

# Corporate Profile

Oceaneering is a global oilfield provider of engineered services and products primarily to the offshore oil and gas industry, with a focus on deepwater

also serves the defense and aerospace industries.

Oceaneering's business offerings include remotely operated vehicles, built-to-order specialty hardware, deepwater intervention and manned diving services, non-destructive testing and inspection, mobile offshore production systems, and engineering and project management.

applications. Through the use of its applied technology expertise, Oceaneering

# BACKGROUND

Founded in 1964, Oceaneering has grown from an air and mixed gas diving business in the Gulf of Mexico to a provider of diversified, engineered services and products operating worldwide. We have achieved this growth by executing a plan of internal development augmented by strategic acquisitions.

During the year ended December 31, 2007, we earned net income of \$180.4 million on revenue of \$1.7 billion while employing approximately 7,500 people working out of 58 locations in 18 countries. We serve our offshore oil and gas customers through the trade names of Oceaneering International, Oceaneering Intervention Engineering (OIE), Oceaneering Multiflex, Oceaneering Grayloc, Oceaneering Rotator, and Oceaneering Inspection Services. Our Advanced Technologies Group, which includes Oceaneering Technologies and Oceaneering Space Systems, serves our customers outside the oil and gas industry.

# About the Cover

Oceaneering achieved record earnings in 2007, for the fourth consecutive year. Four of our five oilfield businesses set annual profit records. Pictured on the cover is a Hydra® Millennium Plus, one of Oceaneering's high-powered remotely operated vehicle work systems with deepwater capabilities, at our Morgan City manufacturing facility.



# PHILADELPHIA STOCK EXCHANGE RECOGNITION

The PHLX selected Oceaneering International, Inc. in November 2007 to become one of the companies in its Oil Service Sector Index (OSX) in recognition of the diversity of our service and product line offerings and worldwide market presence.



# Mission Statement

Oceaneering's mission is to increase the net wealth of its shareholders by providing safe, cost-effective, and quality-based technical solutions satisfying customer needs worldwide.

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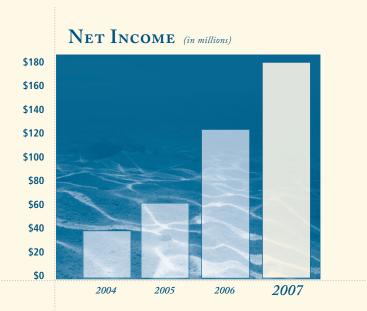
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# Financial Highlights

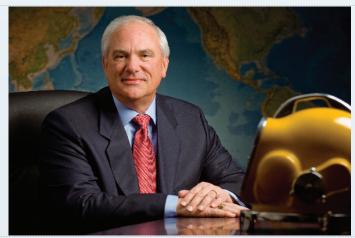
2007 2006 %	% Increase
REVENUE \$1,743,080 \$1,280,198	36%
GROSS MARGIN 413,285 296,121	40%
<b>OPERATING INCOME</b> 289,623 194,336	49%
NET INCOME 180,374 124,494	45%
DILUTED EARNINGS PER SHARE 3.24 2.26	43%

(\$ in thousands, except per share amount)

**OCEANEERING** reported record earnings for the fourth consecutive year, up 45% over those of 2006, as we continued to benefit from our strategic focus on deepwater and subsea completion activity and increased participation in Gulf of Mexico hurricane damage projects. We achieved record Remotely Operated Vehicles, Subsea Products, Subsea Projects, and Inspection operating income performances.



<sup>\* \$3.8</sup> Billion Market Capitalization at Year-End 2007



# Letter to Shareholders

T. JAY COLLINS
PRESIDENT AND CHIEF
EXECUTIVE OFFICER

We had an outstanding 2007 and achieved record earnings for the fourth consecutive year. Our strategic focus on providing services and products to support deepwater and subsea completion activity served as the linchpin for our earnings growth. Additionally, we benefited from performing more hurricane damage projects, as we placed a new saturation diving system into service and chartered two vessels and a barge to augment our existing vessel fleet.

Net income was 45% above that of 2006. In acknowledgment of our continued earnings growth and our future prospects, the market price of Oceaneering's stock during the year rose 70%, almost 20% more than the increase in the Oil Service Sector Index (OSX) quoted on the Philadelphia Stock Exchange (PHLX). This was the sixth time out of the eight years in this decade that Oceaneering's stock outperformed the OSX. In November, the PHLX selected Oceaneering to become one of the companies in the OSX in recognition of the diversity of our service and product line offerings and our worldwide market presence.

Our 2007 earnings growth was broad-based, with four of our five oilfield business segments setting annual profit records. This performance was attributable to: increased demand within our offshore oilfield service and product markets, our business expansion strategy, and exceptional operational execution. The market environment during the year was such that we were able to achieve strong utilization of our assets at favorable prices.

We continued to find good organic growth and acquisition opportunities and invested more than our net cash provided by operating activities. Our capital expenditures totaled \$234 million and included: 1) ROV fleet expansion and upgrades; 2) facility expansions in the United States, Scotland, and Norway; 3) the acquisition of Ifokus – a Norwegian designer and manufacturer of specialty subsea products, particularly ROV tooling; and 4) vessel upgrades. These investments position Oceaneering for increased earnings in the years ahead.

Looking forward, we expect the price of oil will remain at high levels. In this environment, oil and gas companies, our customers, are projected to increase their capital spending – a rising percentage of which is expected to be spent on deepwater fields. Deepwater is one of the best frontiers for adding large hydrocarbon reserves with high production flow rates at relatively low finding and development costs.

# Specific signs of a healthy deepwater market that will drive demand for our services and products are evident:

- About two-thirds of the deepwater field discoveries around the world are not yet in production;
- Over 95% of the existing 202 floating rigs in the world are under contract, and over half of these are contracted through 2009;
- Seventy-four new floating rigs are scheduled to be added to the worldwide fleet through 2011, up from 45 a year ago. Fifty-three have already secured term contracts with an average length of over five years; and
- During the next five years, subsea production tree orders are predicted to be at least 515 per year and annual
  demand for umbilicals is projected to approach 3,200 kilometers. These forecasts represent increases of 35%
  and 110%, respectively, over the last five years.

We believe our business prospects over the next several years are excellent. With our existing assets, we are well positioned to supply a wide range of the services and products required to support the growing deepwater exploration, development, and production efforts of our customers. Furthermore, we plan to expand our ability to participate in this market by continuing to grow organically and making additional acquisition investments. At year-end, our debt-to-capitalization was 18% and we remain committed to using our resources to continue to grow.

For 2008 we are forecasting another record year with EPS in the range of \$3.50 to \$3.80. We project operating income improvements of \$30 million to \$40 million in our Subsea Products business and \$25 million to \$35 million in our ROV business. We expect to benefit from our 2006 and 2007 Subsea Products investments, which increased our manufacturing capacity and rental service capabilities. For ROVs, we anticipate continued pricing improvement and expansion of our fleet to meet rising customer demand. We foresee decreasing demand for our shallow-water vessel and diving services as hurricane damage projects near completion. Additionally, four of our six company-owned vessels will be temporarily out of service during the year undergoing mandatory regulatory drydock inspections. Consequently, we expect the operating profit from our Subsea Projects business to decline by \$25 million to \$30 million.

Achieving our growth objective for 2008 – to set a fifth consecutive EPS record – will be challenging. Many of our operations will be running at activity levels not previously experienced. To ensure consistency in the quality of our services and products, we are committed to improving our business processes and the effectiveness of how we work. Throughout the organization we have teams working on ways to offer more value to our customers, control our operating expenses, and optimize the returns on our capital investments.

A skilled, well-trained, and safety-conscious workforce remains the key to our success, as validated by our record-setting safety performance in 2007. We will continue to invest in recruiting, training, developing, and retaining qualified personnel. During 2007, in our ROV business alone, we conducted training for over 500 technicians recruited from 13 countries. We also held classes to prepare 100 ROV technicians to become supervisors and provided advanced leadership training to over 160 experienced supervisors. We have six training centers around the world in which we provide ROV personnel instruction. In 2008 we anticipate hiring and training 500 more technicians and promoting additional personnel to supervisory positions.

Another significant challenge we face in 2008 is to invest our substantial cash flow to drive our earnings growth in 2009 and beyond. We anticipate our cash flow will exceed our organic growth opportunities. Consequently, we will continue to pursue acquisitions during the year, particularly in the subsea products area. As in the past, we will be a disciplined acquirer of businesses at reasonable prices. We are committed to increasing shareholder value.

This is clearly an exciting time for Oceaneering. I'd like to commend our employees who made our record 2007 results possible. Their commitment to safely provide high-quality solutions to our customers' needs provides the foundation for our continued success.

I look forward to leading Oceaneering to another record year in 2008.

T. JAY COLLINS

PRESIDENT AND CHIEF EXECUTIVE OFFICER

T. Jan Collins

# Oceaneering at a Glance

# 2007 Review

Earnings of \$180 million were the highest in Oceaneering's history, 45% above last year's record result. We achieved record ROV, Subsea Products, Subsea Projects, and Inspection operating income performances.

During the year we continued to position the organization for future growth and increased profitability. This included investing \$234 million to upgrade and expand our service and product manufacturing capacity. Eighty percent of this investment was spent on our ROV and Subsea Products businesses – the two operations that offer exceptional growth prospects as they are tied to deepwater and subsea completion activity.

# REMOTELY OPERATED VEHICLES

# Subsea Products



# Subsea Projects



# 2007 REVIEW

We achieved record financial results due to higher average revenue per day-on-hire, growth of our average fleet size, and an increase in our fleet utilization to 87%. Operating income improved by \$33 million, or 30%.

We achieved record financial results due to improved profit contributions from OIE specialty products and Multiflex umbilical sales. Operating income rose by \$39 million, over 70%, on an increase in revenue of nearly 45%.

We achieved record financial results on the strength of our increased participation in hurricane damage projects in the Gulf of Mexico.

Operating income increased
\$33 million, over 55%.

# 2008 Outlook

We expect the profit contribution from this segment to improve in the range of \$25 million to \$35 million due to an increase in average pricing and growth in our average fleet size. We anticipate adding approximately 30 new vehicles to our fleet. We forecast the profit contribution from this segment to improve in the range of \$30 million to \$40 million due to higher sales in each of OIE's product lines and Multiflex umbilicals. We anticipate operating income to decrease in the range of \$25 million to \$30 million. We foresee lower demand for our shallow-water vessel and diving services, as hurricane damage projects near completion. Additionally, four of our six company-owned vessels will temporarily be out of service undergoing mandatory regulatory drydock inspections.

# 2008 Outlook

We expect to achieve a new earnings record in 2008 and EPS in the range of \$3.50 to \$3.80 on the strength of operating income improvements from ROVs and Subsea Products.

For 2008 we expect the market environment for our deepwater oilfield services and products will continue to be characterized by robust demand. This demand is being driven by high crude prices, limited non-OPEC supply growth, significant reservoir depletion rates, and increased hydrocarbon consumption. In this market we believe the trend for our customers to invest their cash flows in deepwater projects will continue.

### Inspection

# Mobile Offshore Production Systems

# Advanced Technologies







# 2007 REVIEW

We achieved record financial results due to strong demand growth in all of the geographical markets we serve and our success in selling more value-added services and improving pricing. Operating income grew by nearly \$8 million, over 50%, on a 30% increase in revenue.

Pre-tax income contribution decreased largely as a result of reduced production throughput at the Medusa Spar, costs incurred to mobilize the *Ocean Pensador* from the U.S. to Southeast Asia, and a lower dayrate for the *Ocean Legend*.

We achieved an increase in operating income due to better profit performances by all of our non-oilfield business operations. This included: general engineering services; submarine repair, maintenance, and engineering projects for the U.S. Navy; and engineering services and hardware for NASA.

# 2008 OUTLOOK

We anticipate the operating income performance of our Inspection business to improve due to increased activity and higher pricing. We expect the pre-tax income contribution to decline as a result of: a lack of profit contribution from the PB *San Jacinto*; a drop in production at the Medusa Spar; and a lower dayrate for the *Ocean Legend*.

We anticipate the operating income of this segment to decrease due to the completion of a major contract for engineering services at the end of September 2007.

# Remotely Operated Vehicles

# FINANCIAL SUMMARY

We achieved all-time high revenue, gross margin, and operating income. This was due to a 16% increase in average pricing and a 12% growth in our work class fleet days on hire. The rise in days on hire was the result of a 10% expansion of our average fleet size and an improvement in fleet utilization to 87% from 85% in 2006.

Operating income increased 30% and operating income per day-on-hire improved by 16%. Operating income as a percent of revenue was 27%, equaling the record set in 2006.

Wellhead Cleaning Tool Recovery





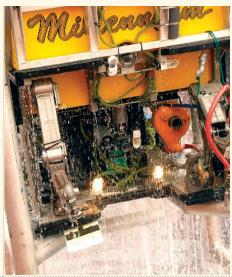
Morgan City ROV Manufacturing Facility



Subsea Tree Intervention







VEHICLE RECOVERY

# DURING THE YEAR WE:

- Maintained our position as owner of the industry's largest work class ROV fleet with an estimated 35% market share - over twice that of the next largest service supplier. We continued to be the primary provider of ROV drill support service with an estimated market share of over 55%, almost three times that of the second largest ROV supplier, and remained the principal provider of this service in the U.S. Gulf of Mexico, Norway, West Africa, and Mexico. We have a drill support market share of approximately 85% on the 35 existing 5th and 6th generation floating drilling rigs in the global fleet and have secured 19 of the 20 ROV contracts awarded on the 74 announced floating drilling rigs under construction for delivery over the next four years.
- Became the largest global provider of construction and field maintenance ROV services. We achieved this by increasing the number of vehicles we provide to offshore construction contractors and to subsea support vessel owners. The future market growth outlook for field maintenance ROV

- services looks particularly promising as there are approximately 100 subsea support vessels being built for delivery over the next four years, which will likely require at least one ROV each.
- Grew our fleet size to 210 vehicles, up from 186 at the beginning of the year. We added 31 new vehicles, disposed of 7 older systems, and upgraded 30 existing units as we maintained our strategy of operating a modern work class ROV fleet. About half of the new vehicles, as was the case in 2006, went to work in drill support service and the others were used for construction and production maintenance on the growing number of deepwater field developments.
- Opened a new ROV manufacturing center in Morgan City, Louisiana. We can now build up to four vehicles per month and anticipate putting into service approximately 30 more new systems in 2008. We have already secured contract commitments for over 20 of them, a reflection of the growing market demand for

- ROV services and our status as the premier supplier. We expect to put about 20 of our new 2008 vehicles initially in drill support service.
- Continued to pioneer ROV system innovations. This included adding an advanced autopiloting feature into our ROV control software, acoustic sensor imaging to conduct operations in zero visibility sea conditions, and high definition video capability to our cameras. The autopiloting feature enables precision movement and station keeping of the vehicle. This capability, similar to dynamic positioning on vessels, reduces operator fatigue and enhances piloting skills, particularly in navigating complex subsea hardware installations and using intervention tooling in poor visibility. Acoustic imaging allows us to build a virtual 3-D image of the work site and operate an ROV when conventional cameras are inadequate.

# Subsea Products

# FINANCIAL SUMMARY

We achieved record financial results. Operating income improved over 70% on higher sales of OIE specialty products and Multiflex umbilicals. We also invested over \$65 million to increase our manufacturing and rental service capabilities to participate in the secular market growth for specialty subsea hardware currently underway.

Operating income margin increased to a record high of 18%. We improved OIE product pricing and manufacturing execution through our continuous improvement initiatives. We also benefited from increased throughput and the resolution of 2006 startup problems at our U.S. umbilical plant.



INSTALLATION WORKOVER CONTROL SYSTEM (IWOCS) DEPLOYMENT

# DURING THE YEAR WE:

- Expanded our product line offering by acquiring Ifokus Engineering AS, a Norwegian designer and manufacturer of specialty subsea products. In addition to ROV tooling and interfaces, Ifokus product lines include hardware to perform fluid transfer and control, valve intervention, and hydrate remediation. Specific Ifokus products of note are leading-edge electric valve actuators and multifunction hot stabs.
- blowout preventer (BOP) control systems, with a combined value in excess of \$30 million. The orders include two discrete hydraulic systems for moored, semisubmersible drilling rigs undergoing major upgrades. The third is a microprocessor-based system for an ultra-deepwater, sixth generation, dynamically positioned drillship currently under construction. Future demand for subsea BOP control systems is tied to the announced expansion of the global floating drilling rig fleet, totaling 74 units at year-end, and additional upgrades to existing rigs, which we believe are highly likely.
- Commenced manufacturing hybrid subsea pump and steel tube production control umbilicals totaling approximately 31 miles in length for the BC-10 field development offshore Brazil. This will be the first full field development based on subsea oil and gas separation and pumping. Hybrid umbilicals offer several capabilities in a single integrated



Umbilical Distribution System



Multiflex Umbilical Loadout to the Ocean Intervention II

ROV DEPLOYED ELECTRONIC CALIPER

product, which generally lower an offshore field operator's development cost.

- Completed significant plant expansions in the U.S. and Norway, and opened a new facility in Dubai. The U.S. expansion was made to accommodate the ramp up of our BOP control system manufacturing operation. In Norway we added plant space to accommodate additional Rotator valve fabrication, assembly, and testing. The Dubai plant was opened to meet escalating regional demand for Grayloc clamps, specifically for offshore topside production facility manifolds and LNG plant installations.
- Obtained a large contract to supply umbilical distribution and connection equipment for the initial Shenzi field development located within the Gulf of Mexico in water depth of approximately 4,300 feet. The order is for three suction-pile-supported umbilical distribution system

- structures, 40 steel tube flying lead assemblies, junction plates, and assorted test equipment. Each structure will have umbilical termination, hydraulic, and electrical/communication assemblies that will be independently retrievable for ease of maintenance.
- Continued to develop new specialty subsea products. These included ROV tools, connectors and other hardware for use in pipeline repairs, and a new generation launch and recovery system (LARS) for our Installation/Workover Control Systems (IWOCS). The new LARS enables us to utilize an IWOCS without interfering with a rig's moon pool operations, even in adverse water currents.





PIPELINE REPAIR AND CONNECTOR SYSTEM

# Subsea Projects

# Financial Summary

We realized record financial results on the strength of our increased participation in hurricane damage projects in the Gulf of Mexico (GOM). Operating income increased over 55% as we benefited from placing a new saturation diving system into service and chartering two vessels and a barge to augment our existing fleet.



OCEAN INTERVENTION UMBILICAL INSTALLATION



NAUTILUS SAT DEPLOYMENT



Subsea Intervention
Lubricator System (SILS®)

# DURING THE YEAR WE:

- Obtained two contracts from BP to provide vessel and remotely operated vehicle (ROV) services to support hurricane damage platform decommissioning operations. Under terms of each contract, we are providing a dynamically positioned ROV support vessel equipped with three ROVs two work class and one observation class. Both contracts have terms of one year that commenced in May and June.
- Finished construction in March of a ten-man saturation diving system, named Nautilus. We secured hurricane damage work for this asset to perform platform repairs, platform debris removal, and well plug and abandonment support services. Hurricane projects of these types are expected to last for the next two or three years, albeit at lower levels of total overall market demand. Longer term, the aging GOM infrastructure and growing operator preference for state-of-theart equipment should enable us to keep the Nautilus profitably employed.
- Completed in March a capital investment in *The Performer* to improve its dynamic positioning (DP) capability to Class 2 and install one of our new work class ROVs. Following its upgrades, we used this vessel on a variety of projects including platform debris recovery, pipeline inspections, and strake installations. We are now able to work *The Performer* in close proximity to platforms and spars and use more specialized ROV tooling

OCEAN PROJECT AND OCEAN INSPECTOR SUPPORTING

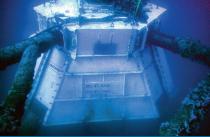


while performing deepwater inspection, repair, and maintenance (IRM) projects.

