

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

FORM 10-K

**[X] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF
THE SECURITIES EXCHANGE ACT OF 1934**
For the fiscal year ended December 31, 2001

OR

**[] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934**
For the transition period from _____ to _____

Commission file number 1-10945

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

Delaware
*(State or other jurisdiction
of incorporation or organization)*

95-2628227
*(I.R.S. Employer
Identification No.)*

11911 FM 529
Houston, Texas
(Address of principal executive offices)

77041
(Zip Code)

Registrant's telephone number, including area code:

(713) 329-4500

Securities registered pursuant to Section 12(b) of the Act:

Title of each class

Common Stock, \$0.25 par value

**Name of each exchange
on which registered**

New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: None

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. Yes , No .

Aggregate market value of the voting stock held by non-affiliates of the registrant at March 15, 2002 based upon the closing sale price of the Common Stock on the New York Stock Exchange: \$637,764,000

Number of shares of Common Stock outstanding at March 15, 2002: 24,313,122

Documents Incorporated by Reference:

Portions of the proxy statement relating to the registrant's 2002 annual meeting of shareholders, to be filed on or before April 30, 2002 pursuant to Regulation 14A of the Securities Exchange Act of 1934, are incorporated by reference to the extent set forth in Part III, Items 10-13 of this report.

PART I

ITEM 1. BUSINESS.

General Development of Business

Oceaneering International, Inc. is an advanced applied technology company that provides a comprehensive range of integrated technical services and hardware to customers who operate in harsh environments such as underwater, space and other hazardous areas. Oceaneering was organized in 1969 out of the combination of three diving service companies founded in the early 1960s. Since our establishment, we have concentrated on the development and marketing of underwater services and products requiring the use of advanced deepwater technology. We are one of the world's largest underwater services contractors. We provide most of our services and products to the oil and gas industry. These include drilling support, subsea construction, design, lease and operation of production systems, facilities maintenance and repair, specialty subsea hardware and specialized onshore and offshore engineering and inspection. We have locations in the United States and 18 other countries. Our international operations, principally in the North Sea, Africa, Brazil, Asia and Australia, accounted for approximately 47% of our revenue, or \$246 million, for the year ended December 31, 2001.

We operate in five business segments. The segments are contained within two businesses – services and products provided to the offshore oil and gas industry ("Offshore Oil and Gas") and all other services and products ("Advanced Technologies"). Our business segments within the Offshore Oil and Gas business are Remotely Operated Vehicles ("ROVs"), Subsea Products, Mobile Offshore Production Systems and Other Services. We report our Advanced Technologies business as one segment. In each of our businesses, we have been concentrating on expanding our capabilities to provide technical solutions to our customers.

Effective November 1, 2000, our Board of Directors changed our fiscal year-end to December 31 from March 31. Last year we reported on the nine-month transition period from April 1, 2000 to December 31, 2000. Unless the context indicates otherwise, references to fiscal years indicate the twelve months ended March 31 of that year. For example, fiscal 2000 refers to the twelve-month period ended March 31, 2000.

Offshore Oil and Gas. In the last few years, the focus of our Offshore Oil and Gas business has been toward increasing our asset base for servicing offshore projects and subsea completions. Prior to 1996, we purchased most of our remotely operated vehicles, often referred to as ROVs, which are submersible vehicles operated from the surface and widely used in the offshore oil and gas industry. However, in response to increased demand for more powerful systems operating in deeper water, we expanded our capabilities and established an in-house facility to design and build ROVs to meet the continued expansion of our ROV fleet. This facility was established and became fully operational in January 1998. We have built over 50 ROV systems and we are producing all our new ROVs in-house. In September 2000, we exchanged our diving-related assets in Asia, Australia and the Middle East for 11 ROVs. The diving-related assets were part of our Other Services segment.

Through our Oceaneering Multiflex division, we are a leading provider of subsea hydraulic and electrohydraulic umbilicals. These umbilicals are the means by which offshore operators control subsea wellhead hydrocarbon flow rates. We entered this market in March 1994 through our purchase of the operating subsidiaries of Multiflex International Inc. During fiscal 1999, we constructed a new umbilical plant in Brazil and relocated, modernized and increased the capabilities of our umbilical manufacturing facility in Scotland. The plant in Brazil began operations in fiscal 1999, and the plant in Scotland was commissioned in early fiscal 2000.

We own three operating mobile offshore production systems:

- the floating production, storage and offloading system *Ocean Producer*, which has been operating offshore West Africa since December 1991;
- the production barge *San Jacinto*, acquired in December 1997 and currently under contract offshore Indonesia;
- and

- the mobile offshore production system *Ocean Legend*, which has been operating offshore Western Australia since May 2001.

In November 1995, we contracted with a major oil company for the provision of a floating production, storage and offloading unit. We converted a crude oil tanker and delivered the *Zafiro Producer* to its first operational location off West Africa in August 1996. In December 1996, the customer exercised an option to purchase the unit. We continue to participate as a member of the customer's integrated team to operate and enhance the unit's production facilities.

We own and operate two multiservice vessels, the *Ocean Intervention* and the *Ocean Intervention II*, which went into service in the fourth quarter of calendar 1998 and the third quarter of calendar 2000, respectively. These multiservice vessels are equipped with thrusters that allow them to be dynamically positioned, which means the vessels can maintain a constant position at a location without the use of anchors. They are used in pipeline or flowline tie-ins, pipeline crossings and subsea hardware interventions and installations. Both vessels can carry and install significant lengths of coiled tubing or umbilicals required to bring subsea well completions into production (tie-back to production facilities). These vessels are part of our Other Services segment.

Advanced Technologies. In August 1992 and May 1993, we purchased two businesses that formed the basis of our Advanced Technologies segment. The first business designed, developed and operated robotic systems and ROVs specializing in non-oilfield markets and provided the basis for our expansion into commercial and government subsea cable field support, maintenance and repair, civil works projects and commercial theme park animation in 1993. The second business designed, developed and fabricated spacecraft hardware and high temperature insulation products.

We intend to continue our strategy of acquiring, as opportunities arise, additional assets or businesses, to improve our market position or expand into related service and product lines, either directly through merger, consolidation or purchase, or indirectly through joint ventures. We are also applying our skills and technology in further developing business unrelated to the oil and gas industry and performing services for government agencies and firms in the telecommunications, aerospace and civil engineering and construction industries.

Financial Information about Segments

For financial information about our business segments, please see the table in Note 6 of the Notes to Consolidated Financial Statements in this report, which presents revenue, income (loss) from operations, depreciation and amortization expense, identifiable assets and capital expenditures by business segment for the year ended December 31, 2001, the nine-month period ended December 31, 2000 and the fiscal year ended March 31, 2000.

Description of Business

OFFSHORE OIL AND GAS

Our Offshore Oil and Gas business consists of ROVs, Subsea Products, Mobile Offshore Production Systems and Other Services.

ROVs. ROVs are submersible vehicles operated from the surface. They are widely used in the offshore oil and gas industry for a variety of underwater tasks including drill support, installation and construction support, pipeline inspection and surveys and subsea production facility operation and maintenance. ROVs may be outfitted with manipulators, sonar, video cameras, specialized tooling packages and other equipment or features to facilitate the performance of specific underwater tasks. We use ROVs at water depths or in situations where the use of divers would be uneconomical or infeasible. We own 125 work class ROVs and are the industry leader in providing ROV services on deepwater wells, which are the most technically demanding. We believe we operate the largest and most technically advanced fleet of ROVs in the world.

ROV revenue:

	<u>Amount</u>	<u>Percent of Total Revenue</u>
Year ended December 31, 2001	\$ 153,929,000	29%
Nine-month period ended December 31, 2000	78,953,000	26%
Fiscal year ended March 31, 2000	94,617,000	23%

Subsea Products. We manufacture a variety of built-to-order specialty subsea hardware to ISO 9001 quality requirements. These products include:

- hydraulic, electrohydraulic, chemical injection, thermoplastic and steel tube umbilicals;
- production control equipment;
- pipeline repair systems; and
- ROV tooling and work packages.

We market these products under the trade names Oceaneering Multiflex and Oceaneering Intervention Engineering.

Subsea umbilicals and production control equipment are the means by which offshore well operators control subsea wellhead hydrocarbon flow, monitor downhole and wellhead conditions and perform chemical injection. Pipeline repair systems make the effective repair of pipelines and risers possible without requiring underwater welding. ROV tooling and work packages provide the operational link between an ROV and permanently installed equipment located on the sea floor.

Subsea Products revenue:

	<u>Amount</u>	<u>Percent of Total Revenue</u>
Year ended December 31, 2001	\$ 125,608,000	24%
Nine-month period ended December 31, 2000	65,771,000	21%
Fiscal year ended March 31, 2000	69,744,000	17%

Mobile Offshore Production Systems. We presently own three operating mobile offshore production systems, the *Ocean Legend*, the *Ocean Producer* and the *San Jacinto*. In addition, we provide operational support to the *Zafiro Producer* on behalf of a major oil company.

We also undertake engineering and project management of projects related to mobile offshore production systems. We have managed the conversion of a jackup to a production unit and in-field life extension and modifications to the *Zafiro Producer*. We also perform engineering studies for customers evaluating field development projects.

