HELIX ENERGY SOLUTIONS GROUP INC
Form 10-Q
August 03, 2006

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

þ **Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**
For the quarterly period ended June 30, 2006

or

o **Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**
For the transition period from__________ to__________

Commission File Number 001-32936

HELIX ENERGY SOLUTIONS GROUP, INC.

(Exact name of registrant as specified in its charter)

Minnesota	**95 3409686**
(State or other jurisdiction of incorporation or organization)	*(I.R.S. Employer Identification No.)*
400 N. Sam Houston Parkway E. Suite 400 Houston, Texas	**77060**
(Address of principal executive offices)	*(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 þ No o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer þ Accelerated filer o Non-accelerated filer o

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

Yes o No þ

As of August 1, 2006, 91,519,121 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)

	June 30, 2006 (Unaudited)	December 31, 2005
ASSETS		
Current assets:		
Cash and cash equivalents	$ 38,278	$ 91,080
Accounts receivable		
Trade, net of allowance for uncollectible accounts of $1,291 and $585	252,561	197,046
Unbilled revenue	31,717	31,012
Other current assets	58,105	52,915
Total current assets	380,661	372,053
Property and equipment	1,490,276	1,259,014
Less Accumulated depreciation	(395,973)	(342,652)
	1,094,303	916,362
Other assets:		
Equity investments	203,198	179,844
Goodwill, net	105,012	101,731
Other assets, net	97,413	90,874
	$ 1,880,587	$ 1,660,864
LIABILITIES AND SHAREHOLDERS EQUITY		
Current liabilities:		
Accounts payable	$ 138,006	$ 99,445
Accrued liabilities	135,633	145,752
Current maturities of long-term debt	6,316	6,468
Total current liabilities	279,955	251,665
Long-term debt	437,970	440,703
Deferred income taxes	203,419	167,295
Decommissioning liabilities	110,757	106,317
Other long-term liabilities	8,984	10,584
Total liabilities	1,041,085	976,564
Convertible preferred stock	55,000	55,000

Commitments and contingencies		
Shareholders equity:		
Common stock, no par, 240,000 shares authorized, 105,695 and 104,898 shares issued	245,483	233,537
Retained earnings	533,276	408,748
Treasury stock, 27,211 and 27,204 shares, at cost	(3,977)	(3,741)
Unearned compensation		(7,515)
Accumulated other comprehensive income (loss)	9,720	(1,729)
Total shareholders equity	784,502	629,300
	$ 1,880,587	$ 1,660,864

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 June 30,	
	2006	**2005**
Net revenues	$ 305,013	$ 166,531
Cost of sales	173,321	114,112
Gross profit	131,692	52,419
Gain on sale of assets	16	
Selling and administrative expenses	27,414	12,858
Income from operations	104,294	39,561
Equity in earnings of investments	4,520	2,708
Net interest expense and other	2,983	913
Income before income taxes	105,831	41,356
Provision for income taxes	35,887	14,779
Net income	69,944	26,577
Preferred stock dividends	805	550
Net income applicable to common shareholders	$ 69,139	$ 26,027
Earnings per common share:		
Basic	$ 0.88	$ 0.34
Diluted	$ 0.83	$ 0.32
Weighted average common shares outstanding:		
Basic	78,462	77,444
Diluted	83,965	81,963

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)

	Six Months Ended June 30, 2006	Six Months Ended June 30, 2005
Net revenues	$ 596,661	$ 326,106
Cost of sales	362,703	221,814
Gross profit	233,958	104,292
Gain on sale of assets	283	925
Selling and administrative expenses	48,442	25,696
Income from operations	185,799	79,521
Equity in earnings of investments	10,756	4,437
Net interest expense and other	5,440	2,102
Income before income taxes	191,115	81,856
Provision for income taxes	64,978	29,319
Net income	126,137	52,537
Preferred stock dividends	1,609	1,100
Net income applicable to common shareholders	$ 124,528	$ 51,437
Earnings per common share:		
Basic	$ 1.59	$ 0.67
Diluted	$ 1.51	$ 0.64
Weighted average common shares outstanding:		
Basic	78,216	77,294
Diluted	83,659	81,850

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)