- Intervention III, a Class 2 DP vessel, which we have chartered for a primary term of three years. It was initially deployed on one of the BP downed platform contracts and we are marketing this vessel for deepwater installation and IRM projects upon completion of this contract. The vessel has been outfitted with two of our work class ROVs, one of which is a 300-hp Hydra® Maxximum.
- Chartered another DP vessel, the Olympic Intervention IV, for a five-year term with an anticipated start date in the third quarter of 2008. Upon its arrival in the GOM, this vessel will be outfitted with two of our high-specification work class ROVs. We are marketing it for use commencing in the fourth quarter of 2008 to augment our ability to perform subsea hardware installation and IRM projects, and conduct well intervention services in the ultradeep waters of the GOM. The Olympic *Intervention IV* is being built to an overall length of approximately 312 feet and will have a Class 2 DP system, accommodations for 100 personnel, a helideck, a 150-ton heave compensated crane, and a working moonpool.

Additionally, the vessel will be equipped with a satellite communications system capable of transmitting video for real-time work observation by shore personnel.

Accomplished our first well intervention project using our proprietary Subsea Intervention Lubricator System (SILS®) to close and open production zones in a subsea well. The SILS® system is designed to perform riserless wireline, electric line, and plug and abandonment operations in deepwater without requiring the use of a floating drilling rig or large offshore construction vessel. As this technology gains acceptance and the number of subsea completions increases, we are confident SILS® projects will become a growing part of our vessel-based subsea projects business.



DRY WELDING HABITAT



Hyperbaric Welding



# During the year we:

- Benefited from securing several new contracts and contract extensions for our services. We anticipate continuing to profit from them in 2008 and beyond. These included awards related to: LNG receiving and storage facilities, nuclear power stations, and petrochemical plants in the U.K.; manpower and NDT services in West Africa; and offshore pipelines, LNG processing plants, and offshore production facilities in the Middle East.
- Increased significantly the amount of services we provided to BP under a contract secured in 2006. The assets covered by the contract include all of BP's upstream oil and gas facilities, both onshore and offshore, in the United Kingdom and Norway. Under terms of the contract we are providing risk-based inspection plans derived from detailed corrosion assessments. Furthermore, we are compiling trend and defect analyses to support facility maintenance and repair plans and to meet regulatory requirements.
- Acquired CET Medway, an inspection company based in southeast England.

  Medway provides a comprehensive range of services to the oil, gas, petrochemical, power, and fabrication markets and augments our existing operations. This acquisition positions us to take advantage of significant business growth opportunities in the area.
- Intensified our X-ray pipeline crawler training effort in Batam, Indonesia. We can now deploy crawlers and Indonesian engineering and maintenance personnel throughout the world; this capability alleviates the severe shortage of experienced technicians in many of the market areas





we serve. We also conducted our first automated ultrasonic (AUT) pipeline inspections for customers in West Africa and the Middle East. Due to enhanced productivity on offshore pipelay barges and inherent safety advantages, we expect continued growth in the use of AUT technology in 2008 and beyond.

Continued to invest in a variety of high technology equipment to enhance our ability to perform computerized radiography, corrosion mapping, and long-range ultrasonic inspections. These devices are being used to inspect offshore production facilities and petrochemical and power generation plants over their life cycle. These specialized inspection services address evolving requirements for more cost-effective methods to identify integrity issues, plan and perform preventive maintenance, and ensure reliability and safety.

PUMPING STATION PIPE CORROSION SCREENING

ROV Deployed X-Ray Habitat for Computed Radiography



Semisubmersible Rig Hull Inspection

# Mobile Offshore Production Systems

# FINANCIAL SUMMARY

Operating income declined as a result of a lower dayrate for the *Ocean Legend*, which went into effect in May, and the mobilization of the *Ocean Pensador* from the U.S. to Southeast Asia. Equity income from our ownership in the Medusa Spar also dropped as a result of lower hydrocarbon throughput at this offshore production facility.

# DURING THE YEAR WE:

- Took redelivery of the PB *San Jacinto* after it came off contract in July and received a \$2.8 million settlement from the charterer in lieu of the barge being restored to the condition specified in the contract. We are investigating our options with respect to the future use of this asset. Most likely, it will be sold in 2008.
- Mobilized the *Ocean Pensador* from the U.S. to Southeast Asia. We moved this used tanker, which we acquired in 2006, to better position it in the market place. The vessel is now closer to several shipyards capable of modifying it for production or storage service, either by us or another company should we decide to sell it.
- Continued to charter the *Ocean Producer* and *Ocean Legend*. They both performed beyond all contractual operating requirements with excellent safety performance.







Ocean Producer Processing Equipment



OCEAN LEGEND PRODUCED WATER MONITORING

# Advanced Technologies

# FINANCIAL SUMMARY

ADTECH operating income improved by 25% over 2006 results due to better profit performances by all of our non-oilfield business operations. This included: general engineering services; submarine repair, maintenance, and engineering projects for the U.S. Navy; and space-related engineering services and hardware for NASA.



U.S. NAVY SUBMARINE MAINTENANCE



U.S. NAVY LANDING CRAFT AIR CUSHION VESSEL

# DURING THE YEAR WE:

- Completed one major overhaul and repaired four of the U.S. Navy's Dry Deck Shelters (DDS), which are mounted on nuclear submarines to deploy Special Operating Forces. We also installed the fittings to accommodate use of the shelters on five of the Navy's submarines. All of this work was performed under the seven-year term contract we secured in 2006 to provide engineering, technical, and maintenance and repair services for life cycle support of the Navy's DDS.
- Secured contracts to conduct maintenance on six U.S. Navy Landing Craft Air Cushion vessels. Our work included making repairs to fuel and waste oil tank plating and welds and correcting lift fan misalignments. We also installed design improvements to the gas turbine engine intake filters, the lift fan bearing support structures, hydraulic control systems, and the electronic controls for radios, radar, and habitability.
- Supported all Space Shuttle flights and many of the International Space Station operations conducted during the year. Our work scope included the design, manufacture, and maintenance of robotic tools used during space walks and the training of NASA astronauts.
- Completed the design of a crane system to transfer cargo containers between large ships at sea in support of the U.S. Navy's Sea Basing Initiative. We will oversee the manufacture of this crane to conduct testing in 2008. We also were awarded two additional contracts to design a ramp capable of transferring tracked and wheeled military vehicles from ship to ship while underway and a system to transfer containers from large to small ships at sea.

# Oceaneering International Locations

# CORPORATE HEADQUARTERS

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# OPERATIONAL BASES

### INTERNATIONAL

Cabinda, Angola
Lobito, Angola
Luanda, Angola
Perth, W.A., Australia
Baku, Azerbaijan
Macaé, Brasil
Niteroi, Brasil
St. John's, Newfoundland, Canada
Cairo, Egypt
Malabo, Equatorial Guinea
Mumbai, India

Mumbai, India
Balikpapan, Indonesia
Batam, Indonesia
Handil, Indonesia
Jakarta, Indonesia
Kuala Lumpur, Malaysia
Miri, Sarawak, Malaysia
Mexico D.F., Mexico

Cd. del Carmen, Mexico Eket, Nigeria Ikeja, Lagos, Nigeria

Port Harcourt, Nigeria Warri, Nigeria Nodeland, Norway

Stavanger, Norway Jurong, Singapore Zug, Switzerland Abu Dhabi, U.A.E.

Dubai, U.A.E.

GLOUCESTER, ENGLAND, U.K.
IMMINGHAM, ENGLAND, U.K.
LONDON, ENGLAND, U.K.
ROSYTH, SCOTLAND, U.K.
SOUTHAMPTON, ENGLAND, U.K.
STOCKTON, ENGLAND, U.K.
SWANSEA, WALES, U.K.

ABERDEEN, SCOTLAND, U.K.

Rochester, England, U.K. Whitley Bridge, England, U.K.

Wilton, England, U.K.

### UNITED STATES

Huntsville, Alabama SAN DIEGO, CALIFORNIA GALES FERRY, CONNECTICUT Orlando, Florida PANAMA CITY, FLORIDA Pearl Harbor, Hawaii BAYOU VISTA, LOUISIANA Houma, Louisiana LAFAYETTE, LOUISIANA Morgan City, Louisiana New Iberia, Louisiana New Orleans, Louisiana Hanover, Maryland PORTSMOUTH, NEW HAMPSHIRE MIDDLETOWN, RHODE ISLAND Houston, Texas Ingleside, Texas

Chesapeake, Virginia

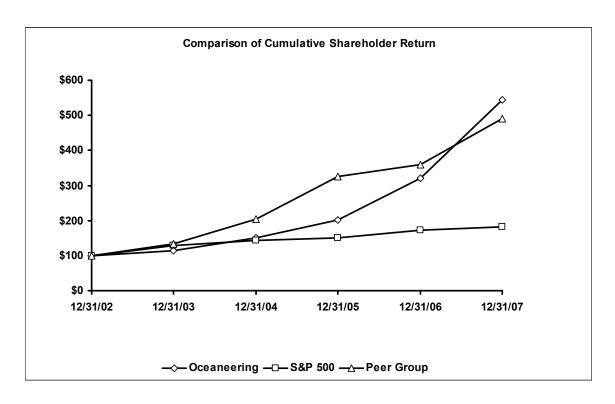
# 2007 FINANCIAL SECTION

# PERFORMANCE GRAPH

The following graph compares our total shareholder return to the Standard & Poor's 500 Stock Index ("S&P 500"), the weighted average return generated by a peer group from December 31, 2002 through December 31, 2007. The peer group companies for this performance graph are Global Industries, Ltd., Halliburton Company, McDermott International, Inc., Cal Dive International, Inc. (formerly known as Helix Energy Solutions Group, Inc.), Bristow Group Inc., Acergy S.A. (formerly known as Stolt Offshore S.A.), and Tidewater, Inc.

It is assumed in the graph that: (1) \$100 was invested in Oceaneering Common Stock, the S&P 500, and the Peer Group on December 31, 2002; (2) the peer group investment is weighted based on the market capitalization of each individual company within the peer group at the beginning of each period; and (3) any dividends are reinvested. We have not declared any dividends during the period covered by the graph. The shareholder return shown is not necessarily indicative of future performance.

# **Comparison of Cumulative Shareholder Return** for Oceaneering, S&P 500, and a Selected Peer Group



	December 31,							
	<u>2002</u>		<u>2003</u> <u>2004</u> <u>2</u>		<u>2006</u>	<u>2007</u>		
Oceaneering	100.00	113.18	150.85	201.21	320.94	544.46		
S&P 500	100.00	128.68	142.69	149.70	173.34	182.86		
Peer Group	100.00	134.16	203.49	325.61	358.88	491.13		

# OCEANEERING COMMON STOCK

Our common stock is listed on the New York Stock Exchange under the symbol OII. We submitted to the New York Stock Exchange during 2007 a certification of our Chief Executive Officer regarding compliance with the Exchange's corporate governance listing standards. We also included as exhibits to our annual report on Form 10-K, as filed with the SEC, the certifications of our Chief Executive Officer and Chief Financial Officer required under Section 302 of the Sarbanes-Oxley Act of 2002.

In June 2006, we effected a two-for-one stock split in the form of a stock dividend. All historical share and per share data in this annual report reflect this stock split.

The following table sets out, for the periods indicated, the high and low sales prices for our common stock as reported on the New York Stock Exchange (consolidated transaction reporting system):

	20	07	2006		
For the quarter ended:	High	Low	High	Low	
March 31	\$ 43.64	\$ 35.40	\$ 30.06	\$ 25.05	
June 30	54.08	42.10	45.85	27.55	
September 30	76.85	52.03	47.23	27.80	
December 31	85.88	62.07	46.91	28.73	

On February 15, 2008, there were 356 holders of record of our common stock. On that date, the closing sales price, as guoted on the New York Stock Exchange, was \$64.19. We have not made any common stock dividend payments since 1977, and we currently have no plans to pay cash dividends. Our credit agreements contain restrictions on the payment of dividends. See Note 4 of Notes to Consolidated Financial Statements included in this report.

We did not repurchase any shares of our common stock in 2007 or 2006.

# **SELECTED HISTORICAL FINANCIAL DATA**

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

# Results of Operations:

	Year Ended December 31,						
(in thousands, except per share							
amounts)	2007	2006	2005	2004	2003		
Revenue	\$ 1,743,080	\$ 1,280,198	\$ 998,543	\$780,181	\$639,249		
Cost of services and products	1,329,795	984,077	819,263	648,378	528,465		
Gross margin	413,285	296,121	179,280	131,803	110,784		
Selling, general and							
administrative expense	123,662	101,785	85,211	67,939	56,787		
Income from operations	\$ 289,623	\$ 194,336	\$ 94,069	\$ 63,864	\$ 53,997		
Net income	\$ 180,374	\$ 124,494	\$ 62,680	\$ 40,300	\$ 29,301		
Diluted earnings per share	3.24	2.26	1.17	0.78	0.60		
Depreciation and amortization	93,776	80,456	79,613	65,619	56,963		
Capital expenditures, including							
business acquisitions	233,795	193,842	142,269	153,184	100,370		

# Other Financial Data:

	As of December 31,						
(in thousands, except ratios)	2007	2006	2005	2004	2003		
Working capital ratio	1.98	1.87	1.77	1.62	1.69		
Working capital	\$ 331,594	\$ 243,939	\$ 171,566	\$ 106,204	\$ 91,793		
Total assets	1,531,440	1,242,022	989,568	819,664	662,856		
Long-term debt	200,000	194,000	174,000	142,172	122,324		
Shareholders' equity	915,310	696,764	536,118	454,437	359,375		

# MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF **OPERATION**

All statements in this annual report, other than statements of historical facts (including, without limitation, statements regarding:

- our business strategy;
- our plans for future operations;
- industry conditions;
- our expectations about 2008 revenue growth, net income and segment operating results, and the factors underlying those expectations, including our expectation that the demand for our deepwater oilfield services and products will remain high as a result of the factors we specify in the "Executive Overview" below:
- projections relating to subsea tree orders and industry-wide umbilical orders for 2008;
- the adequacy of our working capital and cash flows to support our operations and ongoing annual cash requirements, including debt service;
- the adequacy of our accruals for uninsured expected liabilities from workers' compensation. maritime employer's liability and general liability claims;
- our expectations about the profit contribution and cash flows from our investment in Medusa Spar LLC, and the factors underlying those expectations;
- our expectations regarding inspection and repair work for 2008 made necessary by hurricanes;
- our backlog; and
- our belief relating to our total unrecognized tax benefits)

are forward-looking statements made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. These forward-looking statements are subject to various risks, uncertainties and assumptions, including those we refer to under the headings "Risk Factors" and "Cautionary Statement Concerning Forward-Looking Statements" in Part I of our annual report on Form 10-K. Although we believe that the expectations reflected in such forward-looking statements are reasonable, because of the inherent limitations in the forecasting process, as well as the relatively volatile nature of the industries in which we operate, we can give no assurance that those expectations will prove to have been correct. Accordingly, evaluation of our future prospects must be made with caution when relying on forward-looking information.

### Executive Overview

The table that follows sets out our revenue and profitability for the years ended December 31, 2007, 2006 and 2005.

	Year Ended December 31,						
(dollars in thousands)	2007	2006		2005			
Revenue	\$1,743,080	\$ 1,280,198	\$	998,543			
Gross Margin	413,285	296,121		179,280			
Gross Margin %	24%	23%		18%			
Operating Income	289,623	194,336		94,069			
Operating Income %	17%	15%		9%			
Net Income	180,374	124,494		62,680			

We generate approximately 90% of our revenue, and 95% of our operating income, from our services and products provided to the oil and gas industry. In 2007, we increased revenue by 36%, led by our Subsea Projects (up 66%), Subsea Products (up 43%) and ROV (up 30%) segments. Our Subsea Projects segment, which operates only in the Gulf of Mexico, continued to benefit from performing more hurricane damage-related work, as we placed a new saturation diving system into service and chartered two vessels and a barge to augment our existing vessel fleet. Our Subsea Products segment revenue increased from sales of Oceaneering Intervention Engineering specialty subsea products and umbilicals. Our ROV segment increase was a result of an improvement in average revenue per day-on-hire and growth in days on hire for our expanded work-class fleet.

The \$180 million consolidated net income we earned in 2007 was the highest in our history. The \$56 million increase in 2007 results was attributable to higher profit contributions from our Subsea Products, ROV and Subsea Projects segments, with each setting annual profit records. The Subsea Products and ROV improvements reflect our strategic focus on deepwater and subsea completion activity. Our Subsea Projects increase was due to demand increases for hurricane damage-related projects.

In 2007, we invested in the following major capital projects:

- additions of work-class ROVs, including 31 placed into service during the year;
- expenditures to increase capacity at our Subsea Products manufacturing facilities;
- purchase of Norway-based Ifokus Engineering AS, a designer and manufacturer of specialty subsea products:
- completion of construction of a saturation diving system for our Subsea Projects segment to meet growing demand; and
- completion of upgrades of the dynamic positioning system of our vessel, *The Performer*.

For 2008, we expect the demand for our deepwater oilfield services and products will remain high. We believe this will be driven by continued high crude oil prices, limited non-OPEC supply growth, rapid reservoir depletion rates and increasing hydrocarbon demand. We believe the trend for our customers to increasingly invest in deepwater projects will continue.

We expect our 2008 earnings to grow about 15% over 2007, led by increases in operating income in our Subsea Products and ROV segments.

We believe that growth in our Subsea Products segment will be driven by a rise in the use of subsea completions. Historically, there has been a strong correlation between the number of annual subsea tree orders and the follow-on orders for umbilicals and other subsea specialty products that we provide.

According to industry data, there were less than 600 subsea completion installations before 1990 and approximately 1,100 in the decade of the 1990s. It is currently projected that there will be approximately 3,300 subsea completion installations in the decade of the 2000s.

According to publicly available information published by Quest Offshore Resources, Inc., the projected global market for subsea tree orders in 2008 will be over 390 trees, down from 452 trees in 2007. Industry-wide umbilical orders in 2008 are forecast to increase to around 1,170 miles, up over 55% from approximately 755 miles in 2007. Quest attributes the expected rise in 2008 subsea umbilical orders, despite a lower subsea tree order forecast, to:

- a carryover of demand for umbilicals for trees ordered in prior years, as umbilical orders are being placed closer to tree installation dates; and
- an anticipated increase in the average distance between subsea trees and the host platforms.

With our expanded steel tube and thermoplastic umbilical manufacturing capacities, we are well positioned to secure a share of this work.

We use our ROVs in the offshore oil and gas industry to perform a variety of underwater tasks, including drill support, installation and construction support, pipeline inspection and surveys and subsea production facility operation and maintenance. The largest percentage of our ROVs are usually used to provide drill support services. Therefore, utilization of floating drilling rigs is a leading market indicator for this business. The following table shows average floating rig use and our ROV utilization.

	2007	2006	2005
Average number of floating rigs in use	196	191	175
ROV days on hire (in thousands)	63	56	52
ROV utilization	87%	85%	83%

# Critical Accounting Policies and Estimates

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

Revenue Recognition. We recognize our revenue according to the type of contract involved. On a daily basis, we recognize revenue under contracts that provide for specific time, material and equipment charges, which we bill periodically, ranging from weekly to monthly.