Mobile Offshore Production Systems revenue:

	<u>Amount</u>	<u>Percent of Total Revenue</u>
Year ended December 31, 2001	\$ 39,154,000	7%
Nine-month period ended December 31, 2000	15,788,000	5%
Fiscal year ended March 31, 2000	23,983,000	6%

Other Services. We perform subsea intervention and hardware installation services from our multiservice vessels. These services include: subsea well tie-backs; pipeline/flowline tie-ins and repairs; pipeline crossings; umbilical and other subsea equipment installations; and subsea intervention. We also provide oilfield diving, nondestructive inspection and testing services and supporting vessel operations, which are utilized principally in inspection, repair and maintenance activities.

We supply commercial diving services to the oil and gas industry in the United States using the traditional techniques of air, mixed gas and saturation diving, all of which use surface-supplied breathing gas. We do not use divers in water depths greater

than 1,000 feet. We also use atmospheric diving systems, which enclose the operator in a surface pressure diving suit, in water depths up to 2,300 feet. In September 2000, we exchanged our diving-related assets in Asia, Australia and the Middle East for 11 ROVs.

Through our Solus Schall division, we offer a wide range of inspection services to customers required to obtain third-party inspections to satisfy contractual structural specifications, internal safety standards or regulatory requirements. We focus on the inspection of pipelines and onshore fabrication of offshore facilities for the oil and gas industry. Certain of Solus Schall's pipeline inspection activities are performed through the use of specialized x-ray crawlers, which travel inside pipelines, stopping to perform radiographic inspection of welds.

Other Services revenue:

	<u>Amount</u>	<u>Percent of Total Revenue</u>
Year ended December 31, 2001	\$ 102,250,000	20%
Nine-month period ended December 31, 2000	65,206,000	21%
Fiscal year ended March 31, 2000	105,505,000	25%

ADVANCED TECHNOLOGIES

Our Advanced Technologies segment provides underwater intervention, engineering services and related manufacturing to meet a variety of industrial requirements, including ship and submarine husbandry, search and recovery, commercial and government subsea cable field support, maintenance and repair, civil works projects and commercial theme park animation. We do this in part by extending the use of existing assets and technology developed in oilfield operations to new applications.

We work for customers having specialized requirements in underwater or other environments outside the oil and gas industry. We provide various engineering and underwater services for the U.S. Navy, including undersea operations, development of new underwater systems and inspection and maintenance of the Navy's fleet of surface ships and submarines. Through a joint venture we formed with a subsidiary of Smit Internationale, N.V., we also maintain and operate commercial cable lay and maintenance equipment. The current term of the joint venture agreement expires in March 2006. It automatically extends for five-year periods unless one of the participants gives cancellation notice at least one year before the end of the then current term.

We design and operate ROVs that are capable of being worked in water depths to 25,000 feet. Our other specialized equipment includes ROV cable lay and maintenance equipment rated to 10,000 feet and deep tow, side scan sonar systems designed for use in depths to 20,000 feet. In 2001, we located and filmed two sunken World War II warships, the British battle cruiser *H.M.S. Hood* and the German battleship *Bismarck*, in water depths over 9,000 and 15,000 feet, respectively. In fiscal 2000, we located and recovered the Mercury space capsule *Liberty Bell 7* from a water depth over 16,000 feet.

We also design and develop specialized tools and build ROV systems to customer specifications for use in deepwater and hazardous environments. In addition to commercial applications, we also develop systems for the U.S. Navy and the Department of Energy.

We entered the commercial theme park animation market in 1993. We believe we are the industry leader in large animated figures and we have provided more than 30 large figures for theme parks in the U.S. and overseas.

As part of our Advanced Technologies segment, Oceaneering Space and Thermal Systems directs our efforts towards applying undersea technology and experience in the space industry. We provide products and services to NASA and NASA prime contractors in the engineering, design and fabrication of space flight hardware, including systems engineering and integration. Our product lines include extravehicular activity tools, logistics carriers, space refrigerators, robotic devices, life support systems, habitability hardware and high temperature thermal protection systems for launch vehicles. These activities substantially depend on continued government funding for space programs.

Advanced Technologies revenue:

	<u>Amount</u>	<u>Percent of Total Revenue</u>
Year ended December 31, 2001	\$ 102,879,000	20%
Nine-month period ended December 31, 2000	82,012,000	27%
Fiscal year ended March 31, 2000	122,971,000	29%

MARKETING

Offshore Oil and Gas. Oil and gas exploration and development expenditures fluctuate from year to year. In particular, budgetary approval for more expensive drilling and production in deepwater, an area in which we have a high degree of focus, may be postponed or suspended during periods when exploration and production companies reduce their offshore capital spending.

We market our ROVs, Subsea Products and Other Services to international and foreign national oil and gas companies engaged in offshore exploration, development and production. We also provide services and products as a subcontractor to other oilfield service companies operating as prime contractors. Customers for these services typically award contracts on a competitive bid basis. These contracts are typically less than one year in duration.

We market our Mobile Offshore Production Systems primarily to international and foreign national oil and gas companies. We offer systems for extended well testing, early production and development of marginal fields and prospects in areas lacking pipelines and processing infrastructure. Contracts are typically awarded on a competitive basis, generally for periods of one or more years.

In connection with the services we perform in our Offshore Oil and Gas business, we generally seek contracts that compensate us on a dayrate basis. Under dayrate contracts, the contractor provides the ROV or vessel and the required personnel to operate the unit. Compensation under a dayrate contract is based on a rate per day for each day the unit is used. The typical dayrate depends on market conditions, the nature of the operations to be performed, the duration of the work, the equipment and services to be provided, the geographical areas involved and other variables. Dayrate contracts may also contain an alternate, lower dayrate that applies when a unit is in route to a new site or when operations are interrupted or restricted by equipment breakdowns, adverse weather or water conditions or other conditions beyond the contractor's control. Some dayrate contracts provide for revision of the specified dayrates in the event of material changes in certain items of cost being incurred by the contractor. Contracts for our products are generally for a fixed price.

Advanced Technologies. We market our marine services and related engineering services to government agencies, major defense contractors, NASA and NASA prime contractors and telecommunications, construction and other industrial customers outside the energy sector. We also market to insurance companies, salvage associations and other customers who have requirements for specialized operations in deep water.

Major Customers. Our top five customers in the year ended December 31, 2001 and in the nine-month period ended December 31, 2000 accounted for 30% and 29%, respectively, of our consolidated revenue. Our top five customers in fiscal 2000 accounted for approximately 25% of our consolidated revenue. In the year ended December 31, 2001, our top five customers were all oil and gas exploration and production companies served by our Offshore Oil and Gas business segments. For the nine-month period ended December 31, 2000 and for fiscal 2000, four of our top five customers were oil and gas exploration and production companies served by our Offshore Oil and Gas business segments. The other top five customer was the U.S. Navy, which was served by our Advanced Technologies segment. No single customer accounted for more than 10% of our consolidated revenue in any of those three periods. While we do not depend on any one customer, the loss of one of our significant customers could, at least on a short-term basis, have an adverse effect on our results of operations.

RAW MATERIALS

Most of the raw materials we use in our manufacturing operations, such as steel in various forms, electronic components and plastics, are available from many sources, and we are not dependent on any single supplier or source for any of our raw

materials. However, some components we use to manufacture subsea umbilicals are available from limited sources. While we have not experienced any difficulties in obtaining those materials in the past and do not anticipate any such difficulties in the foreseeable future, it is possible that a shortage of supply could develop. Any significant, prolonged shortage of these materials could result in increased costs for these materials and delays in our subsea umbilicals manufacturing operations.

COMPETITION

Our businesses are highly competitive.

OFFSHORE OIL AND GAS

We are one of several companies that provide underwater services on a worldwide basis. We compete for contracts with companies that have worldwide operations, as well as numerous others operating locally in various areas. We believe that our ability to provide a wide range of underwater services, including technological applications in deeper water (greater than 1,000 feet) on a worldwide basis, should enable us to compete effectively in the oilfield exploration and development market. In some cases involving projects that require less sophisticated equipment, small companies have been able to bid for contracts at prices uneconomical to us.

ROVs. We believe we are the world's largest owner/operator of work class ROVs employed in oil and gas related operations. We estimate we have a market share in excess of 30%. At December 31, 2001, we had 125 work class ROVs in service. We compete with several major companies on a worldwide basis and with numerous others operating locally in various areas. We have fewer competitors in deeper water depths, as more sophisticated equipment and technology is needed in deeper water. We estimate that, during calendar 2001, we provided ROV drilling support on approximately 68% of the wells drilled worldwide in water depths of 1,000 feet or more and approximately 77% of the wells drilled worldwide in water depths of 3,000 feet or more.

Competition for ROV services historically has been based on equipment availability, location of or ability to deploy the equipment, quality of service and price. The relative importance of these factors can vary from year to year based on market conditions. The ability to develop improved equipment and techniques and to attract and retain skilled personnel is also an important competitive factor in our markets.

Subsea Products. Although there are many competitors offering either specialized products or operating in limited geographic areas, we believe we are one of a small number of companies that compete on a worldwide basis for the provision of thermoplastic subsea control umbilical cables.

