683
Gain (loss) on disposition of assets, net	146	(39)
Selling, general and administrative expenses	(52,986)	(46,532)
Income (loss) from operations	55,033	(7,888)
Equity in losses of investment	(378)	(457)
Net interest expense	(10,744)	(15,480)
Loss on extinguishment of long-term debt	(1,183)	(397)
Other expense, net	(3,225)	(619)
Other income – oil and gas	4,068	3,196
Income (loss) before income taxes	43,571	(21,645)
Income tax provision (benefit)	1,226	(1,117)
Net income (loss)	\$42,345	\$(20,528)
Earnings (loss) per share of common stock:		
Basic	\$0.29	\$(0.14)
Diluted	\$0.29	\$(0.14)
Weighted average common shares outstanding:		
Basic	146,679	145,057
Diluted	146,761	145,057

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

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

	Three Months Ended September 30, 2018 2017	
Net income	\$27,121	\$2,290
Other comprehensive income (loss), net of tax:		
Net unrealized gain (loss) on hedges arising during the period	(88)	2,297
Reclassifications to net income	1,799	3,383
Income taxes on hedges	(357)	(1,992)
Net change in hedges, net of tax	1,354	3,688
Foreign currency translation gain (loss)	(1,421)	5,513
Other comprehensive income (loss), net of tax	(67)	9,201
Comprehensive income	\$27,054	\$11,491
	Nine Months Ended September 30, 2018 2017	
Net income (loss)	\$42,345	\$(20,528)
Other comprehensive income, net of tax:		
Net unrealized gain on hedges arising during the period	839	4,141
Reclassifications to net income (loss)	5,233	10,822
Income taxes on hedges	(1,298)	(5,256)
Net change in hedges, net of tax	4,774	9,707
Unrealized loss on note receivable arising during the period	(629)	—
Income taxes on note receivable	132	—
Unrealized loss on note receivable, net of tax	(497)	—
Foreign currency translation gain (loss)	(4,277)	14,905
Other comprehensive income, net of tax	—	24,612
Comprehensive income	\$42,345	\$4,084

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

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

	Nine Months Ended September 30,	
	2018	2017
Cash flows from operating activities:		
Net income (loss)	\$42,345	\$(20,528)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization	83,339	82,670
Amortization of debt discount	4,238	3,487
Amortization of debt issuance costs	2,703	5,238
Share-based compensation	7,569	7,613
Deferred income taxes	(5,716)	(3,019)
Equity in losses of investment	378	457
(Gain) loss on disposition of assets, net	(146)	39
Loss on extinguishment of long-term debt	1,183	397
Unrealized gain on derivative contracts, net	(2,289)	(4,291)
Changes in operating assets and liabilities:		
Accounts receivable, net	(15,769)	(21,709)
Other current assets	(5,662)	(12,145)
Income tax payable	2,963	2,742
Accounts payable and accrued liabilities	6,968	30,675
Other non-current, net	28,723	(40,303)
Net cash provided by operating activities	150,827	31,323
Cash flows from investing activities:		
Capital expenditures	(55,431)	(131,428)
Proceeds from sale of assets	25	10,000
Net cash used in investing activities	(55,406)	(121,428)
Cash flows from financing activities:		
Issuance of Convertible Senior Notes due 2023	125,000	—
Repurchase of Convertible Senior Notes due 2032	(60,365)	—
Proceeds from term loan	—	100,000
Repayment of term loan	(62,872)	(193,508)
Repayment of Nordea Q5000 Loan	(26,786)	(26,786)
Repayment of MARAD Debt	(6,532)	(6,222)
Debt issuance costs	(3,867)	(3,694)
Net proceeds from issuance of common stock	—	219,504
Payments related to tax withholding for share-based compensation	(1,058)	(1,306)
Proceeds from issuance of ESPP shares	506	432
Net cash provided by (used in) financing activities	(35,974)	88,420
Effect of exchange rate changes on cash and cash equivalents	(947)	1,927
Net increase in cash and cash equivalents	58,500	242
Cash and cash equivalents:		
Balance, beginning of year	266,592	356,647

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Balance, end of period \$325,092 \$356,889

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

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HELIX ENERGY SOLUTIONS GROUP, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
Note 1 — Basis of Presentation and New Accounting Standards

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

The accompanying condensed consolidated financial statements have been prepared in conformity with GAAP in U.S. dollars and are consistent in all material respects with those applied in our 2017 Annual Report on Form 10-K (“2017 Form 10-K”). The preparation of these financial statements requires us to make estimates and judgments that affect the amounts reported in the financial statements and the related disclosures. Actual results may differ from our estimates. We have made all adjustments (which were normal recurring adjustments) that we believe are necessary for a fair presentation of the condensed consolidated balance sheets, statements of operations, statements of comprehensive income (loss), and statements of cash flows, as applicable. The operating results for the three- and nine-month periods ended September 30, 2018 are not necessarily indicative of the results that may be expected for the year ending December 31, 2018. Our balance sheet as of December 31, 2017 included herein has been derived from the audited balance sheet as of December 31, 2017 included in our 2017 Form 10-K. These unaudited condensed consolidated financial statements should be read in conjunction with the annual audited consolidated financial statements and notes thereto included in our 2017 Form 10-K.