We account for significant fixed-price contracts, which we enter into mainly in our Subsea Products and Advanced Technologies segments, and occasionally in our Subsea Projects segment, using the percentage-of-completion method. In 2007, we accounted for 14% of our revenue using the percentageof-completion method. In determining whether a contract should be accounted for using the percentageof-completion method, we consider whether:

- the customer provides specifications for the construction of facilities or production of goods or for the provision of related services;
- we can reasonably estimate our progress towards completion and our costs;
- the contract includes provisions as to the enforceable rights regarding the goods or services to be provided, consideration to be received and the manner and terms of payment;
- the customer can be expected to satisfy its obligations under the contract; and
- we can be expected to perform our contractual obligations.

Under the percentage-of-completion method, we recognize estimated contract revenue based on costs incurred to date as a percentage of total estimated costs. Changes in the expected cost of materials and labor, productivity, scheduling and other factors affect the total estimated costs. Additionally, external factors, including weather or other factors outside of our control, may also affect the progress and estimated cost of a project's completion and, therefore, the timing of income and revenue recognition. We routinely review estimates related to our contracts and reflect revisions to profitability in earnings immediately. If a current estimate of total contract cost indicates an ultimate loss on a contract, we recognize the projected loss in full when we determine it. In prior years, we have recorded adjustments to earnings as a result of revisions to contract estimates. Although we are continually striving to improve our ability to estimate our contract costs and profitability, adjustments to overall contract costs could be significant in future periods.

We recognize the remainder of our revenue when persuasive evidence of an arrangement exists, delivery has occurred or services have been rendered, price is fixed or determinable and collection is reasonably assured.

Long-lived Assets. We evaluate our property and equipment for impairment whenever events or changes in circumstances indicate that the carrying amounts may not be appropriate. We base these evaluations on a comparison of the assets' carrying values to forecasts of undiscounted cash flows associated with the assets or quoted market prices. If an impairment has occurred, we recognize a loss for the difference between the carrying amount and the fair value of the asset. Our expectations regarding future sales and undiscounted cash flows are highly subjective, cover extended periods of time and depend on a number of factors outside our control, such as changes in general economic conditions. laws and regulations. Accordingly, these expectations could differ significantly from year to year.

In 2005, we recorded \$6.1 million of additional depreciation in our ROV segment. These provisions related to the retirement of four vehicles and obsolete ROV components.

We charge the costs of repair and maintenance of property and equipment to operations as incurred, while we capitalize the costs of improvements. In September 2006, the Financial Accounting Standards Board ("FASB") issued FASB Staff Position No. AUG AIR-1, Accounting for Planned Major Maintenance Activities. This Staff Position prohibits companies from recognizing planned major maintenance costs by accruing a liability over several reporting periods before the maintenance is performed — the accrue-inadvance method. We previously used the accrue-in-advance method for anticipated drydocking of our vessels. This Staff Position was effective for us beginning January 1, 2007, and we have since charged drydocking expenses to the income statement as incurred. There was no material effect on our financial statements from the change.

Goodwill. We account for acquisitions using the purchase method of accounting, with the purchase price being allocated to the net assets acquired based on their fair market values at the date of acquisition. In accordance with the requirements of Statement of Financial Accounting Standards ("SFAS") No. 142, Goodwill and Other Intangible Assets, we test the goodwill attributable to each of our reporting units for impairment. We estimate fair value of the reporting units using discounted cash flow methodologies and market comparable information.

Loss Contingencies. We self-insure for workers' compensation, maritime employer's liability and comprehensive general liability claims to levels we consider financially prudent and carry insurance for exposures beyond the self-insurance levels, which can be by occurrence or in the aggregate. We determine the level of accruals by reviewing our historical experience and current year claim activity. We do not record accruals on a present-value basis. We review larger claims with insurance adjusters and establish specific reserves for known liabilities. We establish an additional reserve for incidents incurred but not reported to us for each year using our estimates and based on prior experience. We believe we have established adequate accruals for uninsured expected liabilities arising from those obligations. However, it is possible that future earnings could be affected by changes in our estimates relating to these matters.

We are involved in various claims and actions against us, most of which are covered by insurance. We believe that our ultimate liability, if any, that may result from these claims and actions will not materially affect our financial position, cash flows or results of operations.

Income Taxes. Effective January 1, 2007, we adopted FASB Interpretation No. ("FIN") 48, Accounting for Uncertainty in Income Taxes. This interpretation clarifies the criteria for recognizing income tax benefits under Statement of Financial Accounting Standards ("SFAS") No. 109, and requires disclosures about uncertain tax positions. Under FIN 48, the financial statement recognition of the benefit for a tax position depends on the benefit being more likely than not to be sustainable upon audit by the applicable taxing authority. If this threshold is met, the tax benefit is then measured and recognized at the largest amount that is greater than 50 percent likely of being realized upon ultimate settlement. We made an adjustment of \$1.6 million to reduce our retained earnings as of January 1, 2007 to record the effect of our adoption of this interpretation.

We account for any applicable interest and penalties on uncertain tax positions as a component of our provision for income taxes on our financial statements. We charged \$0.4 million to income tax expense in 2007 for penalties and interest for uncertain tax positions, which brought our total liabilities for penalties and interest on uncertain tax positions to \$2.8 million on our balance sheet at December 31, 2007. Including penalties and interest, we have accrued a net total of \$5.8 million in the caption "other long-term liabilities" on our balance sheet for unrecognized tax benefits. All additions or reductions to those liabilities affect our effective income tax rate in the periods of change.

We do not believe that the total of unrecognized tax benefits will significantly increase or decrease in the next 12 months.

Our tax provisions are based on our expected taxable income, statutory rates and tax-planning opportunities available to us in the various jurisdictions in which we operate. Determination of taxable income in any jurisdiction requires the interpretation of the related tax laws. We are at risk that a taxing authority's final determination of our tax liabilities may differ from our interpretation. Our effective tax rate may fluctuate from year to year as our operations are conducted in different taxing jurisdictions, the amount of pre-tax income fluctuates and our estimates regarding the realizability of items such as foreign tax credits may change. In 2007, 2006 and 2005, we recorded reductions of income tax expense of \$1.1 million, \$1.3 million and \$1.8 million, respectively, resulting from the resolution of uncertain tax positions related to certain tax liabilities we recorded in prior years. Current income tax expense represents either nonresident withholding taxes or the liabilities expected to be reflected on our income tax returns for the current year, while the net deferred income tax expense or benefit represents the change in the balance of deferred tax assets or liabilities as reported on our balance sheet.

We establish valuation allowances to reduce deferred tax assets when it is more likely than not that some portion or all of the deferred tax assets will not be realized in the future. We currently have no valuation allowances. While we have considered estimated future taxable income and ongoing prudent and feasible tax-planning strategies in assessing the need for the valuation allowances, changes in these estimates and assumptions, as well as changes in tax laws, could require us to adjust the valuation allowances for our deferred tax assets. These adjustments to the valuation allowance would impact our income tax provision in the period in which such adjustments are identified and recorded.

For a summary of our major accounting policies and a discussion of recently adopted accounting standards, please read Note 1 to our Consolidated Financial Statements.

# Liquidity and Capital Resources

We consider our liquidity and capital resources adequate to support our operations and internally generated growth initiatives. At December 31, 2007, we had working capital of \$332 million, including cash and cash equivalents of \$27 million. Additionally, we had \$160 million available under our revolving credit facility, which currently extends to January 2012. At December 31, 2007, our debt-to-total capitalization ratio was 18%.

We expect our operating cash flow to meet our ongoing annual cash requirements, including debt service, for the foreseeable future. Our net cash provided by operating activities was \$209 million, \$151 million and \$94 million for the years ended December 31, 2007, 2006 and 2005, respectively.

Our capital expenditures, including business acquisitions, for the years ended December 31, 2007, 2006 and 2005 were \$234 million, \$194 million and \$142 million, respectively. Capital expenditures in 2007

included expenditures for: additions and upgrades to our ROV fleet; the purchase of Norway-based Ifokus Engineering AS ("Ifokus"), a designer and manufacturer of specialty subsea products, for \$20 million; vessel upgrades; the acquisition of a small inspection company in the United Kingdom; and facility expansions in the United Kingdom, Norway, Morgan City, LA and Houston. Our facility expansions in the United Kingdom, Norway and Houston relate to our Subsea Products manufacturing operations, and our Morgan City expansion supports our ROV and Subsea Projects operations.

Our capital expenditures during 2007 included \$122 million in our ROV segment, principally for additions and upgrades to our ROV fleet to expand the fleet and replace units we retired and for facilities infrastructure to support our growing ROV fleet size. We plan to continue adding ROVs at levels we determine appropriate to meet market opportunities as they arise. We added 31 ROVs to our fleet and disposed of seven units during the year ended December 31, 2007, resulting in a total of 210 systems in the fleet. We have chartered the Ocean Intervention III from another party for an initial term of three years, which began in May 2007, with extension options for up to six additional years. The Ocean Intervention III is equipped with two of our work-class ROVs. We obtained a one-year contract for the vessel, with customer options for up to two additional one-year periods, to work on shallow water hurricane damage-related projects in the Gulf of Mexico. We have received notice that the customer has declined to exercise the extension options, and we now plan to utilize the Ocean Intervention III on deepwater projects after it has completed its current commitment. We have also chartered the Olympic Intervention IV for an initial term of five years, which we anticipate will begin in the third quarter of 2008. The Olympic Intervention IV will be outfitted with two high-specification work-class ROVs, and we anticipate using the vessel to perform subsea hardware installation and inspection, repair and maintenance projects, and to conduct well intervention services in the ultra-deep waters of the Gulf of Mexico.

Our capital expenditures during 2006 included \$113 million in our ROV segment, principally for additions and upgrades to our ROV fleet to expand the fleet and replace units we retired and for facilities infrastructure. In 2006, we commenced improvements in our Subsea Products facilities, including the addition of equipment to increase manufacturing capacity at our umbilical plant in the U.K. and our subsea valve facility in Norway and purchased an oil tanker for possible future conversion to a mobile offshore production and storage system in the event we obtain a suitable contract. We also began upgrades to a dynamically positioned vessel and began construction of a saturation diving system to meet demand in our Subsea Projects segment.

Our capital expenditures during 2005 included the acquisition of Grayloc for \$42 million and additions to our ROV fleet to replace units we retired and to increase the number of units.

In September 2002, our Board of Directors approved a plan to repurchase up to 6,000,000 shares of our common stock, subject to a \$75 million aggregate purchase price limitation. Under this plan, we repurchased 1,795,600 shares of common stock through the year ended December 31, 2007, at a total cost of \$20.1 million. We have not repurchased any shares of common stock since 2003. Through December 31, 2007, we had reissued all of these shares as contributions to our 401(k) plan or for exercised stock options under our incentive plans. For a description of our incentive plans, please read Note 8 to our Consolidated Financial Statements.

We have not guaranteed any debt not reflected on our consolidated balance sheet. In December 2003, we acquired a 50% interest in Medusa Spar LLC. At formation, Medusa Spar LLC borrowed \$84 million, or approximately 50% of its total capitalization, from a group of banks. The balance of the bank loan at December 31, 2007 was \$22 million, and it requires scheduled quarterly payments through 2009. The bank loan is secured by minimum throughput guarantees by the other investors in Medusa Spar LLC. We expect the minimum throughput guarantees will generate sufficient revenue for Medusa Spar LLC to repay the bank loan. We are under no obligation to provide Medusa Spar LLC or the banks with additional funds to repay the loan. At December 31, 2007, Medusa Spar LLC had \$18 million of cash and cash equivalents on its balance sheet. The majority of the cash flow generated by Medusa Spar LLC will continue to be used to repay the bank loan until the loan is retired. After that, the cash flow from Medusa Spar LLC will be available for distribution to the equity holders. We received \$3.4 million, \$5.4 million and \$2.3 million of cash distributions from Medusa Spar LLC and recognized \$3.8 million, \$11.2 million and \$10.1 million of equity in the earnings of Medusa Spar LLC in 2007, 2006 and 2005, respectively. Medusa Spar LLC is a variable interest entity under FIN 46R, Consolidation of Variable Interest Entities.

As we are not the primary beneficiary of Medusa Spar LLC, we are accounting for our investment in Medusa Spar LLC using the equity method of accounting. At December 31, 2007, our investment in Medusa Spar LLC was \$63 million.

Our principal source of cash from operating activities is our net income, adjusted for the non-cash expenses of depreciation and amortization and noncash compensation under our restricted stock plans. Our \$209 million, \$151 million and \$94 million of cash provided from operating activities in 2007, 2006 and 2005, respectively, were net of increases of \$55 million, \$46 million and \$57 million, respectively, in accounts receivable and increases of \$91 million, \$84 million and \$37 million, respectively, in inventory and other current assets. The increases in accounts receivable were due to increases in revenue in the fourth quarter of the respective year as compared to the fourth quarter of the preceding year. The increases in inventory and other current assets principally related to raw materials and ROV parts. The raw materials increases related to preparations for building goods in our Subsea Products segment, which experienced a revenue increase of 43% in 2007, and we anticipate continued revenue growth in 2008. The increases in ROV parts inventory related to equipment waiting for assembly into ROVs to be placed in service in the succeeding year and increases in parts to be used for servicing our growing ROV fleet.

In 2007, we used \$227 million in investing activities, including \$122 million to modernize and add additional units to our ROV fleet, \$66 million to add capacity to our Subsea Products facilities, including our acquisition of Ifokus for \$20 million. In 2006, we used \$187 million in investing activities, including \$113 million to modernize and add additional units to our ROV fleet and \$38 million to add capacity to our Subsea Products facilities. In 2005, we used \$139 million in investing activities, including \$46 million related to business acquisitions, primarily Grayloc, and \$56 million to modernize and add additional units and equipment to our ROV business.

In 2007, 2006 and 2005, we received \$5 million, \$8 million and \$23 million, respectively, in cash flow from financing activities as proceeds from the sale of our common stock, primarily pursuant to the exercise of employee stock options. In addition, in 2007, 2006 and 2005, we received \$8 million, \$7 million and \$6 million, respectively, of excess tax benefit realized from tax deductions in excess of financial statement expense related to our stock-based compensation plans.

Because of our significant foreign operations, we are exposed to currency fluctuations and exchange risks. We generally minimize these risks primarily through matching, to the extent possible, revenue and expense in the various currencies in which we operate. Cumulative translation adjustments as of December 31, 2007 relate primarily to our permanent investments in and loans to our foreign subsidiaries. See Item 7A - "Quantitative and Qualitative Disclosures About Market Risk." Inflation has not had a material effect on our revenue or income from operations in the past three years, and no such effect is expected in the near future.

# Results of Operations

Information on our business segments is shown in Note 6 of the Notes to Consolidated Financial Statements included in this report.

Oil and Gas. The table that follows sets out revenue and profitability for the business segments within our Oil and Gas business for the years ended December 31, 2007, 2006 and 2005.

	Year Ended December 31,					
(dollars in thousands)		2007		2006	<u> </u>	2005
Remotely Operated Vehicles						
Revenue	\$	531,381	\$	410,256	\$	315,178
Gross Margin	Ψ	168,322	Ψ	129,929	Ψ	84,419
Gross Margin %		32%		32%		27%
Operating Income		144,242		111,022		68,962
Operating Income %		27%		27%		22%
Utilization %		87%		85%		83%
		01 70		3370		0070
Subsea Products		504.007		004.540		000 000
Revenue		521,937		364,510		239,039
Gross Margin		133,285		81,380		37,113
Gross Margin %		26%		22%		16%
Operating Income		92,804		53,645		13,941
Operating Income %		18%		15%		6%
Subsea Projects						
Revenue		257,752		155,046		121,628
Gross Margin		100,577		65,119		31,122
Gross Margin %		39%		42%		26%
Operating Income		92,841		59,585		26,219
Operating Income %		36%		38%		22%
Inspection						
Revenue		219,686		169,014		154,857
Gross Margin		37,195		28,501		21,704
Gross Margin %		17%		17%		14%
Operating Income		22,749		14,946		7,946
Operating Income %		10%		9%		5%
Mobile Offshore Production Systems						
Revenue		50,103		52,931		50,091
Gross Margin		12,443		17,136		18,330
Gross Margin %		25%		32%		37%
Operating Income		11,048		16,001		16,796
Operating Income %		22%		30%		34%
Total Oil and Gas						
Revenue	\$ 1	1,580,859	\$ 1	,151,757	\$	880,793
Gross Margin	~	451,822	Τ'	322,065	•	192,688
Gross Margin %		29%		28%		22%
Operating Income		363,684		255,199		133,864
Operating Income %		23%		22%		15%

In response to continued increasing demand to support deepwater drilling and identified future construction and production maintenance work, we continue to build new ROVs. These new vehicles are designed for use around the world in water depths of 10,000 feet or more. We added 31 ROVs in 2007

while disposing of seven units. We plan to continue adding ROVs at levels we determine appropriate to meet market opportunities.

For each of 2007 and 2006, our ROV revenue increased 30% over the respective prior year from improvements in average revenue per day-on-hire and growth in days on hire for our expanded workclass fleet. We grew our fleet size to 210 at December 31, 2007 from 186 at December 31, 2006. Operating income increased by 30% in 2007 over 2006 and 61% in 2006 over 2005. The lower margin percentage for 2005 reflected \$6.1 million of additional depreciation in 2005 associated with the retirement of four older ROVs and obsolete ROV components.

We anticipate ROV operating income to increase \$25 million to \$35 million in 2008 from a higher average fleet size and pricing. We expect to add approximately 30 ROVs in 2008, with most to be placed in service in the second half of the year.

Our Subsea Products revenue for 2007 rose 43% and operating income increased over 70% on increased sales of our specialty subsea products and umbilicals. Our operating margin percentage increased to 18% from 15% from better pricing and improved manufacturing execution, including better throughput and resolution during 2006 of startup problems at our U.S. umbilical manufacturing plant.

Our Subsea Products revenue in 2006 was 52% higher than in 2005, while gross margin and operating income percentages significantly improved. We achieved higher sales of umbilicals and of our specialty hardware, and segment operating income nearly quadrupled. During the year, we resolved the mechanical problems we previously experienced at our Panama City, FL umbilical facility and we processed higher volumes at all three of our umbilical manufacturing plants. The increase in sales of specialty hardware came particularly from ROV tooling and clamps. The increase in clamp sales was primarily attributable to the full year of operations from our Grayloc division, which we acquired at the end of June 2005.

We anticipate our Subsea Products segment operating income will grow \$30 million to \$40 million in 2008, driven by a continuation of a high level of subsea completion activity, which we expect will result in growth in our specialty hardware sales. Our Subsea Products backlog was \$338 million at December 31, 2007 compared to \$359 million at December 31, 2006.

In 2007, our Subsea Projects segment experienced higher revenue and operating income than 2006 from an increase in hurricane damage-related projects. Our operating income rose by over 55% on an increase in revenue of 66%. We continued to experience favorable pricing for and utilization of our vessel and diving assets. Additionally, during the year we added a saturation diving system, placed The Performer back into service after its upgrade, and chartered and utilized two dynamically positioned vessels and a barge. Our margin percentages decreased due to the high third-party cost content of the chartered assets.

In 2006, our Subsea Projects segment had better results than 2005 due to work related to hurricane damage from Hurricanes Katrina and Rita and an escalation in demand for installation projects and our inspection, maintenance and repair services on the deepwater infrastructure in the Gulf of Mexico. Annual operating income more than doubled as we continued to benefit from rate increases and high utilization for our seven vessels and our diving assets.

