HELIX ENERGY SOLUTIONS GROUP INC
Form 10-Q
October 31, 2008

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

þ **Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**
For the quarterly period ended September 30, 2008

or

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

Commission File Number 001-32936

HELIX ENERGY SOLUTIONS GROUP, INC.
(Exact name of registrant as specified in its charter)

Minnesota	**95-3409686**
(State or other jurisdiction of incorporation or organization)	*(I.R.S. Employer Identification No.)*
400 North Sam Houston Parkway East Suite 400 Houston, Texas	**77060**
(Address of principal executive offices)	*(Zip Code)*

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

NOT APPLICABLE
(Former name, former address and former fiscal year, if changed since last report)

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

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

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

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

As of October 29, 2008, 91,849,691 shares of common stock were outstanding.

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PART I. FINANCIAL INFORMATION
Item 1. Financial Statements.

HELIX ENERGY SOLUTIONS GROUP, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
(in thousands)

	September 30, 2008 (Unaudited)	December 31, 2007
ASSETS		
Current assets:		
Cash and cash equivalents	$ 35,761	$ 89,555
Accounts receivable		
Trade, net of allowance for uncollectible accounts of $4,704 and $2,874, respectively	429,853	447,502
Unbilled revenue	51,881	10,715
Costs in excess of billing	95,142	53,915
Other current assets	148,378	125,582
Total current assets	761,015	727,269
Property and equipment	4,663,853	4,088,561
Less accumulated depreciation	(1,056,183)	(843,873)
	3,607,670	3,244,688
Other assets:		
Equity investments	206,805	213,429
Goodwill	1,077,411	1,089,758
Other assets, net	166,593	177,209
	$ 5,819,494	$ 5,452,353
LIABILITIES AND SHAREHOLDERS EQUITY		
Current liabilities:		
Accounts payable	$ 344,088	$ 382,767
Accrued liabilities	213,555	221,366
Current maturities of long-term debt	93,540	74,846
Total current liabilities	651,183	678,979
Long-term debt	1,815,083	1,725,541
Deferred income taxes	669,620	625,508
Decommissioning liabilities	185,306	193,650
Other long-term liabilities	74,532	63,183
Total liabilities	3,395,724	3,286,861

Minority interest		296,248		263,926
Convertible preferred stock		55,000		55,000
Commitments and contingencies				
Shareholders equity:				
Common stock, no par, 240,000 shares authorized, 91,841 and 91,385 shares issued, respectively		772,306		755,758
Retained earnings		1,295,370		1,069,546
Accumulated other comprehensive income		4,846		21,262
Total shareholders equity		2,072,522		1,846,566
	$	5,819,494	$	5,452,353

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

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HELIX ENERGY SOLUTIONS GROUP, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)
(in thousands, except per share amounts)

	Three Months Ended September 30, 2008	Three Months Ended September 30, 2007
Net revenues:		
Contracting services	$ 481,597	$ 318,752
Oil and gas	134,619	141,821
	616,216	460,573
Cost of sales:		
Contracting services	325,186	196,027
Oil and gas	90,205	98,228
	415,391	294,255
Gross profit	200,825	166,318
Gain (loss) on sale of assets, net	(23)	20,701
Selling and administrative expenses	50,700	42,146
Income from operations	150,102	144,873
Equity in earnings of investments	8,886	7,889
Net interest expense and other	23,464	13,467
Income before income taxes	135,524	139,295
Provision for income taxes	54,816	45,327
Minority interest	19,240	10,195
Net income	61,468	83,773
Preferred stock dividends	881	945
Net income applicable to common shareholders	$ 60,587	$ 82,828
Earnings per common share:		
Basic	$ 0.67	$ 0.92
Diluted	$ 0.65	$ 0.88
Weighted average common shares outstanding:		
Basic	90,725	90,111

Diluted	94,779	95,649

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

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HELIX ENERGY SOLUTIONS GROUP, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)
(in thousands, except per share amounts)

	Nine Months Ended September 30, 2008	Nine Months Ended September 30, 2007
Net revenues:		
Contracting services	$ 1,107,616	$ 852,332
Oil and gas	499,831	414,870
	1,607,447	1,267,202
Cost of sales:		
Contracting services	797,641	556,546
Oil and gas	295,688	266,958
	1,093,329	823,504
Gross profit	514,118	443,698
Gain on sale of assets, net	79,893	26,385
Selling and administrative expenses	142,405	106,134
Income from operations	451,606	363,949
Equity in earnings of investments	25,964	9,245
Net interest expense and other	68,178	40,765
Income before income taxes	409,392	332,429
Provision for income taxes	154,373	111,711
Minority interest	26,553	21,533
Net income	228,466	199,185
Preferred stock dividends	2,642	2,835
Net income applicable to common shareholders	$ 225,824	$ 196,350
Earnings per common share:		
Basic	$ 2.49	$ 2.18
Diluted	$ 2.40	$ 2.07
Weighted average common shares outstanding:		
Basic	90,598	90,051

Diluted	95,266	96,087

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

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

	Nine Months Ended September 30,	
	2008	**2007**
Cash flows from operating activities:		
Net income	$ 228,466	$ 199,185
Adjustments to reconcile net income to net cash provided by (used in) operating activities		
Depreciation, depletion and amortization	248,578	229,870
Asset impairment charges	23,902	904
Dry hole expense	254	166
Equity in losses of investments, inclusive of impairment charge	2,300	10,841
Amortization of deferred financing costs	3,837	2,315
Stock compensation expense	17,933	11,014
Deferred income taxes	56,575	48,159
Hedge Ineffectiveness	4,045	
Excess tax benefit from stock-based compensation	(1,142)	(28)
Gain on sale of assets	(79,893)	(26,386)
Minority interest	26,553	21,533
Changes in operating assets and liabilities:		
Accounts receivable, net	(48,485)	(36,029)
Other current assets	(5,079)	(38,074)
Income tax payable	739	(115,556)
Accounts payable and accrued liabilities	(79,181)	17,741
Other noncurrent, net	(60,316)	(45,127)
Net cash provided by operating activities	339,086	280,528
Cash flows from investing activities:		
Capital expenditures	(728,803)	(684,653)
Acquisition of businesses, net of cash acquired		(10,202)
Sale of short-term investments		285,395
Investments in equity investments	(708)	(16,132)
Distributions from equity investments, net	4,636	6,363
Proceeds from sales of property	230,261	4,343
Other	(553)	(834)
Net cash used in investing activities	(495,167)	(415,720)
Cash flows from financing activities:		
Repayment of Helix Term Notes	(3,245)	(6,300)
Borrowings on Helix Revolver	847,000	236,300
Repayments on Helix Revolver	(690,000)	(150,300)
Repayment of MARAD borrowings	(4,014)	(3,823)