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

New accounting standards adopted

In May 2014, the Financial Accounting Standards Board (the “FASB”) issued Accounting Standards Update (“ASU”) No. 2014-09, “Revenue from Contracts with Customers (Topic 606)” (“ASC 606”). The FASB also issued several subsequent updates to promote more consistent interpretation and application of the principles outlined in the standard. ASC 606 provides a five-step approach to account for revenue arising from contracts with customers in order for an entity to recognize revenue in a way that depicts the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.

We adopted ASC 606 effective January 1, 2018 using the modified retrospective method by applying the five-step model to all contracts that were not completed as of the date of adoption. For contracts that were modified before the date of adoption, we have considered the modification guidance within the new standard and determined that the revenues recognized prior to adoption for such modified contracts were not impacted. We did not record any cumulative effect adjustment to the opening balance of our retained earnings as of January 1, 2018 as the adoption of ASC 606 had an insignificant impact on our prior year earnings. On our consolidated balance sheet, contract assets that were previously presented as “Other accounts receivable” are now a component of “Other current assets.” The comparative information has not been restated and continues to be reported under the accounting standards in effect for those periods. ASC 606 requires additional disclosures with regard to the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. We do not expect the adoption of this guidance to have a material impact on the measurement or recognition of our revenues on an ongoing basis. The impact of ASC 606 for the three- and nine-month periods ended September 30, 2018, which primarily relates to the acceleration

of lump sum demobilization fees (Note 9), was as follows (in thousands):

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	September 30, 2018		
	As Reported	Pro Forma Without Adoption of ASC 606	Effect of Change
Balance Sheet			
Assets			
Unbilled and other	\$ 66,396	\$ 67,263	\$ (867)
Other current assets	47,450	46,104	1,346
Liabilities			
Accrued liabilities	84,431	84,705	(274)
Deferred tax liabilities	102,742	102,584	158
Equity			
Retained earnings	396,781	396,186	595

	Three Months Ended September 30, 2018			Nine Months Ended September 30, 2018		
	As Reported	Pro Forma Without Adoption of ASC 606	Effect of Change	As Reported	Pro Forma Without Adoption of ASC 606	Effect of Change
Statement of Operations						
Net revenues	\$ 212,575	\$ 212,965	\$ (390)	\$ 581,462	\$ 580,709	\$ 753
Income from operations	31,377	31,767	(390)	55,033	54,280	753
Income before income taxes	27,962	28,352	(390)	43,571	42,818	753
Income tax provision	841	923	(82)	1,226	1,068	158
Net income	27,121	27,429	(308)	42,345	41,750	595

In February 2018, the FASB issued ASU No. 2018-02, "Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income." This ASU allows a reclassification from accumulated other comprehensive income (loss) ("OCI") to retained earnings for stranded tax effects resulting from the U.S. Tax Cuts and Jobs Act (the "2017 Tax Act") that was enacted on December 22, 2017. We adopted this guidance as of January 1, 2018 by making the election to reclassify \$1.5 million of net stranded tax benefits from accumulated OCI to retained earnings (Note 8). On an ongoing basis, we release the income tax effects of individual items in accumulated OCI as those items are sold or settled at the applicable statutory rate.

New accounting standards issued but not yet effective

In February 2016, the FASB issued ASU No. 2016-02, "Leases (Topic 842)" ("ASC 842"). The FASB also issued several subsequent updates to provide improvements to the new guidance. ASC 842 amends the existing accounting standards for leases to increase transparency and comparability among organizations. The new guidance requires a lessee to recognize a lease right-of-use asset and related lease liability for most leases, including those classified as operating leases under current GAAP. ASC 842 also changes the definition of a lease and requires expanded quantitative and qualitative disclosures for both lessees and lessors. We are in the process of implementing ASC 842. We have accumulated our lease contracts and are aggregating them into a lease software platform. We are also assessing

non-lease contracts for inclusion of embedded leases, updating our policies and controls and establishing appropriate presentation and disclosure changes resulting from the new guidance. While our implementation plan is still ongoing, management's assessment based on our current portfolio of leases, including vessel charters, is that our assets and liabilities will increase by a significant amount as we recognize right-of-use assets and lease liabilities on our balance sheet upon our adoption of ASC 842. We do not expect the new guidance to have any significant impact on our earnings or cash flows. We will adopt ASC 842 by applying the new guidance in the first quarter of 2019 and recognizing a cumulative-effect adjustment to the opening balance of retained earnings.