	Six Months Ended June 30,	
	2006	**2005**
Cash flows from operating activities:		
Net income	$ 126,137	$ 52,537
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation and amortization	67,664	55,179
Asset impairment charge	20,654	790
Equity in earnings of investments, net of distributions	(2,938)	
Amortization of deferred financing costs	969	550
Stock compensation expense	3,816	397
Deferred income taxes	29,120	26,813
Gain on sale of assets	(283)	(925)
Excess tax benefit from stock-based compensation	(7,529)	
Changes in operating assets and liabilities:		
Accounts receivable, net	(51,312)	(10,847)
Other current assets	(1,754)	1,226
Accounts payable and accrued liabilities	(26,215)	17,311
Other noncurrent, net	(9,004)	(27,537)
Net cash provided by operating activities	149,325	115,494
Cash flows from investing activities:		
Capital expenditures	(125,794)	(214,345)
Acquisition of businesses, net of cash acquired	(78,174)	
Investments in production facilities	(19,019)	(95,564)
Distributions from equity investments, net		9,163
(Increase) decrease in restricted cash	(5,577)	441
Proceeds from sales of property	16,782	2,150
Net cash used in investing activities	(211,782)	(298,155)
Cash flows from financing activities:		
Borrowings on Convertible Senior Notes		300,000
Repayment of MARAD borrowings	(1,798)	(2,144)
Deferred financing costs	(1,914)	(8,013)
Capital lease payments	(1,491)	(1,394)
Preferred stock dividends paid	(1,863)	(1,100)
Redemption of stock in subsidiary		(2,438)
Repurchase of common stock	(225)	
Excess tax benefit from stock-based compensation	7,529	
Exercise of stock options, net	8,520	6,863

Net cash provided by financing activities	8,758	291,774
Effect of exchange rate changes on cash and cash equivalents	897	(566)
Net (decrease) increase in cash and cash equivalents	(52,802)	108,547
Cash and cash equivalents:		
Balance, beginning of year	91,080	91,142
Balance, end of period	$ 38,278	$ 199,689

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

The accompanying condensed consolidated financial statements include the accounts of Helix Energy Solutions Group, Inc. (formerly known as Cal Dive International, Inc.) and its majority-owned subsidiaries (collectively, Helix or the Company). Unless the context indicates otherwise, the terms we, us and our in this report refer collectively to Helix and its subsidiaries. We account for our 50% interest in Deepwater Gateway, L.L.C., our 20% interest in Independence Hub, LLC (Independence) and our 40% interest in Offshore Technology Solutions Limited (OTSL) using the equity method of accounting as we do not have voting or operational control of these entities. All material intercompany accounts and transactions have been eliminated. These condensed consolidated financial statements are unaudited, have been prepared pursuant to instructions for the Quarterly Report on Form 10-Q required to be filed with the Securities and Exchange Commission and do not include all information and footnotes normally included in annual financial statements prepared in accordance with U.S. generally accepted accounting principles.

The accompanying condensed consolidated financial statements have been prepared in conformity with U.S. generally accepted accounting principles and are consistent in all material respects with those applied in our annual report on Form 10-K for the year ended December 31, 2005. 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. The actual results may differ from our estimates. Please see our 2005 Annual Report on Form 10-K for a detailed description of our critical accounting policies. The SEC has defined critical accounting policies as the ones that are most important to the portrayal of a company s financial condition and results of operations and require the company to make its most difficult and subjective judgments, often as a result of the need to make estimates of matters that are inherently uncertain.

Management has reflected all adjustments (which were normal recurring adjustments unless otherwise disclosed herein) that it believes are necessary for a fair presentation of the condensed consolidated balance sheets, results of operations and cash flows, as applicable. Operating results for the period ended June 30, 2006 are not necessarily indicative of the results that may be expected for the year ending December 31, 2006. Our balance sheet as of December 31, 2005 included herein has been derived from the audited balance sheet as of December 31, 2005 included in our 2005 Annual Report on Form 10-K. These condensed consolidated financial statements should be read in conjunction with the annual consolidated financial statements and notes thereto included in our 2005 Annual Report on Form 10-K.

Certain reclassifications were made to previously reported amounts in the condensed consolidated financial statements and notes thereto to make them consistent with the current presentation format. Reclassifications related primarily to reportable segment realignment in the fourth quarter of 2005.