Mobile Offshore Production Systems. We believe we are well positioned to compete in this market through our ability to identify and offer optimum solutions, supply equipment and utilize our expertise in associated subsea technology and offshore construction and operations gained through our extensive operational experience worldwide. We are one of many companies that offer leased mobile offshore production systems.

Other Services. We perform subsea intervention and hardware installation services from our multiservice vessels in the Gulf of Mexico. These services include: subsea well tie-backs; pipeline/flowline tie-ins and repairs; pipeline crossings; umbilical and other subsea equipment installations; and subsea intervention. We are one of many companies that offer these services. In addition, other companies can move their vessels to the Gulf of Mexico from other areas with relative ease.

The worldwide inspection market consists of a wide range of inspection and certification requirements in many industries. Solus Schall competes in only selected portions of this market. We believe that our broad geographic sales and operational coverage, long history of operations, technical reputation, application of x-ray pipeline inspection technology and accreditation to international quality standards enable us to compete effectively in our selected inspection services market segments.

Frequently, oil and gas companies use prequalification procedures that reduce the number of prospective bidders for their projects. In some countries, political considerations tend to favor local contractors. While these considerations have not materially impacted this segment's results in recent periods, our view of the increasing trend to favor local contractors in West Africa was a factor in our decisions to sell our diving operations in West Africa in fiscal 2000 and to exchange our diving-

related assets in Asia, Australia and the Middle East for ROVs in September 2000. We no longer provide oilfield diving services outside of the United States.

ADVANCED TECHNOLOGIES. We believe our specialized ROV assets and experience in deepwater operations give us an advantage in obtaining contracts in water depths greater than 5,000 feet. We have fewer competitors in deeper water depths due to the advanced technical knowledge and sophisticated equipment required for deepwater operations.

Engineering services is a very broad market with a large number of competitors. We compete in specialized areas in which we can combine our extensive program management experience, mechanical engineering expertise and the capability to continue the development of conceptual project designs into the manufacture of prototype equipment.

We also use the administrative and operational support structures of our Offshore Oil and Gas business to provide additional local support for services provided to this segment's customers.

SEASONALITY, BACKLOG AND RESEARCH AND DEVELOPMENT

A material amount of our consolidated revenue is generated from contracts for marine services in the Gulf of Mexico and the North Sea, which are usually more active from April through November compared to the rest of the year. However, our exit from the diving sector in the North Sea in early 1998 and the substantial number of multiyear ROV contracts we entered into since 1997 have reduced the seasonality of our ROV and Other Services operations. Revenues in our Mobile Offshore Production Systems, Subsea Products and Advanced Technologies segments are generally not seasonal.

The amounts of backlog orders we believe to be firm as of December 31, 2001 and 2000 were as follows:

	As of December 31, 2001		As of December 31, 2000	
	(in millions)		(in millions)	
	Total	1 + yr*	Total	1 + yr*
Offshore Oil and Gas				
ROVs	\$182	\$ 95	\$229	\$133
Subsea Products	61	--	50	5
Mobile Offshore Production Systems	166	119	100	71
Other Services	51	9	45	2
Total Offshore Oil and Gas	460	223	424	211
Advanced Technologies	74	30	38	5
Total	\$534	\$253	\$462	\$216

* Represents amounts that were not expected to be performed within one year.

No material portion of our business is subject to renegotiation of profits or termination of contracts by the United States government.

Our research and development expenditures were approximately \$5 million, \$5 million and \$4 million during the year ended December 31, 2001, the nine-month period ended December 31, 2000 and fiscal 2000, respectively. These amounts do not include the expenditures by others in connection with joint research activities in which we participated or expenditures we incurred in connection with research conducted during the course of performing our operations.

REGULATION

Our operations are affected from time to time and in varying degrees by foreign and domestic political developments and foreign, federal and local laws and regulations. In particular, oil and gas production operations and economics are affected by tax, environmental and other laws relating to the petroleum industry, by changes in such laws and by constantly changing administrative regulations. Those developments may directly or indirectly affect our operations and those of our customers.

Compliance with federal, state and local provisions regulating the discharge of materials into the environment or relating to the protection of the environment has not had a material impact on our capital expenditures, earnings or competitive position.

While not a legal requirement, within our Offshore Oil and Gas business we maintain various quality management systems. Our quality management systems in the United Kingdom and Norway are certified to the substantial equivalent of ISO 9001 and cover all our Offshore Oil and Gas products and services. The quality management systems of our Subsea Products segment are certified to ISO 9001 for its products and services. The quality management systems of both the Oceaneering Space and Thermal Systems and Oceaneering Technologies units of our Advanced Technologies segment are also certified to ISO 9001. ISO 9001 is an internationally recognized verification system for quality management established by the International Standards Organization.

RISKS AND INSURANCE

We derive most of our revenue from companies in the offshore oil and gas industry, a historically cyclical industry with levels of activity that are significantly affected by the levels and volatility of oil and gas prices.

We derive most of our revenue from customers in the offshore oil and gas exploration, development and production industry. The offshore oil and gas industry is a historically cyclical industry characterized by significant changes in the levels of exploration and development activities. Oil and gas prices, and market expectations of potential changes in those prices, significantly affect the levels of those activities. Worldwide political, economic and military events have contributed to oil and gas price volatility and are likely to continue to do so in the future. Any prolonged reduction in the overall level of offshore oil and gas exploration and development activities, whether resulting from changes in oil and gas prices or otherwise, could materially and adversely affect our financial condition and results of operations in our segments within our offshore oil and gas business. Some factors that have affected and are likely to continue affecting oil and gas prices and the level of demand for our services and products include the following:

- worldwide demand for oil and gas;
- the ability of the Organization of Petroleum Exporting Countries, or OPEC, to set and maintain production levels and pricing;
- the level of production by non-OPEC countries;
- the cost of exploring for, producing and delivering oil and gas;
- domestic and foreign tax policy;
- laws and governmental regulations that restrict exploration and development of oil and gas in various offshore jurisdictions;
- advances in exploration and development technology;
- political instability or armed conflict in oil-producing regions;
- the price and availability of alternative fuels; and
- overall economic conditions.

The recent terrorists' attacks on the United States may directly and indirectly negatively affect our operating results. The national and global responses to those attacks, many of which are still being formulated, including recent military, diplomatic and financial responses, and any possible reprisals as a consequence of unilateral U.S. actions and/or allied actions, may materially adversely affect us in ways we cannot predict at this time.

Our international operations involve additional risks not associated with domestic operations.

A significant portion of our revenue is attributable to operations in foreign countries. These activities accounted for approximately 47% of our consolidated revenue in the year ended December 31, 2001. Risks associated with our operations in foreign areas include risks of:

- war and civil disturbances or other risks that may limit or disrupt markets;
- expropriation, confiscation or nationalization of assets;
- renegotiation or nullification of existing contracts;
- foreign exchange restrictions;
- foreign currency fluctuations;
- foreign taxation;

- the inability to repatriate earnings or capital;
- changing political conditions;
- changing foreign and domestic monetary policies; and
- regional economic downturns.

Additionally, in some jurisdictions we are subject to foreign governmental regulations favoring or requiring the awarding of contracts to local contractors or requiring foreign contractors to employ citizens of, or purchase supplies from, a particular jurisdiction. These regulations may adversely affect our ability to compete.

Our exposure to the risks we described above varies from country to country. In recent periods, political instability and civil unrest in Indonesia and West Africa and general economic downturns in Asia and Brazil have been our greatest concerns. There is a risk that a continuation or worsening of these conditions could materially and adversely impact our future business, operations, financial condition and results of operations. Of our total consolidated revenue for the year ended December 31, 2001, we generated approximately 2% from our operations in Indonesia, 11% from our operations in West Africa, 4% from our operations in Asia, excluding Indonesia, and 8% from our operations in Brazil.

Our offshore oilfield operations involve a variety of operating hazards and risks that could cause losses.

Our operations are subject to the hazards inherent in the offshore oilfield business. These include blowouts, explosions, fires, collisions, capsizings and severe weather conditions. These hazards could result in personal injury and loss of life, severe damage to or destruction of property and equipment, pollution or environmental damage and suspension of operations. We may incur substantial liabilities or losses as a result of these hazards. While we maintain insurance protection against some of these risks, and seek to obtain indemnity agreements from our customers requiring the customers to hold us harmless from some of these risks, our insurance and contractual indemnity protection may not be sufficient or effective to protect us under all circumstances or against all risks. Some of the risks inherent in our operations are either not insurable or insurance is available only at rates that we consider uneconomical, particularly after the impact on the insurance markets of the September 11, 2001 terrorists' attacks in the United States. The occurrence of a significant event not fully insured or indemnified against or the failure of a customer to meet its indemnification obligations to us could materially and adversely affect our results of operations and financial condition.

Laws and governmental regulations may add to our costs or adversely affect our operations.

Our business is affected by changes in public policy and by federal, state, local and foreign laws and regulations relating to the energy industry. Oil and gas exploration and production operations are affected by tax, environmental and other laws relating to the petroleum industry, by changes in those laws and changes in related administrative regulations. It is also possible that these laws and regulations may in the future add significantly to our operating costs or those of our customers or otherwise directly or indirectly affect our operations.

