

Cal Dive International, Inc.
Form 10-Q
November 07, 2014

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, 2014

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: 001-33206

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

Delaware (State or other jurisdiction of incorporation or organization)	61-1500501 (I.R.S. Employer Identification No.)
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2500 CityWest Boulevard, Suite 2200 Houston, Texas (Address of principal executive offices)	77042 (Zip Code)
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(713) 361-2600
(Registrant's telephone number, including area code)

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

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required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

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

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

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

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

As of October 31, 2014, the registrant had 98,577,496 shares of common stock issued and outstanding.

CAL DIVE INTERNATIONAL, INC.

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When we refer to "us," "we," "our," "ours," "the Company" or "CDI," we are describing Cal Dive International, Inc. and/or our subsidiaries.

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PART I - FINANCIAL INFORMATION

Item 1. Financial Statements.

Cal Dive International, Inc. and Subsidiaries

Consolidated Balance Sheets

(in thousands, except per share par value)

	September 30, 2014 (unaudited)	December 31, 2013
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 9,575	\$ 12,190
Accounts receivable:		
Trade, net of allowance for doubtful accounts of \$9,508 and \$0, respectively	67,379	55,409
Contracts in progress	119,485	125,121
Income tax receivable	104	-
Deferred income taxes	-	52
Other current assets	40,919	37,271
Total current assets	237,462	230,043
Property and equipment	624,108	690,749
Less - Accumulated depreciation	(313,048)	(302,169)
Net property and equipment	311,060	388,580
Deferred drydock costs, net	15,206	23,497
Other assets, net	7,265	8,562
Total assets	\$ 570,993	\$ 650,682
LIABILITIES AND EQUITY		
Current liabilities:		
Accounts payable	\$ 88,968	\$ 114,663
Advanced billings on contracts	1,047	172
Accrued liabilities	24,459	29,284
Income tax payable	5,020	3,886
Current maturities of long-term debt	270,671	13,989
Deferred income taxes	1,769	-
Total current liabilities	391,934	161,994
Long-term debt	-	179,464
Deferred income taxes	11,316	58,784
Other long-term liabilities	8,191	8,423
Total liabilities	411,441	408,665
Equity:		
Common stock, \$0.01 par value, 240,000 shares authorized, 98,577 and 97,436 shares issued and outstanding, respectively	986	975
Capital in excess of par	440,565	437,455

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Accumulated other comprehensive loss	(1,265)	(666)
Retained deficit	(275,432)	(190,677)
Equity attributable to Cal Dive	164,854	247,087
Noncontrolling interest	(5,302)	(5,070)
Total equity	159,552	242,017
Total liabilities and equity	\$ 570,993	\$ 650,682

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

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Cal Dive International, Inc. and Subsidiaries

Consolidated Statements of Operations (unaudited)
(in thousands, except per share amounts)

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2014	2013	2014	2013
Revenues	\$114,583	\$155,246	\$355,376	\$357,151
Cost of sales	116,802	144,800	381,245	355,592
Gross profit (loss)	(2,219)	10,446	(25,869)	1,559
General and administrative expenses	10,273	11,140	31,881	33,851
Other items	2,656	-	2,656	-
Provision for doubtful accounts	1,279	-	10,787	-
Asset impairments	34,826	20,041	36,773	20,166
(Gain) loss on sale of assets, net	708	(314)	(8,209)	(3,437)
Operating loss	(51,961)	(20,421)	(99,757)	(49,021)
Interest expense, net	9,571	5,677	23,156	14,939
Interest expense – adjustment to conversion feature of convertible debt	-	-	-	(6,362)
Loss on early extinguishment of debt	-	-	4,652	-
Other (income) expense, net	(212)	337	8	792
Loss before income taxes	(61,320)	(26,435)	(127,573)	(58,390)
Income tax benefit	(18,685)	(10,643)	(42,586)	(21,334)
Net loss	\$(42,635)	\$(15,792)	\$(84,987)	\$(37,056)
Income (loss) attributable to noncontrolling interest	(6)	1,008	(232)	(938)
Loss attributable to Cal Dive	\$(42,629)	\$(16,800)	\$(84,755)	\$(36,118)
Loss per share attributable to Cal Dive:				
Basic and diluted	\$(0.45)	\$(0.18)	\$(0.89)	\$(0.39)
Weighted average shares outstanding:				
Basic and diluted	95,224	93,793	95,146	93,775

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

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Cal Dive International, Inc. and Subsidiaries

Consolidated Statements of Comprehensive Income (Loss) (unaudited)
(in thousands)

	Three Months		Nine Months Ended	
	Ended		September 30,	
	September 30,	September 30,	September 30,	September 30,
	2014	2013	2014	2013
Net loss	\$(42,635)	\$(15,792)	\$(84,987)	\$(37,056)
Other comprehensive income (loss):				
Foreign currency translation adjustment	(502)	1,211	(608)	(810)
Unrealized gain from cash flow hedge, (net of tax of \$0, \$11, \$4 and \$31, respectively)	-	20	4	58
Total other comprehensive income (loss)	(502)	1,231	(604)	(752)
Comprehensive loss	(43,137)	(14,561)	(85,591)	(37,808)
Comprehensive gain (loss) attributable to noncontrolling interest	(6)	1,008	(232)	(938)
Comprehensive loss attributable to Cal Dive	\$(43,131)	\$(15,569)	\$(85,359)	\$(36,870)

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

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Cal Dive International, Inc. and Subsidiaries

Consolidated Statements of Cash Flows (unaudited)
(in thousands)

	Nine Months Ended September 30,	
	2014	2013
Cash Flows From Operating Activities:		
Net loss	\$(84,987)	\$(37,056)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	41,803	41,521
Stock compensation expense	3,206	4,311
Deferred income tax benefit	(47,467)	(28,283)
(Gain) on sale of assets, net	(8,209)	(3,437)
Provision for doubtful accounts	10,787	-
Amortization of debt discount and deferred financing costs	5,173	5,825
Loss on early extinguishment of debt	4,652	-
Asset impairments	36,773	20,166
Other items	2,656	-
Mark-to-market adjustment of debt conversion feature	-	(6,362)
Changes in operating assets and liabilities:		
Accounts receivable, net	(17,078)	(36,167)
Income tax receivable and payable, net	1,031	8,856
Other current assets	2,939	(18,815)
Deferred drydock costs	(3,222)	(9,838)
Accounts payable and accrued liabilities	(29,674)	17,591
Other noncurrent assets and liabilities, net	(2,947)	214
Net cash used in operating activities	(84,564)	(41,474)
Cash Flows From Investing Activities:		
Additions to property and equipment	(12,757)	(14,512)
Proceeds from sales of property and equipment	27,765	7,804
Net cash provided by (used in) investing activities	15,008	(6,708)
Cash Flows From Financing Activities:		
Repayments on secured term loan	(30,659)	(10,397)
Borrowings under unsecured term loan	-	20,000
Borrowings under second lien secured term loan	80,000	-
Draws on revolving credit facility	157,739	263,300
Repayments on revolving credit facility	(133,239)	(225,400)
Payment of deferred financing costs	(6,894)	(1,134)
Net cash provided by financing activities	66,947	46,369
Effect of exchange rate changes on cash and cash equivalents	(6)	(424)
Net decrease in cash and cash equivalents	(2,615)	(2,237)
Cash and cash equivalents, beginning of period	12,190	8,343
Cash and cash equivalents, end of period	\$9,575	\$6,106

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

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Cal Dive International, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (unaudited)

1. General

Organization

We are a marine contractor that provides manned diving, pipelay and pipe burial, platform installation and salvage and light well intervention services to a diverse customer base in the offshore oil and natural gas industry. We offer our customers these complementary services on an integrated basis for more complex offshore projects, which maximizes efficiencies for our customers and enhances the utilization of our fleet. Our headquarters are located in Houston, Texas.

Our global footprint encompasses operations on the Gulf of Mexico Outer Continental Shelf (or "OCS"), and in the Northeastern U.S., Latin America, Southeast Asia, China, Australia, West Africa, the Middle East and Europe. We own a diversified fleet of dive support vessels and construction barges.

The significant deterioration in our financial performance in both (i) the second quarter 2014, discussed in our Quarterly Report on Form 10-Q for the second quarter 2014, and (ii) the third quarter 2014, discussed in this Quarterly Report on Form 10-Q, has resulted in our failure to comply with certain financial covenants and payment obligations under our loan facilities, and has placed significant constraints on our liquidity. See note 12 for further discussion.

Preparation of Interim Financial Statements

These interim consolidated financial statements are unaudited and have been prepared pursuant to instructions for quarterly reporting required to be filed with the Securities and Exchange Commission (or "SEC") and do not include all information and notes normally included in annual financial statements prepared in accordance with U.S. generally accepted accounting principles (or "GAAP").

The accompanying consolidated financial statements have been prepared in conformity with GAAP, and our application of GAAP for purposes of preparing the accompanying consolidated financial statements is consistent in all material respects with the manner applied to the consolidated financial statements included in our annual report on Form 10-K for the year ended December 31, 2013 (or "2013 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. 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 consolidated balance sheets, results of operations and cash flows, as applicable.

Our balance sheet as of December 31, 2013 included herein has been derived from the audited balance sheet as of December 31, 2013 included in our 2013 Form 10-K. These consolidated financial statements should be read in conjunction with the annual consolidated financial statements and notes thereto included in our 2013 Form 10-K, which contains a summary of our significant accounting policies and estimates and other disclosures. Interim results should not be taken as indicative of the results that may be expected for any other interim period or the year ending December 31, 2014.

Subsequent Events

We conducted our subsequent events review through the date these interim consolidated financial statements were issued with the SEC. See note 12 for a discussion of subsequent events.

Seasonality

Marine operations are typically seasonal and depend, in part, on weather conditions. Historically, we have experienced our lowest vessel utilization rates during the winter and early spring, when weather conditions are least favorable for offshore exploration, development and construction activities.

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Significant Accounting Policies and Estimates

There have been no material changes or developments to the significant accounting policies discussed in our 2013 Form 10-K or new accounting pronouncements issued or adopted significantly affecting our financial statements, other than the following:

In May 2014, the FASB issued ASU 2014-09, Revenue from Contract with Customers (Topic 606). The objective of this ASU is to establish the principles to report useful information to users of financial statements about the nature, amount, timing, and uncertainty of revenue from contracts with customers. The core principle is to recognize revenue to depict 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. ASU 2014-09 is effective for interim and annual reporting periods beginning after December 15, 2016 and must be adopted using either a full retrospective method or a modified retrospective method. We are currently evaluating the standard to determine the impact of its adoption on the consolidated financial statements.

2. Details of Certain Accounts

Included in accounts receivable at December 31, 2013 is \$5.2 million owed from a customer in China which was overdue but could not be collected timely due to our customer's involvement in certain customs issues with a local government. In 2012 we won an arbitration award of the entire amount due and obtained an order of a Hong Kong court permitting us to enforce the arbitration award as a judgment of the court. We collected the full amount of the receivable plus attorney's fees and interest of \$2.0 million in early April 2014.

Also included in accounts receivable at September 30, 2014 and December 31, 2013 is \$5.5 million owed from a customer in Indonesia for work that we successfully completed. The customer has acknowledged the amount is due but has continually delayed payment. Our receivable is secured by a guarantee by the customer's parent company and we have commenced arbitration proceedings against both our customer and its parent company to enforce our rights under the terms of the contract. We believe that we will ultimately collect this receivable from either our customer or its parent company.

Also included in accounts receivable at September 30, 2014 and December 31, 2013 is \$9.5 million and \$6.8 million, respectively, owed from a contractor in Mexico under a two-year bareboat charter of the DSV Kestrel that commenced during the fourth quarter 2012. In July 2014 we were notified that bankruptcy proceedings had been commenced against the contractor in Mexico. We are listed as a creditor in the bankruptcy proceedings. In November 2014, we terminated the bareboat charter and took redelivery of the vessel, reserving all of our rights under the charter. We have reserved the full amount unpaid to us by the contractor under the charter through June 30, 2014, and have not recognized any charter hire income after that date; although we have made a claim against the contractor for all amounts owed to us under the charter.

Included in contracts in progress at September 30, 2014 and December 31, 2013 is \$80.9 million and \$99.2 million, respectively, relating to our four projects in Mexico for Pemex. These contracts contain milestone billing provisions under which we may only invoice for our work when the overall project has met certain milestones, creating a significant delay between the period during which our performance of the work occurs and the date when we are contractually permitted to invoice for our services and collect payment. One of these projects was completed during the second quarter 2014. The second project was extended by delays and additional work requested by Pemex and was completed in early November 2014. The remaining two projects continue to be temporarily suspended by Pemex as it waits for platforms to be installed by other contractors. These suspensions have impeded our ability to meet the milestones on these two projects, and, as a consequence, invoice and collect payment for the work we have completed. This has significantly constrained our liquidity. Once each of these platforms is installed, we will

complete our remaining scopes of work and will invoice Pemex and expect to collect payment for our work over the next several quarters. Based on Pemex's current project schedule, we expect to complete these two projects by the second quarter 2015.