We anticipate our 2008 operating income for Subsea Projects to be about \$25 million to \$30 million less than in 2007, based on our expectations of the completion of two large hurricane damage-related contracts midway through 2008, four scheduled vessel drydockings in 2008, and lower demand for shallow water vessel and diving services as hurricane damage-related projects near completion.

In 2007, our Inspection revenue and margins continued to increase, due to strong growth in all of the geographic areas we serve. We continued to sell more value-added services at improved pricing.

For 2006, our Inspection revenue increased and margins improved over 2005. This was attributable to our successes in providing more value-added services, securing new contracts, and controlling our operating expenses. Our operating income grew by over 85%.

We expect that our Inspection segment operating income will improve in 2008, due to increased activity and higher pricing.

Our Mobile Offshore Production Systems three major units continued to work under the same contracts, until the termination of the contract for the San Jacinto in July 2007. The decreases in margins in 2007 were the result of \$2.8 million of expenses incurred to move the Ocean Pensador from the U.S. west coast to Southeast Asia in the fourth quarter of 2007, and the anticipated decline in the dayrate of the Ocean Legend, as per the customer renewal option terms in the existing contract. We moved the Ocean Pensador to better position it in the marketplace. The vessel is now closer to several shipyards capable of modifying it for production or storage service, either for us or another owner should we sell it.

We anticipate our Mobile Offshore Production Systems operating income in 2008 will decline from 2007 as a result of a lower dayrate going into effect in mid-May 2008 for the use of the Ocean Legend, as per the customer renewal option terms in the existing contract, and the end of the contract on the San Jacinto in 2007.

Advanced Technologies. The table that follows sets out revenue and profitability for this segment for the years ended December 31, 2007, 2006 and 2005.

(dollars in thousands)	Year Ended December 31,					
	2007	2006	2005			
Revenue	\$ 162,221	\$ 128,441	\$ 117,750			
Gross Margin	25,561	19,862	20,772			
Gross Margin %	16%	15%	18%			
Operating Income	14,458	11,585	12,539			
Operating Income %	9%	9%	11%			

Our Advanced Technologies segment's revenue and margins for 2007 increased from those of 2006 due to increased work for the U.S. Navy on submarine repair and maintenance and general engineering services. Our margins for 2006 decreased from those of 2005, primarily due to the transfer of The Performer to our Subsea Projects segment in April 2006. Our 2006 revenue was higher than 2005 from demand for general engineering services.

We anticipate our Advanced Technologies 2008 operating income will be lower than 2007 due to the completion in September 2007 of an engineering services contract that had been ongoing for more than five years.

**Unallocated Expenses.** Our unallocated expenses, i.e., those not associated with a specific business segment, within gross margin consist of expenses related to our incentive and deferred compensation plans, including restricted stock and bonuses, as well as other general expenses. A portion of our restricted stock expense varies with the market price of our common stock. Our unallocated expenses within operating income consist of those within gross margin plus general and administrative expenses related to corporate functions. The table that follows sets out our unallocated expenses for the years ended December 31, 2007, 2006 and 2005.

	Year Ended December 31,					
(dollars in thousands)		2007	2006			2005
Gross margin expenses % of revenue	\$	(64,098) 4%	\$	(45,806) 4%	\$	(34,180)
Operating expenses		(88,519)		(72,448)		(52,334)
% of revenue		5%		6%		5%

Our unallocated gross margin and operating expenses increased in 2007, primarily due to higher compensation related to incentive plans as a result of record results and an escalation in information technology-related costs to support our growth.

Our unallocated gross margin and operating expenses increased in 2006 over 2005, primarily due to compensation related to incentive plans as a result of record results and our higher stock price. Our unallocated operating expenses in 2006 and 2005 included \$5.8 million and \$2.7 million, respectively, related to post-retirement benefits for our current chairman and former chief executive officer.

In November 2001, we entered into an agreement with our Chairman (the "Chairman") who was also then our Chief Executive Officer. That agreement was amended in 2006. Pursuant to the amended agreement, the Chairman relinquished his position as Chief Executive Officer in May 2006 and began his post-employment service period on December 31, 2006. The agreement provides for a specific service period ending no later than August 15, 2011, during which the Chairman, acting as an independent contractor, has agreed to serve as nonexecutive Chairman of our Board of Directors for so long as our Board of Directors desires that he shall continue to serve in that capacity. The agreement provides the Chairman with post-employment benefits for ten years following his services to us. The amendment included a lump-sum cash buyout, paid in 2007, of the Chairman's entitlement to perquisites and administrative assistance during that ten-year period (expected to run from 2011 to 2021). As a result, we recorded \$2.8 million of associated expense in the fourth quarter of 2006. The agreement also provides for medical coverage on an after-tax basis to the Chairman, his spouse and children during his service with us and thereafter for their lives. We are recognizing the net present value of the postemployment benefits over the expected service period. If the service period is terminated for any reason (other than the Chairman's refusal to continue serving), we will recognize all the previously unaccrued benefits in the period in which that termination occurs.

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

Year Ended December 31,						
(dollars in thousands)		2007		2006		2005
Interest income	\$	1,198	\$	730	\$	505
Interest expense, net of amounts capitalized		(15,333)		(12,920)		(10,102)
Equity earnings of unconsolidated affiliates:						
Medusa Spar LLC		3,779		11,213		10,082
Other		251		838		328
Other income (expense), net		(2,020)		(3,302)		(432)
Provision for income taxes		97,124		66,401		31,770

Interest expense increased in 2007 and 2006, primarily because we used debt to partially finance capital expenditures and acquisitions. Interest expense is net of capitalized interest of \$1.0 million, \$0.1 million and \$0.1 million for the years ended December 31, 2007, 2006 and 2005, respectively.

In 2004, we started earning equity income from our 50% investment in Medusa Spar LLC, which we acquired in December 2003. Medusa Spar LLC owns 75% of a production spar in the Gulf of Mexico and earns its revenue from fees charged on production processed through the facility. During 2004 and 2005, additional wells were connected to the facility, thereby raising 2006 throughput over the 2005 level. In 2007, we experienced a decrease in equity in earnings of unconsolidated affiliates from our investment in Medusa Spar LLC due to lower production throughput at the spar, and we expect this trend to continue in 2008. If the operator of the producing wells is able to either start producing from other zones in the existing wells, which are anticipated to have higher flow rates than the currently-producing zones, or connect more wells to the spar, the declining revenue trend would be reversed.

Our effective tax rate, including foreign, state and local taxes, was 35%, 35% and 34% for 2007, 2006 and 2005, respectively. In 2007, 2006 and 2005, our effective tax rates included favorable resolutions of uncertain tax positions of \$1.1 million, \$1.3 million and \$1.8 million, respectively, related to certain tax liabilities we recorded in prior years. For 2008, we anticipate an effective tax rate of approximately 35%.

# Off-Balance Sheet Arrangements

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

# Contractual Obligations

At December 31, 2007, we had payments due under contractual obligations as follows:

(dollars in thousands)	Payments due by period				
	Total	2008	2009-2010	2011-2012	After 2012
Long-term Debt	\$ 200,000	\$ 20,000	\$ 40,000	\$ 140,000	\$ -
Operating Leases	187,461	31,124	62,887	46,486	46,964
Purchase Obligations Other Long-term Obligations reflected on our balance sheet	55,365	55,365	-	-	-
under GAAP	43,796	584	1,343	3,343	38,526
TOTAL	\$ 486,622	\$ 107,073	\$ 104,230	\$ 189,829	\$ 85,490

At December 31, 2007, we had outstanding purchase order commitments totaling \$55 million, including approximately \$29 million for ROV winches and control umbilicals for ROV units and \$26 million for specialized steel tubes to be used in our manufacturing of steel tube umbilicals by our Subsea Products segment. The winches and ROV umbilicals have been ordered for new ROVs and for anticipated replacements due to normal wear and tear. We have ordered the specialized steel tubes in advance, due to the current shortage of these specialized materials caused by a general worldwide increase in demand for steel, as the lead times between placing the order and delivery have become extended. We have contracts to build umbilicals that will use approximately 59% of the orders. We also have other identified opportunities that could utilize these materials. However, should we decide not to accept delivery of the steel tubes, we would incur cancellation charges of at least 10% of the amount canceled.

### Effects of Inflation and Changing Prices

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

In order to minimize the negative impact of inflation on our operations, we attempt to cover the increased cost of anticipated changes in labor, material and service costs, either through an estimate of those changes, which we reflect in the original price, or through price escalation clauses in our contracts.

# QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

We are currently exposed to certain market risks arising from transactions we have entered into in the normal course of business. These risks relate to interest rate changes and fluctuations in foreign exchange rates. We do not believe these risks are material. We have not entered into any market risk sensitive instruments for speculative or trading purposes. We manage our exposure to interest rate changes through the use of a combination of fixed and floating-rate debt. See Note 4 of Notes to Consolidated Financial Statements included in this report for a description of our long-term debt agreements, interest rates and maturities. We believe that significant interest rate changes will not have a material near term impact on our future earnings or cash flows. Because we operate in various oil and gas exploration and production regions in the world, we conduct a portion of our business in currencies other than the U.S. dollar. The functional currency for several of our international operations is the applicable local currency. We manage our exposure to changes in foreign exchange rates principally through arranging compensation in U.S. dollars or freely convertible currency and, to the extent possible, by limiting compensation received in other currencies to amounts necessary to meet obligations denominated in those currencies. We use the exchange rates in effect as of the balance sheet date to translate assets and liabilities as to which the functional currency is the local currency, resulting in

translation adjustments that we reflect as accumulated other comprehensive income or loss in the shareholders' equity section of our Consolidated Balance Sheets. We recorded adjustments of \$21.0 million, \$17.3 million and (\$14.3 million) to our equity accounts in 2007, 2006 and 2005, respectively. Positive adjustments reflect the net impact of the strengthening of various foreign currencies against the U.S. dollar for locations where the functional currency is not the U.S. dollar. Conversely, negative adjustments reflect the effect of a strengthening dollar.

We recorded foreign currency transaction gains (losses) of (\$0.3 million), (\$2.5 million) and \$0.2 million in our Consolidated Income Statements in 2007, 2006 and 2005, respectively, related to our foreign operations. In 2006, the majority of our foreign currency losses related to our U.K. operations. Some of our U.K. subsidiary's revenue is from U.S. dollar-denominated contracts. If the U.S. dollar weakens against the British pound sterling, we will incur currency losses for the period the related accounts receivable are outstanding.

# CONTROLS AND PROCEDURES.

# **Disclosure Controls and Procedures**

In accordance with Rules 13a-15 and 15d-15 under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), we carried out an evaluation, under the supervision and with the participation of management, including our chief executive officer and chief financial officer, of the effectiveness of our disclosure controls and procedures (as that term is defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) as of the end of the period covered by this report. Based on that evaluation, our chief executive officer and chief financial officer concluded that our disclosure controls and procedures were effective as of December 31, 2007 to provide reasonable assurance that information required to be disclosed in our reports filed or submitted under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms. There has been no change in our internal control over financial reporting that occurred during the year ended December 31, 2007 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

# Management's Report on Internal Control Over Financial Reporting

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

Under the supervision and with the participation of our management, including our principal executive. financial and accounting officers, we have conducted an evaluation of the effectiveness of our internal control over financial reporting based on the framework in "Internal Control - Integrated Framework" issued by the Committee of Sponsoring Organizations of the Treadway Commission. This evaluation included a review of the documentation surrounding our financial reporting controls, an evaluation of the design effectiveness of these controls, testing of the operating effectiveness of these controls and an evaluation of our overall control environment. Based on that evaluation, our management has concluded that our internal control over financial reporting was effective as of December 31, 2007.

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

### Report of Independent Registered Public Accounting Firm on Internal Control Over Financial Reporting

The Board of Directors and Shareholders of Oceaneering International, Inc.

We have audited Oceaneering International, Inc.'s internal control over financial reporting as of December 31, 2007, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). Oceaneering International, Inc.'s management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

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

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

In our opinion, Oceaneering International, Inc. maintained, in all material respects, effective internal control over financial reporting as of December 31, 2007, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Oceaneering International, Inc. and subsidiaries as of December 31, 2007 and 2006, and the related consolidated statements of income, cash flows, and shareholders' equity and comprehensive income for each of the three years in the period ended December 31, 2007 and our report dated February 26, 2008 expressed an unqualified opinion thereon.

Houston, Texas February 26, 2008

Ernst + Young LLP

### INDEX TO FINANCIAL STATEMENTS AND SCHEDULES

## Index to Financial Statements

Report of Independent Registered Public Accounting Firm Consolidated Balance Sheets Consolidated Statements of Income Consolidated Statements of Cash Flows Consolidated Statements of Shareholders' Equity and Comprehensive Income Notes to Consolidated Financial Statements Selected Quarterly Financial Data (unaudited)

#### Index to Schedules

All schedules for which provision is made in the applicable regulations of the Securities and Exchange Commission have been omitted because they are not required under the relevant instructions or because the required information is set forth in the financial statements included herein or in the related footnotes thereto.

#### REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders of Oceaneering International, Inc.

We have audited the accompanying consolidated balance sheets of Oceaneering International, Inc. and subsidiaries (the "Company") as of December 31, 2007 and 2006, and the related consolidated statements of income, cash flows and shareholders' equity and comprehensive income for each of the three years in the period ended December 31, 2007. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Oceaneering International, Inc. and subsidiaries at December 31, 2007 and 2006, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 2007, in conformity with U.S. generally accepted accounting principles.

As discussed in Note 3 to the consolidated financial statements, effective January 1, 2007, the Company adopted FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes. As discussed in Note 1, effective January 1, 2006, the Company adopted Statement of Financial Accounting Standards No. 123 (revised 2004), Share-Based Payment and, as discussed in Note 1, effective December 31, 2006, the Company adopted Statement of Financial Accounting Standards No. 158, Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans, an amendment of FASB Statements No. 87, 88, 106, and 132(R).

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Oceaneering International, Inc.'s internal control over financial reporting as of December 31, 2007, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 26. 2008 expressed an unqualified opinion thereon.

Ernet + Young LLP

Houston, Texas February 26, 2008

# OCEANEERING INTERNATIONAL, INC. AND SUBSIDIARIES **CONSOLIDATED BALANCE SHEETS**

	December 31,			
(in thousands, except share data)	2007	2006		
ASSETS		_		
Current Assets:				
Cash and cash equivalents	\$ 27,110	\$ 26,228		
Accounts receivable, net of allowances for doubtful accounts	370,612	315,255		
Inventory and other current assets	272,847	182,162		
Total Current Assets	670,569	523,645		
Durante and Engineerate at costs				
Property and Equipment, at cost:	754.450	COE 400		
Marine services equipment	754,158	635,490		
Mobile offshore production equipment	167,437	152,854		
Manufacturing facilities	172,598	151,826		
Other	153,069	99,872		
	1,247,262	1,040,042		
Less accumulated depreciation	609,155	516,335		
Net Property and Equipment	638,107	523,707		
Other Assets:				
Goodwill	111,951	86,931		
Investments in unconsolidated affiliates	64,655	64,496		
Other	46,158	43,243		
Total Assets	\$ 1,531,440	\$ 1,242,022		
LIABILITIES AND SHAREHOLDERS' EQUITY				
Current Liabilities:				
Accounts payable	\$ 76,841	\$ 70,777		
Accrued liabilities	235,748	180,073		
Income taxes payable	26,386	28,856		
Total Current Liabilities	338,975	279,706		
Lawa tawa Daht	200,000	404.000		
Long-term Debt	200,000	194,000		
Other Long-term Liabilities	77,155	71,552		
Commitments and Contingencies				
Shareholders' Equity:				
Common Stock, par value \$0.25 per share; 90,000,000 shares				
authorized; 55,075,238 and 54,440,488 shares issued	13,769	13,610		
Additional paid-in capital	210,388	191,910		
Retained earnings	651,304	472,525		
Accumulated other comprehensive income	39,849	18,719		
Total shareholders' equity	915,310	696,764		
Total Liabilities and Shareholders' Equity	\$ 1,531,440	\$ 1,242,022		
. Stat. Elabilitios and Olidionolidolo Equity	<del>- + 1,001,770</del>	Ψ 1,2 72,022		

# OCEANEERING INTERNATIONAL, INC. AND SUBSIDIARIES **CONSOLIDATED STATEMENTS OF INCOME**

	Year Ended December 31,							
(in thousands, except per share data)		2007		2006	2005			
Revenue	\$ 1	1,743,080	\$ 1	1,280,198	\$	998,543		
Cost of services and products		1,329,795		984,077		819,263		
Gross Margin		413,285		296,121		179,280		
Selling, general and administrative expense		123,662		101,785		85,211		
Income from Operations		289,623		194,336		94,069		
Interest income		1,198		730		505		
Interest expense, net of amounts capitalized	(15,333)		(12,920)			(10,102)		
Equity earnings of unconsolidated affiliates	4,030		12,051			10,410		
Other income (expense), net		(2,020)		(3,302)		(432)		
Income before Income Taxes		277,498		190,895		94,450		
Provision for income taxes		97,124	66,401			31,770		
Net Income	<u>\$</u>	180,374	_\$_	124,494	_\$_	62,680		
Basic Earnings per Share Diluted Earnings per Share	\$ \$	3.29 3.24	\$ \$	2.31 2.26	\$ \$	1.20 1.17		
Diluted Lailings per Silate	Ψ	J.4 <del>4</del>	Ψ	2.20	Ψ	1.17		
Weighted average number of common shares Incremental shares from stock equivalents		54,786 969		53,990 1,001		52,300		
•		303		1,001		1,347		
Weighted average number of common shares and equivalents		55,755		54,991		53,647		

# OCEANEERING INTERNATIONAL, INC. AND SUBSIDIARIES **CONSOLIDATED STATEMENTS OF CASH FLOWS**

	Year Ended December 31,				
(in thousands)	2007	2006	2005		
Cash Flows from Operating Activities:					
Net income	\$180,374	\$124,494	\$ 62,680		
Adjustments to reconcile net income to net cash					
provided by operating activities:					
Depreciation and amortization	93,776	80,456	79,613		
Gain on asset sales	(4,198)	_	-		
Noncash compensation and other	20,255	11,292	562		
Undistributed earnings of unconsolidated affiliates Increase (decrease) in cash from:	(33)	(2,898)	(8,406)		
Accounts receivable, net	(55,357)	(45,758)	(56,921)		
Inventory and other current assets	(90,684)	(83,734)	(37,477)		
Other assets	1,462	(4,415)	(702)		
Accounts payable	6,064	6,471	12,574		
Accrued liabilities	55,676 (2,470)	37,904	26,000 11,572		
Income taxes payable Other long-term liabilities	(2,470) 4,010	12,663 14,769	4,400		
Other long-term habilities	4,010	14,703			
Total adjustments to net income	28,501	26,750	31,215		
Net Cash Provided by Operating Activities	208,875	151,244	93,895		
Cash Flows from Investing Activities:					
Business acquisitions	(25,099)	(1,491)	(46,242)		
Purchases of property and equipment	(208,696)	(192,351)	(96,027)		
Dispositions of property and equipment	6,941	6,826	3,011		
Net Cash Used in Investing Activities	(226,854)	(187,016)	(139,258)		
Cash Flows from Financing Activities:					
Net proceeds from revolving credit, net of expenses	25,561	40,000	31,828		
Payments of 6.72% Senior Notes	(20,000)	(20,000)	-		
Proceeds from issuance of common stock	5,277	8,320	23,062		
Excess tax benefits from stock-based compensation	8,023	7,372			
Net Cash Provided by Financing Activities	18,861	35,692	54,890		
Net Increase (Decrease) in Cash					
and Cash Equivalents	882	(80)	9,527		
Cash and Cash Equivalents – Beginning of Period	26,228	26,308	16,781		
Cash and Cash Equivalents – End of Period	\$ 27,110	\$ 26,228	\$ 26,308		