Note 2 Statement of Cash Flow Information

We define cash and cash equivalents as cash and all highly liquid financial instruments with original maturities of less than three months. As of June 30, 2006 and December 31, 2005, we had $32.6 million and $27.0 million, respectively, of restricted cash included in other assets, net, all of which related to Energy Resource Technology, Inc. (ERT), a wholly owned subsidiary of the Company, escrow funds for decommissioning liabilities associated with the South Marsh Island 130 (SMI 130) field acquisitions in 2002. Under the purchase agreement for those acquisitions, ERT is obligated to escrow 50% of production up to the first $20 million of escrow and 37.5% of production on the remaining balance up to $33 million in total escrow. ERT may use the restricted cash for decommissioning the related fields.

During the three and six months ended June 30, 2006, we made cash payments for interest charges, net of capitalized interest, of $3.6 million and $5.0 million, respectively, and $1.7 million and $3.4 million during the three and six months ended June 30, 2005, respectively. In addition, during the three and six months ended June 30, 2006, we paid $32.6 million and $41.4 million in income taxes, respectively. During the three and six months ended June 30, 2005, we paid $271,000 and $1.2 million in income taxes, respectively.

Non-cash investing activities for the six months ended June 30, 2006 included $62.6 million related to accruals of capital expenditures. The accruals have been reflected in the condensed consolidated balance sheet as an increase in property and equipment and accounts payable.

Note 3 Offshore Properties

We follow the successful efforts method of accounting for our interests in oil and gas properties. Under the successful efforts method, the costs of successful wells and leases containing productive reserves are capitalized. Costs incurred to drill and equip development wells, including unsuccessful development wells, are capitalized. Costs incurred relating to unsuccessful exploratory wells are expensed in the period the drilling is determined to be unsuccessful. During the three months ended June 30, 2006, we did not recognize any impairment expense. For the six months ended June 30, 2006, impairments and unsuccessful capitalized well work totaling $20.7 million were expensed as a result of analyses on certain properties (see Tulane discussion below). During the three and six months ended June 30, 2005, impairments and unsuccessful capitalized well work totaling approximately $2.8 million and $4.4 million, respectively, were expensed as a result of analyses on certain properties. Furthermore, we expensed approximately $70,000 and $4.5 million of purchased seismic data related to our offshore properties in the six months ended June 30, 2006 and 2005, respectively. In addition, in the three and six months ended June 30, 2006, we expensed inspection and repair costs totaling approximately $5.5 million and $8.9 million, respectively, related to Hurricanes *Katrina* and *Rita*, partially offset by $2.7 million of insurance recoveries recognized in the first quarter of 2006.

As an extension of ERT s well exploitation and PUD strategies, ERT agreed to participate in the drilling of an exploratory well (Tulane prospect) that was drilled in the first quarter of 2006. This prospect targeted reserves in deeper sands, within the same trapping fault system, of a currently producing well. In March 2006, mechanical difficulties were experienced in the drilling of this well, and after further review, the well was plugged and abandoned. The total estimated cost to us of approximately $20.7 million was charged to earnings in the first quarter of 2006. We continue to evaluate various options with the operator for recovering the potential reserves. Approximately $5.5 million of the equipment was redeployed and remains capitalized.

In March 2005, ERT acquired a 30% working interest in a proven undeveloped field in Atwater Block 63 (Telemark) of the Deepwater Gulf of Mexico for cash and assumption of certain decommissioning liabilities. In December 2005, ERT was advised by Norsk Hydro USA Oil and Gas, Inc. (Norsk Hydro) that Norsk Hydro will not pursue their development plan for the deepwater discovery. As a result, ERT acquired a 100% working interest and operatorship in April 2006 following a non-consent to the ERT plan of development by Norsk Hydro. ERT s interest in this property and surrounding fields were sold in July 2006 for $15 million in cash and with ERT also retaining a reservation of an overriding royalty interest in the Telemark development.

In April 2005, ERT entered into a participation agreement to acquire a 50% working interest in the Devil s Island discovery (Garden Banks Block 344 E/2) in 2,300 feet water depth. This deepwater development is operated by Hess. An appraisal well was drilled in April 2006 and was suspended. A new sidetrack well completion plan is currently under review. Participation in the additional sidetrack will require an amended participation agreement which is currently under negotiation with Hess. The field will ultimately be developed via a subsea tieback to Baldpate Field (Garden Banks Block 260). Our Contracting Services assets would participate in this development.