Borrowings on CDI Revolver	61,100	19,000
Repayments on CDI Revolver	(61,100)	(103,000)
Repayments on CDI Term Notes	(40,000)	
Deferred financing costs	(1,711)	(231)
Capital lease payments	(1,505)	(1,882)
Preferred stock dividends paid	(2,642)	(2,835)
Repurchase of common stock	(3,912)	(9,821)
Excess tax benefit from stock-based compensation	1,142	28
Exercise of stock options, net	2,139	957
Net cash provided by (used in) financing activities	103,252	(21,907)
Effect of exchange rate changes on cash and cash equivalents	(965)	1,271
Net decrease in cash and cash equivalents	(53,794)	(155,828)
Cash and cash equivalents:		
Balance, beginning of year	89,555	206,264
Balance, end of period	$ 35,761	$ 50,436

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

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HELIX ENERGY SOLUTIONS GROUP, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

Note 1 Basis of Presentation

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

The accompanying condensed consolidated financial statements have been prepared in conformity with U.S. generally accepted accounting principles and are consistent in all material respects with those applied in our Annual Report on Form 10-K for the year ended December 31, 2007 (2007 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 condensed consolidated balance sheets, results of operations, and cash flows, as applicable. Operating results for the period ended September 30, 2008 are not necessarily indicative of the results that may be expected for the year ending December 31, 2008. Our balance sheet as of December 31, 2007 included herein has been derived from the audited balance sheet as of December 31, 2007 included in our 2007 Form 10-K. These condensed consolidated financial statements should be read in conjunction with the annual consolidated financial statements and notes thereto included in our 2007 Form 10-K.

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

Note 2 Company Overview

We are an international offshore energy company that provides reservoir development solutions and other contracting services to the energy market as well as to our own oil and gas properties. Our Contracting Services segment utilizes our vessels, offshore equipment and proprietary technologies to deliver services that reduce finding and development costs and cover the complete lifecycle of an offshore oil and gas field. Our Oil and Gas segment engages in prospect generation, exploration, development and production activities. We operate primarily in the Gulf of Mexico, North Sea, Asia/Pacific and Middle East regions.

Contracting Services Operations

We seek to provide services and methodologies which we believe are critical to finding and developing offshore reservoirs and maximizing production economics, particularly from marginal fields. By marginal we mean reservoirs that are no longer wanted by major operators or are too small to be material to them. Our life of field services are organized into five disciplines: construction, well operations, production facilities, reservoir and well technology services, and drilling. We have disaggregated our contracting services operations into three reportable segments in accordance with Financial Accounting Standards Board (FASB) Statement No. 131, *Disclosures about Segments of an Enterprise and Related Information* (SFAS No. 131): Contracting Services (which currently includes subsea construction, well operations and reservoir and well technology services and in the future, drilling); Shelf Contracting; and Production Facilities. Within our contracting services operations, we operate primarily in the Gulf of Mexico, North Sea, Asia/Pacific and Middle East regions, with services that cover the lifecycle of an offshore oil or gas field. The assets of our Shelf Contracting segment are the assets of Cal Dive International, Inc. and its subsidiaries (Cal Dive or CDI). Our ownership in CDI was approximately 58.1% as of September 30, 2008.

Oil and Gas Operations

In 1992 we began our oil and gas operations to provide a more efficient solution to offshore abandonment, to expand our off-season asset utilization of our contracting services assets and to achieve incremental returns to our contracting services. Over the last 16 years we have evolved this business model to include not only mature oil and gas properties but also proved and unproved reserves yet to be developed and explored. This has led to the assembly of services that allows us to create value at key points in the life of a reservoir from exploration through development, life of field management and operating through abandonment.

Note 3 Statement of Cash Flow Information

We define cash and cash equivalents as cash and all highly liquid financial instruments with original maturities of less than three months. As of September 30, 2008 and December 31, 2007, we had $35.4 million and $34.8 million, respectively, of restricted cash. All of our restricted cash was related to funds required to be escrowed to cover decommissioning liabilities associated with the South Marsh Island 130 (SMI 130) acquisition in 2002 by our Oil and Gas segment. These amounts were reported in Other Assets, Net. We had fully satisfied the escrow requirement as of September 30, 2008. We may use the restricted cash for decommissioning the related field.

The following table provides supplemental cash flow information for the nine months ended September 30, 2008 and 2007 (in thousands):

	Nine Months Ended September 30,	
	2008	**2007**
Interest paid	$77,268	$ 71,906
Income taxes paid	$97,059	$179,107

Non-cash investing activities for the nine months ended September 30, 2008 included $28.6 million of accruals for capital expenditures. Non-cash investing activities for the nine months ended September 30, 2007 were immaterial. The accruals have been reflected in the condensed consolidated balance sheet as an increase in property and equipment and accounts payable.

Note 4 Acquisition of Horizon Offshore, Inc.

On December 11, 2007, CDI acquired 100% of Horizon Offshore, Inc. (Horizon), a marine construction services company headquartered in Houston, Texas. Upon consummating the merger of Horizon into a subsidiary of CDI, each share of Horizon common stock, par value $0.00001 per share, was converted into the right to receive $9.25 in cash and 0.625 shares of CDI s common stock. All shares of Horizon restricted stock that had been issued but had not vested prior to the effective time of the merger became fully vested at such time and converted into the right to receive the merger consideration. CDI issued approximately 20.3 million shares of common stock and paid approximately $300 million in cash to the former Horizon stockholders upon completion of the acquisition. The cash portion of the merger consideration was paid from cash on hand and from borrowings of $375 million under CDI s $675 million credit facility, which consists of a $375 million senior secured term loan and a $300 million senior secured revolving credit facility (see " Note 8 Long-Term Debt below).