# OCEANEERING INTERNATIONAL, INC. AND SUBSIDIARIES CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY AND COMPREHENSIVE INCOME

								prehensive Incon	ne (Loss)	
		non Stock	Additional	Unearned			Fair Value	Currency		
		ssued	Paid-in	Compen-	Treasury	Retained	of Interest	Translation		
(in thousands)	Shares	Amounts	Capital	sation	Stock	Earnings	Rate Hedge	Adjustments	Pension	Total
Balance, December 31, 2004	51,640	\$ 12,910	\$ 140,395	\$ (447)	\$ -	\$ 285,351	\$ -	\$ 18,560	\$ (2,332)	\$ 454,437
Comprehensive Income:										
Net Income	-	-	-	-	-	62,680	-	-	-	62,680
Change in fair value of interest rate hedge,										
net of tax		-	-	-	-	-	518	-	-	518
Pension-related adjustments, net of tax	-	-	-	-	-	-	-	-	(217)	(217)
Translation adjustments	-	-	-	-	-	-	-	(14,269)	-	(14,269)
Total Comprehensive Income						62,680	518	(14,269)	(217)	48,712
Restricted stock expense	156	39	3,564	228	_		_			3,831
Restricted stock forfeitures	_	_	78	_	(78)	_	_	_	_	-
Stock options exercised	1,692	423	21,116	_	50	_	_	_	_	21,589
Tax benefits from stock plans	_		6,177	_	-		-	_	-	6,177
Common stock issued to company benefit plan	70	18	1,326	_	_	_	_	_	_	1,344
Treasury stock issued to company			.,							.,
benefit plan, at average cost					28					28
Balance, December 31, 2005	53,558	13,390	172,656	(219)		348.031	518	4,291	(2,549)	536.118
Comprehensive Income:	33,330	10,000	172,000	(213)		340,031	310	4,231	(2,545)	550,110
Net Income	_		_		_	124,494			_	124,494
Change in fair value of interest rate hedge,	_	_	_	_	_	124,454	_	_	_	124,454
net of tax							(165)			(165)
	-	-	-	-	-	-	(105)	-	843	843
Pension-related adjustments, net of tax	-	-	-	-	-	-	-	17,282	043	17,282
Translation adjustments						124,494	(165)		843	142,454
Total Comprehensive Income	-	-	-	-	-	124,494	(105)	17,282	043	142,454
Adjustment to initially apply SFAS No. 158,									(4.504)	(4.504)
net of tax	-	-		4 000	-	-	-	-	(1,501)	(1,501)
Restricted stock expense	228	57	2,604	1,060	-	-	-	-	-	3,721
Restricted stock forfeitures	-	-	73	-	(73)	-	-	-	-	-
Restricted stock grant	32	8	856	(917)	-	-	-	-	-	(53)
Stock options exercised	622	155	8,092	-	73	-	-	-	-	8,320
Stock options expense	-	-	333	-	-	-	-	-	-	333
Tax benefits from stock plans			7,372							7,372
Balance, December 31, 2006	54,440	13,610	191,986	(76)	-	472,525	353	21,573	(3,207)	696,764
Comprehensive Income:										
Adjustment to initially apply FIN No. 48,										
net of tax	-	-	-	-	-	(1,595)	-	-	-	(1,595)
Net Income	-	-	-	-	-	180,374	-	-	-	180,374
Change in fair value of interest rate hedge,										
net of tax	-	-	-	-	-	-	(277)	-	-	(277)
Pension-related adjustments, net of tax	-	-	-	-	-	-	-	-	396	396
Translation adjustments	-	-	-	-	-	-	-	21,011	-	21,011
Total Comprehensive Income	-		-	-	-	178,779	(277)	21,011	396	199,909
Restricted stock expense	228	57	3,995	1,281	-	-	-	-	-	5,333
Restricted stock forfeitures	-	-	-	-	-	-	-	-	-	-
Restricted stock grant	32	8	1,306	(1,314)			-		-	-
Stock options exercised	375	94	5,183	-	-	-		-	-	5,277
Stock options expense		-	4	-	-	-		-	-	4
Tax benefits from stock plans		-	8,023	-	-	-		-	-	8,023
Balance, December 31, 2007	55,075	\$ 13,769	\$ 210,497	\$ (109)	\$ -	\$ 651,304	\$ 76	\$ 42,584	\$ (2,811)	\$ 915,310
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## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

#### 1. **SUMMARY OF MAJOR ACCOUNTING POLICIES**

#### Principles of Consolidation

The consolidated financial statements include the accounts of Oceaneering International, Inc. and our 50% or more owned and controlled subsidiaries. We also consolidate entities that are determined to be variable interest entities as defined in Financial Accounting Standards Board ("FASB") Interpretation No. ("FIN") 46R, Consolidation of Variable Interest Entities, if we determine that we are the primary beneficiary; otherwise, we account for these entities using the equity method of accounting. We use the equity method to account for our investments in unconsolidated affiliated companies of which we own an equity interest of between 20% and 50% and as to which we have significant influence, but not control, over operations. All significant intercompany accounts and transactions have been eliminated.

On May 12, 2006, our Board of Directors declared a two-for-one stock split to be effected in the form of a stock dividend of our common stock to our shareholders of record at the close of business on May 25, 2006. The stock dividend was distributed on June 19, 2006. All historical share and per share data in these financial statements reflect this stock split. Our total number of authorized shares of common stock and the par value of our common stock were unchanged by this stock split. We have restated shareholders' equity to give retroactive recognition of the stock split for all periods presented by reclassifying an amount equal to the par value of the additional shares issued through the stock dividend from additional paid-in capital to common stock.

## Cash and Cash Equivalents

Cash and cash equivalents include demand deposits and highly liquid investments with original maturities of three months or less from the date of the investment.

#### Accounts Receivable – Allowances for Doubtful Accounts

The following table sets forth the activity of our allowances for doubtful accounts receivable:

			Additions							
	Bal	ance at	Char	rged to	Chai	ged to			Bal	lance at
	begi	nning of	Cos	ts and	0	ther			e	end of
(in thousands)	P	eriod	Exp	enses	Acc	ounts	De	ductions	F	Period
For the year ended December 31, 2005	\$	2,763	\$		\$	112	\$	2,763	\$	112
For the year ended December 31, 2006	\$	112	\$		\$	2	\$		\$	114
For the year ended December 31, 2007	\$	114	\$	964	\$	49	\$	103	\$	1,024

We determine the need for allowances for doubtful accounts using the specific identification method. We do not generally require collateral from our customers.

### Inventory and Other Current Assets

Inventory and other current assets consisted of the following:

	Decem	ber 31,
(in thousands)	2007	2006
Inventory of parts for remotely operated vehicles	\$ 84,467	\$ 61,763
Other inventory, primarily raw materials	140,943	78,130
Deferred income taxes	13,576	18,618
Other	33,861_	23,651
Total	\$ 272,847	\$ 182,162

Inventory is valued at lower of cost or market. We determine cost using the weighted-average method.

#### Property and Equipment

We provide for depreciation of property and equipment on the straight-line method over estimated useful lives of three to 20 years for marine services equipment, up to 12 years for mobile offshore production equipment and three to 25 years for buildings, improvements and other equipment.

We charge the costs of repair and maintenance of property and equipment to operations as incurred, while we capitalize the costs of improvements. In September 2006, the FASB issued FASB Staff Position No. AUG AIR-1. Accounting for Planned Major Maintenance Activities. This Staff Position prohibits companies from recognizing planned major maintenance costs by accruing a liability over several reporting periods before the maintenance is performed — the accrue-in-advance method. We previously used the accrue-in-advance method for anticipated drydocking of our vessels. This Staff Position was effective for us beginning January 1, 2007, and we have since charged drydocking expenses to the income statement as incurred. There was no material effect on our financial statements from the change.

The following table sets forth the activity of our accruals for drydocking for the periods presented:

				Addi	tions						
	Ва	lance at	Charged to		Charged to				Ва	lance at	
	beginning of		Costs and		Other		d Other			e	end of
(in thousands)	F	Period	Ex	penses	Acc	ounts	Dec	ductions	Period		
For the year ended December 31, 2005	\$	1,207	\$	1,022	\$	(48)		900	\$	1,281	
For the year ended December 31, 2006	\$	1,281	\$	833	\$	27	\$	1,971	\$	170	

We capitalize interest on assets where the construction period is anticipated to be more than three months. In 2007, 2006 and 2005, we capitalized \$1.0 million, \$0.1 million and \$0.1 million of interest, respectively. We do not allocate general administrative costs to capital projects. Upon the disposition of property and equipment, the related cost and accumulated depreciation accounts are relieved and any resulting gain or loss is included as an adjustment to cost of services and products.

Our management periodically, and upon the occurrence of a triggering event, reviews the realizability of long-lived assets, excluding goodwill and indefinite-lived intangibles, which are held and used by us, to determine whether any events or changes in circumstances indicate that the carrying amount of the asset may not be recoverable. For long-lived assets to be held and used, we base our evaluation on impairment indicators such as the nature of the assets, the future economic benefit of the assets, any historical or future profitability measurements and other external market conditions or factors that may be present. If such impairment indicators are present or other factors exist that indicate that the carrying amount of the asset may not be recoverable, we determine whether an impairment has occurred through the use of an undiscounted cash flows analysis of the asset at the lowest level for which identifiable cash

flows exist, or quoted market prices. If an impairment has occurred, we recognize a loss for the difference between the carrying amount and the fair value of the asset. For assets held for sale or disposal, the fair value of the asset is measured using quoted market prices less cost to sell. Assets are classified as held-for-sale when we have a plan for disposal of certain assets and those assets meet the held for sale criteria. In 2005, we recorded \$6.1 million of additional depreciation in our ROV segment, based on net realizable value. These provisions related to the retirement of four vehicles and obsolete ROV components.

#### **Business Acquisitions**

In June 2005, we acquired Grayloc Products L.L.C. and subsidiary (together, "Grayloc"), an oil and gas industry supplier of clamp connectors, for approximately \$42 million. We accounted for this acquisition using the purchase method of accounting, with the purchase price being allocated to the net assets acquired based on their fair market values at the date of acquisition. Our goodwill, all nondeductible, associated with the Grayloc acquisition was \$22 million and other intangible assets were \$14 million. The results of operations of Grayloc are included in our consolidated statements of income from the date of acquisition.

In July 2007, we acquired Ifokus Engineering AS ("Ifokus"), a designer and manufacturer of specialty subsea products based in Norway, for \$20 million. We accounted for this acquisition using the purchase method of accounting, with the purchase price being allocated to the net assets acquired based on their fair market values at the date of acquisition. We have made the purchase price allocation based on information currently available to us, and the allocations are subject to change when we obtain final asset and liability valuations. Our goodwill, all nondeductible, associated with the acquisition was \$18 million, and other intangible assets were \$2 million. The results of operations of Ifokus are included in our consolidated statements of income from the date of acquisition.

We also made several smaller acquisitions during the periods presented.

The above acquisitions were not material. As a result, we have not included pro forma information related to those acquisitions in this report.

### Goodwill and Intangible Assets

In accordance with the requirements of Statement of Financial Accounting Standards ("SFAS") No. 142. Goodwill and Other Intangible Assets, we tested the goodwill attributable to each of our reporting units for impairment as of December 31, 2007, 2006 and 2005 and concluded that there was no impairment. Our reporting units are the operating units one level below our business segments, except for Inspection. which is tested as a single reporting unit. We estimated fair value using discounted cash flow methodologies and market comparable information.

Within our balance sheet caption Other Assets: Other, at December 31, 2007 and 2006, we have \$15.7 million and \$14.9 million, respectively, of intangible assets, primarily acquired in connection with business combinations. These intangible assets include trade names, intellectual property and customer relationships, and are being amortized over a weighted average remaining life of approximately 11 years.

### Revenue Recognition

We recognize our revenue according to the type of contract involved. On a daily basis, we recognize revenue under contracts that provide for specific time, material and equipment charges, which we bill periodically, ranging from weekly to monthly.

We account for significant fixed-price contracts, which we enter into mainly in our Subsea Products and Advanced Technologies segments, and occasionally in our Subsea Projects segment, using the percentage-of-completion method. In 2007, we accounted for 14% of our revenue using the percentageof-completion method. In determining whether a contract should be accounted for using the percentageof-completion method, we consider whether:

- the customer provides specifications for the construction of facilities or production of goods or for the provision of related services:
- we can reasonably estimate our progress towards completion and our costs;
- the contract includes provisions as to the enforceable rights regarding the goods or services to be provided, consideration to be received and the manner and terms of
- the customer can be expected to satisfy its obligations under the contract; and
- we can be expected to perform our contractual obligations.

Under the percentage-of-completion method, we recognize estimated contract revenue based on costs incurred to date as a percentage of total estimated costs. Changes in the expected cost of materials and labor, productivity, scheduling and other factors affect the total estimated costs. Additionally, external factors, including weather or other factors outside of our control, may also affect the progress and estimated cost of a project's completion and, therefore, the timing of income and revenue recognition. We routinely review estimates related to our contracts and reflect revisions to profitability in earnings immediately. If a current estimate of total contract cost indicates an ultimate loss on a contract, we recognize the projected loss in full when we determine it. Although we are continually striving to improve our ability to estimate our contract costs and profitability, adjustments to overall contract costs could be significant in future periods.

We recognize the remainder of our revenue when persuasive evidence of an arrangement exists, delivery has occurred or services have been rendered, price is fixed or determinable and collection is reasonably assured.

Revenue in Excess of Amounts Billed is classified as accounts receivable and relates to recoverable costs and accrued profits on contracts in progress. Billings in Excess of Revenue Recognized on uncompleted contracts are classified in accrued liabilities.

Revenue in Excess of Amounts Billed on uncompleted fixed-price contracts accounted for using the percentage-of-completion method is summarized as follows:

	Decemb					
(in thousands)	2007	2006				
Revenue recognized Less: Billings to customers Revenue in excess of amounts billed	\$ 193,473 (171,070) \$ 22,403	\$ 175,155 (167,309) \$ 7,846				

Billings in Excess of Revenue Recognized on uncompleted fixed-price contracts accounted for using the percentage-of-completion method are summarized as follows:

	Decem	ber 31,
(in thousands)	2007	2006
Amounts billed to customers Less: Revenue recognized	\$ 56,434 (46,022)	\$ 14,073 (8,734)
Billings in excess of revenue recognized	\$ 10,412	\$ 5,339

#### Stock-Based Compensation

As permitted under SFAS No. 123, Accounting for Stock-Based Compensation, through December 31, 2005, we used the intrinsic value method of accounting established by Accounting Principles Board Opinion No. 25, Accounting for Stock Issued to Employees, to account for our stockbased compensation programs. Accordingly, we did not recognize any compensation expense when the exercise price of an employee stock option was equal to the Common Share market price on the grant date and all other provisions were fixed. The following illustrates the pro forma effect on net income and earnings per share for 2005 if we had applied the fair value recognition provisions of SFAS No. 123:

		ar Ended ember 31,
(in thousands, except per share amou	unts)	2005
Net income:		
As reported	\$	62,680
Employee stock-based compensation		
expense included in net income, r	net	<b>5 7</b> 0 <b>7</b>
of income tax benefit		5,727
Pro forma compensation		
expense determined under fair		
value methods for all awards, net		(0.770)
of income tax benefit		(8,779)
Pro forma	<u>\$</u>	59,628
Pro forma earnings per common shar	·e:	
Basic	\$	1.14
Diluted	\$	1.11
Reported earnings per common share	e:	
Basic	\$	1.20
Diluted	\$	1.17

For purposes of these pro forma disclosures, the fair value of each option grant was estimated on the date of grant using a Black-Scholes option pricing model. The following assumptions for the year ended December 31, 2005 were computed on a weighted average basis: expected volatility of 32.7%; risk-free interest rate of 3.65%; expected average life of 3.0 years; and no expected dividends. The weighted average fair values of the options granted in the year ended December 31, 2005 was \$9.02. The estimated fair value of the options was amortized to pro forma expense over the vesting periods of the options.

Subsequent to December 31, 2005, we have accounted for share-based compensation in accordance with SFAS No. 123 (revised 2004), Share-Based Payment ("SFAS No. 123R"). SFAS No. 123R requires all share-based payments to directors, officers and employees, including grants of stock options, to be recognized over their vesting periods in the income statement based on their estimated fair values. SFAS No. 123R applies to all awards granted after December 31, 2005 and to awards modified, repurchased or canceled after that date, as well as the unvested portion of awards granted prior to December 31, 2005. We believe the pro forma expense for the period presented above provides a reasonable approximation of the share-based compensation expense that would have been recorded in our Consolidated Statement of Income in the year ended December 31, 2005 under SFAS No. 123R. Existing option grants caused us to recognize an additional amount of less than \$0.01 per diluted share of share-based compensation expense for 2006, under the modified prospective transition alternative that we elected.

In light of the accounting expense recognition requirements established by SFAS No. 123R, the Compensation Committee of our Board of Directors has expressed its intention to refrain from using stock options as a component of compensation for our executive officers and other employees for the foreseeable future. Additionally, our Board of Directors has expressed its intention to refrain from using stock options as a component of nonemployee director compensation for the foreseeable future. No

stock options were granted in 2006 or 2007. For more information on our employee benefit plans, see Note 8.

#### Income Taxes

We provide income taxes at appropriate tax rates in accordance with our interpretation of the respective tax laws and regulations after review and consultation with our internal tax department, tax advisors and. in some cases, legal counsel in various jurisdictions. We provide for deferred income taxes for differences between carrying amounts of assets and liabilities for financial and tax reporting purposes. Our policy is to provide for deferred U.S. income taxes on foreign income only to the extent such income is not to be invested indefinitely in the related foreign entity. We provide a valuation allowance against deferred tax assets when it is more likely than not that the asset will not be realized.

In June 2006, the FASB issued FIN 48, Accounting for Uncertainty in Income Taxes. This interpretation clarifies the criteria for recognizing income tax benefits under SFAS No. 109, Accounting for Income Taxes, and requires financial statement disclosures about uncertain tax positions. Effective January 1, 2007, we adopted FIN 48. Under FIN 48, the financial statement recognition of the benefit for a tax position depends on the benefit being more likely than not to be sustainable upon audit by the applicable taxing authority. If this threshold is met, the tax benefit is then measured and recognized at the largest amount that is greater than 50 percent likely of being realized upon ultimate settlement. We account for any applicable interest and penalties on uncertain tax positions as a component of our provision for income taxes on our financial statements. We made an adjustment of \$1.6 million to reduce our retained earnings as of January 1, 2007 to record the effect of our adoption of this interpretation.

### Foreign Currency Translation

The functional currency for several of our foreign subsidiaries is the applicable local currency. Results of operations for foreign subsidiaries with functional currencies other than the U.S. dollar are translated into U.S. dollars using average exchange rates during the period. Assets and liabilities of these foreign subsidiaries are translated into U.S. dollars using the exchange rates in effect at the balance sheet date. and the resulting translation adjustments are accumulated as a component of shareholders' equity. All foreign currency transaction gains and losses are recognized currently in the Consolidated Statements of Income. We recorded (\$0.3 million), (\$2.5 million) and \$0.2 million of foreign currency gains (losses) in 2007, 2006 and 2005, respectively, and such amounts are included as a component of Other income (expense), net.