Environmental laws and regulations can increase our costs, and our failure to comply with those laws and regulations can expose us to significant liabilities.

Risks of substantial costs and liabilities related to environmental compliance issues are inherent in our operations. Our operations are subject to extensive federal, state, local and foreign laws and regulations relating to the generation, storage, handling, emission, transportation and discharge of materials into the environment. Permits are required for the operation of various facilities, and those permits are subject to revocation, modification and renewal. Governmental authorities have the power to enforce compliance with their regulations, and violations are subject to fines, injunctions or both. In some cases, those governmental requirements can impose liability for the entire cost of cleanup on any responsible party without regard to negligence or fault and impose liability on us for the conduct of or conditions others have caused, or for our acts that complied with all applicable requirements when we performed them. It is possible that other developments, such as stricter environmental laws and regulations, and claims for damages to property or persons resulting from our operations, would result in substantial costs and liabilities. Our insurance policies and the contractual indemnity protection we seek to obtain from our customers may not be sufficient or effective to protect us under all circumstances or against all risks involving compliance with environmental laws and regulations.

EMPLOYEES

As of December 31, 2001, we had approximately 3,500 employees. Our workforce varies seasonally and peaks during the summer months. Approximately 10% of our employees are represented by unions. We consider our relations with our employees to be satisfactory.

Financial Information about Geographic Areas

For financial information about our geographic areas of operation, please see the table in Note 6 of the Notes to Consolidated Financial Statements in this report, which presents revenue and assets attributable to each of our geographic areas for the year ended December 31, 2001, the nine-month period ended December 31, 2000 and the fiscal year ended March 31, 2000.

ITEM 2. PROPERTIES.

See Item 1 - "Business – Description of Business – Offshore Oil and Gas" and "Business – Description of Business – Advanced Technologies" for a description of equipment and manufacturing facilities used in providing our services and products.

We maintain office, shop and yard facilities in various parts of the world to support our operations. We consider these facilities, which we describe below, to be suitable for their intended use. In these locations, we typically lease or own office facilities for our administrative and engineering staff, shops equipped for fabrication, testing, repair and maintenance activities and warehouses and yard areas for storage and mobilization of equipment to work sites. All sites are available to support any of our business segments as the need arises. The groupings which follow associate our significant offices with the primary business segment they serve.

Offshore Oil and Gas. In general, our ROV and Other Services segments share facilities. The largest location is in Morgan City, Louisiana and consists of ROV manufacturing and training facilities, open and covered storage space and offices. The Morgan City facilities primarily support operations in the United States. We have regional support offices for our North Sea and Southeast Asia operations in Aberdeen, Scotland and Indonesia. We also have operational bases in various other locations, the most significant of which are in Norway, Australia and Nigeria.

We use workshop and office space in Houston, Texas in both our Mobile Offshore Production Systems and Subsea Products business segments. Our manufacturing facilities for our Subsea Products segment are located in or near Houston, Texas, Edinburgh, Scotland and Rio de Janeiro, Brazil. Each of these manufacturing facilities is suitable for its intended purpose and has sufficient excess capacity to respond to increases in demand for our subsea products that may be reasonably anticipated in the foreseeable future. Operations of the mobile offshore production unit *Ocean Producer* are supported through our regional office in Aberdeen. Operations of the *San Jacinto* and the *Ocean Legend* are supported from our office in Perth, Australia.

Our principal manufacturing facilities are located on properties we own or hold under a long-term lease, expiring in 2014. The other facilities we use in our Offshore Oil and Gas business segments are on properties we lease.

Advanced Technologies. Our primary facilities for our Advanced Technologies segment are leased offices and workshops in Upper Marlboro, Maryland, which support our services for the U.S. Navy and our commercial theme park animation activities. We also lease facilities in Houston, Texas, which primarily support our space industry activities and our subsea telecommunications installation joint venture.

ITEM 3. LEGAL PROCEEDINGS.

In the ordinary course of business, we are subject to actions for damages alleging personal injury under the general maritime laws of the United States, including the Jones Act, for alleged negligence. We report actions for personal injury to our insurance carriers and believe that the settlement or disposition of those suits will not have a material effect on our financial position or results of operations. For additional information, see "Commitments and Contingencies – Litigation" in Note 5 of the Notes to Consolidated Financial Statements included in this report.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS.

No matter was submitted to a vote of our security holders, through the solicitation of proxies or otherwise, during the last three months of the year December 31, 2001.

EXECUTIVE OFFICERS OF THE REGISTRANT.

Executive Officers. The following information relates to our executive officers as of March 15, 2002:

<u>NAME</u>	<u>AGE</u>	<u>POSITION</u>	<u>OFFICER SINCE</u>	<u>EMPLOYEE SINCE</u>
John R. Huff	56	Chairman of the Board and Chief Executive Officer	1986	1986
T. Jay Collins	55	President and Chief Operating Officer and Director	1993	1993
Marvin J. Migura	51	Senior Vice President and Chief Financial Officer	1995	1995
M. Kevin McEvoy	51	Senior Vice President	1990	1979
George R. Haubenreich, Jr.	54	Senior Vice President, General Counsel and Secretary	1988	1988
John L. Zachary	48	Controller and Chief Accounting Officer	1998	1988

Each executive officer serves at the discretion of our Chief Executive Officer and our Board of Directors and is subject to reelection or reappointment each year after the annual meeting of our shareholders. We do not know of any arrangement or understanding between any of the above persons and any other person or persons pursuant to which he was selected or appointed as an officer.

Business Experience. John R. Huff, Chairman and Chief Executive Officer, joined Oceaneering as a director, President and Chief Executive Officer in 1986. He was elected Chairman of the Board in August 1990. He is a director of BJ Services Company and Suncor Energy Inc.

T. Jay Collins, President and Chief Operating Officer, joined Oceaneering in October 1993 as Senior Vice President and Chief Financial Officer. In May 1995, he was appointed Executive Vice President – Oilfield Marine Services and held that position until becoming President and Chief Operating Officer in November 1998. He was elected a director of Oceaneering in March 2002. He is a director of Friede Goldman Halter, Inc.

Marvin J. Migura, Senior Vice President and Chief Financial Officer, joined Oceaneering in May 1995. From 1975 to 1994, he held various financial positions with Zapata Corporation, then a diversified energy services company, most recently as Senior Vice President and Chief Financial Officer from 1987 to 1994.

M. Kevin McEvoy, Senior Vice President, joined Oceaneering in 1984 when we acquired Solus Ocean Systems, Inc. Since 1984, he has held various senior management positions in each of our operating groups and geographic areas. He was appointed a Vice President in 1990 and Senior Vice President in November 1998.

George R. Haubenreich, Jr., Senior Vice President, General Counsel and Secretary, joined Oceaneering in 1988.

John L. Zachary, Controller and Chief Accounting Officer, joined Oceaneering in 1988 as Controller for the Advanced Technologies and Mobile Offshore Production Systems divisions. From 1993 until 1998, he was Controller for the Americas Region and was appointed to his present position in October 1998.

CAUTIONARY STATEMENT CONCERNING FORWARD-LOOKING STATEMENTS.

We are including the following discussion to inform our existing and potential security holders generally of some of the risks and uncertainties that can affect our company and to take advantage of the "safe harbor" protection for forward-looking statements that applicable federal securities law affords.

From time to time, our management or persons acting on our behalf make forward-looking statements to inform existing and potential security holders about our company. These statements may include projections and estimates concerning the timing and success of specific projects and our future backlog, revenue, income and capital spending. Forward-looking statements are generally accompanied by words such as "estimate," "project," "predict," "believe," "expect," "anticipate," "plan," "forecast," "budget," "goal" or other words that convey the uncertainty of future events or outcomes. In addition, sometimes we will specifically describe a statement as being a forward-looking statement and refer to this cautionary statement.

In addition, various statements this report contains, including those that express a belief, expectation or intention, as well as those that are not statements of historical fact, are forward-looking statements. Those forward-looking statements appear in Item 1 – "Business," Item 2 – "Properties" and Item 3 – "Legal Proceedings" in Part I of this report and in Item 7 – "Management's Discussion and Analysis of Financial Condition and Results of Operations," Item 7A – "Quantitative and Qualitative Disclosures About Market Risk" and in the Notes to Consolidated Financial Statements incorporated into Item 8 of Part II of this report and elsewhere in this report. These forward-looking statements speak only as of the date of this report, we disclaim any obligation to update these statements, and we caution you not to rely unduly on them. We have based these forward-looking statements on our current expectations and assumptions about future events. While our management considers these expectations and assumptions to be reasonable, they are inherently subject to significant business, economic, competitive, regulatory and other risks, contingencies and uncertainties, most of which are difficult to predict and many of which are beyond our control. These risks, contingencies and uncertainties relate to, among other matters, the following:

- worldwide demand for oil and gas;
- general economic and business conditions and industry trends;
- the continued strength of the industry segments in which we are involved;
- decisions about offshore developments to be made by oil and gas companies;
- the highly competitive nature of our businesses;
- our future financial performance, including availability, terms and deployment of capital;
- the continued availability of qualified personnel;
- operating risks normally incident to offshore exploration, development and production operations;
- changes in, or our ability to comply with, government regulations, including those relating to the environment;
- rapid technological changes; and
- social, political, military and economic situations in foreign countries where we do business.