We recognized a non-cash pre-tax gain of $151.7 million ($98.6 million net of taxes of $53.1 million) in December 2007 as the value of our interest in CDI s underlying equity increased as a result of CDI s issuance of 20.3 million shares of common stock to former Horizon stockholders. The gain was calculated as the difference in the value of our investment in CDI immediately before and after CDI s stock issuance.

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The aggregate purchase price, including transaction costs of $7.7 million, was approximately $630 million, consisting of $308 million of cash and $322 million of CDI stock. CDI also assumed and repaid approximately $104 million in Horizon s debt, including accrued interest and prepayment penalties, and acquired $171 million of cash. Through the acquisition, CDI acquired nine construction vessels, including four pipelay/pipebury barges, one dedicated pipebury barge, one dive support vessel, one combination derrick/pipelay barge and two derrick barges. The acquisition was accounted for as a business combination with the acquisition price allocated to the assets acquired and liabilities assumed based upon their estimated fair values.

The following table summarizes the current adjusted preliminary fair values of the assets acquired and liabilities assumed at the date of acquisition (in thousands):

Cash	$ 170,607
Other current assets	165,623
Property and equipment	336,147
Goodwill	257,343
Intangible assets(1)	9,510
Other long-term assets	15,270
Total assets acquired	$ 954,500
Current liabilities	$ 180,846
Long-term debt	87,641
Deferred income taxes	55,789
Other non-current liabilities	100
Total liabilities assumed	$ 324,376
Net assets acquired	$ 630,124

(1) The intangible assets relate to the fair value of contract backlog, customer relationships and non-compete agreements between CDI and certain members of Horizon s senior management as follows (amounts in thousands):

	Fair Value	Amortization Period
Customer relationships	$ 3,060	5 years
Contract backlog	2,960	1.5 years
Non-compete	3,000	1 year
Trade name	490	7 years
Total	$ 9,510	

At September 30, 2008, the net carrying amount for these intangible assets was $5.7 million.

The allocation of the purchase price was based upon preliminary valuations. Estimates and assumptions are subject to change upon the receipt and CDI management s review of the final valuations. The primary area of the purchase price allocation that is not yet finalized relates to post-closing purchase price adjustments and the receipt of final valuations. The final valuation of net assets is expected to be completed no later than one year from the acquisition date. The results of Horizon are included in our Shelf Contracting segment in the accompanying condensed consolidated statements of operations since the date of purchase.

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The following unaudited pro forma combined operating results of us and Horizon for the three and nine months ended September 30, 2007 are presented as if the acquisition had occurred on January 1, 2007 (in thousands, except per share data):

	Three Months Ended September 30, 2007	Nine Months Ended September 30, 2007
Net revenues	$594,694	$1,596,781
Income before income taxes	163,304	390,028
Net income	88,384	192,428
Net income applicable to common shareholders	87,439	189,593
Earnings per common share:		
Basic	$ 0.96	$ 2.09
Diluted	$ 0.93	$ 2.02

The pro forma operating results reflect adjustments for the increases in depreciation related to the step-up of the acquired assets to their fair value and to reflect depreciation calculations under the straight-line method instead of the units-of-production method used by Horizon. Pro forma results include the amortization of identifiable intangible assets. We estimated interest expense based upon increases in CDI s long-term debt to fund the cash portion of the purchase price at an estimated annual interest rate of 7.55% for the three and nine months ended September 30, 2007, based upon the interest rate of CDI s new term loan of three month LIBOR plus 2.25%. The pro forma adjustment to income tax reflects the statutory federal and state income tax impacts of the pro forma adjustments to our pretax income with an applied tax rate of 35%. The unaudited pro forma combined results of operations are not indicative of the actual results had the acquisition occurred on January 1, 2007 or of future operations of the combined companies. All material intercompany transactions between us and Horizon were eliminated.

Note 5 Oil and Gas Properties

We follow the successful efforts method of accounting for our interests in oil and gas properties. Under the successful efforts method, the costs of successful wells and leases containing productive reserves are capitalized. Costs incurred to drill and equip development wells, including unsuccessful development wells, are capitalized. Costs incurred relating to unsuccessful exploratory wells are expensed in the period in which the drilling is determined to be unsuccessful.

As of September 30, 2008, we capitalized approximately $19.2 million of exploratory drilling costs associated with ongoing exploration and/or appraisal activities. Such capitalized costs may be charged against earnings in future periods if management determines that commercial quantities of hydrocarbons have not been discovered or that future appraisal drilling or development activities are not likely to occur. The following table provides a detail of our capitalized exploratory project costs at September 30, 2008 and December 31, 2007 (in thousands):

	September 30, 2008	December 31, 2007
Huey	$ 11,555	$ 11,556
Castleton (part of Gunnison)	7,071	7,071
Other	531	469
Total	$ 19,157	$ 19,096

As of September 30, 2008, the exploratory well costs for Castleton and Huey had been capitalized for longer than one year.

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The following table reflects net changes in suspended exploratory well costs during the nine months ended September 30, 2008 (in thousands):

	2008
Beginning balance at January 1,	$ 19,096
Additions pending the determination of proved reserves	1,088
Reclassifications to proved properties	(773)
Charge to dry hole expense	(254)
Ending balance at September 30,	$ 19,157

Further, the following table details the components of exploration expense for the three and nine months ended September 30, 2008 and 2007 (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2008	2007	2008	2007
Delay rental and geological and geophysical costs	$ 1,375	$ 1,426	$ 4,753	$ 5,478
Dry hole expense	270	50	254	166
Total exploration expense	$ 1,645	$ 1,476	$ 5,007	$ 5,644

In March and April 2008, we sold a total 30% working interest in the Bushwood discoveries (Garden Banks Blocks 463, 506 and 507) and other Outer Continental Shelf oil and gas properties (East Cameron blocks 371 and 381), in two separate transactions to affiliates of a private independent oil and gas company for total cash consideration of approximately $181.2 million (which included the purchasers share of incurred capital expenditures on these fields), and additional potential cash payments of up to $20 million based upon certain field production milestones. The new co-owners will also pay their pro rata share of all future capital expenditures related to the exploration and development of these fields. Decommissioning liabilities will be shared on a pro rata share basis between the new co-owners and us. Proceeds from the sale of these properties were used to pay down our outstanding revolving loans in April 2008. As a result of these sales, we recognized a pre-tax gain of $91.6 million in the first half of 2008.