## Earnings Per Share

Basic and diluted earnings per share are computed by dividing net income by the weighted average number of common shares and the weighted average number of common shares plus common share equivalents, respectively. The weighted average number of common shares and equivalents for 2005 excluded 132,000 stock options, which were antidilutive.

#### Financial Instruments

We recognize all derivative instruments as either assets or liabilities in the balance sheet and measure those instruments at fair value. Subsequent changes in fair value are reflected in current earnings or other comprehensive income, depending on whether a derivative instrument is designated as part of a hedge relationship and, if it is, the type of hedge relationship.

#### Use of Estimates

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

#### Pension and Post Retirement Benefits

In September 2006, the FASB issued SFAS No. 158, Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans. SFAS No. 158 requires us to recognize the funded status of the pension and postretirement plans in our balance sheet, along with a corresponding noncash, after-tax adjustment to shareholders' equity. Funded status is determined as the difference between the fair value of plan assets and the projected benefit obligation. Changes in the funded status will be recognized in other comprehensive income (loss). We adopted SFAS No. 158 at the end of 2006, as required.

#### New Accounting Standards

In September 2006, the FASB issued SFAS No. 157, Fair Value Measurements. SFAS No. 157 defines fair value, establishes a framework for measuring fair value in accounting principles generally accepted in the United States, and expands disclosures about fair value measurements. SFAS No. 157 applies under other accounting pronouncements that require or permit fair value measurements. This statement will be effective for us beginning January 1, 2008. We are evaluating the impact of this standard on our consolidated financial statements.

In February 2007, the FASB issued SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities — Including an Amendment of SFAS 115. SFAS No. 159 allows companies to measure many financial instruments and certain other items at fair value that are not otherwise required to be measured at fair value under generally accepted accounting principles. A company that elects the fair value option for an eligible item will be required to recognize in current earnings any changes in that item's fair value in reporting periods subsequent to the date of adoption. SFAS No. 159 will be effective for us beginning January 1, 2008. We are evaluating the impact of this standard on our consolidated financial statements.

In December 2007, the FASB issued SFAS No. 141 (revised 2007), Business Combinations ("SFAS No. 141R"). SFAS No. 141R still requires purchase accounting in business combinations, but it:

- requires an acquirer to recognize all assets and liabilities acquired at the acquisition date, measured at their fair values as of that date, with limited exceptions;
- requires the expensing of all transaction costs and restructuring charges:
- requires the acquirer in a business combination achieved in stages to recognize the identifiable assets and liabilities at the full amounts of their fair market values at the acquisition date: and
- requires the acquirer to recognize contingent consideration, including earn-out arrangements, at the acquisition date, measured at its fair value at that date, with subsequent changes to be recognized in earnings.

SFAS No. 141R will apply to any acquisitions we complete on or after January 1, 2009, and earlier adoption is not allowed.

In December 2007, the FASB issued SFAS No. 160, Noncontrolling Interests in Consolidated Financial Statements, an amendment of ARB No. 51. SFAS No. 160 requires that revenue, expenses, gains, losses, net income or loss and other comprehensive income be reported in the consolidated financial statements at the consolidated amounts, and that the amount of net income attributable to the noncontrolling interest (commonly called minority interest) be reported separately in the consolidated statement of income. SFAS No. 160 also requires that the minority ownership interest in subsidiaries be separately presented in the consolidated balance sheets within equity. We currently report the net income attributable to minority interests within our consolidated statements of income below operating income, and we report minority interest ownership on our consolidated balance sheets in other long-term liabilities. These items have not been material to us to date. SFAS No. 160 requires prospective application for us effective January 1, 2009, and earlier adoption is not allowed; however, presentation and disclosure are retroactively required.

#### 2. **INVESTMENTS IN UNCONSOLIDATED AFFILIATES**

Our investments in unconsolidated affiliates consisted of the following:

		December 31,	
(in thousands)	2007	2006	2005
Medusa Spar LLC Other	\$ 63,183 1,472	\$ 63,149	\$ 57,440
Other	\$ 64,655	1,347 \$ 64,496	4,158 \$ 61,598

In December 2003, we purchased a 50% equity interest in Medusa Spar LLC for \$43.7 million. Medusa Spar LLC owns a 75% interest in a production spar platform. Medusa Spar LLC's revenue is derived from processing oil and gas production for a fee based on the volumes processed (throughput). The majority working interest owner of the Medusa field, the spar's initial location, has committed to deliver a minimum throughput, which we expect will generate sufficient revenue to repay Medusa Spar LLC's bank debt. Medusa Spar LLC financed its acquisition of its 75% interest in the production spar platform using approximately 50% debt and 50% equity from its equity holders. We believe our maximum exposure to loss from our investment in Medusa Spar LLC is our \$63 million investment. Medusa Spar LLC is a variable interest entity. As we are not the primary beneficiary under FIN 46(R), we are accounting for our investment in Medusa Spar LLC under the equity method of accounting. Summarized 100% financial information relative to Medusa Spar LLC and a reconciliation of the underlying equity in net assets to our carrying value follows.

(in thousands) Medusa Spar LLC		2007	Dec	cember 31, 2006		2005	
Condensed Balance Sheets							
ASSETS							
Cash and cash equivalents	\$	18,181	\$	18,932	\$	8,267	
Other current assets		879		1,487		4,402	
Property and Equipment, net		128,983		138,461		147,938	
Other Non-Current Assets		378		979		1,575	
Total Assets	\$	148,421	\$	159,859	\$	162,182	
LIABILITIES AND MEMBERS' EQUITY							
Current Maturities of Long-Term Debt	\$	8,810	\$	11,499	\$	13,744	
Other Current Liabilities		16		24		21	
Total Current Liabilities		8,826		11,523		13,765	
Long-Term Debt, net of current maturities		12,928		21,738		33,237	
Other Comprehensive Income		233		1,097		1,594	
Members' Equity		126,434		125,501		113,586	
Total Liabilities and Members' Equity	\$	148,421	\$	159,859	\$	162,182	
Condensed Statements of Operations							
Revenue	\$	18,839	\$	34,216	\$	32,500	
Depreciation		(9,478)		(9,477)		(9,478)	
General and Administrative		(112)		(109)		(83)	
Interest		(1,451)		(1,935)		(2,286)	
Net Income	\$	7,798	\$	22,695	\$	20,653	
Reconciliation of the Carrying Value of the Investment to Underlying Equity in Net Assets:							
Underlying Equity in Net Assets - 50%	\$	63,217	\$	62,751	\$	56,793	
Basis Differences	_	(34)		398		647	
Carrying Value of Investment in Medusa Spar LLC in	Φ.	62 402	Φ.	62 140	Φ.	E7 440	
the Consolidated Financial Statements	\$	63,183	<u>\$</u>	63,149	<u>\$</u>	57,440	

We are amortizing the basis differences on the straight-line method over six to 15 years.

Our 50% share of the cumulative undistributed earnings of Medusa Spar LLC was \$21.4 and \$20.9 million at December 31, 2007 and 2006, respectively.

#### 3. **INCOME TAXES**

Effective January 1, 2007, we adopted FIN 48. This interpretation clarifies the criteria for recognizing income tax benefits under SFAS No. 109, and requires disclosures about uncertain tax positions. Under FIN 48, the financial statement recognition of the benefit for a tax position depends on the benefit being more likely than not to be sustainable upon audit by the applicable taxing authority. If this threshold is met, the tax benefit is then measured and recognized at the largest amount that is greater than 50 percent likely of being realized upon ultimate settlement. We made an adjustment of \$1.6 million to our retained earnings account as of January 1, 2007 to record the effect of our adoption of this interpretation.

We account for any applicable interest and penalties on uncertain tax positions as a component of our provision for income taxes on our financial statements. We charged \$0.4 million to income tax expense in 2007 for penalties and interest taken on our financial statements on uncertain tax positions, which brought our total liabilities for penalties and interest on uncertain tax positions to \$2.8 million on our balance sheet at December 31, 2007. Including associated foreign tax credits and penalties and interest, we have accrued a total of \$5.8 million in the caption "other long-term liabilities" on our balance sheet for unrecognized tax benefits. All additions or reductions to those liabilities affect our effective income tax rate in the periods of change.

A reconciliation of the beginning and ending amount of gross unrecognized tax benefits, not including associated foreign tax credits and penalties and interest, is as follows (in thousands):

Balance at January 1, 2007 \$	\$ 7,001
Additions based on tax positions related to the current year	1,392
Reductions for expiration of statutes of limitations	(587)
Settlements	(356)
Balance at December 31, 2007	\$ 7,450

We do not believe that the total of unrecognized tax benefits will significantly increase or decrease in the next 12 months.

We file a consolidated U.S. federal income tax return for Oceaneering International, Inc. and our domestic subsidiaries, including acquired companies from their respective dates of acquisition. We conduct our international operations in a number of locations that have varying laws and regulations with regard to income and other taxes, some of which are subject to interpretation. Our management believes that adequate provisions have been made for all taxes that will ultimately be payable, although final determination of tax liabilities may differ from our estimates. Income (loss) before income taxes attributable to the U.S. was \$184 million, \$108 million and \$43 million for 2007, 2006 and 2005, respectively. The following table sets forth our provisions for income taxes.

	Year Ended December 31,					1,
(in thousands)		2007		2006		2005
U.S. federal and state Foreign	\$	54,040 43,084	\$	37,384 29,017	\$	11,930 19,840
Total provision	\$	97,124	\$	66,401	\$	31,770
Current Deferred Total provision	\$	86,859 10,265 97,124	\$	70,661 (4,260) 66,401	\$	32,071 (301) 31,770
Cash taxes paid	\$	82,171	\$	49,876	\$	19,372

As of December 31, 2007 and 2006, our worldwide deferred tax assets, liabilities and net deferred tax liabilities were as follows:

	December 31,			
(in thousands)		2007		2006
Deferred tax assets:				
Deferred compensation	\$	26,297	\$	19,988
Foreign tax credit carryforwards		3,236		6,815
Accrued expenses		7,009		9,648
Deferred income		3,557		3,412
Net operating loss carryforwards		1,483		1,483
Other		12,067		10,902
Gross deferred tax assets		53,649		52,248
Valuation allowance				
Total deferred tax assets	\$	53,649	\$	52,248
Deferred tax liabilities:				
Property and equipment	\$	37,664	\$	34,211
Basis difference in equity investments		15,059		13,794
Unremitted foreign earnings		7,509		4,151
Other		6,398		2,874
Total deferred tax liabilities	\$	66,630	\$	55,030
Net deferred income tax liability	\$	12,981	\$	2,782

Our net deferred tax liability is reflected on our balance sheet as follows:

	December 31,			
(in thousands)	2007	2006		
Deferred tax liabilities Current deferred assets Net deferred income tax liability	\$ 26,557 (13,576) \$ 12,981	\$ 21,400 (18,618) \$ 2,782		

We have \$17 million of earnings of our Swiss subsidiary, Oceaneering International AG, that we consider indefinitely reinvested outside the U.S. and that we do not expect to repatriate. None of our foreign tax credits are scheduled to expire before December 31, 2014.

We currently have no valuation allowances for deferred tax assets. We conduct business through several foreign subsidiaries and, although we expect our consolidated operations to be profitable, there is no assurance that profits will be earned in entities or jurisdictions that have NOLs available. Income taxes, computed by applying the federal statutory income tax rate of 35% to income before income taxes and minority interests, are reconciled to the actual provisions for income taxes as follows:

	Year Ended December 31,				
(in thousands)	2007	2007 2006			
Computed U.S. statutory expense State and local taxes and other, net	\$ 97,124	\$ 66,862 (461)	\$ 33,077 (1,307)		
Total provision for income taxes	\$ 97,124	\$ 66,401	\$ 31,770		

Included in the line for state and local taxes and other, net, for 2007, 2006 and 2005 are credits of \$1.1 million, \$1.3 million and \$1.8 million, respectively, from resolution of tax contingencies related to certain tax liabilities we recorded in prior years.

The following lists the earliest tax years open to examination by tax authorities where we have significant operations:

Jurisdiction	Periods
United States	2004
United Kingdom	2004
Norway	2000
Angola	2003
Nigeria	2002
Brazil	2001
Australia	2004
Canada	2004

#### 4. **DEBT**

Long-term Debt consisted of the following:

	Decemb	December 31,			
(in thousands)	2007	2006			
6.72% Senior Notes	\$ 60,000	\$ 80,000			
Revolving credit facility	140,000_	114,000			
Long-term Debt	\$ 200,000	\$ 194,000			

We have \$60 million aggregate principal amount of 6.72% Senior Notes outstanding and scheduled to be paid in three remaining equal annual installments each September through 2010.

As of December 31, 2007, we had a \$300 million revolving credit facility under an agreement (the "Credit Agreement") that currently extends to January 2012. We have to pay a commitment fee ranging from 0.125% to 0.175% on the unused portion of the facility, depending on our debt-to-capitalization ratio. Under the Credit Agreement, we have the option to borrow at the London Interbank Offered Rate ("LIBOR") plus a margin ranging from 0.50% to 1.25%, depending on our debt-to-capitalization ratio, or at the agent bank's prime rate. At December 31, 2007, we had \$140 million of borrowings outstanding under the Credit Agreement and \$160 million available for borrowing. The weighted average interest rates on all our outstanding borrowings were 6.2% and 6.2% at December 31, 2007 and 2006, respectively.

The 6.72% Senior Notes contain restrictive covenants as to minimum net worth, debt-to-capitalization ratio, fixed charge coverage, interest coverage and restricted payments. Restricted payments, which include dividends and treasury stock purchases, are limited from April 1, 1998, on a net basis, to the sum of \$25 million plus 50% of our consolidated net income after April 1, 1998, plus cash proceeds from any sales of our common stock. The Credit Agreement contains restrictive covenants as to debt-tocapitalization ratio and interest coverage.

Scheduled maturities of Long-term Debt outstanding as of December 31, 2007 were as follows:

(in thousands)	6.72% Notes	Revol Cre	_	Total
2008	\$ 20,000	\$	_	\$ 20,000
2009	20,000		-	20,000
2010	20,000		-	20,000
2011	-		-	-
2012	 	140	,000	140,000
Total	\$ 60,000	\$ 140	,000	\$ 200,000

Maturities in 2008 are not classified as current as of December 31, 2007, since we are able and intend to extend the maturity by reborrowing under the revolving credit facility with a maturity date after one year.

We made cash interest payments, net of amounts capitalized, of \$15.2 million, \$13.2 million and \$10.2 million in 2007, 2006 and 2005, respectively.

#### **COMMITMENTS AND CONTINGENCIES**

#### Lease Commitments

At December 31, 2007, we occupied several facilities under noncancellable operating leases expiring at various dates through 2025. Future minimum rentals under all of our operating leases, including vessel rentals, are as follows:

(in thousands)	
2008	\$ 31,124
2009	37,676
2010	25,211
2011	23,708
2012	22,778
Thereafter	46,964
Total Lease Commitments	\$ 187,461

The above table includes \$79 million related to the five-year time charter of a vessel and crew, which we anticipate will start in the third quarter of 2008. Rental expense, which includes hire of vessels, specialized equipment and real estate rental, was approximately \$82 million, \$34 million and \$38 million for the years ended December 31, 2007, 2006 and 2005, respectively.

#### Insurance

We self-insure for workers' compensation, maritime employer's liability and comprehensive general liability claims to levels we consider financially prudent, and carry insurance for exposures beyond the self-insurance levels, which can be by occurrence or in the aggregate. We determine the level of accruals by reviewing our historical experience and current year claim activity. We do not record accruals on a present-value basis. We review larger claims with insurance adjusters and establish specific reserves for all known liabilities. We establish an additional reserve for incidents incurred but not reported to us for each year using management estimates and based on prior experience. We believe that we have established adequate accruals for uninsured expected liabilities arising from those obligations. However, it is possible that future earnings could be affected by changes in our estimates relating to these matters.

#### Litigation

Various actions and claims are pending against us, most of which are covered by insurance. Although we cannot predict the ultimate outcome of these matters, we believe the ultimate liability, if any, that may result from these actions and claims will not materially affect our results of operations, cash flow or financial position.

#### Letters of Credit

We had \$21 million and \$17 million in letters of credit outstanding as of December 31, 2007 and 2006, respectively, as guarantees in force for self-insurance requirements and various performance and bid bonds, which are usually for the duration of the applicable contract.

#### Financial Instruments and Risk Concentration

In the normal course of business, we manage risks associated with foreign exchange rates and interest rates through a variety of strategies, including the use of hedging transactions. As a matter of policy, we do not use derivative instruments unless there is an underlying exposure. We do not use derivative instruments for trading or speculative purposes. At December 31, 2007, we did not have any derivative financial instruments in place.

At December 31, 2007, our unconsolidated affiliate, Medusa Spar LLC, had an interest rate swap in place related to its outstanding debt. The notional amount of the interest rate swap is equal to the outstanding principal amount of the loan throughout the term of the debt agreement. Our share of the fair value of the interest rate swap is deferred in accumulated other comprehensive income and is subsequently reclassified into equity earnings from unconsolidated affiliates in the periods in which the hedged interest payments on the variable rate debt affect earnings.

Other financial instruments that potentially subject us to concentrations of credit risk are principally cash and cash equivalents and accounts receivable. The carrying values of cash and cash equivalents and bank borrowings approximate their fair values due to the short maturity of those instruments or the shortterm duration of the associated interest rate periods. Accounts receivable are generated from a broad group of customers, primarily from within the energy industry, which is our major source of revenue. Due to their short-term nature, carrying values of our accounts receivable and accounts payable approximate fair market value.

We estimated the fair value of our \$60 million of 6.72% Senior Notes to be \$62 million as of December 31, 2007. We arrived at this estimate by computing the present value of the future principal and interest payments using a yield-to-maturity interest rate for securities of similar quality and term.

#### 6. **OPERATIONS BY BUSINESS SEGMENT AND GEOGRAPHIC AREA**

### **Business Segment Information**

We are a global oilfield provider of engineered services and products primarily to the offshore oil and gas industry, with a focus on deepwater applications. Through the use of our applied technology expertise, we also serve the defense and aerospace industries. Our Oil and Gas business consists of Remotely Operated Vehicles ("ROVs"), Subsea Products, Subsea Projects, Mobile Offshore Production Systems and Inspection. Our ROV segment provides submersible vehicles operated from the surface to support offshore oil and gas exploration, production and construction activities. Our Subsea Products segment supplies a variety of built-to-order specialty subsea hardware. Our Subsea Projects segment provides multiservice vessels, oilfield diving and support vessel operations, which are used primarily in inspection, repair and maintenance activities. Our Mobile Offshore Production Systems segment provides offshore production facilities through three mobile offshore production systems that we own and a 50%-owned entity, which owns 75% of another system. Our Inspection segment provides customers with a wide range of third-party inspection services to satisfy contractual structural specifications, internal safety standards and regulatory requirements. Our Advanced Technologies business provides project management, engineering services and equipment for applications in non-oilfield markets. Unallocated Expenses are those not associated with a specific business segment. These consist of expenses related to our incentive and deferred compensation plans, including restricted stock and bonuses, as well as other general expenses, including corporate administrative expenses.