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Other current assets consisted of the following as of September 30, 2014 and December 31, 2013 (in thousands):

	September 30, 2014	December 31, 2013
Insurance claims to be reimbursed	\$ 965	\$ 22
Prepaid job costs	3,738	9,368
Prepaid insurance	5,017	3,166
Prepaid other	5,722	1,286
VAT receivable	4,407	7,578
Other receivables ⁽¹⁾	4,965	3,635
Assets held for sale ⁽²⁾	7,534	11,068
Current deferred financing costs	8,109	-
Supplies and spare parts inventory	462	1,148
	\$ 40,919	\$ 37,271

Includes the current portion of a note receivable related to the sale of a portable saturation diving system during the (1) first quarter 2014 to a customer in China. We monitor the credit-worthiness of the buyer and have remedies under the note receivable, including lien rights. This note is being repaid in quarterly installments.

The amount recorded in assets held for sale at September 30, 2014 includes three portable saturation diving systems, one facility located in Louisiana and other miscellaneous equipment no longer used in our operations. The amount recorded in assets held for sale at December 31, 2013 includes three dive support vessels, one (2) construction barge, three portable saturation diving systems and one facility located in Louisiana. During the first quarter 2014, we completed the sale of one of the dive support vessels and the construction barge, and during the second quarter 2014 we completed the sale of the other two dive support vessels. In October 2014 we completed the sale of the Louisiana facility. We expect to sell the remaining assets over the next 12 months and have engaged brokers to assist in facilitating these divestitures.

Other long-term assets, net, consisted of the following as of September 30, 2014 and December 31, 2013 (in thousands):

	September 30, 2014	December 31, 2013
Intangible assets with finite lives, net	\$ 13	\$ 66
Deferred financing costs, net	-	7,664
Non-current notes receivables	2,017	-
Equity investments ⁽¹⁾	2,430	67
Long-term tax receivable	1,688	-
Equipment deposits and other	1,117	765
	\$ 7,265	\$ 8,562

(1) Primarily represents the value of our 19.9% equity interest in the entity that bought our U.S. Gulf of Mexico shallow water surface diving fleet during the second quarter 2014. See note 5.

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Accrued liabilities consisted of the following as of September 30, 2014 and December 31, 2013 (in thousands):

	September 30, 2014	December 31, 2013
Accrued payroll and related benefits	\$ 3,103	\$ 6,181
Unearned revenue	-	60
Insurance claims to be reimbursed	965	22
Self-insurance reserves	6,406	5,807
Accrued taxes other than income	6,101	10,164
Accrued interest	2,671	3,342
Financed insurance premium	3,813	2,379
Other	1,400	1,329
	\$ 24,459	\$ 29,284

Other long-term liabilities consisted of the following as of September 30, 2014 and December 31, 2013 (in thousands):

	September 30, 2014	December 31, 2013
Uncertain tax position liabilities	\$ 6,969	\$ 6,329
Other	1,222	2,094
	\$ 8,191	\$ 8,423

3. Indebtedness

Indebtedness consisted of the following as of September 30, 2014 and December 31, 2013 (in thousands):

	September 30, 2014	December 31, 2013
Revolving credit loans due 2016	\$99,800	\$75,300
Secured term loan	-	30,658
Unsecured term loan	-	20,000
Second lien secured term loans due 2019	100,000	-
Convertible notes due 2017, net of unamortized discount of \$15,379 and \$18,755, respectively	70,871	67,495
Total debt	270,671	193,453
Less current portion	(270,671)	(13,989)
Long-term debt ⁽¹⁾	\$-	\$ 179,464

(1) At September 30, 2014 we were in default of certain financial covenants and payment obligations under our loan facilities. Subsequent to September 30, 2014, the lenders under our senior secured credit agreement waived our

defaults through December 1, 2014. Although the lenders under our second lien facility have not similarly waived the defaults under such facility, as of the date hereof, they have not taken any action to accelerate the debt thereunder. An acceleration of our debt under either the first lien or second lien facility would cause a cross default under the indenture for our Convertible Notes. Because of these defaults and the cross default provisions contained in our loan facilities, all of our indebtedness has been reflected as current on our balance sheet. See below and note 12.

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Senior Secured Credit Facility

At September 30, 2014, we had a senior secured credit facility with certain financial institutions, which matures on April 26, 2016, consisting of a variable-interest \$100.0 million revolving credit facility (the "Credit Agreement"). Prior to May 9, 2014, the Credit Facility also provided for a variable-interest term loan, under which \$29.7 million was outstanding. On May 9, 2014, we repaid the term loan in full with the proceeds of the Second Lien Facility discussed below. At September 30, 2014, we had \$99.8 million borrowed and no letters of credit issued and outstanding under our revolving credit facility, and had no further borrowing capacity under our revolving credit facility. The availability under our revolving credit facility is reduced by outstanding borrowings and letters of credit, and can be limited by our consolidated leverage (debt to earnings before interest, income taxes and depreciation and amortization (or "EBITDA") as defined in the Credit Agreement) ratio covenant (the "Leverage Covenant") at each quarter end and by our collateral coverage sublimit. Subject to these limitations, we may borrow from or repay the revolving portion of our Credit Agreement as business needs merit. Amounts borrowed under the Credit Agreement bear interest at a rate per annum of, depending on the type of loan: (i) LIBOR plus the applicable margin or (ii) the higher of (x) Bank of America's prime rate, (y) the Federal Funds rate plus 0.5% or (z) one-month LIBOR plus 1.0%, plus the applicable margin. The applicable margin for LIBOR loans ranges from 5.50% to 7.25%, and the applicable margin for all other loans ranges from 4.50% to 6.25%, depending upon our consolidated leverage ratio as defined in the Credit Facility. We may also be subject to additional interest of 2.0% during a period of default.

The credit facility is secured by vessel mortgages on all of our domestically owned vessels, a pledge of all of the stock of all of our domestic subsidiaries and 66% of the stock of three of our foreign subsidiaries, and a security interest in, among other things, all of our equipment, inventory, accounts receivable and general tangible assets.

Effective May 9, 2014, we entered into Amendment No. 8 to our Credit Agreement ("Amendment No. 8") to among other things: (i) reduce the aggregate principal amount of second lien debt that we may incur to \$100.0 million; (ii) give pro forma effect to the second lien debt in calculating the Leverage Covenant for the fiscal quarter ended March 31, 2014; and (iii) increase the amount we are allowed to incur in project financing for foreign projects from \$30.0 million to \$75.0 million. Amendment No. 8 also required the size of the revolving credit facility under the Credit Agreement to be reduced by \$5.0 million per month from May 31, 2014 to December 31, 2014 until reduced to \$85.0 million.

In July and August 2014, we obtained waivers (the "Credit Agreement Waivers") of our non-compliance at June 30, 2014 of: (i) the consolidated fixed charge coverage ratio covenant (the "FCCR Covenant"), (ii) the Leverage Covenant, and (iii) the consolidated EBITDA covenant (the "EBITDA Covenant" and collectively with the FCCR Covenant and the Leverage Covenant, the "Credit Agreement Financial Covenants") under the Credit Agreement through September 30, 2014, provided we refinance our Credit Agreement with a new group of lenders by September 30, 2014, and deliver a commitment letter for such refinancing by August 27, 2014. We delivered acceptable commitment letters on August 22, 2014, but were unable to complete the refinancing by September 30, 2014.

Effective October 31, 2014, we entered into a Limited Waiver, Agreement and Amendment No. 9 to our Credit Agreement ("Amendment No. 9") which (i) maintained the size of our revolving credit facility at \$100.0 million through December 1, 2014, and (ii) waived our non-compliance at June 30, 2014 and September 30, 2014 of the Credit Agreement Financial Covenants and certain payment defaults under the Credit Agreement, as well as the cross defaults resulting from our defaults under the Second Lien Facility, through December 1, 2014. See note 12.

Unsecured Term Loan

On June 27, 2013, we entered into a credit agreement with a financial institution providing for a \$20.0 million unsecured term loan (the "Unsecured Term Loan"). The Unsecured Term Loan consisted of two tranches of \$10.0 million. Effective December 31, 2013, we amended the Unsecured Term Loan to extend the maturity date for the first

tranche from January 2, 2014 to April 30, 2014, and effective April 30, 2014, we further amended the Unsecured Term Loan to extend the maturity date for the first tranche from April 30, 2014 to May 30, 2014. The second tranche was scheduled to mature on June 26, 2015 and the interest rate on the Unsecured Term Loan was 13.5% per annum, payable on the first day of each calendar quarter in arrears. The net proceeds of the Unsecured Term Loan were used for certain working capital requirements relating to our contract awards in Mexico. On May 9, 2014, the Unsecured Term Loan was converted from an unsecured term loan to a second lien term loan under the Second Lien Facility discussed below.

Senior Secured Second Lien Term Loan Facility

On May 9, 2014 we entered into an amendment and restatement of the credit agreement of the Unsecured Term Loan that provided for a \$100.0 million Senior Secured Second Lien Term Loan Facility (the "Second Lien Facility") maturing in 2019. The \$20.0 million Unsecured Term Loan was converted from an unsecured term loan to a second lien term loan of equivalent amount, constituting the first tranche under the Second Lien Facility. A second tranche consisting of an \$80.0 million second lien term loan under the Second Lien Facility was funded at closing. The net proceeds of the Second Lien Facility of \$76.0 million (after deducting transaction fees and expenses) were used to repay in full the then outstanding term loan under the Credit Agreement and to repay a portion of the outstanding amounts under the revolving credit facility under the Credit Agreement.

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Both tranches of the term loan under the Second Lien Facility mature on May 9, 2019, with no scheduled amortization of the term loans prior to maturity. Interest on the Second Lien Facility is payable on the last day of each calendar month in arrears. The interest rate per annum for the Second Lien Facility is, depending on the type of loan: (i) LIBOR (1% floor) plus the applicable margin or (ii) the higher of (x) a prime rate defined in the Second Lien Facility, (y) the Federal Funds rate plus 0.5% or (z) one-month LIBOR plus 1.0% plus the applicable margin. The applicable margin on the \$20.0 million tranche for LIBOR loans ranges from 6.75% to 8.0%, and the applicable margin for all other loans ranges from 5.75% to 7.0%. The applicable margin on the \$80.0 million tranche for LIBOR loans ranges from 11.75% to 13.0%, and the applicable margin for all other loans ranges from 10.75% to 12.0%, depending upon our consolidated leverage ratio as defined in the Second Lien Facility. We may also be subject to additional interest of 2.0% during a period of default.

The Second Lien Facility contains representations and affirmative covenants similar to those in the Credit Agreement. The Second Lien Facility requires that we meet certain financial covenants, including a minimum fixed charge coverage ratio of 1.0x (the "Second Lien FCCR Covenant"), minimum trailing twelve month EBITDA of \$30.0 million (the "Second Lien EBITDA Covenant"), and a consolidated secured leverage ratio (the "Second Lien Leverage Covenant", and collectively with the Second Lien FCCR Covenant and the Second Lien EBITDA Covenant, the "Second Lien Financial Covenants") of no more than 5.25x for the quarter ended June 30, 2014, reducing to 5.00x for the quarter ending September 30, 2014, and 4.75x for the quarter ending December 31, 2014. The ratio is further reduced to 4.50x for the quarters ending March 31 and June 30, 2015, and to 4.25x for the quarters ending September 30 and December 31, 2015, and to 4.00x thereafter. The Second Lien Leverage Covenant excludes any third party project financing for foreign projects we may obtain up to \$75.0 million.

The Second Lien Facility also contains certain negative covenants, including, restrictions or limits on (i) liens; (ii) investments; (iii) indebtedness; (iv) dispositions; and (v) capital expenditures, all similar to those contained in the Credit Agreement.

The Second Lien Facility is secured, on a second priority basis, by vessel mortgages on all of our domestically owned vessels, a pledge of all the stock of our domestic subsidiaries and 66% of the stock of three of our foreign subsidiaries, and a security interest in, among other things, all our equipment, inventory, accounts receivable and general tangible assets.

We may not voluntarily prepay the term loans under the Second Lien Facility prior to the second anniversary, and thereafter will be subject to a 3% penalty in the third year and a 1% penalty in the fourth year. We may repay the term loans at par in the fifth year up to maturity.

The Second Lien Facility contains other terms and conditions, including events of default that we consider reasonable and customary for this type of indebtedness. The events of default include failure to timely pay amounts due under the Second Lien Facility, non-compliance with covenants, failure to pay other outstanding third party debt above a stated threshold, material breaches of representations, insolvency, a change of control and other events of default customary for this type of indebtedness (subject to applicable notice and cure periods for some defaults). During the existence of any uncured events of default, the lenders under the Second Lien Facility have the right to declare the outstanding amounts immediately due and payable. The Second Lien Facility also contains cross-default provisions relating to the covenants in the Credit Agreement.