In May 2008, we sold all our interests in our onshore proved and unproved oil and gas properties located in the states of Texas, Mississippi, Louisiana, Oklahoma, New Mexico and Wyoming (Onshore Properties) to an unrelated investor. We sold these Onshore Properties for cash proceeds of $47.2 million and recorded a related loss of $11.9 million in the second quarter of 2008. Proceeds from the sale of these properties were used to pay down our outstanding loans in May 2008. Included in the cost basis of the Onshore Properties was an $8.1 million allocation of goodwill from our Oil and Gas segment. Following the allocation of goodwill, we performed an impairment test for the remaining goodwill of $704.3 million related to our Oil and Gas segment and no impairment was indicated.

As a result of our unsuccessful development well in January 2008 on Devil s Island (Garden Banks 344), we recognized impairment expense of $14.6 million in the nine months of 2008. Costs incurred as of December 31, 2007 of $20.9 million related to this well were charged to earnings in 2007.

In September 2008, we sustained damage to certain of our contracting services and oil and gas production facilities from Hurricane *Ike*. While we sustained some damage to our own production facilities from Hurricane *Ike*, the larger issue in terms of production recovery involves damage to third party pipelines and onshore processing facilities. The timing of when these facilities will be operational is uncertain and not subject to our control. As of September 30, 2008, we had identified certain shelf production platforms plus other production assets that have sustained extensive damage. Our assessment of damage to our oil and gas production assets is ongoing and thus has not been fully evaluated. We carry comprehensive insurance on all of our operated and non-operated producing and

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non-producing properties, which is subject to approximately $6 million of aggregate deductibles. As of September 2008, we have reached our aggregate deductibles. We believe our comprehensive coverage is sufficient to cover all our repair and inspection costs and capital redrill or rebuild costs as a result of damages sustained by the hurricane. These costs will be recorded as incurred. Insurance reimbursements will be recorded when the realization of the claim for recovery of a loss is deemed probable**.**

Note 6 Details of Certain Accounts (in thousands)

Other Current Assets consisted of the following as of September 30, 2008 and December 31, 2007:

	September 30, 2008	December 31, 2007
Prepaid insurance	$ 25,395	$ 21,133
Current deferred tax assets	9,945	13,810
Insurance claims to be reimbursed	7,829	10,173
Gas imbalance	6,241	6,654
Inventory	36,686	29,925
Income tax receivable	9,805	8,838
Other prepaids	29,050	14,922
Other receivables	17,433	6,733
Other	5,994	13,394
	$ 148,378	$ 125,582

Other Assets, Net, consisted of the following as of September 30, 2008 and December 31, 2007:

	September 30, 2008	December 31, 2007
Restricted cash	$ 35,351	$ 34,788
Deposits	2,981	8,417
Deferred drydock expenses, net	64,989	47,964
Deferred financing costs	37,640	39,290
Intangible assets with definite lives, net	15,612	22,216
Intangible asset with indefinite life	6,295	7,022
Contract receivables		14,635
Other	3,725	2,877
	$ 166,593	$ 177,209

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Accrued Liabilities consisted of the following as of September 30, 2008 and December 31, 2007:

	September 30, 2008	December 31, 2007
Accrued payroll and related benefits	$ 48,793	$ 50,389
Royalties payable	10,340	21,974
Current decommissioning liability	28,350	23,829
Unearned revenue	11,523	1,140
Billings in excess of costs	10,703	20,403
Insurance claims to be reimbursed	7,829	14,173
Accrued interest	19,890	7,090
Accrued severance[(1)]	1,953	14,786
Deposit	21,292	13,600
Hedge liability	5,710	10,308
Other	47,172	43,674
	$ 213,555	$ 221,366

(1) Balance at December 31, 2007 was related to payments made to former Horizon personnel in the first quarter of 2008 as a result of the acquisition by CDI. Balance at September 30, 2008 was related to the separation of two of our former executive officers from the Company (See Note 16 Resignation of Executive Officers).

Note 7 Equity Investments

As of September 30, 2008, we have the following material investments that are accounted for under the equity method of accounting:

Deepwater Gateway, L.L.C. In June 2002, we, along with Enterprise Products Partners L.P. (Enterprise), formed Deepwater Gateway, L.L.C. (Deepwater Gateway) (each with a 50% interest) to design, construct, install, own and operate a tension leg platform (TLP) production hub primarily for Anadarko Petroleum Corporation s Marco Polo field in the Deepwater Gulf of Mexico. Our investment in Deepwater Gateway totaled $110.7 million and $112.8 million as of September 30, 2008 and December 31, 2007, respectively, and was included in our Production Facilities segment. Deepwater Gateway sustained minor damage to its production hub from Hurricane *Ike*; however, major infrastructure damage was sustained to the downstream pipeline facilities, causing temporary production shut-ins. Production had not resumed as of September 30, 2008.

Independence Hub, LLC. In December 2004, we acquired a 20% interest in Independence Hub, LLC (Independence), an affiliate of Enterprise. Independence owns the Independence Hub platform located in Mississippi Canyon block 920 in a water depth of 8,000 feet. First production began in July 2007. Our investment in Independence was $92.9 million and $95.7 million as of September 30, 2008 and December 31, 2007, respectively (including capitalized interest of $6.0 million and $6.2 million at September 30, 2008 and December 31, 2007, respectively), and was included in our Production Facilities segment. Independence did not sustain major damage from Hurricane *Ike* and operations resumed shortly following the hurricane.