The table that follows presents Revenue, Income from Operations, Depreciation and Amortization Expense and Equity Earnings of Unconsolidated Affiliates by business segment:

	Year Ended December 31,				
(in thousands)	2007	2006	2005		
Revenue					
Oil and Gas	<b>6</b> 504 004	<b>A.</b> 440.050	<b>*</b> 045 470		
Remotely Operated Vehicles	\$ 531,381	\$ 410,256	\$ 315,178		
Subsea Products	521,937	364,510 155,046	239,039 121,628		
Subsea Projects Inspection	257,752 219,686	169,014	154,857		
Mobile Offshore Production Systems	50,103	52,931	50,091		
Total Oil and Gas	1,580,859	1,151,757	880,793		
Advanced Technologies	162,221	128,441	117,750		
Total	\$ 1,743,080	\$1,280,198	\$ 998,543		
Income from Operations					
meome from operations					
Oil and Gas					
Remotely Operated Vehicles	\$ 144,242	\$ 111,022	\$ 68,962		
Subsea Products	92,804	53,645	13,941		
Subsea Projects	92,841	59,585	26,219		
Inspection	22,749	14,946	7,946		
Mobile Offshore Production Systems	11,048	16,001	16,796		
Total Oil and Gas	363,684	255,199	133,864		
Advanced Technologies	14,458	11,585	12,539		
Unallocated Expenses Total	(88,519) \$ 289,623	(72,448) \$ 194,336	\$ 94,069		
Total	Ψ 209,023	<u>ψ 194,330</u>	φ 94,009		
Depreciation and Amortization Expense					
Oil and Gas					
Remotely Operated Vehicles	\$ 46,305	\$ 40,357	\$ 39,837		
Subsea Products	17,201	12,307	11,992		
Subsea Projects	9,111	6,642	6,938		
Inspection	3,137	2,449	5,100		
Mobile Offshore Production Systems	13,510	13,168	11,612		
Total Oil and Gas	89,264	74,923	75,479		
Advanced Technologies	1,438	2,167	2,305		
Unallocated Expenses	3,074	3,366	1,829		
Total	\$ 93,776	<u>\$ 80,456</u>	\$ 79,613		
<b>Equity Earnings of Unconsolidated Affiliates</b>					
Oil and Gas					
Remotely Operated Vehicles	\$ -	\$ -	\$ 38		
Mobile Offshore Production Systems	3,779	11,213	10,082		
Total Oil and Gas	3,779	11,213	10,120		
Advanced Technologies	251_	838	290		
Total	\$ 4,030	<u>\$ 12,051</u>	\$ 10,410		

We determine income from operations for each business segment before interest income or expense, other income (expense), minority interests and provision for income taxes. We do not consider an allocation of these items to be practical.

For the year ended December 31, 2007, revenue from one customer, BP plc and subsidiaries, in our oil and gas business segments accounted for 14% of our total consolidated revenue. No individual customer accounted for more than 10% of our consolidated revenue in either of the years ended December 31, 2006 or 2005.

The following table presents Assets and Goodwill by business segment as of and for the periods indicated:

	December 31,			
(in thousands)	2007	2006		
Assets				
Oil and Gas				
Remotely Operated Vehicles	\$ 550,040	\$ 431,688		
Subsea Products	518,790	351,865		
Subsea Projects	140,870	102,826		
Inspection	69,996	71,309		
Mobile Offshore Production Systems	128,969	142,017		
Total Oil and Gas	1,408,665	1,099,705		
Advanced Technologies	42,185	45,585		
Corporate and Other	80,590	96,732		
Total	\$ 1,531,440	\$1,242,022		
Goodwill				
Oil and Gas				
Remotely Operated Vehicles	\$ 27,734	\$ 26,547		
Subsea Products	56,783	37,504		
Inspection	16,980	12,426		
Total Oil and Gas	101,497	76,477		
Advanced Technologies	10,454	10,454		
Total	\$ 111,951	\$ 86,931		

All assets specifically identified with a particular business segment have been segregated. Cash and cash equivalents, certain other current assets, certain investments and other assets have not been allocated to particular business segments and are included in Corporate and Other.

The following table presents Capital Expenditures by business segment as of and for the periods indicated:

	Year Ended December 31,					ı
(in thousands)	2007 2006				2005	
Capital Expenditures						
Oil and Gas						
Remotely Operated Vehicles	\$	121,643	\$	112,838	\$	56,102
Subsea Products		65,727		38,000		64,680
Subsea Projects		27,901		23,620		4,671
Inspection		14,801		3,353		5,675
Mobile Offshore Production Systems		650		13,614		3,071
Total Oil and Gas		230,722		191,425		134,199
Advanced Technologies		621		1,137		3,067
Corporate and Other		2,452		1,280		5,003
Total	\$	233,795	\$	193,842	\$	142,269

Capital expenditures in the table above include the cost of business acquisitions.

## Geographic Operating Areas

The following table summarizes certain financial data by geographic area:

	Year Ended December 31,							
(in thousands)		2007	2006		2005			
Revenue								
Foreign:								
United Kingdom	\$ 2	242,680	\$ 156,32	28 \$	162,138			
West Africa		225,879	151,58	80	130,799			
Norway	•	176,467	105,37	'3	129,250			
Asia		90,223	55,48	31	66,459			
Brazil		78,662	46,92	25	37,804			
Australia		25,619	42,07	<b>'</b> 4	30,266			
Canada		19,935	24,59	3	16,092			
Other		21,195	17,48	3	15,444			
Total Foreign	3	880,660	599,83	<del></del>	588,252			
United States	8	862,420	680,36	<u> </u>	410,291			
Total	\$ 1,7	743,080	\$1,280,19	8 \$	998,543			
Long-Lived Assets								
Foreign:								
Europe	\$	180,911	\$ 120,32	21 \$	75,441			
West Africa		81,647	69,23	80	55,069			
Australia		40,091	47,58	89	55,171			
Brazil		25,447	22,13	3	21,641			
Asia		37,380	14,31	9	12,141			
Other		7,551	8,84	4	17,795			
Total Foreign		373,027	282,43	<del></del>	237,258			
United States		462,109	408,97		336,381			
Total	\$ 8	835,136	\$ 691,41	5 \$	573,639			

Revenue is based on location where services are performed and products are manufactured.

#### Additional Income Statement Detail

The following schedule shows our revenue, costs and gross margins by services and products:

	Year Ended December 31,							
_(in thousands)	2007	2006	2005					
Revenue:								
Services	\$ 1,193,797	\$ 893,335	\$ 749,645					
Products	549,283_	386,863	248,898					
Total revenue	1,743,080 1,28							
Cost of Services and Products:								
Services	860,582	634,243	575,347					
Products	405,115	304,028	209,736					
Unallocated expenses	64,098	45,806	34,180					
Total cost of services and products	1,329,795	984,077	819,263					
Gross margin:								
Services	333,215	259,092	174,298					
Products	144,168	82,835	39,162					
Unallocated expenses	(64,098)	(45,806)	(34,180)					
Total gross margin	\$ 413,285	\$ 296,121	\$ 179,280					

#### 7. **ACCRUED LIABILITIES AND OTHER LONG-TERM LIABILITIES**

Accrued liabilities and other long-term liabilities consisted of the following:

		ber	ber 31,			
(in thousands)		2007		2006		
Accrued Liabilities:						
Payroll and related costs	\$	126,051	\$	86,128		
Accrued job costs		48,814		43,475		
Deferred revenue, including billings in excess of revenue recognized		28,770		17,119		
Self-insurance reserves for claims expected to be paid within one year		1,775		6,414		
Other		30,338		26,937		
Total Accrued Liabilities	\$	235,748	\$	180,073		
Other Long-Term Liabilities:						
Deferred income taxes	\$	26,557	\$	21,400		
Self-insurance reserves not expected to be paid within one year		7,019		5,632		
Accrued post-employment benefit obligations		13,396		11,656		
Supplemental Executive Retirement Plan		22,444		26,349		
Other		7,739		6,515		
Total Other Long-Term Liabilities	\$	77,155	\$	71,552		

#### 8. **EMPLOYEE BENEFIT PLANS AND SHAREHOLDER RIGHTS PLAN**

### Retirement Investment Plans

We have several employee retirement investment plans that, taken together, cover most of our full time employees. The Oceaneering Retirement Investment Plan is a 401(k) plan in which U.S. employees may participate by deferring a portion of their gross monthly salary and directing us to contribute the deferred amount to the plan. We match a portion of the employees' deferred compensation. Our contributions to the 401(k) plan were \$9.6 million, \$7.6 million and \$5.8 million for the plan years ended December 31, 2007, 2006 and 2005, respectively.

We also make matching contributions to other foreign employee savings plans similar in nature to a 401(k) plan. In 2007, 2006 and 2005, these contributions, principally related to plans associated with U.K. and Norwegian subsidiaries, were \$3.8 million, \$3.5 million and \$2.7 million, respectively.

The Oceaneering International, Inc. Supplemental Executive Retirement Plan covers selected key management employees and executives, as approved by the Compensation Committee of our Board of Directors (the "Compensation Committee"). Under this plan, we accrue an amount determined as a percentage of the participant's gross monthly salary and the amounts accrued are treated as if they are invested in one or more investment vehicles pursuant to this plan. Expenses related to this plan during the years ended December 31, 2007, 2006 and 2005 were \$2.9 million, \$3.2 million and \$2.0 million, respectively.

We have defined benefit plans covering some of our employees in the U.K. and Norway. There are no further benefits accruing under the U.K. plan, and the Norway plan is closed to new participants. In accordance with SFAS No. 158, in 2006 we recognized the funded status of the Norwegian plan by recording an adjustment to accumulated other comprehensive income (loss) of (\$1.5 million), net of tax of \$0.8 million. The projected benefit obligations for both plans were \$24 million and \$21 million, at December 31, 2007 and 2006, respectively, and the projected fair values of the plan assets for both plans were \$16 million and \$14 million at December 31, 2007 and 2006, respectively.

#### Incentive and Stock Option Plans

Under our 2005 Incentive Plan (the "Incentive Plan"), a total of 2,400,000 shares of our common stock was made available for awards to employees and nonemployee members of our Board of Directors.

The Incentive Plan is administered by the Compensation Committee; however, the full Board of Directors makes determinations regarding awards to nonemployee directors under the Incentive Plan. The Compensation Committee or our Board of Directors, as applicable, determines the type or types of award(s) to be made to each participant and sets forth in the related award agreement the terms. conditions and limitations applicable to each award. Stock options, stock appreciation rights and stock and cash awards may be made under the Incentive Plan. Options outstanding under the Incentive Plan and prior plans vest over a six-month, a three-year or a four-year period and are exercisable over a period of five, seven or ten years after the date of grant or five years after the date of vesting. Under the Incentive Plan, a stock option must have a term not exceeding seven years from the date of grant and must have an exercise price of not less than the fair market value of a share of our common stock on the date of grant. The Compensation Committee may not: (1) grant, in exchange for a stock option, a new stock option having a lower exercise price; or (2) reduce the exercise price of a stock option. In light of the expense recognition requirements established by SFAS 123R, which we adopted effective as of January 1, 2006, the Compensation Committee has expressed its intention to refrain from using stock options as a component of employee compensation for our executive officers and other employees for the foreseeable future. Additionally, the Board of Directors has expressed its intention to refrain from using stock options as a component of nonemployee director compensation for the foreseeable future.

In 2007 and 2006, the Compensation Committee granted awards of performance units under the Incentive Plan to certain of our key executives and employees. In 2007, our Board of Directors granted awards of performance units under the Incentive Plan to our Chairman of the Board. The performance units awarded are scheduled to vest in full on the third anniversary of the award date, or pro rata over three years if the participant meets certain age and years of service requirements. The Compensation Committee and the Board of Directors have approved specific financial goals and measures based on our cumulative cash flow from operations, and a comparison of return on invested capital and cost of capital for the three-year periods January 1, 2007 through December 31, 2009 and January 1, 2006 through December 31, 2008 for the awards granted in 2007 and 2006, respectively, to be used as the basis for the final value of the performance units. The final value of each performance unit may range from \$0 to \$125. Upon vesting and determination of value, the value of the performance units will be payable in cash. As of December 31, 2007, there were 168,567 performance units outstanding.

Through 2005, we recognized no compensation cost for stock options as we issued no options at an option price below the fair market value of the stock at the date of the grant. See Note 1 - "Summary of Major Accounting Policies – Stock-Based Compensation" for fair market values and pro forma financial effects had compensation cost for these stock options been determined based on fair value.

The following is a summary of our stock option activity for the three years ended December 31, 2007:

	Shares	Average	
	under	Exercise	Aggregate
	Option	Price	Intrinsic Value
Balance at December 31, 2004	3,018,100	\$ 13.14	
Granted	84,000	16.90	
Exercised	(1,694,950)	12.74	
Forfeited	(93,700)	13.05	
Balance at December 31, 2005	1,313,450	13.91	
Granted	-	-	
Exercised	(624,300)	13.24	\$ 14,589,000
Forfeited	(25,900)	12.20	
Balance at December 31, 2006	663,250	14.61	
Granted	-	-	
Exercised	(374,850)	14.08	\$ 15,125,000
Forfeited	(2,400)	11.58	
Balance at December 31, 2007	286,000	\$ 15.32	\$ 14,880,000

The following table provides information about the options outstanding at December 31, 2007.

		Outstanding	Exerc	isable	Э		
		Weighted	•				
	Number of	Average	٧	Veighted	Number of	W	eighted
Range of	Shares at	Remaining	-	Average	Shares at	verage	
Exercise	December 31,	Contractual	E	Exercise December 31,		E	xercise
Prices	2007	Life (years)		Price	2007		Price
\$11.18 – 13.04	82,250	0.70	\$	11.46	82,250	\$	11.46
\$13.05 - 16.77	81,600	1.10	\$	15.14	81,600	\$	15.14
\$16.78 - 18.64	122,150	1.67	\$ 18.05		122,150	\$	18.05

The aggregate intrinsic value of our exercisable stock options was \$14.9 million at December 31, 2007. We received \$5.3 million and \$8.3 million from the exercise of stock options in 2007 and 2006, respectively. The excess tax benefit realized from tax deductions from stock options for 2007 and 2006 was \$4.6 million and \$4.2 million, respectively. SFAS No. 123R requires that excess tax benefits from share-based compensation be classified as a cash outflow in cash flows from operating activities and an inflow in cash flows from financing activities in the statement of cash flows.

#### Restricted Stock Plan Information

During 2007 and 2006, the Compensation Committee granted restricted units of our common stock to certain of our key executives and employees. During 2007, our Board of Directors granted restricted units of our common stock to our Chairman of the Board of Directors and restricted common stock to our other nonemployee directors. During 2006, our Board of Directors granted restricted common stock to our nonemployee directors. No restricted common stock units or shares of restricted common stock were granted in 2005. Over 80% of the grants made in 2007 and 2006 to our employees vest in full on the third anniversary of the award date, conditional upon continued employment. The remainder of the grants made to employees in 2007 and 2006 and all the grants made to our Chairman of the Board of Directors in 2007 and 2006 can vest pro rata over three years, provided the participant meets certain age and years-of-service requirements. For the grants to each of the participant employees and the Chairman of our Board of Directors made in 2007 and 2006, the participant will be issued a share of our common stock for the participant's vested common stock units at the earlier of three years or, if the participant

vested earlier after meeting the age and service requirements, at termination of employment or service. The grants made in 2007 and 2006 to our nonemployee directors vest in full on the first anniversary of the award date conditional upon continued service as a director. Pursuant to grants of restricted common stock units to our employees made prior to 2005, at the time of each vesting, a participant receives a taxassistance payment. Our tax-assistance payments were \$7.0 million in 2007 and \$7.3 million in 2006. The excess tax benefit realized from tax deductions in excess of financial statement expense was \$3.4 million and \$3.2 million in 2007 and 2006, respectively.

The following is a summary of our unvested restricted stock and restricted stock units for the years ended December 31, 2007 and 2006:

			eighted ⁄erage	Aggregate
		Faiı	r Value	Intrinsic
	Shares	at Gr	ant Date	Value
Balance at December 31, 2005	1,016,700	\$	9.47	
Granted	233,900		28.67	
Vested	(304,800)		9.03	\$ 13,131,000
Forfeited	(28,550)		10.81	
Balance at December 31, 2006	917,250		14.47	
Granted	245,750		41.05	
Vested	(259,933)		12.02	\$ 13,770,000
Forfeited	(17,617)		25.44	
Balance at December 31, 2007	885,450	\$	22.35	

Each grantee of shares of restricted common stock is deemed to be the record owner of those shares during the restriction period, with the right to vote and receive any dividends on those shares. The restricted stock units granted in 2007 and 2006 carry no voting rights, but they carry a dividend right should we pay dividends on our common stock.

Prior to December 31, 2005, we had accounted for our grants of restricted stock units as variable awards, until the associated performance criteria had been met. Effective with our adoption of SFAS No. 123R, the unvested portions of these grants have been valued at their estimated fair values as of their respective grant dates. We used a Black-Scholes methodology to produce a Monte Carlo simulation model, which allows for the incorporation of the performance criteria that had to be met before the awards were earned by the holders. The valuations allowed for variables, such as volatility, the risk-free interest rate, dividends and performance hurdles. The assumptions used for grants prior to 2006 were: expected volatility of 50% (based on historic analysis), risk-free interest rate of 2% and no dividends. The grants in 2007 and 2006 were subject only to vesting conditioned on continued employment; therefore, these grants were valued at the grant date fair market value as of the close on the New York Stock Exchange.

Compensation expense under the restricted stock plans was \$25.0 million, \$17.0 million and \$8.8 million for the years ended December 31, 2007, 2006 and 2005, respectively. As of December 31, 2007, we had \$7.8 million of future expense to be recognized related to our restricted stock unit plans over a weighted average remaining life of 1.7 years.

#### Shareholder Rights Plan

We adopted a Stockholder Rights Plan on November 20, 1992, which was amended and restated as of November 16, 2001. Each Right initially entitles the holder to purchase from us a fractional share consisting of one two-hundredth of a share of Series B Junior Participating Preferred Stock, at a purchase price of \$30 per fractional share, subject to adjustment. The Rights generally will not become exercisable until ten days after a public announcement that a person or group has acquired 15% or more of our common stock (thereby becoming an "Acquiring Person") or the commencement of a tender or exchange offer that would result in a person or group becoming an Acquiring Person (the earlier of such dates being called the "Distribution Date"). Rights were issued and will continue to be issued with all shares of our common stock that are issued until the Distribution Date. Until the Distribution Date, the Rights will be

evidenced by the certificates representing our common stock and will be transferable only with our common stock. Generally, if any person or group becomes an Acquiring Person, each Right, other than Rights beneficially owned by the Acquiring Person (which will thereupon become void), will thereafter entitle its holder to purchase, at the Rights' then current exercise price, shares of our common stock having a market value of two times the exercise price of the Right. At any time until ten days after a public announcement that the Rights have been triggered, we will generally be entitled to redeem the Rights for \$0.01 and to amend the Rights in any manner other than certain specified exceptions. Certain subsequent amendments are also permitted. The Rights expire on November 20, 2011.

#### Post-Employment Benefit

In November 2001, we entered into an agreement with our Chairman (the "Chairman") who was also then our Chief Executive Officer. That agreement was amended in 2006. Pursuant to the amended agreement, the Chairman relinquished his position as Chief Executive Officer in May 2006 and began his post-employment service period on December 31, 2006. The agreement provides for a specific service period ending no later than August 15, 2011, during which the Chairman, acting as an independent contractor, has agreed to serve as nonexecutive Chairman of our Board of Directors for so long as our Board of Directors desires that he shall continue to serve in that capacity. The agreement provides the Chairman with post-employment benefits for ten years following his services to us. The amendment included a lump-sum cash buyout, paid in 2007, of the Chairman's entitlement to perquisites and administrative assistance during that ten-year period (expected to run from 2011 to 2021). As a result, we recorded \$2.8 million of associated expense in the fourth guarter of 2006. The agreement also provides for medical coverage on an after-tax basis to the Chairman, his spouse and children during his service with us and thereafter for their lives. We are recognizing the net present value of the postemployment benefits over the expected service period. If the service period is terminated for any reason (other than the Chairman's refusal to continue serving), we will recognize all the previously unaccrued benefits in the period in which that termination occurs. Our total accrued liabilities, current and long-term, under this post-employment benefit were \$4.8 million and \$10.5 million at December 31, 2007 and 2006, respectively.