In July and August 2014, we obtained waivers (the "Second Lien Facility Waivers") of our non-compliance at June 30, 2014 of the Second Lien Financial Covenants through September 30, 2014, provided we refinance our Credit Agreement with a new group of lenders by September 30, 2014, and deliver a commitment letter for such refinancing by August 27, 2014. We delivered acceptable commitment letters on August 22, 2014, but were unable to refinance the Credit Agreement by September 30, 2014. Although the lenders under the Second Lien Facility have not waived the financial covenant and payment defaults under such facility, as of the date hereof, they have not taken any action

to accelerate the debt thereunder, and continue to work cooperatively with us to resolve our defaults. See note 12.

Loss on early extinguishment of debt

During the second quarter 2014, in connection with entering into the Second Lien Facility on May 9, 2014, we recorded a \$(4.7) million loss on early extinguishment of debt related to the repayment of the secured term loan under the Credit Agreement as well as the reduction of the capacity of the revolving credit facility under the Credit Agreement. The loss consisted of the write-off of the unamortized portion of certain deferred financing costs and transaction fees.

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Other costs

During the third quarter 2014, we recorded \$2.7 million related to transaction costs incurred in connection with our efforts to refinance our Credit Agreement and pursue our strategic initiatives. These costs include the fees and expenses of financial and legal advisors for us, our existing lenders and prospective lenders.

Convertible Notes

On July 18, 2012, we issued \$86.25 million aggregate principal amount of 5.0% convertible senior notes due 2017 (the "Convertible Notes"). We received approximately \$83.0 million of net proceeds, after deducting the initial purchasers' commissions and transaction expenses. We used all of the net proceeds to repay a substantial portion of the then outstanding term loan under our Credit Agreement. In connection with the issuance of the Convertible Notes, we paid and capitalized approximately \$3.5 million of loan fees which are being amortized to interest expense over the term of the Convertible Notes.

The Convertible Notes bear interest at a rate of 5.0% per year, payable semi-annually in arrears on January 15 and July 15 of each year, and mature on July 15, 2017. The Convertible Notes are our general unsecured and unsubordinated obligations, and are guaranteed by all of our wholly-owned domestic subsidiaries. The Convertible Notes rank senior in right of payment to any of our future indebtedness that is expressly subordinated in right of payment to the Convertible Notes, rank equal in right of payment to our existing and future unsecured indebtedness that is not so subordinated, and are effectively subordinated in right of payment to any of our secured indebtedness to the extent of the value of the assets securing such indebtedness, and are structurally subordinated to all existing and future indebtedness and liabilities of our subsidiaries. The Convertible Notes are governed by an indenture, as supplemented, dated July 18, 2012 with The Bank of New York Mellon Trust Company, N.A., as trustee.

We may not redeem the Convertible Notes prior to the maturity date. Prior to April 15, 2017, holders may convert their Convertible Notes only under the following circumstances: (i) the closing sale price of our common stock equals or exceeds \$2.69 for 20 days during a 30 consecutive trading day period; (ii) the trading price per \$1,000 principal amount of the Convertible Notes is less than 98% of the product of the closing sale price of our common stock and the conversion price for the Convertible Notes for each of five consecutive trading days; or (iii) upon the occurrence of specified corporate events. On and after April 15, 2017 until the maturity date, holders may convert all or a portion of their Convertible Notes at any time with settlement of all Convertible Notes converted during the period occurring on July 15, 2017. Upon conversion of a Convertible Note, we will pay or deliver, at our election, cash, shares of our common stock or a combination thereof, based on an initial conversion rate of 445.6328 shares of our common stock per \$1,000 principal amount of Convertible Notes (which is equivalent to an initial conversion price of approximately \$2.24 per share of our common stock).

Upon the occurrence of certain fundamental changes, holders of the Convertible Notes will have the right to require us to purchase all or a portion of their Convertible Notes for cash at a price equal to 100% of the principal amount of such Convertible Notes, plus any accrued and unpaid interest. Upon the occurrence of certain significant corporate transactions, holders who convert their Convertible Notes in connection with a change of control may be entitled to a make-whole premium in the form of an increase in the conversion rate. Additionally, the Convertible Notes contain certain events of default as set forth in the indenture, including cross default provisions in the event of an acceleration of our other debt. As of September 30, 2014, none of the conditions allowing holders of the Convertible Notes to convert, or requiring us to repurchase the Convertible Notes, had been met. However, on September 8, 2014, we were notified by the NYSE that we no longer satisfied the minimum share price standard for continued listing of our common stock, and that we had six months to regain compliance with this continued listing standard to avoid delisting. On October 29, 2014, we received a further notice from the NYSE that it had determined to commence proceedings to delist our common stock in view of its abnormally low trading price, and trading in our common stock on the NYSE was suspended immediately. The delisting of our common stock will constitute a fundamental change

under the indenture for the Convertible Notes.

Neither the Convertible Notes nor the shares of our common stock, if any, issuable upon conversion of the Convertible Notes have been registered under the Securities Act or the securities laws of any other jurisdiction. We do not intend to file a shelf registration statement for the resale of the Convertible Notes or the shares, if any, issuable upon conversion of the Convertible Notes. We are required, however, to pay additional interest under specified circumstances if the Convertible Notes are no longer freely tradable by holders other than our affiliates.

At the time of issuance of the Convertible Notes, NYSE rules limited the number of shares of our common stock that we were permitted to issue upon conversion of the Convertible Notes to no more than 19.99% of our common stock outstanding immediately before the issuance of the Convertible Notes unless we received stockholder approval for such issuance, and the number of shares of our common stock that would be issued upon a full conversion of the Convertible Notes was greater than permitted by such NYSE rules. We obtained the requisite stockholder approval to accommodate full conversion of the Convertible Notes at our 2013 Annual Meeting on May 14, 2013.

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Prior to obtaining stockholder approval, we determined that the conversion feature of the Convertible Notes did not meet the criteria for equity classification based on the settlement terms of the Convertible Notes. As a result, from the time of issuance to May 14, 2013, the conversion feature was recognized as a derivative liability and presented under long-term debt in the accompanying consolidated balance sheet, with offsetting changes in the fair value recognized as interest expense in the consolidated statement of operations. The initial value allocated to this derivative liability was \$24.6 million of the \$86.25 million principal amount of the Convertible Notes, which also represented the amount of the debt discount to be amortized through interest expense using the effective interest method through the maturity of the Convertible Notes. Accordingly, the effective interest rate used to amortize the debt discount on the Convertible Notes is 13.3%. At September 30, 2014, we had the ability to settle the conversion feature fully in shares of our common stock, and the embedded conversion feature was no longer required to be separately valued and accounted for as a derivative liability. The mark-to-market adjustment on the conversion feature for the period from December 31, 2012 through May 14, 2013 (the final valuation date) was a reduction to interest expense of \$6.4 million. Since the original date of issuance, we recorded an \$8.5 million adjustment, as a reduction of interest expense for the change in fair value of the derivative liability. As of May 14, 2013, the conversion feature's cumulative value of \$16.1 million was reclassified to capital in excess of par within equity and will no longer be subject to a mark-to-market adjustment through earnings. The deferred tax liability and its tax basis at the date of issuance (July 18, 2012) was also reclassified to capital in excess of par within equity. As noted above, the delisting of our common stock from the NYSE will constitute a fundamental change under the Convertible Notes which will give the holders of the Convertible Notes the right to require us to purchase all or a portion of their Convertible Notes for cash. Thus, we will no longer be able to settle the conversion feature in shares of our common stock and the conversion feature will again be recognized as a derivative liability on our balance sheet.

We will use the as if converted method in calculating the diluted earnings per share effect for the number of shares necessary to settle the Convertible Notes. This may cause a significant increase in the number of shares used in calculating diluted earnings per share. The Convertible Notes were anti-dilutive for the three and nine months ended September 30, 2014.

4. Derivative Instruments and Fair Value Measurements

Conversion Feature of Convertible Debt

At the time of issuance of the Convertible Notes, we recognized a derivative liability for their embedded conversion feature, as the Convertible Notes did not meet the criteria for equity classification based on their settlement terms. The initial value allocated to the derivative liability at issuance of the Convertible Notes on July 18, 2012 was \$24.6 million. Changes in the fair value of the derivative liability were recognized in earnings. On May 14, 2013, we obtained stockholder approval enabling the issuance of the maximum number of shares of our common stock necessary to accommodate full conversion of the Convertible Notes. As of that date, the embedded conversion feature was no longer required to be separately valued and accounted for as a derivative liability and was reclassified to capital in excess of par within equity. The mark-to-market adjustment on the conversion feature for the period from December 31, 2012 through May 14, 2013 (the final valuation date) was a reduction to interest expense of \$6.4 million. The estimated fair value of the derivative liability for the conversion feature was computed using a binomial lattice model using Level 3 inputs. The main inputs and assumptions into the binomial lattice model were our stock price at the date of valuation, expected volatility, credit spreads and the risk-free interest rate. Upon a delisting of our common stock the conversion feature will again be recognized as a derivative liability on our balance sheet.

Fair Value Measurements

Measurements on a Recurring Basis

The fair values of our cash and cash equivalents, accounts receivable, accounts payable, and certain other current assets and current liabilities approximate their carrying value due to their short-term maturities. The fair value of our variable rate debt under our Credit Agreement was calculated using a market approach based upon Level 3 inputs including interest rate margins reflecting current market conditions. The fair value approximates the carrying value due to the variable nature of the underlying interest rates.

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Convertible Debt

The fair value of the Convertible Notes is determined based on similar debt instruments that do not contain a conversion feature. At September 30, 2014, the Convertible Notes were trading at 64.4% of par value based on limited quotations (Level 2 inputs), and include a value associated with the conversion feature of the Convertible Notes. The Convertible Notes had a fair value of \$40.2 million at September 30, 2014 and \$72.7 million at December 31, 2013.

Measurements on a Non-recurring Basis

For the nine months ended September 30, 2014, we recorded a \$34.8 million pre-tax impairment charge related to three dive support vessels and a construction barge that we wrote down to fair market value, and a \$1.9 million impairment charge relating to certain equipment that had been removed from a construction barge and miscellaneous other equipment not currently being utilized in our operations. The dive support vessels and construction barge were written down to fair market value using Level 3 inputs based on market based appraisals. The other equipment was measured using Level 3 inputs based on expected proceeds.

For the nine months ended September 30, 2013, we recorded a \$20.0 million pre-tax impairment charge related to four construction barges that we wrote down to fair value, and a \$0.1 million impairment charge relating to a facility that was held for sale. Two of the barges were cold stacked and were written down to fair market value using Level 3 inputs based on market based appraisals. The other two barges were held for sale, and they and the facility were measured using Level 3 inputs based on expected proceeds. The facility was sold in the second quarter 2013, and the two barges held for sale were sold in the fourth quarter 2013 and first quarter 2014. We did not have any other fair value adjustments for assets and liabilities measured at fair value on a non-recurring basis for the nine months ended September 30, 2014 and 2013, respectively.

5. Dispositions

Effective May 31, 2014, we completed the sale of our U.S. Gulf of Mexico shallow water surface diving fleet to a privately held company for cash of \$18.5 million and a 19.9% equity interest in the entity acquiring the assets. The assets sold are comprised of eight surface dive support vessels and miscellaneous inventory and equipment utilized in our U.S. operations. The value of the 19.9% equity interest was determined to be \$2.4 million based on the fair value of the net assets of the acquiring entity using a market approach based on Level 3 inputs including asset appraisals and applicable fair value discounts. Management determined to sell these assets as part of our strategic plan to divest non-core assets. We recorded a gain of \$8.2 million during the second quarter 2014 as a result of the transaction. Net proceeds from the sale were used to repay a portion of our revolving credit facility under our Credit Agreement. We also entered into a multi-year alliance agreement with the buyer under which the buyer will have the exclusive right to provide any surface diving services we require in the U.S. Gulf of Mexico to support pipelay, decommissioning, platform installation and other integrated services. The assets sold represented less than 5% of the total net book value of our assets, and the transaction is expected to have a minimal impact to our full year 2014 financial results.

6. Commitments and Contingencies

Self-Insurance Reserves

We incur maritime employers' liability, workers' compensation and other insurance claims in the normal course of business, which management believes are covered by insurance. We analyze each claim for potential exposure and estimate the ultimate liability of each claim. Amounts due from insurance companies, above the applicable deductible limits, are reflected in other current assets in the consolidated balance sheets. Such amounts were \$1.0 million and less than \$0.1 million as of September 30, 2014 and December 31, 2013, respectively. We have not historically

incurred significant losses as a result of claims denied by our insurance carriers.

Litigation and Claims

We are involved in various legal proceedings, primarily involving claims for personal injury under the general maritime laws of the United States and the Jones Act as a result of alleged negligence. In addition, we from time to time incur other claims, such as contract disputes, in the normal course of business. Although these matters have the potential for significant additional liability, we believe the outcome of all such matters and proceedings will not have a material adverse effect on our consolidated financial position, results of operations or cash flows.