Note 8 Long-Term Debt

Senior Unsecured Notes

On December 21, 2007, we issued $550 million of 9.5% Senior Unsecured Notes due 2016 (Senior Unsecured Notes). Interest on the Senior Unsecured Notes is payable semiannually in arrears on each January 15 and July 15, commencing July 15, 2008. The Senior Unsecured Notes are fully and

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unconditionally guaranteed by all of our existing restricted domestic subsidiaries, except for CDI and its subsidiaries and Cal Dive I-Title XI, Inc. In addition, any future restricted domestic subsidiaries that guarantee any of our and/or our restricted subsidiaries indebtedness are required to guarantee the Senior Unsecured Notes. CDI, the subsidiaries of CDI, Cal Dive I -Title XI, Inc., and our foreign subsidiaries are not guarantors. We used the proceeds from the Senior Unsecured Notes to repay outstanding indebtedness under our senior secured credit facilities (see below).

Senior Credit Facilities

On July 3, 2006, we entered into a credit agreement (the Senior Credit Facilities) under which we borrowed $835 million in a term loan (the Term Loan) and were initially able to borrow up to $300 million (the Revolving Loans) under a revolving credit facility (the Revolving Credit Facility). The proceeds from the Term Loan were used to fund the cash portion of the Remington Oil and Gas Corporation (Remington) acquisition. This facility was subsequently amended on November 27, 2007, and as part of that amendment, an accordion feature was added that allows for increases in the Revolving Credit Facility up to an additional $150 million, subject to availability of borrowing capacity provided by new or existing lenders. On May 29, 2008, we completed a $120 million increase in the Revolving Credit Facility utilizing this accordion feature. Total borrowing capacity under the Revolving Credit Facility now totals $420 million. The full amount of the Revolving Credit Facility may be used for issuances of letters of credit.

The Term Loan matures on July 1, 2013 and is subject to quarterly scheduled principal payments. As a result of a $400 million prepayment made in December 2007, the quarterly scheduled principal payment was reduced from $2.1 million to $1.1 million. The Revolving Loans mature on July 1, 2011. At September 30, 2008, we had $175.0 million in borrowings outstanding under our Revolving Loans and $23.5 million of unsecured letters of credit, and there was $221.5 million available under the Revolving Loans. In October 2008, we drew down an additional $175.0 million under our Revolving Loans.

The Term Loan currently bears interest at the one-, three- or six-month LIBOR at our election plus a 2.00% margin. Our average interest rate on the Term Loan for the nine months ended September 30, 2008 and 2007 was approximately 5.4% and 7.4%, respectively, including the effects of our interest rate swaps (see below). The Revolving Loans bear interest based on one-, three- or six-month LIBOR at our election plus a margin ranging from 1.00% to 2.25%. Margins on the Revolving Loans will fluctuate in relation to the consolidated leverage ratio as provided in the Senior Credit Facilities. Our average interest rate on the Revolving Loans for the nine months ended September 30, 2008 was approximately 5.6%.

As the rates for our Term Loan are subject to market influences and will vary over the term of the Senior Credit Facilities, we entered into various interest rate swaps to stabilize cash flows relating to a portion of our interest payments for our Term Loan. See detailed description related to these swaps in Note 10 Derivative Activities below.

Cal Dive International, Inc. Revolving Credit Facility

In December 2007, CDI entered into a secured credit facility with certain financial institutions, consisting of a $375 million term loan, and a $300 million revolving credit facility. This credit facility replaced the credit facility CDI entered into in November 2006 prior to its initial public offering. On December 11, 2007, CDI borrowed $375 million under the term loan to fund the cash portion of the merger consideration in connection with CDI s acquisition of Horizon and to retire Horizon s existing debt. At September 30, 2008, CDI had $335.0 million of term loan outstanding. In addition, CDI had $6.2 million of unsecured letters of credit outstanding with $293.8 million available under its revolving credit facility.

Loans under this facility are non-recourse to Helix. The term loan and the revolving loans bear interest in relation to the LIBOR. During the nine months ended September 30, 2008 and 2007, CDI s average interest rate was 5.7%.

As the rates for CDI s term loan are subject to market influences and will vary over the term of the loan, CDI entered into an interest rate swap to stabilize cash flows relating to a portion of its interest payments for the CDI term loan. See detailed description related to this swap in Note 10 Derivative Activities below.

Convertible Senior Notes

On March 30, 2005, we issued $300 million of our Convertible Senior Notes at 100% of the principal amount to certain qualified institutional buyers. The Convertible Senior Notes are convertible into cash and, if applicable, shares of our common stock based on the specified conversion rate, subject to adjustment.

The Convertible Senior Notes can be converted prior to the stated maturity under certain triggering events specified in the indenture governing the Convertible Senior Notes. To the extent we do not have long-term financing secured to cover the conversion, the Convertible Senior Notes would be classified as a current liability in the accompanying balance sheet. During the third quarter of 2008, no conversion triggers were met.

For the three months ended September 30, 2008, shares underlying the Convertible Senior Notes were not included in the calculation of diluted earnings per share because our average share price for the third quarter 2008 was below the conversion price of approximately $32.14 per share. Approximately 0.6 million shares underlying the Convertible Senior Notes were included in the calculation of diluted earnings per share for the nine months ended September 30, 2008, and approximately 1.2 million and 1.7 million shares were included in the calculation for the three and nine months ended September 30, 2007, respectively, because our average share price for the respective periods was above the conversion price. In the event our average share price exceeds the conversion price, there would be a premium, payable in shares of common stock, in addition to the principal amount, which is paid in cash, and such shares would be issued on conversion. The maximum number of shares of common stock which may be issued upon conversion of the Convertible Senior Notes is 13,303,770.