As part of the arrangements relating to the Chairman's post-employment benefits, we established an irrevocable grantor trust, commonly known as a "rabbi trust," to provide the Chairman greater assurance that we will set aside an adequate source of funds to fund payment of the post-retirement benefits under this agreement, including the medical coverage benefits payable to the Chairman, his spouse and their children for their lives. In connection with establishment of the rabbi trust, we contributed to the trust a life insurance policy on the life of the Chairman, which we had previously obtained, and we agreed to continue to pay the premiums due on that policy. When the life insurance policy matures, the proceeds of the policy will become assets of the trust. If the value of the trust exceeds \$4 million, as adjusted by the consumer price index, at any time after January 1, 2012, the excess may be paid to us. However, because the trust is irrevocable, the assets of the trust are generally not available to fund our future operations until the trust terminates, which is not expected to be during the lives of the Chairman, his spouse or their children. Furthermore, no tax deduction will be available for our contributions to the trust; however, we may benefit from future tax deductions for benefits actually paid from the trust (although benefit payments from the trust are not expected to occur in the near term, because we expect to make direct payments of those benefits for the foreseeable future).

## SELECTED QUARTERLY FINANCIAL DATA (UNAUDITED)

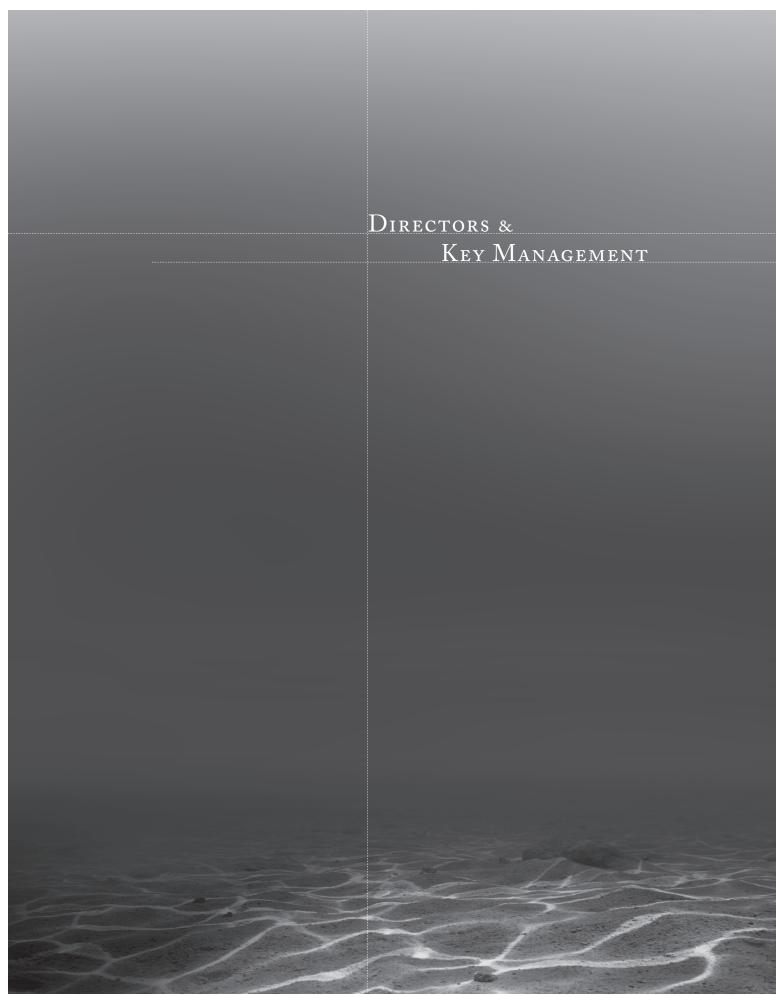
(in thousands, except per share data)

Year	Ended	December	<sup>,</sup> 31, 2007
------	-------	----------	-----------------------

Quarter Ended	M	arch 31	J	une 30	S	ept. 30	D	ec. 31		Total	
Revenue	\$3	344,004	\$4	132,041	\$ 4	185,424	\$4	81,611	\$ 1	,743,080	
Gross profit		79,602	1	106,010	1	17,513	1	10,160		413,285	
Income from operations		53,536		76,298		85,605		74,184		289,623	
Net income		33,166		47,873		53,853		45,482		180,374	
Diluted earnings per share	\$	0.60	\$	0.86	\$	0.96	\$	0.81	\$	3.24	
Weighted average number of											
common shares and equivalents		55,474		55,678		55,821		55,934		55,755	

# Year Ended December 31, 2006

Quarter Ended	Mar	March 31 June 30			S	ept. 30	De	ec. 31		Total
Revenue	\$289,509		289,509 \$31		\$3	\$337,263		\$ 342,363		,280,198
Gross profit	60,317		71,957			88,225		75,622		296,121
Income from operations	37,964		47,899		60,591		47,882			194,336
Net income	25,502		30,601		38,547		29,844		124,494	
Diluted earnings per share	\$	0.47	\$	0.56	\$	0.70	\$	0.54	\$	2.26
Weighted average number of										
common shares and equivalents	5	4,776		55,088		55,283		55,349		54,991



# Directors & Key Management

Directors

T. JAY COLLINS

President and Chief Executive Officer of Oceaneering International, Inc.

JEROLD J. DESROCHE

Partner and a Director of National Power Company

DAVID S. HOOKER

Chairman of Ocean Hover Limited and Avoco Secure Ltd., and a Director of Aminex plc and a Director of Eleuthera

JOHN R. HUFF

Chairman of Oceaneering International, Inc., a Director of BJ Services Company, a Director of KBR, Inc., a Director of Rowan Companies, Înc., and a Director of Suncor Energy Inc.

D. Michael Hughes

Owner of The Broken Arrow Ranch and Affiliated Businesses

HARRIS J. PAPPAS

President of Pappas Restaurants, Inc. and a Director of Luby's, Inc.

CORPORATE MANAGEMENT

President and Chief Executive Officer

M. KEVIN McEvoy

Executive Vice President

Marvin J. Migura

Senior Vice President and Chief Financial Officer

GEORGE R. HAUBENREICH, JR.

Senior Vice President, General Counsel, and Secretary

Senior Vice President Deepwater Technologies

STEPHEN E. BRADSHAW

Vice President Business Development

JANET G. CHARLES

Vice President Human Resources

GREGG K. FARRIS

Vice President Information Technology

W. CARDON GERNER

Vice President and Chief Accounting Officer

TODD HOEFLER

Vice President Supply Chain Management

ROBERT P. MINGOIA

Robert P. Moschetta

Vice President Health Safety Environment

JACK JURKOSHEK

Director Investor Relations

DAVID K. LAWRENCE

Assistant General Counsel

DAVID M. LEUNG

Manager Insurance

ROBERT H. STEVENSON Manager Taxation

John L. Zachary

Director Financial Business Systems

Administrative Management

AMERICAS

IERRY A. GAUTHIER

Vice President & General Manager, Americas Region

CHARLES A. ROYCE

Vice President, Sales & Marketing

SCOTT A. WAGNER

Vice President & General Manager, Country Manager Brazil

DUANE LANDRY Region Controller

Duane Lodrigue

Region Human Resources Manager

Ernesto Marcos

Country Manager, Mexico

Bruce McDowell

Manager, Global Sourcing

Peg Newman

Manager, Marketing

WAYNE A. REED

Manager, HSE Americas

EASTERN HEMISPHERE

ALEX WESTWOOD

Senior Vice President

Alan Davidson

Supply Chain Manager

DAVE EVANS

HSE Manager

COLIN FORBES

Regional Legal Counsel

FIONA INKSTER

BILL KIRTON

Regional Manager, IT

CHANDRU LALWANI Region Controller

BERNT AAGE LIE

General Manager, Commercial & Administration, Norway

Andrew Mackie

Manager, Tax

Amir Thuraisingham

Controller, Asia

ROV

KEVIN KERINS

Vice President & General Manager WW ROV

DAVID KELSALL

Business Manager

MARK PHILIP

Technical Manager

Dell D. Dodson

Manager, WW ROV SCM

BRETT EYCHNER

General Manager Operational Engineering and Installations

Tom Halligan Manager, WW ROV Equipment Maintenance

J. DAVID MACNAMARA

Manager, Worldwide ROV Materials

AMERICAS

ROBERT "PAT" MANNINA

Vice President & General Manager, Americas ROV

JEFF HARRIS

. Commercial Manager

TIM LAWRENCE Manager, Canada

CHRIS NICHOLSON

General Manager, Deep Sea Systems International

BRAZIL

DAMON HICKEY

Operations Manager

Espen Ingebretsen

ROV Manager

NORWAY

ERIK H. SAESTAD

General Manager

AFRICA, MIDDLE EAST, AND CASPIAN SEA

MARTIN McDonald

General Manager

Jonathon E. Playford

Commercial Manager

HAROLD ROBERTS

Angola Country Manager

NEIL WELLAM

Manager, Business Development, Nigeria

Andrew Atkinson

General Manager

FRED KILGORE Operations Manager

Subsea Products

PHILIP D. GARDNER

Senior Vice President, Subsea Products

GROUP MANAGEMENT

ROBERT C. BURNETT

Contracts Group Manager

ALAN CURTIS

Anthony Franklin Director, Subsea Products Business Development

STACEY GREENE Manager, Subsea Products HSE

Russell W. Talbot

Director, Subsea Products Quality Assurance

MULTIFLEX

PETER WORMAN

Vice President, Engineering

CHARLES W. DAVISON Vice President, Manufacturing

CRAIG QUENSTEDT

Controller, Multiflex

JEFFREY M. WHITE Vice President, Sales & Marketing

CHARLIE BACKHOUSE

General Manager, Multiflex U.K.

Julio Damiao General Manager, Multiflex Brazil

CARLOS NIEMEYER

Commercial Manager, Multiflex Brazil

ALAN STEVENSON

Sales Manager, Multiflex U.K. LINDA WAINRIGHT

General Manager, Multiflex U.S. DUKE WATSON

Sales Manager, Multiflex U.S.

OCEANEERING INTERVENTION

Mark Galagaza Vice President, OIE

DREW TRENT

Vice President, Deepwater Technical Solutions

CHAD BLANCHARD
Manager, IWOCS Service/Rental

Ross Boxleitner Manager, MIMIC

CHARLES ERIC BROWN General Manager, OIE U.K.

JOHN CHARALAMBIDES
Manager, Pipeline Repair Systems
MICHAEL T. CUNNINGHAM

Manager, Sales & Marketing John Davis

Manager, Intervention Engineering
PAUL A. FRIKSTAD
General Manager, Rotator

BRUCE T. GARTHWAITE
Vice President, Exploration & Production Support

CHARLES B. HANSEN General Manager, DTS Norway

General Manager, DTS Norway

Curtis Hensley

Manager, DTS Supply Chain & Manufacturing Operations

Michael Hessel, Jr. Manager, High Performance Cable

PATRICK HILL Controller, OIE

Dave McKechnie Manager, Eastern Hemisphere DTS

PETER A. MOLES
Chief Engineer, Special Projects

RICHARD PARKER
Manager, OIE Supply Chain & Manufacturing Operations

MICHELE KEED
Manager, U.S. DTS Operations
GRAEME REYNOLDS
Manager, BOP Controls

Mike Robbins

General Manager, Grayloc Products

VAN VANDECAPELLE

Manager, Technical Services

Subsea Projects/Diving

Norb D. Gorman

Vice President & General Manager, Oilfield Projects & Diving

PROJECTS

RANDALL G. KILLE Manager, IMR Projects WARREN KLINGLER

Manager, Dive/Marine

Manager, Installation Projects

LANNY L. FALGOUT
Commercial Manager

BLAINE LECOMPTE
Manager, Business Development

Tommy Lord
Manager, Shore Base Logistics
Patrick Matthews

Manager, Survey

Dave Medeiros

IMR Projects Manager

Steve Olmos Projects Group Manager Kirk Schumacher Manager, Engineering

Mike Todd Manager, Operations

DIVING
STEVEN HALL
Manager, Diving

JACK Couch Manager, Special Projects

GERALD KLEIN
Manager, Operations

MARINE

Darrin McGuire Manager, Marine

Inspection

Eric Johnston Vice President, Inspection

John Deighan CQI Manager

Malcolm Gray Pipelines Manager

John McMenemy International Commercial Manager

JAMES McNab Global Technology Manager

Frances Milne
Business Manager
C. Andre Olivier

Inspection Manager, Americas NEIL RIDDLE

NEIL RIDDLE Inspection Manager, Asia, Africa, & Middle East

Nigel Smith ACET Software Development Manager

John Watkinson Inspection Manager, U.K. NDT

Mobile Offshore Production Systems

CLYDE HEWLETT Vice President & General Manager ERIC ADAMS

Vice President, Business Development Mike Cherry

Operations Manager, Angola Andy Henderson Manager, Subsea Tiebacks

Max Kattner Engineering Manager

ED LILES
Project Manager

Ben Newton Managing Director, Australia

RICK SPOTTSWOOD
Construction Manager
RICHARD J. THOMPSON

Manager of Operations

ADVANCED TECHNOLOGIES

John R. Kreider Senior Vice President

CHARLES B. YOUNG
Vice President, Strategic Business Planning

Robert Brown
Controller

RENAULD WASHINGTON Manager, HSE MARINE SERVICES

Tom Stowell Vice President & General Manager

Сниск Дотч

Director, Submarine and Surface Ship Programs

Martin Merzwa, Sr.
Director, Business Development

John Ritzo

Director, Production Support Group

Jeffrey Schmidt Director, Submarine Safety Tom VanPetten

Director, Deep Submergence and Special Projects Programs

OCEANEERING SPACE SYSTEMS (OSS)

Mark M. Gittleman Vice President & General Manager

JAMES F. BUCHLI
Director, Strategic Planning
KENT COPELAND

JIM KLINE

Program Manager, Robotics & Automation Programs

Manager, Product Assurance/HSE
Roy Klusendorf

ROY KLUSENDORF
Director, Business Development

Frank Sager Program Manager, Operations & Services / NBL

Dave Wallace General Manager, Thermal & Military Systems

Michael Withey

Sr. Program Manager, Human Space Flight Programs

OCEANEERING TECHNOLOGIES (OTECH)

Duncan McLean Vice President & General Manager

PHIL BEIERL Manager of Programs, Marine Projects

John Hammond Manager, OTECH San Diego

LARRY KARL Manager, Marine Systems

GEORGE KOTULA

JIM KELLY Manager of Programs, Marine Systems

Manager, Operations
CRAIG McLAUGHLIN
Manager, OTECH Nauticos

Dave Weaver
Manager, Marine Projects

ENTERTAINMENT SYSTEMS

Dave Mauck Manager, Entertainment Systems

Mike Boshears Manager, Business Development

Brian Schwatka Manager, Engineering Services

Nick Thomareas Manager, Business Administration Services

Ron Garber Manager of Programs

#### FORM 10-K

The entire Form 10-K, as filed with the Securities and Exchange Commission, may be accessed through the Oceaneering website, www.oceaneering.com, by selecting "Investor Relations," then "SEC Financial Reports," then selecting the desired report, or may be obtained by writing to:

George R. Haubenreich, Jr., Secretary Oceaneering International, Inc. P.O. Box 40494 Houston, Texas 77240-0494

#### FORWARD-LOOKING STATEMENTS

All statements in this report that express a belief, expectation, or intention, as well as those that are not historical fact, are forward-looking statements made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. These forward-looking statements are based on current information at the time this report was written and expectations that involve a number of risks, uncertainties, and assumptions. Among the factors that could cause the actual results to differ materially from those indicated in the forward-looking statements are: industry conditions; prices of crude oil and natural gas; Oceaneering's ability to obtain and the timing of new projects; operating risks; changes in government regulations; technological changes; and changes in competitive factors. Should one or more of these risks or uncertainties materialize, or should the assumptions underlying the forwardlooking statements prove incorrect, actual outcomes could vary materially from those indicated. These and other risks are fully described in Oceaneering's annual report on Form 10-K for the year ended December 31, 2007 and other periodic filings with the Securities and Exchange Commission.



The use in this report of such terms as Oceaneering, Company, group, organization, we, us, our, and its, or references to specific entities, is not intended to be a precise description of corporate relationships.

# General Information

#### CORPORATE OFFICE

Oceaneering International, Inc. 11911 FM 529
Houston, TX 77041-3000
P.O. Box 40494
Houston, TX 77240-0494
Telephone: (713) 329-4500
Fax: (713) 329-4951
www.oceaneering.com

STOCK SYMBOL: OII
STOCK TRADED ON NYSE
CUSIP Number: 675232102
PLEASE DIRECT COMMUNICATIONS CONCERNING
STOCK TRANSFER REQUIREMENTS OR LOST
CERTIFICATES TO OUR TRANSFER AGENT.

# TRANSFER AGENT AND REGISTRAR

Computershare Trust Company, N.A. P.O. Box 43078 Providence, RI 02940-3078

OVERNIGHT DELIVERIES: 250 ROYALL STREET CANTON, MA 02021-1011

OII Account Information www.computershare.com Telephone: (781) 575-2879 Fax: (781) 575-3605

HEARING IMPAIRED/TDD: (800) 952-9245

#### Annual Shareholders' Meeting

DATE: MAY 16, 2008
TIME: 8:30 A.M. CDT
LOCATION: OCEANEERING INTERNATIONAL, INC.
5004 RAILROAD AVENUE
MORGAN CITY, LA 70380

# INDEPENDENT PUBLIC ACCOUNTANTS

ERNST & YOUNG LLP 5 HOUSTON CENTER 1401 McKINNEY, SUITE 1200 HOUSTON, TX 77010-4035

#### Counsel

BAKER BOTTS L.L.P.
ONE SHELL PLAZA
910 LOUISIANA STREET
HOUSTON, TX 77002-4995

#### PHOTO CREDITS

#### AT A GLANCE

4...... Subsea Products:: Scott Wigington
4...... Subsea Projects:: Conrad Picou
5...... Inspection:: Martin Hockley
5...... Advanced Technologies::
Courtesy U.S. Navy

#### **OPERATIONS**

#### PAGE

6....... ROV Manufacturing Facility ::

Daryl Rundquist
6....... Tool Recovery :: Edward Galloway
7...... Vehicle in Hangar :: Jørn Strøm
7...... Vehicle Recovery ::

Alexandr Konstantinov

8...... IWOCS :: ROBERT PUCKITT
9...... ELECTRONIC CALIPER :: GREG GROSZ

9...... Repair & Connector System ::

Dyrk Reynolds

9...... Umbilical Distribution System :: Van VanDecapelle

9...... Umbilical Loadout :: Bob Hess

10..... SAT Deployment :: Louis Fourgere

10 ..... SILS® :: Don Thorne

11 ..... Ocean Project & Ocean Inspector :: Charles Watson

11..... Dry Habitat :: Charles Watson

11..... Welder :: Charles Watson

12..... Ultrasonic Inspection ::

Martin Hockley

13..... Corrosion Screening :: Jim McNab

13..... X-Ray Навітат :: Jim McNab

14..... OCEAN PRODUCER :: JAN PAWELSKI

14..... Water Monitoring :: Ben Newton

15 ..... Submarine :: Courtesy U.S. Navy

15..... Landing Craft :: Courtesy U.S. Navy



Oceaneering International, Inc.

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