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On January 2, 2013, Cary Dale Kelley filed a lawsuit against us under the Fair Labor Standards Act ("FLSA") in the U.S. District Court, Southern District, Texas, Galveston Division, claiming that we failed to pay him and others for all wages due. The suit was brought as a collective action pursuant to section 216(b) of the FLSA on behalf of current and former hourly offshore personnel employed within the past three years. We answered the suit on February 4, 2013, denying the claims in their entirety and asserting certain affirmative defenses. On August 2, 2013, the district court granted plaintiff's motion to preliminarily certify the proposed class, following which notices were mailed to over 1,000 current and former hourly offshore employees advising them of their opportunity to participate in the lawsuit. Approximately 270 persons submitted consent forms seeking to participate in the case. Trial has not yet been scheduled and discovery has begun. At this time, it is highly speculative to accurately predict the likelihood of a liability finding against us or the potential damages that might be awarded in the case of such a finding. We continue to deny liability and intend to vigorously contest the claims asserted against us.

7. Income Taxes

As of September 30, 2014 and December 31, 2013 we had \$7.0 million and \$6.3 million, respectively, recorded as a long-term liability for uncertain tax benefits, interest and penalty.

Our effective tax benefit rate was 30.5% and 33.4% for the three and nine months ended September 30, 2014, respectively, compared to an effective tax benefit rate of 40.3% and 36.5% for the three and nine months ended September 30, 2013, respectively. The effective tax benefit rate for the nine months ended September 30, 2014 and 2013 differs from the statutory rate primarily due to the mix of pre-tax profit or loss between U.S. and international taxing jurisdictions with varying statutory rates. Our income tax benefit rate for the nine months ended September 30, 2014 and 2013 was computed by applying estimated annual effective tax rates to income before income taxes for the interim period.

While we believe our recorded assets and liabilities are reasonable, tax laws and regulations are subject to interpretation and tax litigation is inherently uncertain. As a result, our assessments involve a series of complex judgments about future events and rely heavily on estimates and assumptions.

8. Performance Share Units

We have granted certain of our officers and employees performance share units, which constitute restricted stock units under our 2006 incentive plan and other stock-based awards under our 2013 incentive plan, that vest 100% following the end of a three-year performance period. Each performance share unit represents a contingent right to receive the cash value of one share of our common stock dependent upon our total stockholder return relative to a peer group of companies over a three-year performance period. The awards are payable in cash. A maximum value of 200% of the number of performance share units granted may be earned if performance at the maximum level is achieved.

The fair value of the performance share units is re-measured at each reporting period until the awards are settled. At September 30, 2014, the fair value of all awards granted was \$0.7 million. The fair value is calculated using a Monte-Carlo simulation model which incorporates the historical performance, volatility and correlation of our stock price with our peer group. At September 30, 2014 and December 31, 2013, the performance share unit liability, reflected in accrued liabilities in the consolidated balance sheets, was \$0.2 million and \$1.2 million, respectively.

Stock-based compensation expense (benefit) recognized for the performance share units for the three and nine months ended September 30, 2014 was \$(0.2) million and \$(1.0) million, respectively, and for the three and nine months ended September 30, 2013 was \$0.3 million and \$0.8 million, respectively. The amount and timing of the recognition of additional expense or benefit will be dependent on the estimated fair value at each quarterly reporting date. Any increases or decreases in the fair value may not occur ratably over the remaining performance periods; therefore,

compensation expense related to the performance share units could vary significantly in future periods.

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9. Loss Per Share

Basic loss per share (or "EPS") is computed by dividing loss attributable to Cal Dive by the weighted average shares of outstanding common stock. The calculation of diluted EPS is similar to basic EPS, except the denominator includes dilutive common stock equivalents using the treasury stock and as if converted method. The components of basic and diluted EPS for the three and nine months ended September 30, 2014 and 2013 were as follows (in thousands, except per share amounts):

	Three Months		Nine Months Ended	
	Ended September 30, 2014	2013	September 30, 2014	2013
Numerator:				
Loss attributable to Cal Dive	\$(42,629)	\$(16,800)	\$(84,755)	\$(36,118)
Denominator:				
Basic weighted average shares outstanding	95,224	93,793	95,146	93,775
Dilutive outstanding securities ⁽¹⁾	-	-	-	-
Diluted weighted average shares outstanding	95,224	93,793	95,146	93,775
Loss per share attributable to Cal Dive:				
Basic and diluted	\$(0.45)	\$(0.18)	\$(0.89)	\$(0.39)

Approximately 3.4 million shares of unvested restricted stock have been excluded from the computation of basic (1) and diluted earnings per share as the effect would be anti-dilutive. Additionally, the Convertible Notes are only dilutive to the extent we generate net income.

10. Variable Interest Entities

In 2011, we formed a joint venture with Petrolog International, Ltd. to provide offshore installation and support services for companies operating in the offshore oil and gas industry in the West Africa region. Cal Dive owns a 60% interest in the joint venture and Petrolog owns the remaining 40% interest. Due to our financial support of the joint venture, we have determined it to be a variable interest entity of which we are the primary beneficiary. As a result, we consolidate this joint venture entity in our financial statements.

For the three and nine months ended September 30, 2014, the joint venture generated no revenue and a loss of \$0 million and \$0.6 million, respectively. For the three and nine months ended September 30, 2013, the joint venture generated revenues of \$2.3 million and \$9.9 million, respectively, and recorded income of \$1.5 million and a loss of \$1.4 million, respectively. At September 30, 2014, there were approximately \$8.9 million of assets and \$20.2 million of liabilities in the joint venture. There are no restrictions on the use of assets or settlement of liabilities associated with the joint venture. Also, creditors of the joint venture have no recourse against Cal Dive directly.

For the three and nine months ended September 30, 2014, loss attributable to non-controlling interest was \$0 million and \$0.2 million, respectively, compared to income attributable to non-controlling interest of \$1.0 million for the three months ended September 30, 2013, and loss attributable to non-controlling interest of \$0.9 million for the nine months ended September 30, 2013.

11. Business Segment Information

We have one reportable segment, Marine Contracting. We perform a significant portion of our marine contracting services in foreign waters. We derived revenues from foreign locations of \$61.4 million and \$257.7 million for the three and nine months ended September 30, 2014, respectively, and \$106.0 million and \$242.9 million for the three and nine months ended September 30, 2013, respectively. The remainder of our revenues was generated in the U.S. Gulf of Mexico and other U.S. waters.

We strategically evaluate the deployment of our assets and globally reposition vessels based on the demands of our clients and the markets in which they operate. Thus, the location of our vessels can change from period to period. Net property and equipment in foreign locations was \$98.0 million and \$259.8 million at September 30, 2014 and December 31, 2013, respectively.

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12. Subsequent Events

The significant deterioration in our financial performance in both (i) the second quarter 2014, discussed in our Quarterly Report on Form 10-Q for the second quarter 2014, and (ii) the third quarter 2014, discussed in Item 2. "Management's Discussion and Analysis of Financial Condition and Results of Operations" of this Quarterly Report on Form 10-Q, resulted in our failure to comply with the Credit Agreement Financial Covenants and the Second Lien Financial Covenants as of June 30, 2014 and September 30, 2014. Additionally, we are in default of certain payment obligations under both the Credit Agreement and the Second Lien Facility.

On September 8, 2014, we were notified by the NYSE that we no longer satisfied the minimum share price standard for continued listing of our common stock, and that we had six months to regain compliance with this continued listing standard to avoid delisting. On October 29, 2014, we received a further notice from the NYSE that it had determined to commence proceedings to delist our common stock in view of its abnormally low trading price, and trading in our common stock on the NYSE was suspended immediately. The delisting of our common stock will constitute a fundamental change under the indenture for the Convertible Notes. Our stock now trades on the OTC under the symbol "CDVI." Upon the occurrence of certain fundamental changes, holders of the Convertible Notes have the right to require us to purchase all or a portion of the Convertible Notes for cash at a price equal to 100% of the principal amount of such Convertible Notes plus any accrued and unpaid interest. See note 3.

In July and August 2014, we received the Credit Agreement Waivers and the Second Lien Waivers that waived our non-compliance at June 30, 2014 with the Credit Agreement Financial Covenants and the Second Lien Financial Covenants through successive dates ending with August 13, 2014. On August 8, 2014, we obtained the fourth Credit Agreement Waiver and fourth Second Lien Waiver, both of which waived our non-compliance at June 30, 2014 with such covenants through September 30, 2014, and required us to refinance the Credit Agreement by September 30, 2014, and to deliver a commitment for such refinancing by August 27, 2014. We delivered acceptable commitment letters by August 27, 2014; however, we were unable to complete a refinancing by September 30, 2014.

Effective October 31, 2014, we entered into Amendment No. 9 which (i) maintained the size of our revolving credit facility under the Credit Agreement at \$100.0 million through December 1, 2014, and (ii) waived our non-compliance at June 30, 2014 and September 30, 2014 of the Credit Agreement Financial Covenants and certain payment defaults, as well as the cross defaults resulting from our defaults under the Second Lien Facility, through December 1, 2014. As amended, the revolving credit facility capacity will step down from \$100.0 million to \$90.0 million on December 2, 2014.

Although the lenders under our Credit Agreement have waived our defaults through December 1, 2014, we are in default at June 30, 2014 and September 30, 2014 of the Second Lien Financial Covenants and certain payment obligations under the Second Lien Facility. The lenders under the Second Lien Facility have not waived the defaults under such facility but, as of the date hereof, have not taken any action to accelerate the debt thereunder, and continue to work cooperatively with us to resolve these defaults. If we are unable to resolve our defaults, or refinance or restructure our Credit Agreement, the lenders under both the Credit Agreement and the Second Lien Facility could request acceleration of the respective debt under each agreement. Should either group of lenders vote to accelerate the debt under their respective agreements, the cross default provisions of the Indenture under which the Convertible Notes were issued would also be triggered. Because of these defaults and these cross default provisions, all of our indebtedness is reflected as current on our balance sheet as of September 30, 2014.

While we are currently pursuing several financing alternatives that would provide us with the ability to improve our liquidity position and restructure our outstanding debt, none of these alternatives have yet been consummated. Management is currently exploring what, if any, strategic alternatives are available to prevent an acceleration of our debt obligations if our currently proposed transactions do not materialize. While our lenders have cooperated with us

to date, there can be no assurance that such cooperation will continue, or that the existing waiver by the lenders under our Credit Agreement will be further extended beyond December 1, 2014.

If we are unable to improve our liquidity position, restructure our outstanding debt, including the amendment of the financial covenants contained therein, or are unsuccessful in implementing such strategic alternatives, an exercise of any one or more of the default rights by the lenders under our existing financing obligations could ultimately lead to the financial and operational failure of the Company. If we are unable to continue as a going concern, we may seek bankruptcy protection to continue our efforts to restructure our business and capital structure and may have to liquidate our assets and may receive less than the value at which those assets are carried on our financial statements. As a result, our investors may lose their entire investment in the Company.

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Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

The following management's discussion and analysis should be read in conjunction with our historical consolidated financial statements and their accompanying notes included elsewhere in this quarterly report on Form 10-Q, and the consolidated financial statements and their accompanying notes, Management's Discussion and Analysis of Financial Condition and Results of Operations, Business and Properties sections included in our 2013 Form 10-K. This discussion contains forward-looking statements that reflect our current views with respect to future events and financial performance. Our actual results may differ materially from those anticipated in these forward-looking statements as a result of certain factors, such as those set forth under Part I, Item 1A, "Risk Factors" included in our 2013 Form 10-K.

Overview

Financial Performance

We generated a loss of \$42.6 million, or \$0.45 per diluted share, for the three months ended September 30, 2014 compared to a loss of \$16.8 million, or \$0.18 per diluted share, for the same period in 2013. During the three months ended September 30, 2014, we generated revenues of \$114.6 million compared to revenues of \$155.2 million for the same period in 2013. The decline in our third quarter 2014 financial results from the prior year period was primarily the result of reduced activity in Mexico due to the completion of two of our projects for Pemex and Pemex's further delay in recommencing the work on two suspended projects until late in the fourth quarter 2014. Additionally, the third quarter 2014 results include a \$34.8 million pre-tax impairment charge primarily related to three dive support vessels and one construction barge that we wrote down to fair value. Our third quarter 2013 results include a pre-tax impairment charge of \$20.0 million primarily related to four construction barges that we wrote down to fair value.

We generated a loss of \$84.8 million, or \$0.89 per diluted share, for the nine months ended September 30, 2014 compared to a loss of \$36.1 million, or \$0.39 per diluted share, for the same period in 2013. During the nine months ended September 30, 2014, we generated revenues of \$355.4 million compared to revenues of \$357.2 million for the same period in 2013. The decline in our financial results for the first nine months of 2014 over the prior year period was primarily the result of unseasonably adverse weather that delayed the start of the summer work season in the U.S. Gulf of Mexico, as well as causing delays and cost overruns on two of our four projects in Mexico, the recording of a provision for doubtful accounts related to a receivable for amounts owed to us by a contractor in Mexico that is now subject to bankruptcy proceedings, and our third quarter results discussed above.