MARAD Debt

At September 30, 2008 and December 31, 2007, $123.4 million and $127.5 million was outstanding on our long-term financing for construction of the *Q4000.* This U.S. government guaranteed financing (MARAD Debt) is pursuant to Title XI of the Merchant Marine Act of 1936 which is administered by the Maritime Administration. The MARAD Debt is payable in equal semi-annual installments which began in August 2002 and matures 25 years from such date. The MARAD Debt is collateralized by the *Q4000,* with us guaranteeing 50% of the debt. In September 2005, we fixed the interest rate on the debt through the issuance of a 4.93% fixed-rate note with the same maturity date (February 2027).

In accordance with the Senior Unsecured Notes, amended Senior Credit Facilities, Convertible Senior Notes, MARAD Debt agreements and CDI s credit facility, we are required to comply with certain covenants and restrictions, including the maintenance of minimum net worth, annual working capital and debt-to-equity requirements. As of September 30, 2008, we were in compliance with these covenants and restrictions. The Senior Unsecured Notes and Senior Credit Facilities contain provisions that limit our ability to incur certain types of additional indebtedness.

Other

We, along with Kommandor Rømø, a Danish corporation, formed a joint venture company called Kommandor LLC to convert a ferry vessel into a floating production unit to be named the *Helix Producer I* (HPI). Kommandor LLC qualified as a variable interest entity under FASB Interpretation No. 46 (Revised),

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Consolidation of Variable Interest Entities (FIN 46(R)). We determined that we were the primary beneficiary of Kommandor LLC and thus have consolidated the financial results of Kommandor LLC as of September 30, 2008 in our Production Facilities segment. On June 19, 2007, Kommandor LLC entered into a term loan agreement (Nordea Loan Agreement) with Nordea Bank Norge ASA. On August 29, 2008, the Nordea Loan Agreement was amended. Pursuant to the amended Nordea Loan Agreement, the lenders will make available to Kommandor LLC up to $64.0 million pursuant to a secured term loan facility. We have provided $40 million in interim construction financing to the joint venture on terms that would equal an arms length financing transaction, and Kommandor Rømø has provided $5 million on the same terms. Kommandor LLC will use all amounts borrowed under the Nordea Loan Agreement to repay its existing subordinated indebtedness to us and Kommandor Rømø for the long-term financing of the *HPI* and to fund expenses and fees related to the first stage of the conversion of the *HPI*. Kommandor LLC expects this borrowing to occur in the second quarter of 2009 upon the delivery of the *HPI* after its initial conversion, and at such time, in accordance with the provisions of FIN 46(R), the entire obligation will be included in our consolidated balance sheet. The funding of the amount set forth in the draw request is subject to certain customary conditions.

On June 30, 2008, we entered into a Guaranty Facility Agreement with Nordea and its affiliate, Nordea Bank Finland Plc (together, the Guarantee Provider). This facility provides us with $20 million of capacity for issuances of letters of credit that are required from time to time in our business for performance guarantees or warranty requirements. The facility has a maturity date of 364 days, and may be renewed annually for successive 364-day periods at the lenders option. Fees for letters of credit issued under the facility are 1.00% of the face amount of the letter of credit. This facility is unsecured; however, in the event that the facility is not renewed and letters of credits remain outstanding, we may be required to provide cash collateral for 105% of the face amount of the letters of credit.

Deferred financing costs of $37.6 million and $39.3 million are included in Other Assets, Net as of September 30, 2008 and December 31, 2007, respectively, and are being amortized over the life of the respective loan agreements.

Scheduled maturities of long-term debt and capital lease obligations outstanding as of September 30, 2008 were as follows (in thousands):

	Helix Term Loan	Helix Revolving Loans	CDI Term Loan	Senior Unsecured Notes	Convertible Senior Notes	MARAD Debt	Other[1]	Total
Less than one year	$ 4,326	$	$ 80,000	$	$	$ 4,214	$ 5,000	$ 93,540
One to two years	4,326		80,000			4,424		88,750
Two to three years	4,326	175,000	80,000			4,645		263,971
Three to four years	4,326		80,000			4,877		89,203
Four to five years	402,870		15,000			5,120		422,990
Over five years				550,000	300,000	100,169		950,169
Long-term debt	420,174	175,000	335,000	550,000	300,000	123,449	5,000	1,908,623
Current maturities	(4,326)		(80,000)			(4,214)	(5,000)	(93,540)
	$ 415,848	$ 175,000	$ 255,000	$ 550,000	$ 300,000	$ 119,235	$	$ 1,815,083

Long-term debt, less current maturities

(1) Includes $5 million loan provided by Kommandor Rømø to Kommandor LLC.

Total letters of credit outstanding at September 30, 2008 was approximately $43.3 million. These letters of credit primarily guarantee various contract bidding, contractual performance and insurance activities and shipyard commitments. The following table details our interest expense and capitalized interest for the three and nine months ended September 30, 2008 and 2007 (in thousands):

	Three Months Ended September 30, 2008	Three Months Ended September 30, 2007	Nine Months Ended September 30, 2008	Nine Months Ended September 30, 2007
Interest expense	$ 30,468	24,010	95,043	70,257
Interest income	(617)	(1,107)	(2,245)	(7,682)
Capitalized interest	(10,046)	(8,935)	(30,619)	(20,734)
Interest expense, net	$ 19,805	13,968	62,179	41,841

Note 9 Income Taxes

The effective tax rate for the nine months ended September 30, 2008 and 2007 was 38% and 34%, respectively. The effective tax rate for the nine months ended September 30, 2008 increased as compared to the same prior year period because of the following factors:

§ additional deferred tax expense was recorded as a result of the increase in the equity earnings of CDI in excess of our tax basis in CDI;

§ the surrender of the tax losses related to our oil and gas subsidiary in the United Kingdom to other profitable subsidiaries in the United Kingdom that are taxed at a lower rate; and

§ the allocation of goodwill to the cost basis for the Onshore Properties sale is not allowable for tax purposes.

We believe our recorded assets and liabilities are reasonable; however, tax laws and regulations are subject to interpretation and tax litigation is inherently uncertain; therefore our assessments can involve a series of complex judgments about future events and rely heavily on estimates and assumptions. See detailed description related to a tax assessment in Note 18 Commitments and Contingencies below.