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Also in April 2005, ERT acquired a 37.5% working interest in the Bass Lite discovery (Atwater Blocks 182, 380, 381, 425 and 426) in 7,500 feet water depth along with varying interests in 50 other blocks of exploration acreage in the eastern portion of the Atwater lease protraction area from BHP Billiton. The Bass Lite discovery contains proved undeveloped gas reserves in a sand discovered in 2001 by the Atwater 426 #1 well. In October 2005, ERT exchanged 15% of its working interest in Bass Lite for a 40% working interest in the Tiger Prospect located in Green Canyon Block 195. ERT paid $1.0 million in the exchange with no corresponding gain or loss recorded on the transaction. In December 2005, Mariner Energy elected to exercise its option to gain an additional 5% working interest. The resulting transaction leaves ERT with a 17.5% working interest in the project.

The Tiger Prospect, located at a water depth of 1,850 feet, initiated sidetrack drilling operations in May 2006. The successful well continued with completions through June 2006 and is currently waiting on flowline and umbilical installation. Production is expected to begin in October 2006.

In February 2006, ERT entered into a participation agreement with Walter Oil & Gas for a 20% interest in the Huey prospect in Garden Banks Blocks 346/390 in 1,835 feet water depth. Drilling of the exploration well began in April 2006. If successful, the development plan would consist of a subsea tieback to the Baldplate Field (Garden banks 260). Under the participation agreement, ERT has committed to pay a disproportionate share of the costs to casing point to earn the 20% interest in the potential development. ERT s share of drilling costs incurred during the six months ended June 30, 2006 was approximately $8.0 million.

As of June 30, 2006, we had incurred costs of $84.7 million and committed to an additional estimated $41.0 million for development and drilling costs related to the above property transactions.

In June 2005, ERT acquired a mature property package on the Gulf of Mexico shelf from Murphy Exploration & Production Company USA (Murphy), a wholly owned subsidiary of Murphy Oil Corporation. The acquisition cost to ERT included both cash ($163.5 million) and the assumption of the abandonment liability from Murphy of approximately $32.0 million (a non-cash investing activity). The acquisition represents essentially all of Murphy s Gulf of Mexico Shelf properties consisting of eight operated and eleven non-operated fields. ERT estimated proved reserves of the acquisition to be approximately 75 BCF equivalent. The results of the acquisition are included in the accompanying condensed consolidated statements of operations since the date of purchase. The purchase price allocation was finalized during the second quarter of 2006.

Note 4 Acquisitions

In April 2005, we agreed to acquire the diving and shallow water pipelay assets of Acergy US Inc. (formerly known as Stolt Offshore, Inc.) (Acergy) that operate in the waters of the Gulf of Mexico (GOM) and Trinidad. The transaction included: seven diving support vessels; two diving and pipelay vessels (the *Kestrel* and the *DLB 801);* a portable saturation diving system; various general diving equipment and Louisiana operating bases at the Port of Iberia and Fourchon. All of the assets are included in the Shelf Contracting segment. The transaction required regulatory approval, including the completion of a review pursuant to a Second Request from the U.S. Department of Justice. On October 18, 2005, we received clearance from the U.S. Department of Justice to close the asset purchase from Acergy. Under the terms of the clearance, we will divest one diving support vessel and have disposed of one diving support vessel and a portable saturation diving system from the combined asset package acquired through this transaction and the Torch Offshore, Inc. transaction, which closed August 31, 2005. These assets were included in assets held for sale totaling $1.0 million and $7.8 million (included in other current assets in the accompanying consolidated balance sheet) as of June 30, 2006 and December 31, 2005, respectively. On November 1, 2005, we closed the transaction to purchase the Acergy diving assets operating in the Gulf of Mexico. The assets include: seven diving support vessels, a portable saturation diving system, various general diving equipment and Louisiana operating lease at the Port of Iberia and Fourchon. We acquired the *DLB 801* in January 2006 for approximately $38.0 million and the *Kestrel* for approximately $39.9 million in March 2006 and we paid approximately $274,000 additional transaction cost related to the Acergy acquisitions in 2006.