We have now completed the first two projects for Pemex. We completed the first project in the second quarter 2014. We were scheduled to complete the second project in the third quarter 2014; however this project was extended by delays and additional work requested by Pemex and was completed in early November 2014. The remaining two projects continue to be temporarily suspended by Pemex as it waits for the platforms to be installed by other contractors. Once the two platforms are installed, we will complete the remaining scopes of work on both projects, which consists of tie in work and topside hook up and commissioning work on one project, and a short pipeline scope of work plus tie in and topside hook up and commissioning work on the second project. Because the delays associated with the remaining two projects have been caused by Pemex, under the terms of the contracts the risk of further weather delays offshore will be borne by Pemex for the remaining scopes of work. We were expecting to recommence work on one of these two projects late in the third quarter 2014; however the platform installation was further delayed by the other contractor. Based on Pemex's current project schedule, we expect to recommence work on these two projects late in the fourth quarter 2014 and complete these two projects by the second quarter 2015. We estimate that we are approximately 80% complete on the remaining two Mexico projects on a combined basis, and expect that the remaining two projects will be completed profitably at margins we originally anticipated. As we complete these

projects, we will invoice Pemex and expect to collect payment for our work over the next several quarters.

The significant deterioration in our financial performance in both (i) the second quarter 2014, discussed in our Quarterly Report on Form 10-Q for the second quarter 2014, and (ii) the third quarter 2014, discussed in this Quarterly Report on Form 10-Q, resulted in our failure to comply with the Credit Agreement Financial Covenants and the Second Lien Financial Covenants as of June 30, 2014 and September 30, 2014, and has placed significant constraints on our liquidity. Additionally, we are in default of certain payment obligations under both the Credit Agreement and the Second Lien Facility. See "Liquidity and Capital Resources."

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On September 8, 2014, we were notified by the NYSE that we no longer satisfied the minimum share price standard for continued listing of our common stock, and that we had six months to regain compliance with this continued listing standard to avoid delisting. On October 29, 2014, we received a further notice from the NYSE that it had determined to commence proceedings to delist our common stock in view of its abnormally low trading price, and trading in our common stock on the NYSE was suspended immediately. The delisting of our common stock will constitute a fundamental change under the indenture for the Convertible Notes. Our stock now trades on the OTC under the symbol "CDVI." Upon the occurrence of certain fundamental changes, holders of the Convertible Notes have the right to require us to purchase all or a portion of the Convertible Notes for cash at a price equal to 100% of the principal amount of such Convertible Notes plus any accrued and unpaid interest. See "Liquidity and Capital Resources – Convertible Notes."

Effective October 31, 2014, we entered into Amendment No. 9 which (i) maintained the size of our revolving credit facility under the Credit Agreement at \$100.0 million through December 1, 2014, and (ii) waived our non-compliance at June 30, 2014 and September 30, 2014 of the Credit Agreement Financial Covenants and certain payment defaults, as well as the cross defaults resulting from our defaults under the Second Lien Facility, through December 1, 2014.

Strategic Initiatives

In mid-May 2014, our Board of Directors authorized management to explore a broad range of strategic alternatives to enhance stockholder value. We have engaged PricewaterhouseCoopers LLP as our financial advisor to assist with: (i) the evaluation and negotiation of potential refinancing options, (ii) an evaluation of our current capital structure and possible recapitalization of the Company, and (iii) an evaluation and transformation of our cost structure. Lazard Frères & Co. LLC has also been engaged as our financial advisor to assist with the evaluation of a full range of options in order to strengthen the balance sheet and enhance stockholder value, including: (i) a strategic joint venture or partnership in respect of any of our regional operations worldwide, (ii) a sale of specific assets or divisions, (iii) a merger, acquisition or other strategic transaction involving the Company, or (iv) continuing to execute our business plan. There is no assurance that we will pursue any strategic alternatives that are identified, or that the process will result in any material transaction involving the Company. We do not intend to disclose further developments with respect to this process, unless and until our Board of Directors approves a specific transaction or otherwise concludes the review of strategic alternatives. In October 2014, we also retained Alvarez & Marsal North America, LLC to provide assistance in evaluating and implementing business and capital restructuring options and to assist in negotiations with current and prospective stakeholders.

Effective May 31, 2014, we completed the sale of our U.S. Gulf of Mexico shallow water surface diving fleet to a privately held company for cash of \$18.5 million and a 19.9% equity interest in the entity acquiring the assets. The assets sold are comprised of eight surface dive support vessels and miscellaneous inventory and equipment. We recorded a gain of \$8.2 million during the second quarter as a result of the transaction. Net proceeds from the sale were used to repay a portion of our revolving credit facility under our Credit Agreement. We also entered into a multi-year alliance agreement with the buyer under which the buyer will have the exclusive right to provide any surface diving services we require in the U.S. Gulf of Mexico to support pipelay, decommissioning, platform installation and other integrated services. This transaction was part of our strategic plan to divest non-core assets, strengthen our balance sheet and pursue opportunities that enhance stockholder value. The assets sold represented less than 5% of the total net book value of our assets, and the transaction is expected to have a minimal impact to our full year 2014 financial results.

Market Conditions and Outlook

Internationally, revenues for the third quarter 2014 decreased 42.0% over the third quarter 2013, primarily due to reduced activity in Mexico due to the completion of one of our projects for Pemex and Pemex's further delay in

recommencing the work on the two suspended projects until late in the fourth quarter 2014. In the 2013 period, we were working on all four projects. We completed the first project in the second quarter 2014 and were scheduled to complete the second project in the third quarter 2014. However this project was extended due to delays and additional work requested by Pemex and we did not complete this project until early November 2014. Work on the remaining two projects continues to be suspended by Pemex as discussed above, but we expect to recommence those projects late in the fourth quarter 2014 and to complete them by the second quarter 2015. Because the remaining two project schedules have been delayed by Pemex, the weather risk associated with these two projects will generally be borne by Pemex for the remaining work to be done on these projects. We generated \$26.2 million in revenue in Latin America in the third quarter 2014, all of which was generated from Mexico, compared to \$79.1 million in the third quarter 2013, all of which was generated from Mexico. We continue to bid on additional projects in the region.

In Australia, one of our three dive support vessels is booked on a contract that we expect will keep it utilized through the remainder of 2014. We also continue to perform work on a large saturation diving project in Australia utilizing one of our portable saturation diving systems on a third party vessel. In Southeast Asia, we continue to provide diving personnel and management under a three-year contract on two portable saturation diving systems that we sold to a customer in China. In the North Sea, we completed our first air diving project in the third quarter, and we completed a second air diving project in the fourth quarter 2014. Our international outlook remains positive, as we continue to implement our strategy of increasing our international operations.

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Domestically, we experienced loop currents and customer delays that adversely affected our U.S. Gulf of Mexico business during the third quarter 2014. Despite these adverse conditions, domestic revenues increased for the third quarter 2014 over the third quarter 2013, and we generated revenues of \$30.5 million from new construction projects in the third quarter 2014, compared to \$13.2 million in the third quarter 2013, due to improved market conditions. In the current commodity price environment with abundant natural gas supplies, the timing and amount of our customers' spending on the U.S. Gulf of Mexico OCS are difficult to predict. Moreover, our domestic customer base has significantly changed with numerous sale and purchase transactions occurring over the last several years. Although it is unclear how long the challenging market conditions will continue, we believe the intermediate and long-term outlook for our business remains favorable in domestic markets as offshore drilling in the U.S. Gulf of Mexico OCS remains focused on oil and condensates.

For the second consecutive year, our international revenues for the third quarter 2014 were more than 50% of consolidated revenues as we continue to implement our strategy to increase our international operations. For the three and nine months ended September 30, 2014, our international revenues were 54% and 73%, respectively, of our consolidated revenues, of which our revenues generated in Latin America were 23% and 43%, respectively, of our consolidated revenues and our revenues from our contracts with Pemex were 23% and 36%, respectively, of our consolidated revenues. The following table shows our consolidated revenue mix for the three and nine months ended September 30, 2014 and 2013:

	Three Months Ended September 30, 2014		Nine Months Ended September 30, 2013	
International revenue	54%	68%	73%	68%
Domestic revenue	46%	32%	27%	32%
	100%	100%	100%	100%

Backlog

As of September 30, 2014, our backlog supported by written agreements or contract awards totaled approximately \$148.9 million, compared to approximately \$248.9 million as of December 31, 2013 and \$340.0 million at September 30, 2013. Of the backlog as of September 30, 2014, 40% is expected to be performed during 2014, with the remainder expected to be performed in 2015 and beyond. Of the backlog at September 30, 2014, approximately \$109.0 million relates to international projects with \$39.9 million relating to projects in the U.S. Gulf of Mexico. The primary reason for the decline in our backlog compared to the same period last year is that our September 30, 2013 backlog included \$191.5 million related to the four Pemex projects we were awarded during 2013. We had expected a similar level of tendering activity for new Pemex projects to occur mid-year 2014, but the tendering process has been delayed by Pemex to late in fiscal 2014 and early in fiscal 2015. The contracts included in our backlog are cancellable without penalty in most cases. Backlog is not a reliable indicator of total annual revenues because it does not include the substantial portion of our revenues that is derived from the spot market.

Vessel Utilization

We believe vessel utilization is a key performance metric for our business. Utilization is a strong indicator of demand for our vessels and, as a result, the contract rates we may charge for our services. Marine operations are typically seasonal and depend, in part, on weather conditions. Historically, we have experienced our lowest vessel utilization

rates during the winter and early spring, when weather conditions are least favorable for offshore exploration, development and construction activities. Accordingly, we attempt to schedule our drydock inspections and other routine and preventative maintenance programs during this period. From time to time, we temporarily remove from service certain vessels based on current market conditions. The bid and award process during the first two quarters typically leads to the commencement of construction activities during the second and third quarters.

A significant portion of our international revenues, particularly in the Southeast Asia, Australia and the North Sea regions, are derived from our provision of diving services without the use of Company-owned vessels. For example, we provide surface diving services from third party vessels or structures, and we provide saturation diving services from our portable saturation diving systems placed on chartered vessels, the customer's vessel or other third party vessels, and in some cases from a third party portable saturation diving system. In addition, certain of our projects in Mexico are being performed with a combination of our owned vessels and third party chartered vessels. As a result, we may realize additional revenues in these international regions that will not be reflected in our utilization rates.

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The following table shows the effective utilization of our vessels during the three and nine months ended September 30, 2014 and 2013:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
	Utilization(1)	Utilization(1)	Utilization(1)	Utilization(1)
Saturation Diving	40%	74%	49%	62%
Surface and Mixed Gas Diving ⁽²⁾	29%	48%	28%	40%
Construction Barges	36%	36%	34%	20%
Entire Fleet	36%	50%	36%	39%

Effective vessel utilization is calculated by dividing the total number of days the vessels generated revenues by the total number of days the vessels were available for (1) operation in each period, including those temporarily removed from service, but excluding vessels permanently removed from service or while in drydock.

(2) We sold eight domestic surface dive support

vessels effective May 31, 2014; accordingly utilization for the 2014 periods is calculated only through that date for those vessels. We continue to operate three surface dive support vessels in Australia.

Results of Operations

Revenues

Three Months Ended September 30, 2014		Increase/(Decrease) 2014 to 2013		Nine Months Ended September 30, 2014		Increase/(Decrease) 2014 to 2013		
(in thousands)		(in thousands, except %)		(in thousands)		(in thousands, except %)		
Revenues	\$114,583	\$155,246	\$ (40,663)	(26)%	\$355,376	\$357,151	\$ (1,775)	(1)%

Revenues for the three months ended September 30, 2014 decreased by \$40.7 million, or 26%, compared to the same quarter in 2013, due to a 42% decrease in international revenues primarily related to reduced activity in Mexico due to the completion of one of our projects for Pemex and Pemex's further delay in recommencing the work on the two suspended projects in Mexico, offset by an 8% increase in domestic revenues due to increased new construction activity. The increase in domestic revenues was partially offset by the sale of our surface diving fleet during the second quarter 2014.

The \$1.8 million, or 1%, decrease in revenues for the nine months ended September 30, 2014 compared to the 2013 nine-month period is primarily attributable to a 15% decrease in domestic revenues due to adverse weather conditions and customer delays in project schedules and lower utilization of our dive support vessels in the U.S. Gulf of Mexico, offset by a 3% increase in international revenues primarily related to higher revenues in Latin America compared to the 2013 period.

Gross profit (loss)

Three Months		Increase/(Decrease)	Nine Months		Increase/(Decrease)
Ended			Ended		
September 30,		2014 to 2013	September 30,		2014 to 2013
2014	2013	(in thousands,	2014	2013	(in thousands,
(in thousands)		except %)	(in thousands)		except %)
Gross profit (loss)	\$(2,219) \$10,446	\$(12,665) (121)%	\$(25,869) \$1,559	\$(27,428) (1,759)%	

Gross loss for the three months ended September 30, 2014 deteriorated \$12.7 million compared to the third quarter 2013, and gross loss for the nine months ended September 30, 2014 deteriorated \$25.9 million compared to the same period of 2013, primarily due to further delays on our projects in Mexico, as well as loop currents and customer delays in construction project schedules in the U.S. Gulf of Mexico.