Note 10 Derivative Activities

We are currently exposed to market risk in three major areas: commodity prices, interest rates and foreign currency exchange rates. Our risk management activities include the use of derivative financial instruments to hedge the impact of market price risk exposures primarily related to our oil and gas production, variable interest rate exposure and foreign currency exchange rate exposure, as well as non-derivative forward sale contracts to reduce commodity price risk on sales of hydrocarbons.

We formally document all relations between hedging instruments and hedged items, as well as our risk management objectives, strategies for undertaking various hedge transactions and our methods for assessing and testing correlation and hedge ineffectiveness. We also assess, both at inception of the hedge and on an on-going basis, whether the derivatives that are used in our hedging transactions are highly effective in offsetting changes in cash flows of the hedged items. Changes in the assumptions used could impact whether the fair value change in the derivative is charged to earnings or accumulated other comprehensive income.

Commodity Derivatives

We have entered into various cash flow hedging costless collar and swap contracts to stabilize cash flows relating to a portion of our expected oil and gas production. These instruments qualified for hedge accounting and were designated as cash flow hedges under FASB Statement No. 133, *Accounting for Derivative Instruments and Hedging Activities*, (SFAS No. 133). During the third quarter 2008 we settled our open natural gas derivative positions. The resulting gain of $3.9 million was recognized immediately in earnings. Due to production shut-ins and the resultant deferrals caused by Hurricanes *Gustav* and *Ike*, as of September 13, 2008 (the date of Hurricane *Ike*), we no longer meet all of the hedging criteria required by SFAS No. 133 for our open oil derivative positions at September 30, 2008. As a result, we discontinued hedge accounting at September 13, 2008 and the change in fair value from that date through September 30, 2008 was recognized in earnings and all future changes in fair value related

to these instruments will also be recognized in earnings. We also reclassified the amounts in accumulated other comprehensive income related to the oil derivative contracts as of September 13, 2008 to earnings as a result of the production deferral mentioned above. The aggregate fair value of the hedge instruments was a net liability of $1.0 million and $8.1 million as of September 30, 2008 and December 31, 2007, respectively. We recorded unrealized gains of approximately $14.7 million and $5.3 million, net of tax expense of $7.9 million and $2.8 million, respectively, for the change in fair value of the derivatives during the three and nine months ended September 30, 2008, respectively, in accumulated other comprehensive income. For the three and nine months ended September 30, 2007, we recorded unrealized losses of approximately $0.8 million and $4.4 million, net of tax benefit of $0.4 million and $2.4 million, respectively in accumulated other comprehensive income. During the three and nine months ended September 30, 2008, we reclassified approximately $5.3 million and $24.4 million of losses from other comprehensive income to net revenues upon the sale of the related oil and gas production and approximately $1.0 million from other comprehensive income as a result of the discontinuation of hedge accounting. For the three and nine months ended September 30, 2007, we reclassified approximately $3.2 million and $5.5 million of gains from other comprehensive income to net revenues. No hedge ineffectiveness was recorded in 2007.

As of September 30, 2008, we had the following volumes under derivative and forward sale contracts related to our oil and gas producing activities totaling 2,155 MBbl of oil and 18,076,400 MMbtu of natural gas:

Production Period		Instrument Type	Average Monthly Volumes	Weighted Average Price
Crude Oil:				
October 2008	December 2008	Collar	30 MBbl	$ 60.00 $82.35
October 2008	December 2008	Swap	42 MBbl	$106.25
October 2008	December 2009	Forward Sale	129 MBbl	$71.82
Natural Gas:				
January 2009	December 2009	Forward Sale	1,506,367 MMBtu	$8.23

Changes in NYMEX oil and gas strip prices would, assuming all other things being equal, cause the fair value of these instruments to increase or decrease inversely to the change in NYMEX prices.

Subsequent to September 30, 2008, we entered into two additional natural gas costless collars and two natural gas swaps. The costless collars cover an average of 1,029,000 MMBtu per month at an average price of $7.00 to $7.90 per MMBtu for the period from January to December 2009. The swaps cover an average of 1,500,000 MMBtu per month at an average price of $7.02 per MMBtu for November and December 2008. We also entered into an oil costless collar for an average of 50.2 MBbl per month for the period from January to June 2009 at a price of $75.00 to $89.55.

Interest Rate Swaps

As interest rates for some of our long-term debt are subject to market influences and will vary over the term of the debt, we entered into various interest rate swaps to stabilize cash flows relating to a portion of our interest payments related to our variable interest debt. Changes in the interest rate swap fair value are deferred to the extent the swap is effective and are recorded as a component of accumulated other comprehensive income until the anticipated interest payments occur and are recognized in interest expense. The ineffective portion of the interest rate swap, if any, will be recognized immediately in earnings.

In September 2006, we entered into various interest rate swaps to stabilize cash flows relating to a portion of our interest payments on our Term Loan. These interest rate swaps qualified for hedge accounting. See Note 8 Long-Term Debt above for a detailed description of our Term Loan. On December 21, 2007, we prepaid a portion of our Term Loan which reduced the notional amount of our interest rate swaps and caused our hedges to become ineffective. As a result, the interest rate swaps no longer qualified for hedge accounting treatment under SFAS No. 133. On January 31, 2008, we re-designated these swaps as cash flow hedges with respect to our outstanding LIBOR-based debt; however, at September 30, 2008, based on the hypothetical derivatives method, we assessed the hedges were not highly effective, as such, no longer qualified for hedge accounting. During the nine months ended September 30, 2008, we recognized $2.5 million of unrealized losses as other expense as a result of the change in fair value of our interest rate swaps. An immaterial amount was recorded in income in the three months ended September 30, 2008 for hedge ineffectiveness. No ineffectiveness was recognized during the three and nine months ended September 30, 2007. As of September 30, 2008 and December 31, 2007, the aggregate fair value of the derivative instruments was a net liability of $4.6 million and $4.7 million, respectively. During the three and nine months ended September 30, 2008, we reclassified approximately $0.4 million and $1.3 million of losses, respectively, from other comprehensive income to interest expense. During the three and nine months ended September 30, 2007, we reclassified approximately $0.1 million and $0.3 million of gains, respectively.