We do not expect any other recent accounting standards to have a material impact on our financial position, results of operations or cash flows.

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Note 2 — Company Overview

We are an international offshore energy services company that provides specialty services to the offshore energy industry with a focus on well intervention and robotics operations. We seek to provide services and methodologies that we believe are critical to maximizing production economics. We provide services primarily in deepwater in the U.S. Gulf of Mexico, Brazil, North Sea, Asia Pacific and West Africa regions. Our “life of field” services are segregated into three reportable business segments: Well Intervention, Robotics and Production Facilities (Note 12).

Our Well Intervention segment includes our vessels and/or equipment used to perform well intervention services in the U.S. Gulf of Mexico, Brazil, the North Sea and West Africa. Our Well Intervention segment also includes intervention riser systems (“IRSs”), some of which we provide on a stand-alone basis, and subsea intervention lubricators (“SILs”). Our well intervention vessels include the Q4000, the Q5000, the Seawell, the Well Enhancer and two chartered monohull vessels, the Siem Helix 1 and the Siem Helix 2. We also have a semi-submersible well intervention vessel under construction, the Q7000.

Our Robotics segment includes remotely operated vehicles (“ROVs”), trenchers and ROVDrills, which are designed to complement offshore construction and well intervention services, and three ROV support vessels under long-term charter: the Grand Canyon, the Grand Canyon II and the Grand Canyon III. We also utilize spot vessels as needed.

Our Production Facilities segment includes the Helix Producer I (the “HP I”), a ship-shaped dynamically positioned floating production vessel, and the Helix Fast Response System (the “HFRS”), which provides certain operators access to our Q4000 and HP I vessels in the event of a well control incident in the Gulf of Mexico. The HP I has been under contract to the Phoenix field operator since February 2013, currently under a fixed fee agreement through at least June 1, 2023. We are also party to an agreement providing various operators through March 31, 2019 with access to the HFRS for well control purposes. The Production Facilities segment also includes our ownership interest in Independence Hub, LLC (“Independence Hub”) (Note 5).

Note 3 — Details of Certain Accounts

Other current assets consist of the following (in thousands):

	September 30, 2018	December 31, 2017
Contract assets (Note 9)	\$ 1,346	\$ —
Prepays	13,275	10,102
Deferred costs (Note 9)	26,248	27,204
Other	6,581	4,462
Total other current assets	\$ 47,450	\$ 41,768

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

	September 30, 2018	December 31, 2017
Note receivable ⁽¹⁾	\$ —	\$ 3,758
Prepays	6,342	7,666
Deferred dry dock costs, net	8,854	12,368
Deferred costs (Note 9)	44,964	63,767
Charter fee deposit ⁽²⁾	12,544	12,544
Other	4,281	5,102
Total other assets, net	\$ 76,985	\$ 105,205

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The amount at December 31, 2017 reflects the fair value of a note receivable that was issued to us by a customer as part of a payment forgiveness arrangement. On July 6, 2018, a third party acquired our note receivable for \$2.0 million. During the nine-month period ended September 30, 2018, we reversed a \$0.6 million unrealized gain previously recorded in Accumulated OCI and recorded a \$1.1 million other than temporary loss to account for the reduction in the fair value of our note receivable.

(2) This amount deposited with the vessel owner is to be used to reduce our final charter payments for the Siem Helix 2.

Accrued liabilities consist of the following (in thousands):

	September 30, 2018	December 31, 2017
Accrued payroll and related benefits	\$ 42,496	\$ 30,685
Deferred revenue (Note 9)	13,597	12,609
Derivative liability (Note 15)	9,160	10,625
Other	19,178	17,761
Total accrued liabilities	\$ 84,431	\$ 71,680

Other non-current liabilities consist of the following (in thousands):

	September 30, 2018	December 31, 2017
Investee losses in excess of investment (Note 5)	\$ 5,965	\$ 7,567
Deferred gain on sale of property ⁽¹⁾	5,288	5,838
Deferred revenue (Note 9)	17,968	8,744
Derivative liability (Note 15)	1,822	8,150
Other	11,339	10,391
Total other non-current liabilities	\$ 42,382	\$ 40,690

⁽¹⁾ Relates to the sale and lease-back in January 2016 of our office and warehouse property located in Aberdeen, Scotland. The deferred gain is amortized over the 15-year minimum lease term.

Note 4 — Statement of Cash Flow Information

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

	Nine Months Ended September 30,	
	2018	2017
Interest paid, net of interest capitalized	\$6,620	\$9,002
Income taxes paid	4,699	3,967

Our non-cash investing activities include the acquisition of property and equipment for which payment has not been made. These non-c