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General and administrative expenses

	Three Months				Nine Months			
	Ended		Increase/(Decrease)		Ended		Increase/(Decrease)	
	September 30,	September 30,	2014 to 2013		September 30,	September 30,	2014 to 2013	
	2014	2013	(in thousands,		2014	2013	(in thousands,	
	except %)		except %)		except %)		except %)	
General and administrative expenses	\$10,273	\$11,140	\$ (867)	(8)%	\$31,881	\$33,851	\$ (1,970)	(6)%
General and administrative expenses as a percentage of revenues	9%	7%	2%	29%	9%	9%	0%	0%

General and administrative expenses for the three months ended September 30, 2014 decreased from the same period ended September 30, 2013 by \$0.9 million, or 8%, due to lower headcount and associated stock based compensation, offset by higher professional fees.

General and administrative expenses for the nine months ended September 30, 2014 decreased from the same period ended September 30, 2013 by \$2.0 million, or 6%, due to the reimbursement of attorney's fees awarded during the first quarter 2014 in connection with our collection of an overdue receivable from a customer in China, as well as lower headcount and associated stock based compensation, offset by international expansion costs.

Provision for doubtful accounts

	Three Months				Nine Months			
	Ended		Increase/(Decrease)		Ended		Increase/(Decrease)	
	September 30,	September 30,	2014 to 2013		September 30,	September 30,	2014 to 2013	
	2014	2013	(in thousands,		2014	2013	(in thousands,	
	except %)		except %)		except %)		except %)	
Provision for doubtful accounts	\$ 1,279	\$ —	\$ 1,279	NA	\$10,787	\$ —	\$10,787	NA

During the third quarter 2014, we recorded a provision for doubtful accounts of \$1.3 million related to a receivable owed to us by a customer in the U.S. that was deemed to be uncollectible. Additionally, during the second quarter 2014, we recorded a provision for doubtful accounts of \$9.5 million related to a receivable owed to us by a contractor in Mexico that became subject to bankruptcy proceedings in July 2014. No provision for doubtful accounts was recorded during the three and nine months ended September 30, 2013.

Asset impairments

	Three Months				Nine Months			
	Ended		Increase/(Decrease)		Ended		Increase/(Decrease)	
	September 30,	September 30,	2014 to 2013		September 30,	September 30,	2014 to 2013	
	2014	2013	(in thousands,		2014	2013	(in thousands,	
	except %)		except %)		except %)		except %)	

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	(in thousands)	(in thousands, except %)		(in thousands)	(in thousands, except %)			
Asset impairment	\$34,826	\$20,041	\$ 14,785	74%	\$36,773	\$20,166	\$ 16,607	82%

During the third quarter 2014, we recorded a \$34.8 million pre-tax impairment charge related to three dive support vessels and a construction barge that we wrote down to fair market value. Additionally, during the second quarter 2014 we recorded a \$1.9 million impairment charge relating to certain equipment that had been removed from a construction barge and miscellaneous other equipment not currently being utilized in our operations, which has been written down to fair market value.

During the third quarter 2013, we recorded a \$20.0 million pre-tax impairment charge primarily related to four construction barges that we wrote down to fair market value. Additionally, during the first quarter 2013, we recorded a \$0.1 million impairment charge relating to a facility that was held for sale and sold during April 2013.

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Other costs

	Three Months			Nine Months		
	Ended	Increase/(Decrease)		Ended	Increase/(Decrease)	
	September 30,			September 30,		
	2014	2013	2014 to 2013	2014	2013	2014 to 2013
	(in thousands)		(in thousands, except %)	(in thousands)		(in thousands, except %)
Other costs	\$ 2,656	\$ —	\$ 2,656 NA	\$ 2,656	\$ —	\$ 2,656 NA

During the third quarter 2014, we recorded \$2.7 million related to transaction costs incurred in connection with our efforts to refinance our Credit Agreement and pursue our strategic initiatives. These costs include the fees and expenses of financial and legal advisors for us, our existing lenders and prospective lenders.

(Gain) loss on sale of assets and other (income) expense, net

	Three Months			Nine Months		
	Ended	Increase/(Decrease)		Ended	Increase/(Decrease)	
	September 30,			September 30,		
	2014	2013	2014 to 2013	2014	2013	2014 to 2013
	(in thousands)		(in thousands, except %)	(in thousands)		(in thousands, except %)
(Gain) loss on sale of assets	\$ 708	\$ (314)	\$ (1,022) (325)%	\$ (8,209)	\$ (3,437)	\$ 4,772 139%
Other (income) expense, net	(212)	337	(549) (163)%	8	792	(784) (99)%

There were no significant asset sales during the third quarter 2014. The \$0.7 million loss recorded during the quarter relates to additional expenses incurred to make improvements to a portable saturations diving system that we sold during the first quarter 2014 that were necessary in order to obtain a class certification required by the buyer of the system. During the second quarter 2014, we sold eight surface diving vessels and related equipment and inventory for a total purchase price of \$20.9 million, consisting of \$18.5 million in cash and a 19.9% equity interest in the entity acquiring the assets. We recognized a gain of \$8.2 million on this sale. The net proceeds from this sale were used to repay a portion of our revolving credit facility under our Credit Agreement. Also, during the first quarter 2014, we assigned the lease for a Louisiana dock facility and sold certain leasehold improvements and other assets located at that facility to the assignee for net proceeds of \$3.5 million. We recognized a gain of \$0.7 million on the sale. Also, during the first quarter 2014, we sold a portable saturation diving system to a customer in China for \$9.3 million and received net proceeds of \$3.2 million, representing the initial installment of the purchase price, with the remaining quarterly installment payments to be made through mid-2016. We recorded a gain on this sale of \$0.8 million.

During the third quarter 2013, we sold miscellaneous equipment for a small gain. During the second quarter 2013, we sold a shore-based facility in Louisiana that was held for sale for net proceeds of \$6.1 million. We did not recognize a gain or loss on this sale. During the second quarter 2013 we also sold certain dive equipment for \$3.4 million, and received net proceeds of \$1.7 million, representing the first installment of the purchase price, with the remainder expected to be received by the end of 2014. We recorded a gain of \$3.4 million on this sale. The net proceeds from these sales were used to repay a portion of our then outstanding secured term loan under our Credit Agreement in April 2013.

Other (income) expense is primarily from foreign currency gains and losses on transactions conducted in currencies other than the U.S. dollar.

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Interest expense

	Three Months				Nine Months			
	Ended		Increase/(Decrease)		Ended		Increase/(Decrease)	
	September 30,	2013	2014 to 2013		September 30,	2013	2014 to 2013	
	(in thousands)		(in thousands, except %)		(in thousands)		(in thousands, except %)	
Interest expense, net	\$9,571	\$5,677	\$ 3,894	69%	\$23,156	\$14,939	\$ 8,217	55%
Interest expense, adjustment to conversion feature of convertible debt	\$—	\$—	\$ —	—%	\$—	\$(6,362)	\$(6,362)	NA

The increase in interest expense, net for the three and nine months ended September 30, 2014 from the same period in 2013 is primarily due to interest on the Second Lien Facility, an increase in the average amount outstanding on our revolving credit facility due to the continued strain on our working capital caused by the delays in our projects in Mexico and higher interest rate margins on our outstanding debt as we paid interest at a higher default rate during the third quarter 2014 under our Credit Agreement and Second Lien Facility. This increase was partially offset by the interest awarded during the first quarter 2014 on the overdue receivable we collected from a client in China. Cash paid for interest was \$7.4 million and \$17.4 million for the three and nine months ended September 30, 2014, respectively, compared to \$3.7 million and \$8.4 million for the three and nine months ended September 30, 2013, respectively.

There was no mark-to-market adjustment of the fair value of our derivative liability during the third quarter 2014, as we obtained stockholder approval to issue the maximum number of shares of our common stock necessary to accommodate full conversion of the Convertible Notes at our 2013 Annual Meeting on May 14, 2013. At September 30, 2014, we had the ability to settle the conversion feature fully in shares of our common stock, and as a result, after May 14, 2013, the embedded conversion feature was no longer required to be separately valued and accounted for as a derivative liability. The \$6.4 million reduction of interest expense for the nine months ended September 30, 2013 reflects the final mark-to-market adjustment of the fair value of our derivative liability through May 14, 2013 related to the conversion feature of the Notes. The adjustment reflects the decrease in our stock price at May 14, 2013 from March 31, 2013. Upon a delisting of our common stock, the conversion feature will again be recognized as a derivative liability on our balance sheet.

Loss on early extinguishment of debt

	Three Months				Nine Months			
	Ended		Increase/(Decrease)		Ended		Increase/(Decrease)	
	September 30,	2013	2014 to 2013		September 30,	2013	2014 to 2013	
	(in thousands)		(in thousands, except %)		(in thousands)		(in thousands, except %)	
Loss on early extinguishment of debt	\$ —	\$ —	\$ —	NA	\$ 4,652	\$ —	\$ 4,652	NA

During the second quarter 2014, we recorded a loss on early extinguishment of debt related to the repayment of the secured term loan under the Credit Agreement as well as the reduction of the capacity of the revolving credit facility under the Credit Agreement. The loss consisted of the write-off of the unamortized portion of deferred financing costs and transaction fees.

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Income tax benefit

	Three Months Ended				Nine Months Ended			
	September 30,		Increase/(Decrease)		September 30,		Increase/(Decrease)	
	2014	2013	2014 to 2013		2014	2013	2014 to 2013	
	(in thousands)		(in thousands, except %)		(in thousands)		(in thousands, except %)	
Income tax benefit	\$(18,685)	\$(10,643)	\$ 8,042	76%	\$(42,586)	\$(21,334)	\$ 21,252	100%

Our effective tax benefit rate was 30.5% and 33.4% for the three and nine months ended September 30, 2014, respectively, compared to an effective tax benefit rate of 40.3% and 36.5% for the three and nine months ended September 30, 2013, respectively. The effective tax benefit rate for the three and nine months ended September 30, 2014 and 2013 differs from the statutory rate primarily due to the mix of pre-tax profit or loss between U.S. and international taxing jurisdictions with varying statutory rates and a change in our valuation allowances.

Loss attributable to Cal Dive

	Three Months Ended				Nine Months Ended			
	September 30,		Increase/(Decrease)		September 30,		Increase/(Decrease)	
	2014	2013	2014 to 2013		2014	2013	2014 to 2013	
	(in thousands)		(in thousands, except %)		(in thousands)		(in thousands, except %)	
Loss attributable to Cal Dive	\$(42,629)	\$(16,800)	\$ 25,829	154%	\$(84,755)	\$(36,118)	\$ 48,637	135%
Weighted average diluted shares outstanding	95,224	93,793	1,431	1.5%	95,146	93,775	1,371	1.5%
Diluted loss per share	\$(0.45)	\$(0.18)	\$ 0.27	150%	\$(0.89)	\$(0.39)	\$ 0.50	128%

The loss for the three and nine months ended September 30, 2014, respectively, increased from the same periods ended September 30, 2013 by \$25.8 million and \$48.6 million, respectively, and diluted loss per share increased, as a result of the factors described above.

Liquidity and Capital Resources

We require capital to fund ongoing operations and strategic initiatives. Also, our larger international contracts often require significant working capital. Our primary sources of liquidity have been cash flows from our operations, available cash and cash equivalents and borrowing availability under our revolving credit facility. Additionally, in May 2014 we entered into the Second Lien Facility to further enhance our liquidity due to the significant working capital demands of our four projects in Mexico. We have used, and expect to continue using, these sources of liquidity to fund our working capital requirements, capital expenditures, strategic investments and acquisitions. However, at September 30, 2014, we had no further borrowing capacity under our Credit Agreement and had \$9.6 million of cash on hand. With the additional liquidity to be provided by the refinancing of our Credit Agreement, non-core asset sales and other strategic efforts discussed below, we expect to be able to fund our activities for the next 12 months with

cash flows generated from our operations (as we expect to complete the work on the remaining Pemex projects by the second quarter 2015 and invoice and receive payment for our work over the next several quarters), available cash and cash equivalents, project financing and our revolving credit facility.

Our ability to fund our business activities and achieve our near-term and long-term objectives of increasing our international operations continues to be adversely affected by liquidity constraints caused by the challenging market conditions and the operational hazards, including weather risk, that we have discussed in our 2013 Form 10-K as well as the increasing demands on our working capital imposed by the terms of the contracts, including milestone billing provisions, typical of the international markets in which we operate. Historically we have relied on our internally generated cash flow, our Credit Agreement and Second Lien Facility to fund a significant portion of our current and prospective working capital needs. If unfavorable market conditions continue and our refinancing, non-core asset sales and other strategic efforts are not successful, we may experience more adverse impacts on our liquidity position, as we have no further borrowing capacity under our Credit Agreement and availability under our Credit Agreement is reduced by outstanding borrowings and letters of credit.