In addition, in April 2008, CDI entered into a two-year interest rate swap to stabilize cash flows relating to a portion of its variable interest payments on the CDI term loan. As of September 30, 2008, these interest rate swaps were highly effective and qualified for hedge accounting. The fair value of the hedge instrument was an asset of $0.8 million as of September 30, 2008.

Foreign Currency Forwards

Because we operate in various regions in the world, we conduct a portion of our business in currencies other than the U.S. dollar. We entered into various foreign currency forwards to stabilize expected cash outflows relating to a shipyard contract where the contractual payments are denominated in euros and expected cash outflows relating to certain vessel charters denominated in British pounds. The aggregate fair value of the foreign currency forwards as of September 30, 2008 and December 31, 2007 was a net asset (liability) of ($1.4) million and $1.4 million, respectively.

Note 11 Fair Value Measurements

In September 2006, the FASB issued Statement No. 157, *Fair Value Measurements* (SFAS No. 157). SFAS No. 157 was originally effective for financial statements issued for fiscal years beginning after November 15, 2007 and interim periods within those fiscal years. The FASB agreed to defer the effective date of SFAS No. 157 for all nonfinancial assets and liabilities, except those that are recognized or disclosed at fair value in the financial statements on a recurring basis. We adopted the provisions of SFAS No. 157 on January 1, 2008 for assets and liabilities not subject to the deferral and expect to adopt this standard for all other assets and liabilities by January 1, 2009. The adoption of SFAS No. 157 had immaterial impact on our results of operations, financial condition and liquidity.

SFAS No. 157, among other things, defines fair value, establishes a consistent framework for measuring fair value and expands disclosure for each major asset and liability category measured at fair value on either a recurring or nonrecurring basis. SFAS No. 157 clarifies that fair value is an exit price, representing the amount that would be received to sell an asset, or paid to transfer a liability, in an orderly transaction between market participants. SFAS No. 157 establishes a three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair value as follows:

Level 1. Observable inputs such as quoted prices in active markets;

Level 2. Inputs, other than the quoted prices in active markets, that are observable either directly or indirectly; and

Level 3. Unobservable inputs in which there is little or no market data, which require the reporting entity to develop its own assumptions.

Assets and liabilities measured at fair value are based on one or more of three valuation techniques noted in SFAS No. 157. The valuation techniques are as follows:

(a) *Market Approach*. Prices and other relevant information generated by market transactions involving identical or comparable assets or liabilities.

(b) *Cost Approach*. Amount that would be required to replace the service capacity of an asset (replacement cost).

(c) *Income Approach*. Techniques to convert expected future cash flows to a single present amount based on market expectations (including present value techniques, option-pricing and excess earnings models).

The following table provides additional information related to assets and liabilities measured at fair value on a recurring basis at September 30, 2008 (in thousands):

	Level 1	Level 2	Level 3	Total	Valuation Technique
Assets:					
Interest rate swap		$ 803		$ 803	(c)
Liabilities:					
Oil and gas swaps and collars		1,046		1,046	(c)
Foreign currency forwards		1,409		1,409	(c)
Interest rate swaps		4,636		4,636	(c)
Total		$ 7,091		$ 7,091	

Note 12 Comprehensive Income

The components of total comprehensive income for the three and nine months ended September 30, 2008 and 2007 were as follows (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2008	2007	2008	2007
Net income	$ 61,468	$ 83,773	$ 228,466	$ 199,185
Foreign currency translation gain (loss)	(26,721)	4,775	(23,929)	9,491
Unrealized gain (loss) on hedges, net	14,365	(1,618)	7,513	(3,709)
Total comprehensive income	$ 49,112	$ 86,930	$ 212,050	$ 204,967

The components of accumulated other comprehensive income were as follows (in thousands):

	September 30, 2008	December 31, 2007
Cumulative foreign currency translation adjustment	$ 4,331	$ 28,260
Unrealized gain (loss) on hedges, net	515	(6,998)
Accumulated other comprehensive income	$ 4,846	$ 21,262

Note 13 Earnings Per Share

Basic earnings per share (EPS) is computed by dividing the net income available to common shareholders by the weighted average shares of outstanding common stock. The calculation of diluted EPS is similar to basic EPS, except that the denominator includes dilutive common stock equivalents and the income included in the numerator excludes the effects of the impact of dilutive common stock equivalents, if any. The computation of basic and diluted EPS for the three and nine months ended September 30, 2008 and 2007 were as follows (in thousands):

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		Three Months Ended September 30, 2008		Three Months Ended September 30, 2007	
		Income	Shares	Income	Shares
Earnings applicable per common share	Basic	$ 60,587	90,725	$ 82,828	90,111
Effect of dilutive securities:					
Stock options			227		368
Restricted shares			196		293
Employee stock purchase plan					2
Convertible Senior Notes					1,244
Convertible preferred stock		881	3,631	945	3,631
Earnings applicable per common share	Diluted	$ 61,468	94,779	$ 83,773	95,649

		Nine Months Ended September 30, 2008		Nine Months Ended September 30, 2007	
		Income	Shares	Income	Shares
Earnings applicable per common share	Basic	$ 225,824	90,598	$ 196,350	90,051
Effect of dilutive securities:					
Stock options			292		386
Restricted shares			170		292
Employee stock purchase plan					4
Convertible Senior Notes			575		1,723
Convertible preferred stock		2,642	3,631	2,835	3,631
Earnings applicable per common share	Diluted	$ 228,466	95,266	$ 199,185	96,087

There were no antidilutive stock options in the three and nine months ended September 30, 2008 and 2007 as the option strike price was below the average market price for the applicable periods. Net income for the diluted EPS calculation for the three and nine months ended September 30, 2008 and 2007 was adjusted to add back the preferred stock dividends as if the convertible preferred stock were converted into 3.6 million shares of common stock.

Note 14 Stock-Based Compensation Plans

We have three stock-based compensation plans: the 1995 Long-Term Incentive Plan, as amended (the 1995 In