We believe the items we have outlined above are important factors that could cause our actual results to differ materially from those expressed in a forward-looking statement made in this report or elsewhere by us or on our behalf. We have discussed most of these factors in more detail elsewhere in this report. These factors are not necessarily all the important factors that could affect us. Unpredictable or unknown factors we have not discussed in this report could also have material adverse effects on actual results of matters that are the subject of our forward-looking statements. We do not intend to update our description of important factors each time a potential important factor arises. We advise our security holders that they should (1) be aware that important factors we do not refer to above could affect the accuracy of our forward-looking statements and (2) use caution and common sense when considering our forward-looking statements.

Part II

ITEM 5. MARKET FOR THE REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS.

Oceaneering's common stock is listed on the New York Stock Exchange under the symbol OII. 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):

For the quarter ended:	Year Ended		Nine-month Period Ended	
	December 31, 2001		December 31, 2000	
	High	Low	High	Low
March 31	\$23.75	\$16.81	N/A	N/A
June 30	27.20	18.64	\$21.50	\$15.25
September 30	22.27	13.96	19.94	13.56
December 31	23.30	14.90	20.38	13.25

On March 15, 2002, there were 454 holders of record of our common stock. On that date, the closing sales price, as quoted on the New York Stock Exchange, was \$27.39. 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 3 of Notes to Consolidated Financial Statements included in this report.

ITEM 6. SELECTED FINANCIAL DATA.

Results of Operations:

<i>(in thousands, except per share amounts)</i>	Year Ended	Nine-month	Fiscal Years Ended March 31,		
	Dec. 31, 2001	Period Ended Dec. 31, 2000	2000	1999	1998
Revenue	\$523,820	\$307,730	\$416,820	\$400,322	\$358,121
Cost of services and products	<u>420,679</u>	<u>254,659</u>	<u>345,178</u>	<u>314,638</u>	<u>282,830</u>
Gross margin	103,141	53,071	71,642	85,684	75,291
Selling, general and administrative expense	<u>43,733</u>	<u>30,860</u>	<u>39,343</u>	<u>41,328</u>	<u>39,009</u>
Income from operations	<u>\$ 59,408</u>	<u>\$ 22,211</u>	<u>\$ 32,299</u>	<u>\$ 44,356</u>	<u>\$ 36,282</u>
Net income	\$ 33,109	\$ 11,313	\$ 16,784	\$ 25,707	\$ 22,001
Diluted earnings per share	1.38	0.49	0.73	1.12	0.93
Depreciation and amortization	47,906	30,664	33,948	29,961	23,176
Capital expenditures	57,661	101,641	80,758	102,014	94,413

Other Financial Data:

<i>(in thousands, except ratios)</i>	As of Dec. 31,		As of March 31,		
	2001	2000	2000	1999	1998
Working capital ratio	1.80	1.62	1.55	1.47	1.52
Working capital	\$ 91,384	\$ 58,380	\$ 52,775	\$ 41,398	\$ 44,890
Total assets	579,611	515,517	450,976	387,343	316,543
Long-term debt	170,000	180,000	128,000	100,312	54,626
Shareholders' equity	251,433	206,894	195,700	179,439	160,322

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATION.

All statements in this Form 10-K, other than statements of historical facts, including, without limitation, statements regarding our business strategy, plans for future operations and industry conditions, 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 heading "Cautionary Statement Concerning Forward-Looking Statements" in Part I of this report. 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.

Selected Major Accounting Policies

Our revenues are primarily derived from billings under contracts that provide for specific time, material and equipment charges, which are accrued daily and billed periodically, ranging from weekly to monthly. We account for significant lump-sum contracts, particularly in our Subsea Products segment, using the percentage of completion method, based on physical progress.

Periodically, and upon the occurrence of a triggering event, we review the realizability of goodwill and other long-term assets and we make any appropriate impairment adjustments and disclosures.

For a more detailed description of our major accounting policies, 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, 2001, we had working capital of \$91 million. Additionally, we had \$57 million available under our revolving credit facility, which is scheduled to expire in October 2003.

We expect operating cash flow to meet our ongoing annual cash requirements, including debt service, for the foreseeable future. Net cash provided by operating activities was \$60 million for the year ended December 31, 2001, \$41 million for the nine-month period ended December 31, 2000 and \$53 million for fiscal 2000.

Our capital expenditures for the year ended December 31, 2001, the nine-month period ended December 31, 2000 and the fiscal year ended March 31, 2000 were \$58 million, \$102 million and \$81 million, respectively. Capital expenditures during the year ended December 31, 2001 consisted of expenditures for additional ROVs, completion of the *Ocean Legend* and upgrades and life extension of the *Ocean Producer* necessary for its new seven-year contract which began in the fourth quarter of 2001. Capital expenditures during the nine-month period ended December 31, 2000 consisted of expenditures for the conversion of a jackup drilling rig to a mobile offshore production unit, the *Ocean Legend*, for initial use offshore Western Australia under a three-year contract, ROV additions and construction costs to complete our second multiservice vessel. Capital expenditures in fiscal 2000 consisted of construction costs for the second multiservice vessel, additions to our ROV fleet and the start of the conversion of the *Ocean Legend*.

We had no major commitments for capital expenditures at December 31, 2001.

In April 1997, we approved a plan to purchase up to a maximum of 3 million shares of our common stock, and we repurchased 2.9 million shares under this plan through December 31, 2001, at a total cost of \$40 million. We have reissued approximately 2.65 million of these shares through our incentive plans, as restricted stock, contributions to our 401(k) plan, or for exercised stock options. For a description of our incentive plans, please read Note 4 to our Consolidated Financial Statements. We repurchased 10,000 shares of common stock during the year ended December 31, 2001 at a cost of \$141,000.

At December 31, 2001, we had long-term debt of \$170 million and a 40% debt-to-total capitalization ratio. We have \$100 million of 6.72% Senior Notes to be repaid from 2006 through 2010. We have an \$80 million revolving credit facility, under which we had \$23 million in outstanding borrowings and \$57 million available for future borrowings at December 31, 2001. This facility expires in October 2003. In March 2000, we added a \$50 million term loan facility, which is to be repaid through April 2004. At December 31, 2001, we had \$47 million in outstanding borrowings under the term loan facility. Both the revolving credit and term loan facilities have short-term interest rates that float with market rates, plus applicable spreads. We have effectively fixed the interest rate on the term loan at approximately 4% through an interest rate swap. We have no off balance sheet debt and have not guaranteed any debt not reflected on our consolidated balance sheet.

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, revenues and expenses in the various currencies in which we operate. Cumulative translation adjustments as of December 31, 2001 relate primarily to our permanent investments in and loans to our foreign subsidiaries. Inflation has not had a material effect on us in the past two years and no such effect is expected in the near future.

See Item 1 - "Business – Description of Business – Risks and Insurance."

Results of Operations

The table below sets out revenue and profitability for the years ended December 31, 2001 and 2000, the nine-month periods ended December 31, 2000 and 1999 and the fiscal year ended March 31, 2000.

<i>(dollars in thousands)</i>	Year Ended December 31,		Nine-Month Period Ended December 31,		Fiscal Year Ended March 31,
	2001	2000	2000	1999	2000
		(unaudited)		(unaudited)	
Revenue	\$523,820	\$418,773	\$307,730	\$305,777	\$416,820
Gross Margin	103,141	70,548	53,071	54,165	71,642
Gross Margin %	20%	17%	17%	18%	17%
Net Income	33,109	14,952	11,313	13,145	16,784

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

Offshore Oil and Gas. The table below sets out revenue and profitability for our Offshore Oil and Gas business for the years ended December 31, 2001 and 2000, the nine-month periods ended December 31, 2000 and 1999 and the fiscal year ended March 31, 2000.