Our working capital needs tend to increase during the summer months in the U.S. Gulf of Mexico as we experience a seasonal increase in activity. Additionally, our contract awards in Mexico often require us to make large up-front purchases of pipe and other project materials. These contracts also contain milestone billing provisions under which we may only invoice for our work when the overall project has met certain milestones. We completed the first project in the second quarter 2014. We were scheduled to complete the second project in the third quarter 2014; however it was extended by delays and additional work requested by Pemex. We completed this project in early November 2014. The two remaining projects for Pemex continue to be temporarily suspended by Pemex as it waits for the delivery and installation of platforms by other contractors. These suspensions have impeded our ability to meet the milestones on these two projects and as a consequence, invoice and collect payment for the work we have completed. This has resulted in significant constraints on our liquidity. Once each of these platforms is installed, we will complete our remaining scopes of work and will invoice Pemex and receive payment for our work. Based on Pemex's current project schedule, we expect to complete these two projects by the second quarter 2015. As of September 30, 2014, we had \$6.5 million in accounts receivable-trade and \$80.9 million in accounts receivable-contracts in progress related to Pemex contracts. We expect to collect these receivables as well as the remaining revenue to be recognized through completion of these projects over the next several quarters.

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As we continue to implement our strategy to increase our international activity, we will have increasing demands on our working capital due to these and similar requirements of the contracts typical of the international markets in which we operate. In June 2013 we obtained the Unsecured Term Loan and in May 2014, we obtained the Second Lien Facility in order to fund a portion of the working capital needed for our contract awards in Mexico. However, our ability to maintain sufficient liquidity to pursue future large international project awards depends on an overall improvement in our financial performance and our ability to reduce our reliance on third party financing for our working capital needs.

At September 30, 2014, we had total debt outstanding of \$286.1 million including the principal balance under the revolving credit facility under our Credit Agreement, the principal balance under the Second Lien Facility and the principal amount of the Convertible Notes, and we had \$9.6 million of cash on hand. The Convertible Notes are recorded net of a \$15.4 million debt discount on the consolidated balance sheet as of September 30, 2014.

The significant deterioration in our financial performance in both (i) the second quarter 2014, discussed in our Quarterly Report on Form 10-Q for the second quarter 2014, and (ii) the third quarter 2014, discussed in this Quarterly Report on Form 10-Q, resulted in our failure to comply with the Credit Agreement Financial Covenants and the Second Lien Facility Financial Covenants as of June 30, 2014 and September 30, 2014, and has placed significant constraints on our liquidity. Additionally, we are in default of certain payment obligations under both the Credit Agreement and the Second Lien Facility.

In July and August 2014, we received the Credit Agreement Waivers and the Second Lien Facility Waivers that waived our non-compliance at June 30, 2014 with such covenants through successive dates ending with August 13, 2014. On August 8, 2014, we obtained the fourth Credit Agreement Waiver and fourth Second Lien Facility Waiver, both of which waived our non-compliance at June 30, 2014 with such covenants through September 30, 2014 and required us to refinance the Credit Agreement by September 30, 2014, and to deliver a commitment letter for such refinancing by August 27, 2014. We delivered acceptable commitment letters by August 27, 2014; however, we were unable to complete a refinancing of the Credit Agreement by September 30, 2014.

Effective October 31, 2014, we entered into Amendment No. 9 which (i) maintained the size of our revolving credit facility under the Credit Agreement at \$100.0 million through December 1, 2014, and (ii) waived our non-compliance at June 30, 2014 and September 30, 2014 of the Credit Agreement Financial Covenants and certain payment defaults under the Credit Agreement, as well as the cross defaults resulting from our defaults under the Second Lien Facility, through December 1, 2014.

Although the lenders under our Credit Agreement have waived our defaults through December 1, 2014, we are in default at June 30, 2014 and September 30, 2014 of the Second Lien Financial Covenants and certain payment obligations under the Second Lien Facility. Although the lenders under the Second Lien Facility have not waived the defaults under such facility, as of the date hereof, they have not taken any action to accelerate the debt thereunder, and continue to work cooperatively with us to resolve these defaults. If we are unable to resolve our defaults, or refinance or restructure our Credit Agreement, the lenders under both the Credit Agreement and the Second Lien Facility could request acceleration of the respective debt under each agreement. Should either group of lenders vote to accelerate the debt under their respective agreements, the cross default provisions of the indenture under which the Convertible Notes were issued would also be triggered. Because of these defaults and cross default provisions, all of our indebtedness is reflected as current on our balance sheet as of September 30, 2014.

Moreover, on September 8, 2014, we received notice from the NYSE that we no longer satisfied the minimum share price standard for continued listing of our common stock, and that we had six months to regain compliance with this continued listing standard to avoid delisting. On October 29, 2014, we received a further notice from the NYSE that it had determined to commence proceedings to delist our common stock in view of its abnormally low trading price, and

trading in our common stock on the NYSE was suspended immediately. The delisting of our common stock will constitute a fundamental change under the indenture for the Convertible Notes. Our stock now trades on the OTC under the symbol "CDVI."

While we are currently pursuing several financing alternatives that would provide us with the ability to improve our liquidity position and restructure our outstanding debt, none of these alternatives have as yet been consummated. Management is currently exploring what, if any, strategic alternatives are available to prevent an acceleration of our debt obligations if our currently proposed transactions do not materialize. While our lenders have cooperated with us to date, there can be no assurance that such cooperation will continue, or that the existing waiver by the lenders under our Credit Agreement will be further extended beyond December 1, 2014.

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If we are unable to improve our liquidity position, restructure our outstanding debt, including the amendment of the financial covenants contained therein, or are unsuccessful in implementing such strategic alternatives, an exercise of any one or more of the default rights by the lenders under our existing financing obligations could ultimately lead to the financial and operational failure of the Company. If we are unable to continue as a going concern, we may seek bankruptcy protection to continue our efforts to restructure our business and capital structure and may have to liquidate our assets and may receive less than the value at which those assets are carried on our financial statements. As a result, our investors may lose all of their investment in the Company.

Even if we are able to obtain additional financing or consummate restructuring alternatives, our significant level of corporate debt may continue to:

reduce the availability of our cash flow or limit our ability to obtain additional financing on satisfactory terms to effectively fund our working capital requirements, capital expenditures, acquisitions, investments, and other general corporate requirements;

increase our vulnerability to downturns in the general economy or industry;

put us at a competitive disadvantage compared to those of our competitors who are not as leveraged;

increase our exposure to rising interest rates because a material portion of our borrowings bear adjustable interest rates; and

limit our flexibility in planning for, or reacting to, changes in our business and the industry in which we operate.

If our cash flow and capital resources are not sufficient to service our debt obligations, we may be forced to reduce or delay our business activities and capital expenditures, sell assets, seek additional equity or debt capital, or restructure or refinance our debt. These measures might not be adequate to permit us to meet our scheduled debt service obligations. Additionally, we may experience a negative operating cash flow due to billing milestones and project timelines in certain of our contracts, which could also impede our ability to meet our scheduled debt service obligations. A default on these debt obligations could cause a default under our other debt instruments and ultimately lead to the financial and operational failure of the Company.

Senior Secured Credit Facility

At September 30, 2014, we had a Credit Agreement providing for a senior secured credit facility, consisting of a variable-interest \$100.0 million revolving credit facility, with certain financial institutions, which matures on April 26, 2016. Prior to May 9, 2014, the Credit Agreement also provided for a variable-interest term loan, under which \$29.7 million was outstanding. We repaid the term loan in full in May 2014 from the proceeds of the Second Lien Facility.

At September 30, 2014, we had \$99.8 million borrowed and no letters of credit issued and outstanding under our revolving credit facility. At September 30, 2014, we had no further borrowing capacity under our revolving credit facility. The availability under our revolving credit facility is reduced by outstanding borrowings and letters of credit, and can be limited by our Leverage Covenant at each quarter end and by our collateral coverage sublimit. However, our revolver is not otherwise restricted during the year provided we are in compliance with existing financial covenants. Subject to these limitations, we may borrow from or repay the revolving credit facility as business needs merit.

Effective May 9, 2014, we entered in Amendment No. 8 to among other things: (i) reduce the aggregate principal amount of second lien debt we may incur to \$100.0 million; (ii) give pro forma effect to the second lien debt in

calculating the Leverage Covenant for the fiscal quarter ended March 31, 2014; and (iii) increase the amount we are allowed to incur in project financing for foreign projects from \$30.0 million to \$75.0 million. Amendment No. 8 also required the size of the revolving credit facility under the Credit Agreement to be reduced by \$5.0 million per month from May 31, 2014 to December 31, 2014 until reduced to \$85.0 million.

On July 17, July 21 and July 28, 2014, we obtained the Credit Agreement Waivers that waived our non-compliance at June 30, 2014 of the Credit Agreement Financial Covenants through successive dates ending with August 13, 2014. On August 8, 2014 we obtained a fourth Credit Agreement Waiver that waived our non-compliance at June 30, 2014 of the Credit Agreement Financial Covenants through September 30, 2014 provided we refinance the Credit Agreement with a new group of lenders by September 30, 2014 and provide an executed commitment letter for such refinancing by August 27, 2014. We delivered acceptable commitment letters by August 27, 2014; however, we were unable to refinance the Credit Agreement by September 30, 2014.

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Effective October 31, 2014, we entered into Amendment No. 9 which (i) maintained the size of our revolving credit facility under the Credit Agreement at \$100.0 million through December 1, 2014, and (ii) waived our non-compliance at June 30, 2014 and September 30, 2014 of the Credit Agreement Financial Covenants and certain payment defaults under the Credit Agreement, as well as the cross defaults resulting from our defaults under the Second Lien Facility, through December 1, 2014. As amended, the revolving credit facility capacity will step down from \$100.0 million to \$90.0 million on December 2, 2014.

Unsecured Term Loan

On June 27, 2013, we entered into a credit agreement with a financial institution providing for the \$20.0 million Unsecured Term Loan. The Unsecured Term Loan consisted of two tranches of \$10.0 million. Effective December 31, 2013, we amended the Unsecured Term Loan to extend the maturity date for the first tranche from January 2, 2014 to April 30, 2014 and effective April 30, 2014, we further amended the Unsecured Term Loan to extend the maturity date for the first tranche from April 30, 2014 to May 30, 2014. The second tranche was scheduled to mature on June 26, 2015. The net proceeds of the Unsecured Term Loan were used for certain working capital requirements relating to our contract awards in Mexico. On May 9, 2014, the Unsecured Term Loan was converted from an unsecured term loan to a second lien term loan under the Second Lien Facility.

Senior Secured Second Lien Term Loan Facility

On May 9, 2014, we entered into the Second Lien Facility. The \$20.0 million Unsecured Term Loan was converted from an unsecured term loan to a second lien term loan of equivalent amount, constituting the first tranche under the Second Lien Facility. A second tranche consisting of an \$80.0 million second lien term loan under the Second Lien Facility was funded at closing. The net proceeds of the Second Lien Facility were used to repay in full the term loan under the Credit Agreement and to repay a portion of the outstanding amounts under the revolving credit facility under the Credit Agreement.

Both tranches of the term loan under the Second Lien Facility mature on May 9, 2019, with no scheduled amortization of the term loans prior to maturity. Interest on the Second Lien Facility is payable on the last day of each calendar month in arrears, beginning on May 30, 2014.

On July 17, July 21 and July 20, 2014, we obtained the Second Lien Facility Waivers that waived our non-compliance at June 30, 2014 of the Second Lien Financial Covenants through successive dates ending with August 13, 2014. On August 8, 2014 we obtained a fourth Second Lien Facility Waiver that waived our non-compliance at June 30, 2014 of the Second Lien Facility Financial Covenants through September 30, 2014, provided we refinance the Credit Agreement with a new group of lenders by September 30, 2014 and provide an executed commitment letter for such refinancing by August 27, 2014. We delivered acceptable commitment letters by August 27, 2014; however, we were unable to refinance the Credit Agreement by September 30, 2014. Although the lenders under the Second Lien Facility have not waived the defaults under such facility, as of the date hereof, they have not taken any action to accelerate the debt thereunder, and continue to work cooperatively with us to resolve our defaults.

Convertible Notes

We have \$86.25 million aggregate principal amount of Convertible Notes outstanding. The Convertible Notes bear interest at a rate of 5.0% per year, payable semi-annually in arrears on January 15 and July 15 of each year, and mature on July 15, 2017. The carrying value of the Convertible Notes on our consolidated balance sheet is net of a debt discount that is amortized through interest expense using the effective interest method through maturity of the Convertible Notes. The initial amount of the debt discount at the time of the issuance of the Convertible Notes was \$24.6 million and the effective interest rate used to amortize the debt discount is 13.3%. The debt discount as of

September 30, 2014 was \$15.4 million.

We may not redeem the Convertible Notes prior to the maturity date. Prior to April 15, 2017, holders may convert their Convertible Notes only under the following circumstances: (i) the closing sale price of our common stock equals or exceeds \$2.69 for 20 days during a 30 consecutive trading day period; (ii) the trading price per \$1,000 principal amount of the Convertible Notes is less than 98% of the product of the closing sale price of our common stock and the conversion price for the Convertible Notes for each of five consecutive trading days; or (iii) upon the occurrence of specified corporate events. On and after April 15, 2017 until the maturity date, holders may convert all or a portion of their Convertible Notes at any time. Upon conversion of a Convertible Note, we will pay or deliver, at our election, cash, shares of our common stock or a combination thereof, based on an initial conversion rate of 445.6328 shares of our common stock per \$1,000 principal amount of Convertible Notes (which is equivalent to an initial conversion price of approximately \$2.24 per share of our common stock).