The Acergy acquisition was accounted for as a business purchase with the acquisition price allocated to the assets acquired and liabilities assumed based upon their fair values, with the excess being recorded as goodwill. The final valuation of net assets was completed in the second quarter of 2006. The total transaction value for all of the assets was approximately $124.3 million. As of June 30, 2006, the allocation of the Acergy purchase prices was as follows (in thousands):

Vessels	$ 94,583
Goodwill	11,594
Portable saturation system and diving equipment	9,494
Facilities, land and leasehold improvements	4,314
Customer relationships intangible asset[1]	3,698
Materials and supplies	631
Total	$ 124,314

(1) The customer relationship intangible asset is amortized over eight years on a straight-line basis, or approximately $463,000 per year.

The results of the acquired assets are included in the accompanying condensed consolidated statements of operations since the date of the purchase. Pro forma combined operating results adjusted to reflect the results of operations of the *DLB 801* and the *Kestrel* prior to their acquisition from Acergy in January and March 2006, respectively, are not provided because the 2006 pre-acquisition results related to these vessels were immaterial.

Subsequent to our purchase of the *DLB 801,* we sold a 50% interest in the vessel in January 2006 for approximately $19.0 million. We received $6.5 million in cash in 2005 and a $12.5 million interest-bearing promissory note in 2006. We have received $9.0 million of the promissory note and expect to collect the remaining balance in the third quarter of 2006. Subsequent to the sale of the 50% interest, we entered into a 10-year charter lease agreement with the purchaser, in which the lessee has an option to purchase the remaining 50% interest in the vessel beginning in January 2009. This lease was accounted for as an operating lease. Included in our lease accounting analysis was an assessment of the likelihood of the lessee performing under the full term of the lease. The carrying amount of the *DLB 801* at June 30, 2006, was approximately $18.2 million. Minimum future rentals to be received on this lease are $69.8 million through January 2016. In addition, under the lease agreement, the lessee is able to credit $2.35 million of its lease payments per year against the remaining 50% interest in the *DLB 801* not already owned.

On November 3, 2005, we acquired Helix Energy Limited for approximately $32.7 million (approximately $27.1 million in cash, including transaction costs, and $5.6 million at time of acquisition in a two-year, variable rate note payable to certain former owners), offset by $3.4 million of cash acquired. Helix Energy Limited is an Aberdeen, UK based provider of reservoir and well technology services to the upstream oil and gas industry with offices in London, Kuala Lampur (Malaysia) and Perth (Australia). The acquisition was accounted for as a business purchase with the acquisition price allocated to the assets acquired and liabilities assumed based upon their estimated fair values, with the excess being recorded as goodwill. The allocation of the purchase price resulted in $8.9 million allocated to net working capital, equipment and other assets acquired, $1.1 million allocated to patented technology (to be amortized over 20 years), $6.9 million allocated to a customer-relationship intangible asset (to be amortized over 12 years), $2.4 million allocated to covenants-not-to-compete (to be amortized over 3.5 years), $6.3 million allocated to trade name (not amortized, but tested for impairment on an annual basis) and goodwill of approximately $6.6 million. Resulting amounts are included in the Contracting Services segment. The final valuation of assets acquired and liabilities assumed was completed in the first quarter of 2006. The results of Helix Energy Limited are included in the accompanying condensed consolidated statements of operations since the date of the purchase.

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In January 2006, the *Caesar* (formerly known as the *Baron*), a four year old mono-hull vessel, originally built for the cable lay market, was acquired by our subsidiary Vulcan Marine Technology LLC (Vulcan) for the Contracting Services segment for approximately $27.5 million in cash. It is currently under charter to a third-party. After completion of the charter (anticipated to end by the end of 2006), we plan to convert the vessel into a deepwater pipelay asset. The vessel is 485 feet long and already has a state-of-the-art, class 2, dynamic positioning system. The conversion program will primarily involve the installation of a conventional S lay pipelay system together with a main crane and a significant upgrade to the accommodation capability. A conversion team has already been assembled with a base at Rotterdam, The Netherlands, and the vessel is likely to enter service by mid-2007. We have entered into an agreement with the third-party currently leasing the vessel, whereby, the third-party has an option to purchase up to 49% of Vulcan for consideration totaling (i) $32.0 million cash prior to the vessel entering conversion plus its proportionate share of actual conversion costs (total conversion cost estimated to be $93 million), or (ii) once conversion begins, proportionate share (up to 49%) of total vessel and conversion costs (estimated to be $120 million). The third-party must make all contributions to Vulcan on or before December 28, 2006.