<i>(dollars in thousands)</i>	Year Ended December 31,		Nine-Month Period Ended December 31,		Fiscal Year Ended March 31,
	2001	2000	2000	1999	2000
		(unaudited)		(unaudited)	
Remotely Operated Vehicles					
Revenue	\$153,929	\$100,985	\$78,953	\$72,585	\$94,617
Gross Margin	43,690	25,905	19,879	16,806	22,832
Gross Margin %	28%	26%	25%	23%	24%
Operating Income	32,784	16,525	12,316	9,855	14,064
Operating Income %	21%	16%	16%	14%	15%
Subsea Products					
Revenue	125,608	92,165	65,771	43,350	69,744
Gross Margin	18,330	10,741	7,647	5,690	8,784
Gross Margin %	15%	12%	12%	13%	13%
Operating Income	7,243	2,334	1,225	390	1,499
Operating Income %	6%	3%	2%	1%	2%

Mobile Offshore Production Systems

Revenue	39,154	21,653	15,788	18,118	23,983
Gross Margin	11,357	7,962	5,774	6,048	8,236
Gross Margin %	29%	37%	37%	33%	34%
Operating Income	8,552	6,303	4,271	5,597	7,629
Operating Income %	22%	29%	27%	31%	32%

Other Services

Revenue	102,250	93,291	65,206	77,420	105,505
Gross Margin	12,472	7,892	7,732	11,231	11,391
Gross Margin %	12%	8%	12%	15%	11%
Operating Income (Loss)	3,543	(4,668)	(636)	863	(3,169)
Operating Income (Loss) %	3%	(5)%	(1)%	1%	(3)%

Total Offshore Oil and Gas

Revenue	\$420,941	\$308,094	\$225,718	\$211,473	\$293,849
Gross Margin	85,849	52,500	41,032	39,775	51,243
Gross Margin %	20%	17%	18%	19%	17%
Operating Income	52,122	20,494	17,176	16,705	20,023
Operating Income %	12%	7%	8%	8%	7%

In response to (1) continued increasing demand to support deepwater drilling and (2) identified future construction and production maintenance work, we extended our ROV fleet expansion program in 1997 by announcing plans for additional new ROVs. These new vehicles are designed for use around the world in water depths to 10,000 feet and in severe weather conditions. We have added over 50 ROVs to our fleet during the last several years and we plan to add additional vehicles at a rate dependent on market demand.

In the past few years, we have sold or exchanged our foreign diving-related assets, which were part of our Other Services segment, to concentrate on our other deepwater services and products which have potential for higher margins:

- In April 1997, we sold our North Sea diving assets, including a diving support vessel;
- In fiscal 2000, we sold our West Africa diving and related vessel assets; and
- In September 2000, we exchanged our Asia, Australia and Middle East diving assets, including a diving support vessel, for 11 ROVs.

For the year ended December 31, 2001, ROV revenue was 52% higher than the prior year. Gross margin rose 69% and gross margin percentage rose 2%. These improvements were the result of an increase in average fleet size of 20% and an increase in utilization from 66% to 76%. In the nine-month period ended December 31, 2000, ROV revenue was 9% higher than the comparable nine-month period of the prior year. Gross margin percentage rose 2%. These increases were the result of more ROVs available for service and an increase in ROV utilization from 63% to 67%. We anticipate ROV utilization and margins to slightly decrease in 2002, particularly in the Gulf of Mexico during the first half of the year, due to an expected reduction in drill support service demand onboard floating drilling rigs.

Subsea Products revenue was 36% higher for the year ended December 31, 2001 than the prior year. Gross margin was 71% higher and gross margin percentage rose 3%. The increased revenue was attributable to the production of orders which had been delayed in Brazil and to increased production from our U.K. plant, which in 2000 had difficulties in completing its initial steel-tube umbilical order. Margins and margin percentage were higher as a result of improved pricing. Subsea Products revenue was 52% higher for the nine-month period ended December 31, 2000 than the comparable period of the prior year. This increase was primarily due to (1) increased demand in Brazil and the U.S., as oil and gas companies proceeded with offshore capital projects which had been delayed, and (2) a large steel tube umbilical order in the U.K. While total gross margin was \$2.0 million higher, margin percentages were relatively flat, as increased profitability in Brazil and the U.S. was

offset by the large steel tube umbilical order in our U.K. plant, which earned a low margin. We anticipate improved Subsea Product results in 2002 from higher margins on existing backlog supplemented by additional orders for international markets.

Mobile Offshore Production Systems revenue was up 81% for the year ended December 31, 2001 as compared to the prior year, primarily from placement of the *Ocean Legend* into service in May 2001. At December 31, 2001, we had not recorded \$2.3 million of billed revenue questioned by our customer under the *Ocean Legend* contract. While we feel that we are entitled to the revenue under the terms of the contract, we have not recorded it pending the outcome of negotiations with our customer. Gross margin was up 43%, but gross margin percentage was down 8%. Gross margin in 2001 included an additional \$1.5 million writedown of the out-of-service tanker *Ocean Venture*, which we are holding for disposition or for possible conversion. We recorded the additional writedown as a result of lower scrap steel prices than in 2000, when we had previously written down the vessel by \$2.5 million as explained below. Mobile Offshore Production Systems revenue was down 13% for the nine-month period ended December 31, 2000 from the comparable period of the prior year, as production-based revenue from the *Ocean Producer* was lower due to declining production levels and we had lower project management and engineering service revenue from lower demand. In the fourth quarter of 2001, the *Ocean Producer* began operations under a seven-year contract to produce from another property in the area and we expect to earn higher margins on the new contract than those attained during the last two years of the prior contract. Gross margin percentage in the nine-month period ended December 31, 2000 was higher than in the corresponding period of the prior year due to \$4.3 million of gains on the sales of two out-of-service semisubmersible rigs. In addition, we wrote down the carrying value of the *Ocean Venture* by \$2.5 million in the nine-month period ended December 31, 2000, as our assessment of the market it was targeted for, conversion into production service, had changed. This tanker is not of the size prevalently in demand in the current market and there have been few opportunities to bid the vessel. We anticipate improved Mobile Offshore Production Systems results in 2002 with a full year of *Ocean Legend* and *Ocean Producer* operations under their long-term contracts.

Other Services revenue increased 10% for the year ended December 31, 2001 over the prior year. Gross margin was 58% higher and gross margin percentage was 4% higher. Revenue was higher in 2001 from a full year of service from the multiservice vessel *Ocean Intervention II*, which was placed into service in the third quarter of 2000. As a result, we had more subsea tie-back contracts in the Gulf of Mexico in 2001. Margin percentage was higher as 2000 included losses from two large fixed-price jobs in India. Other Services revenue was 16% lower in the nine-month period ended December 31, 2000 than the comparable period of the prior year. The lower revenue reflects our dispositions of (1) our West Africa diving operations in fiscal 2000 and (2) our Asia, Australia and Middle East diving operations in September 2000, along with more competitive conditions resulting from lower capital expenditures by our oilfield customers. Gross margin was lower due to lower vessel utilization and related services in the Gulf of Mexico. The net operating loss was attributed to the two large fixed-price jobs in India mentioned above. We anticipate lower Other Services results in 2002 from further market deterioration due to announced reductions in capital spending plans by oil and gas companies operating in the Gulf of Mexico. We are hopeful that, by the second half of 2002, demand for these services will recover.

Advanced Technologies. The table below sets out revenue and profitability for this segment for the years ended December 31, 2001 and 2000, the nine-month periods ended December 31, 2000 and 1999 and the fiscal year ended March 31, 2000.

<i>(dollars in thousands)</i>	Year Ended December 31,		Nine-Month Period Ended December 31,		Fiscal Year Ended March 31,
	2001	2000	2000	1999	2000
		(unaudited)		(unaudited)	
Revenue	\$102,879	\$110,679	\$82,012	\$94,304	\$122,971
Gross Margin	17,292	18,048	12,039	14,390	20,399
Gross Margin %	17%	16%	15%	15%	17%
Operating Income	7,286	8,965	5,035	8,346	12,276
Operating Income %	7%	8%	6%	9%	10%

Advanced Technologies revenue and gross margin were slightly lower in 2001 as compared to 2000 as a result of lower telecommunications subsea cable field support operations. Revenue was 13% lower in the nine-month period ended December 31, 2000 than the comparable period of the prior year as the prior period included a large outfall job in Southeast Asia, which was performed using resources associated with our Other Services segment. These resources were part of those we exchanged in September 2000 for ROVs. Gross margin was lower as the December 2000 period included provisions totaling \$1.8 million

relating to operations of a division we no longer own. We anticipate similar results from Advanced Technologies in the next year, contingent on (1) the level of government funding for NASA and U.S. Navy programs in which we currently participate or are pursuing and (2) our ability to obtain contracts for the design and manufacture of animated figures for theme parks.

Other. General and administrative expenses were relatively flat over the periods presented. Interest expense increased over the three-year period as a result of our increased borrowings to fund capital expenditures and repurchases of common stock. Interest expense is net of capitalized interest of \$2.0 million for the year ended December 31, 2001, \$3.0 million for the nine-month period ended December 31, 2000 and \$1.8 million for fiscal 2000.

Our effective tax rate, determined after consideration of valuation allowances and foreign, state and local taxes, was 35%, 36% and 36% for the year ended December 31, 2001, the nine-month period ended December 31, 2000 and for fiscal 2000, respectively.

ITEM 7A. 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 trading purposes. We manage our exposure to interest rate changes through the use of a combination of fixed and floating rate debt and an interest rate hedge. See Note 3 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. We manage our exposure to changes in foreign exchange rates primarily 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 will sometimes hedge foreign currency receivables with short-term hedges. We believe that a significant fluctuation in the foreign exchange rates would not have a material near-term effect on our future earnings or cash flows.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA.

In this report, our consolidated financial statements and supplementary data appear following the signature page to this report and are hereby incorporated by reference.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE.

Not Applicable.

Part III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT.

The information with respect to the directors and nominees for election to our Board of Directors is incorporated by reference from the section "Election of Directors" in our definitive proxy statement to be filed on or before April 30, 2002, relating to our 2002 Annual Meeting of Shareholders.

The information with respect to our executive officers is provided under the heading "Executive Officers of the Registrant" following Item 4 of Part I of this report. There are no family relationships between any director or executive officer.