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Upon the occurrence of certain fundamental changes, holders of the Convertible Notes will have the right to require us to purchase all or a portion of their Convertible Notes for cash at a price equal to 100% of the principal amount of such Convertible Notes, plus any accrued and unpaid interest. Upon the occurrence of certain significant corporate transactions, holders who convert their Convertible Notes in connection with a change of control may be entitled to a make-whole premium in the form of an increase in the conversion rate. Additionally, the Convertible Notes contain certain events of default as set forth in the indenture including cross default provisions in the event of an acceleration of our other debt. As of September 30, 2014, none of the conditions allowing holders of the Convertible Notes to convert, or requiring us to repurchase the Convertible Notes, had been met. However, on September 8, 2014, we were notified by the NYSE that we no longer satisfied the minimum share price standard for continued listing of our common stock, and that we had six months to regain compliance with this continued listing standard to avoid delisting. On October 29, 2014, we received a further notice from the NYSE that it had determined to commence proceedings to delist our common stock in view of its abnormally low trading price, and trading in our common stock on the NYSE was suspended immediately. The delisting of our common stock will constitute a fundamental change under the indenture for the Convertible Notes.

Capital Expenditures

During the nine months ended September 30, 2014, we incurred \$11.2 million for equipment purchases, improvements and replacements and \$1.0 million for regulatory drydock costs. For the remainder of 2014, we expect capital expenditures, excluding acquisitions or investments in joint ventures, to approximate \$3.0 million, primarily related to maintenance such as regulatory drydock costs. Our capital expenditure program for 2014 is subject to market conditions, including activity levels, commodity prices and industry capacity. We currently anticipate funding our 2014 capital expenditures with cash on hand.

Cash Flows

Our cash flows depend largely on the level of spending by oil and natural gas companies for marine contracting services. Certain sources and uses of cash, such as the level of discretionary capital expenditures, issuances and repurchases of debt and of our common stock, are within our control and are adjusted as necessary based on market conditions. The following is a discussion of our cash flows for nine months ended September 30, 2014 and 2013 (in thousands):

	Nine Months Ended September 30,	
	2014	2013
Net cash provided by (used in):		
Operating activities	\$(84,564)	\$(41,474)
Investing activities	15,008	(6,708)
Financing activities	66,947	46,369
Effect of exchange rate changes on cash and cash equivalents	(6)	(424)
Net increase (decrease) in cash and cash equivalents	\$(2,615)	\$(2,237)

Operating Activities. Net cash used in operating activities totaled \$84.6 million during the first nine months of 2014 compared to net cash used of \$41.5 million in the first nine months of 2013. Net cash used for the nine months ended September 30, 2014 was primarily related to the working capital needs for our four projects in Mexico and the seasonal increase in activity in the U.S. Gulf of Mexico, and our loss recorded for the period adjusted for non-cash

items. Our contracts for our projects in Mexico for Pemex contain milestone billing provisions under which we may only invoice for our work when the overall project has met certain milestones. As we execute the work and meet the milestones, we will invoice Pemex and collect the amounts due for our work. Net cash used for the nine months ended September 30, 2013 was primarily due to the up-front procurement of materials for our contracts in Mexico and our loss recorded for the period adjusted for non-cash items, offset by the receipt of a \$7.1 million tax refund related to the 2012 tax year, as well as other changes in working capital.

Investing Activities. Net cash provided by investing activities was \$15.0 million during the first nine months of 2014 compared to cash used in investing activities of \$6.7 million in the first nine months of 2013. During the first nine months of 2014 and 2013, cash paid for capital expenditures was \$12.8 million and \$14.5 million, respectively. Cash generated from the sale of property and equipment was \$27.8 million for the nine months ended September 30, 2014 primarily from the sale of eight surface dive support vessels in the second quarter 2014, as well as other assets. Cash generated from the sale of property and equipment was \$7.8 million for the nine months ended September 30, 2013 primarily from the sale of a shore-based facility in Louisiana, and certain dive equipment.

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Financing Activities. Net cash provided by financing activities was \$66.9 million during the first nine months of 2014 compared to net cash provided of \$46.4 million in the first nine months of 2013. During the first nine months of 2014, we repaid \$30.7 million under our secured term loan under our Credit Agreement and had net borrowings of \$24.5 million under our revolving credit facility under our Credit Agreement. We also received \$80.0 million under the Second Lien Facility, which we entered into in May 2014 to fund our working capital needs for our projects in Mexico. During the first nine months of 2013, we made principal payments of \$10.4 million under our secured term loan under our Credit Agreement and had net borrowings of \$37.9 million under our revolving credit agreement under our Credit Agreement. We also borrowed \$20.0 million under the Unsecured Term Loan in June 2013 to provide working capital to fund up-front procurement of materials for our Pemex contracts. On May 9, 2014, the Unsecured Term Loan was converted from an unsecured term loan to a second lien term loan under the Second Lien Facility.

Off-Balance Sheet Arrangements

As of September 30, 2014, we have no off-balance sheet arrangements. For information regarding our principles of consolidation, see note 2 to our consolidated financial statements contained in our 2013 Form 10-K.

Critical Accounting Estimates and Policies

Our accounting policies are described in the notes to our audited consolidated financial statements included in our 2013 Form 10-K. We prepare our financial statements in conformity with GAAP. Our results of operations and financial condition, as reflected in our financial statements and related notes, are subject to management's evaluation and interpretation of business conditions, changing capital market conditions and other factors that could affect the ongoing viability of our business and our customers. We believe the most critical accounting policies in this regard are those described in our 2013 Form 10-K. While these issues require us to make judgments that are somewhat subjective, they are generally based on a significant amount of historical data and current market data. There have been no material changes or developments in authoritative accounting pronouncements or in our evaluation of the accounting estimates and the underlying assumptions or methodologies that we believe to be critical accounting policies and estimates as disclosed in our 2013 Form 10-K.

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

Market Risk Management

We are exposed to market risks in our normal business activities. Market risk is the potential loss that may result from market changes associated with existing or forecasted financial transactions. The types of market risks to which we are exposed are credit risk, interest rate risk, foreign currency exchange rate risk and equity price risk. There have been no material changes in our market risk during the three months ended September 30, 2014 from those reported under Part II, Item 7A of our 2013 Form 10-K.

Item 4. Controls and Procedures.

Disclosure Controls and Procedures

Our CEO, who is also currently serving as our interim CFO, with the participation of management, has evaluated the effectiveness of our "disclosure controls and procedures" (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934) as of the end of the period covered by this quarterly report on Form 10-Q. Based on his evaluation, he has concluded that our disclosure controls and procedures are effective as of the end of the period covered by this report.

Changes in Internal Control over Financial Reporting

There has been no change in our internal control over financial reporting that occurred during the quarter ended September 30, 2014 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

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PART II - OTHER INFORMATION

Cautionary Statement for Purposes of the "Safe Harbor" Provisions of the Private Securities Litigation Reform Act of 1995

This quarterly report contains or incorporates by reference statements that constitute "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1993 and Section 21E of the Securities Exchange Act of 1934. We intend that all such forward-looking information be covered by the safe harbor for "forward-looking statements" provided by the Private Securities Litigation Reform Act of 1995. Our forward-looking statements express our current expectations or forecasts of possible future results or events, including projections of future performance, statements regarding our future financial position, business strategy, budgets, projected costs and savings, forecasts of trends, and statements of management's plans and objectives and other matters. These forward-looking statements do not relate strictly to historic or current facts and often use words such as "may," "will," "expect," "intend," "estimate," "anticipate," "believe" or "continue" and other words and expressions of similar meaning.

Although we believe that the expectations reflected in such forward-looking statements are reasonable, any forward-looking statements contained herein are not guarantees of our future performance and our actual results may differ materially from those anticipated, projected or assumed in these forward-looking statements. Important factors that could cause actual results to differ materially from our expectations include: our significant indebtedness and constraints on our liquidity, the impact the delisting of our common stock from the NYSE may have on the liquidity and market price of our common stock and on our ability to conduct equity financings and access the public capital markets, current economic and financial market conditions, changes in commodity prices for natural gas and oil, and in the level of offshore exploration, development and production activity in the oil and natural gas industry, our inability to obtain contracts with favorable pricing terms if there is a downturn in our business cycle, intense competition in our industry including pricing pressure, the risks of cost overruns on fixed price contracts, the uncertainties inherent in competitive bidding for work, the operational risks inherent in our business, risks associated with our increasing presence internationally and other risks detailed in Part I, Item 1A "Risk Factors" of our 2013 Form 10-K. Accordingly, we give no assurance that any of the events anticipated by the forward-looking statements will transpire or occur, nor what impact, if any, they may have on our results of operations or financial condition. Forward-looking statements speak only as of the date of this quarterly report, and, except for our ongoing obligations under the federal securities laws, we do not intend to update and undertake no obligation to update or revise such forward-looking statements to reflect new circumstances or unanticipated events as they occur.

Item 1A. Risk Factors.

There have been no material changes during the nine months ended September 30, 2014 to the risk factors previously disclosed in our 2013 Form 10-K.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.

Purchases of Equity Securities by the Issuer

The table below summarizes the repurchases of our common stock in the third quarter of 2014:

Period	Total Number of Shares Purchased(1)	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number (or Approximate Dollar Value) of Shares that May
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				Yet Be Purchased Under the Plans or Programs (in thousands)
July 1 to July 31, 2014	1,296	\$1.28	—	NA
August 1 to August 31, 2014	—	—	—	NA
September 1 to September 30, 2014	—	—	—	NA
	1,296	\$1.28	—	NA

(1) Represents shares surrendered to us by employees in order to satisfy tax withholding obligations upon vesting of restricted stock.

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Item 6. Exhibits

Exhibits filed as part of this quarterly report are listed in the Exhibit Index.

Items 1, 3, 4 and 5 are not applicable and have been omitted.

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SIGNATURES

Pursuant to the requirements 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.

CAL DIVE INTERNATIONAL, INC.

Date: November 7, 2014 By: /s/ Quinn J. Hébert
Quinn J. Hébert
Chairman, President and Chief Executive Officer
and interim Chief Financial Officer

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EXHIBIT INDEX

Exhibit Number	Exhibit Title	Filed with this Form 10-Q	Incorporated by Reference		
			Form	File No.	Date Filed
3.1	Composite Certificate of Incorporation of Cal Dive International, Inc.		10-Q	001-33206	8/8/13
3.2	Composite Bylaws of Cal Dive International, Inc.		10-Q	001-33206	8/11/14
4.1	Specimen Common Stock certificate of Cal Dive International, Inc.		S-1	333-134609	5/31/06
4.2	Indenture, dated as of July 18, 2012, by and among Cal Dive International, Inc., the subsidiary guarantors party thereto and The Bank of New York Mellon Trust Company, N.A., as trustee		8-K	001-33206	7/18/12
4.3	First Supplemental Indenture dated as of April 26, 2013, by and among Cal Dive International, Inc., the subsidiary guarantors party thereto and The Bank of New York Mellon Trust Company, N.A., as trustee		10-Q	001-33206	8/8/13
10.1	Limited Waiver and Agreement, dated as of July 17, 2014, among Cal Dive International, Inc., the subsidiary guarantors party thereto and Bank of America, N.A., as Administrative Agent, Swing Line Lender and L/C Issuer	X			
10.2	Limited Waiver and Agreement, dated as of July 17, 2014, among Cal Dive International, Inc., the subsidiary guarantors party thereto and ABC Funding, LLC, as Administrative Agent	X			
10.3	Limited Waiver and Agreement, dated as of July 21, 2014, among Cal Dive International, Inc., the subsidiary guarantors party thereto and Bank of America, N.A., as Administrative Agent, Swing Line Lender and L/C Issuer	X			
10.4	Limited Waiver and Agreement, dated as of July 21, 2014, among Cal Dive International, Inc., the subsidiary guarantors party thereto and ABC Funding, LLC, as Administrative Agent	X			
10.5	Limited Waiver and Agreement, dated as of July 28, 2014, among Cal Dive International, Inc., the subsidiary guarantors party thereto and Bank of America, N.A., as Administrative Agent, Swing Line Lender and L/C Issuer	X			
10.6	Third Limited Waiver and Agreement, dated as of July 28, 2014, among Cal Dive International, Inc., the subsidiary guarantors party thereto and ABC Funding, LLC, as Administrative Agent	X			

10.7	Limited Waiver and Agreement, dated as of August 8, 2014, among Cal Dive International, Inc., the subsidiary guarantors party thereto and Bank of America, N.A., as Administrative Agent, Swing Line Lender and L/C Issuer	X
10.8	Fourth Limited Waiver and Agreement, dated as of August 8, 2014, among Cal Dive International, Inc., the subsidiary guarantors party thereto and ABC Funding, LLC, as Administrative Agent	X
31.1	Certification Pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934 by Chief Executive Officer	X
31.2	Certification Pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934 by Chief Financial Officer	X
32.1	Section 1350 Certification by Chief Executive Officer and Chief Financial Officer	X
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 Labels Linkbase Document	
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document	

Furnished herewith.