Note 5 Details of Certain Accounts (in thousands)

Other current assets consisted of the following as of June 30, 2006 and December 31, 2005:

	June 30, 2006	December 31, 2005
Other receivables	$ 2,303	$ 1,386
Prepaids	20,620	13,182
Spare parts inventory	3,512	3,628
Current deferred tax assets	11,374	8,861
Gas imbalance	3,796	3,888
Current notes receivable	5,008	1,500
Assets held for sale	1,000	7,936
Other	10,492	12,534
	$ 58,105	$ 52,915

Other assets, net, consisted of the following as of June 30, 2006 and December 31, 2005:

	June 30, 2006	December 31, 2005
Restricted cash	$ 32,587	$ 27,010
Deposits	3,415	4,594
Deferred drydock expenses	18,823	18,285
Deferred financing costs	19,697	18,714
Intangible assets with definite lives	14,934	14,707
Intangible asset with indefinite life	6,529	6,074
Other	1,428	1,490
	$ 97,413	$ 90,874

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Accrued liabilities consisted of the following as of June 30, 2006 and December 31, 2005:

	June 30, 2006	December 31, 2005
Accrued payroll and related benefits	$ 22,870	$ 27,982
Workers compensation claims	2,235	2,035
Insurance claims to be reimbursed	3,404	6,133
Royalties payable	52,245	46,555
Current decommissioning liability	15,035	15,035
Hedging liability	5,570	8,814
Income taxes payable		7,288
Deposits	3,479	10,000
Other	30,795	21,910
	$ 135,633	$ 145,752

Note 6 Equity Investments

In June 2002, we, along with Enterprise Products Partners L.P. (Enterprise), formed Deepwater Gateway, L.L.C. to design, construct, install, own and operate a tension leg platform (TLP) production hub primarily for Anadarko Petroleum Corporation s *Marco Polo* field discovery in the Deepwater Gulf of Mexico. Our investment in Deepwater Gateway, L.L.C. totaled $117.4 million and $117.2 million as of June 30, 2006 and December 31, 2005, respectively. Further, for the six months ended June 30, 2006 and 2005, we received cash distributions from Deepwater Gateway, L.L.C. totaling $7.8 million and $13.6 million, respectively.

In December 2004, we acquired a 20% interest in Independence, an affiliate of Enterprise. Independence will own the Independence Hub platform to be located in Mississippi Canyon block 920 in a water depth of 8,000 feet. Our investment was $71.3 million and $50.8 million as of June 30, 2006 and December 31, 2005, respectively, and our total investment is expected to be approximately $83 million. Further, we are party to a guaranty agreement with Enterprise to the extent of our ownership in Independence. The agreement states, among other things, that Enterprise and we guarantee performance under the Independence Hub Agreement between Independence and the producers group of exploration and production companies up to $397.5 million, plus applicable attorneys fees and related expenses. We have estimated the fair value of our share of the guarantee obligation to be immaterial at June 30, 2006 based upon the remote possibility of payments being made under the performance guarantee.

In July 2005, we acquired a 40% minority ownership interest in OTSL in exchange for our DP DSV, *Witch Queen*. Our investment in OTSL totaled $14.1 million and $11.5 million at June 30, 2006 and December 31, 2005. OTSL provides marine construction services to the oil and gas industry in and around Trinidad and Tobago, as well as the U.S. Gulf of Mexico. Effective December 31, 2003, we adopted and applied the provisions of FASB Interpretation (FIN) No. 46, *Consolidation of Variable Interest Entities,* as revised December 31, 2003, for all variable interest entities. FIN 46 requires the consolidation of variable interest entities in which an enterprise absorbs a majority of the entity s expected losses, receives a majority of the entity s expected residual returns, or both, as a result of ownership, contractual or other financial interests in the entity. OTSL qualified as a variable interest entity (VIE) under FIN 46 through June 30, 2006. We have determined that we were not the primary beneficiary of OTSL and, thus, have not consolidated the financial