ITEM 11. EXECUTIVE COMPENSATION.

The information required by Item 11 is incorporated by reference from the section "Executive Compensation" in the proxy statement described in Item 10 above.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT.

The information required by Item 12 is incorporated by reference from the section "Election of Directors – Security Ownership of Management and Certain Beneficial Owners" in the proxy statement described in Item 10 above.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS.

The information required by Item 13 is incorporated by reference from the section "Certain Relationships and Related Transactions" in the proxy statement described in Item 10 above.

Part IV

ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES AND REPORTS ON FORM 8-K.

(a) Documents filed as part of this report.

1. Financial Statements.
 - (i) Report of Independent Public Accountants
 - (ii) Consolidated Balance Sheets
 - (iii) Consolidated Statements of Income
 - (iv) Consolidated Statements of Cash Flows
 - (v) Consolidated Statements of Shareholders' Equity and Comprehensive Income
 - (vi) Notes to Consolidated Financial Statements

2. Exhibits:

		Registration or File <u>Number</u>	Form or <u>Report</u>	Report <u>Date</u>	Exhibit <u>Number</u>
*3.01	Restated Certificate of Incorporation	1-10945	10-K	Dec. 2000	3.01
3.02	Amended and Restated By-Laws				
*4.01	Specimen of Common Stock Certificate	1-10945	10-K	March 1993	4(a)
*4.02	Amended and Restated Shareholder Rights Agreement dated as of November 16, 2001	1-10945	8-K	Nov. 2001	4.1
*4.03	Note Purchase Agreement dated as of September 8, 1998 relating to \$100,000,000 6.72% Senior Notes due September 8, 2010	1-10945	10-Q	Sept. 1998	4.01
*4.04	Loan Agreement (\$80,000,000 Revolving Credit Facility) dated as of October 23, 1998	1-10945	10-Q	Sept. 1998	4.02
*4.05	Loan Agreement (\$50,000,000 Term Loan) dated as of March 30, 2000	1-10945	10-K/A	March 2000	4.05

We and certain of our consolidated subsidiaries are parties to debt instruments under which the total amount of securities authorized does not exceed 10 percent of our total consolidated assets. Pursuant to paragraph 4(ii)(A) of Item 601(b) of Regulation S-K, we agree to furnish a copy of those instruments to the Securities and Exchange Commission on request.

10.01+	Defined Contribution Master Plan and Trust Agreement and Adoption Agreement for the Oceaneering International, Inc. Retirement Investment Plan				
10.02+	Service Agreement dated as of November 16, 2001 between Oceaneering and John R. Huff				
*10.03+	2000 Non-Executive Incentive Plan	333-50400	S-8	Nov. 2000	4.6
*10.04+	Amended and Restated Supplemental Executive Retirement Plan	1-10945	10-Q	Dec. 1999	10.1
*10.05+	1999 Restricted Stock Award Incentive Agreements dated August 19, 1999	1-10945	10-Q	Sept. 1999	10.1
10.06+	Change of Control Agreements dated as of November 16, 2001 between Oceaneering and John R. Huff, T. Jay Collins, Marvin J. Migura, M. Kevin McEvoy and George R. Haubenreich, Jr., respectively				
*10.07+	1999 Bonus Restricted Stock Award Agreements	1-10945	10-K/A	March 2000	10.20
*10.08+	1999 Incentive Plan	1-10945	10-K	March 2000	10.08
10.09+	2001 Bonus Award Plan				
*10.10+	1990 Long-Term Incentive Plan	33-36872	S-8	Sept. 1990	4(f)
*10.11+	1990 Nonemployee Directors Stock Option Plan	33-36872	S-8	Sept. 1990	4(g)
10.12+	Form of Indemnification Agreement dated November 16, 2001 between Oceaneering and each of its Directors, T. Jay Collins, Marvin J. Migura, M. Kevin McEvoy and George R. Haubenreich, Jr.				
*10.14+	1996 Incentive Plan of Oceaneering International, Inc.	1-10945	10-Q	Sept. 1996	10.02
*10.15+	1996 Restricted Stock Award Incentive Agreements dated August 23, 1996	1-10945	10-Q	Sept. 1996	10.03
*10.16+	1997 Bonus Restricted Stock Award Agreements dated April 22, 1997	1-10945	10-K	March 1997	10.20
*10.17+	Amendment No. 1 to 1990 Nonemployee Director Stock Option Plan	1-10945	10-K	March 1999	10.19
*10.18+	1998 Bonus Restricted Stock Award Agreements	1-10945	10-K	March 1999	10.20
12.01	Statement showing Computation of Ratio of Earnings to Fixed Charges				
21.01	Subsidiaries of Oceaneering				
23.01	Consent of Independent Public Accountants				
24.01	Powers of Attorney				
99.01	Letter to the Securities and Exchange Commission re Arthur Andersen LLP				

* Indicates exhibit previously filed with the Securities and Exchange Commission as indicated and incorporated herein by reference.

+ Indicates management contract or compensatory plan or arrangement.

(b) Reports on Form 8-K.

We filed the following reports on Form 8-K during the last quarter of the period covered by this report:

<u>Date</u>	<u>Description</u>
November 14, 2001	Information furnished under Item 9, Regulation FD Disclosure, regarding the posting of a presentation on our Web site.
November 16, 2001	Information filed under Item 5, Other Events, regarding the extension of the expiration date of the Shareholder Rights Agreement dated as of November 20, 1992 to November 16, 2011 and other changes to that agreement.
December 10, 2001	Information furnished under Item 9, Regulation FD Disclosure, regarding the posting of a presentation on our Web site.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

OCEANEERING INTERNATIONAL, INC.

Date: March 27, 2002

By: /s/ JOHN R. HUFF
John R. Huff
Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Signature	Title	Date
<u>/s/ JOHN R. HUFF</u> John R. Huff	Chairman of the Board and Chief Executive Officer (Principal Executive Officer)	March 27, 2002
<u>/s/ MARVIN J. MIGURA</u> Marvin J. Migura	Senior Vice President and Chief Financial Officer (Principal Financial Officer)	March 27, 2002
<u>/s/ JOHN L. ZACHARY</u> John L. Zachary	Controller (Principal Accounting Officer)	March 27, 2002
<u>/s/ T. JAY COLLINS</u> T. Jay Collins	President, Chief Operating Officer and Director	March 27, 2002
<u>/s/ CHARLES B. EVANS*</u> Charles B. Evans	Director	
<u>/s/ DAVID S. HOOKER*</u> David S. Hooker	Director	
<u>/s/ D. MICHAEL HUGHES*</u> D. Michael Hughes	Director	
<u>/s/ HARRIS J. PAPPAS*</u> Harris J. Pappas	Director	
*By: <u>/s/ GEORGE R. HAUBENREICH, JR.</u> George R. Haubenreich, Jr. Attorney-in-Fact		March 27, 2002

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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 included in the financial statements included herein or in the related footnotes thereto.

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To Oceaneering International, Inc.:

We have audited the accompanying consolidated balance sheets of Oceaneering International, Inc. (a Delaware corporation) and subsidiaries as of December 31, 2001 and 2000 and the related consolidated statements of income, cash flows and shareholders' equity and comprehensive income for the year ended December 31, 2001, the nine-month period ended December 31, 2000 and for the fiscal year ended March 31, 2000. These consolidated 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 auditing standards generally accepted in the 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of Oceaneering International, Inc. and subsidiaries as of December 31, 2001 and 2000 and the results of their operations and their cash flows for the year ended December 31, 2001, the nine-month period ended December 31, 2000 and the fiscal year ended March 31, 2000, in conformity with accounting principles generally accepted in the United States.

ARTHUR ANDERSEN LLP

Houston, Texas
February 13, 2002

CONSOLIDATED BALANCE SHEETS

<i>(in thousands, except share data)</i>	December 31,	
	2001	2000
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 10,474	\$ 9,911
Accounts receivable, net of allowances for doubtful accounts of \$1,349 and \$510	128,559	80,857
Revenue in excess of amounts billed	25,805	26,560
Prepaid expenses and other	40,380	35,076
Total current assets	<u>205,218</u>	<u>152,404</u>
Property and Equipment, at cost:		
Marine services equipment	340,114	313,853
Mobile offshore production equipment, including construction in progress of \$83,321 in 2000	142,186	124,785
Manufacturing facilities	45,335	41,024
Other	46,103	43,723
	<u>573,738</u>	<u>523,385</u>
Less accumulated depreciation	231,402	187,025
Net property and equipment	<u>342,336</u>	<u>336,360</u>
Other Assets:		
Goodwill, net of accumulated amortization of \$9,221 and \$7,526	13,884	11,493
Other	18,173	15,260
Total Assets	<u>\$579,611</u>	<u>\$515,517</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities:		
Accounts payable	\$ 28,902	\$ 25,076
Accrued liabilities	74,193	60,139
Income taxes payable	10,739	8,736
Current portion of long-term debt	--	73
Total current liabilities	<u>113,834</u>	<u>94,024</u>
Long-term Debt, net of current portion	<u>170,000</u>	<u>180,000</u>
Other Long-term Liabilities	<u>44,344</u>	<u>34,599</u>
Commitments and Contingencies		
Shareholders' Equity:		
Common Stock, par value \$0.25 per share; 90,000,000 shares authorized; 24,017,046 shares issued	6,004	6,004
Additional paid-in capital	84,105	78,945
Treasury stock; 249,872 and 979,285 shares at cost	(3,353)	(13,123)
Retained earnings	184,915	151,806
Other comprehensive income	(20,238)	(16,738)
Total shareholders' equity	<u>251,433</u>	<u>206,894</u>
Total Liabilities and Shareholders' Equity	<u>\$579,611</u>	<u>\$515,517</u>

The accompanying Notes are an integral part of these Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF INCOME

<i>(in thousands, except per share data)</i>	Year Ended December 31,		Nine-Month Period Ended December 31,	Fiscal Year Ended March 31,
	2001	2000	2000	2000
		(unaudited)		
Revenue	\$523,820	\$418,773	\$307,730	\$416,820
Cost of Services and Products	<u>420,679</u>	<u>348,225</u>	<u>254,659</u>	<u>345,178</u>
Gross margin	103,141	70,548	53,071	71,642
Selling, General and Administrative Expense	<u>43,733</u>	<u>41,089</u>	<u>30,860</u>	<u>39,343</u>
Income from operations	59,408	29,459	22,211	32,299
Interest Income	491	497	386	533
Interest Expense, net of amounts capitalized	(9,928)	(7,104)	(5,629)	(5,936)
Other Income (Expense), Net	614	(207)	122	(330)
Minority Interests	<u>352</u>	<u>717</u>	<u>586</u>	<u>(341)</u>
Income before income taxes	50,937	23,362	17,676	26,225
Provision for Income Taxes	<u>(17,828)</u>	<u>(8,410)</u>	<u>(6,363)</u>	<u>(9,441)</u>
Net Income	<u>\$ 33,109</u>	<u>\$ 14,952</u>	<u>\$ 11,313</u>	<u>\$ 16,784</u>
Basic Earnings per Share	\$1.41	\$0.65	\$0.49	\$0.74
Diluted Earnings per Share	\$1.38	\$0.64	\$0.49	\$0.73
Weighted average number of common shares	23,473	22,895	22,935	22,757
Incremental shares from stock options	442	293	291	279
Weighted average number of common shares and equivalents	23,915	23,188	23,226	23,036

The accompanying Notes are an integral part of these Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

<i>(in thousands)</i>	Year Ended December 31,		Nine-Month Period Ended December 31,	Fiscal Year Ended March 31,
	2001	2000	2000	2000
	(unaudited)			
Cash Flows from Operating Activities:				
Net income	<u>\$33,109</u>	<u>\$14,952</u>	<u>\$ 11,313</u>	<u>\$16,784</u>
Adjustments to reconcile net income to net cash provided by operating activities:				
Depreciation and amortization	47,906	39,748	30,664	33,948
Currency translation adjustments and other	1,767	(720)	(46)	1,582
Increase (decrease) in cash from:				
Accounts receivable and revenue in excess of amounts billed, net	(46,947)	3,073	11,155	(14,734)
Prepaid expenses and other current assets	(9,876)	(6,192)	(8,029)	(2,131)
Other assets	4,809	(5,012)	(3,036)	(2,922)
Accounts payable	3,826	1,579	(9,517)	11,112
Accrued liabilities	14,054	(1,352)	6,494	(962)
Income taxes payable	7,639	(1,534)	1,595	(2,801)
Other long-term liabilities	<u>3,553</u>	<u>11,190</u>	<u>278</u>	<u>13,192</u>
Total adjustments to net income	<u>26,731</u>	<u>40,780</u>	<u>29,558</u>	<u>36,284</u>
Net Cash Provided by Operating Activities	<u>59,840</u>	<u>55,732</u>	<u>40,871</u>	<u>53,068</u>
Cash Flows from Investing Activities:				
Purchases of property and equipment	(57,661)	(138,662)	(101,641)	(80,758)
Dispositions of property and equipment	116	12,188	8,122	5,309
Increase in other assets	<u>(2,415)</u>	<u>(2,827)</u>	<u>(2,884)</u>	<u>(593)</u>
Net Cash Used in Investing Activities	<u>(59,960)</u>	<u>(129,301)</u>	<u>(96,403)</u>	<u>(76,042)</u>
Cash Flows from Financing Activities:				
Net proceeds (payments) on revolving credit, term loan and other long-term debt	(10,073)	69,395	51,748	27,419
Proceeds from issuance of common stock	10,897	3,735	2,694	6,246
Purchases of treasury stock	<u>(141)</u>	<u>(754)</u>	<u>--</u>	<u>(8,057)</u>
Net Cash Provided by Financing Activities	<u>683</u>	<u>72,376</u>	<u>54,442</u>	<u>25,608</u>
Net Increase (Decrease) in Cash and Cash Equivalents	563	(1,193)	(1,090)	2,634
Cash and Cash Equivalents – Beginning of Period	<u>9,911</u>	<u>11,104</u>	<u>11,001</u>	<u>8,367</u>
Cash and Cash Equivalents – End of Period	<u>\$10,474</u>	<u>\$ 9,911</u>	<u>\$ 9,911</u>	<u>\$11,001</u>

The accompanying Notes are an integral part of these Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY AND COMPREHENSIVE INCOME

<i>(in thousands)</i>	Common Stock		Additional Paid-in Capital	Treasury Stock	Retained Earnings	Other Comprehensive Income	Total
	Shares	Amounts					
Balance, March 31, 1999	24,017	\$ 6,004	\$82,421	\$(22,803)	\$123,709	\$ (9,892)	\$179,439
Comprehensive Income:							
Net Income	--	--	--	--	16,784	--	16,784
Translation adjustments	--	--	--	--	--	(2,827)	(2,827)
Total Comprehensive Income	--	--	--	--	16,784	(2,827)	13,957
Restricted stock issued	--	--	(8,165)	8,165	--	--	--
Stock options exercised	--	--	461	4,233	--	--	4,694
Restricted stock plan compensation expense	--	--	3,255	--	--	--	3,255
Treasury stock purchases	--	--	--	(8,057)	--	--	(8,057)
Treasury stock issued to company benefit plan, at average cost	--	--	--	2,412	--	--	2,412
Balance, March 31, 2000	24,017	6,004	77,972	(16,050)	140,493	(12,719)	195,700
Comprehensive Income:							
Net Income	--	--	--	--	11,313	--	11,313
Translation adjustments	--	--	--	--	--	(4,019)	(4,019)
Total Comprehensive Income	--	--	--	--	11,313	(4,019)	7,294
Restricted stock issued	--	--	(175)	175	--	--	--
Stock options exercised	--	--	39	880	--	--	919
Restricted stock plan compensation expense	--	--	1,109	--	--	--	1,109
Treasury stock issued to company benefit plan, at average cost	--	--	--	1,872	--	--	1,872
Balance, December 31, 2000	24,017	6,004	78,945	(13,123)	151,806	(16,738)	206,894
Comprehensive Income:							
Net Income	--	--	--	--	33,109	--	33,109
Change in fair value of interest rate hedge	--	--	--	--	--	64	64
Translation adjustments	--	--	--	--	--	(3,564)	(3,564)
Total Comprehensive Income	--	--	--	--	33,109	(3,500)	29,609
Restricted stock issued	--	--	786	(786)	--	--	--
Stock options exercised	--	--	1,945	8,271	--	--	10,216
Restricted stock plan compensation expense	--	--	2,429	--	--	--	2,429
Treasury stock purchases	--	--	--	(141)	--	--	(141)
Treasury stock issued to company benefit plan, at average cost	--	--	--	2,426	--	--	2,426
Balance, December 31, 2001	24,017	\$ 6,004	\$84,105	\$(3,353)	\$184,915	\$(20,238)	\$251,433

The accompanying Notes are an integral part of these Consolidated Financial Statements.

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 its 50% or more owned and controlled subsidiaries. Oceaneering accounts for its investments in unconsolidated affiliated companies under the equity method. All significant intercompany accounts and transactions have been eliminated. As used in these notes, references to "Oceaneering" mean Oceaneering International, Inc. and its 50% or more owned and controlled subsidiaries.

Effective November 1, 2000, Oceaneering's Board of Directors approved the change of its year end to December 31 from March 31. The accompanying financial statements for the year ended December 31, 2000 are presented for comparative purposes and are unaudited. Management has reflected all adjustments that it believes are necessary to present fairly Oceaneering's results of operations and cash flows for that unaudited period. All such adjustments are of a normal recurring nature.

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.

Prepaid Expenses and Other Current Assets

Prepaid expenses and other current assets consisted of the following:

<i>(in thousands)</i>	December 31,	
	2001	2000
Spare parts for remotely operated vehicles	\$14,316	\$10,568
Inventories, primarily raw materials	9,385	8,848
Deferred taxes	10,359	8,057
Other	<u>6,320</u>	<u>7,603</u>
Total	<u>\$40,380</u>	<u>\$35,076</u>

Inventory is priced at lower of cost or market. Oceaneering determines cost using the weighted-average method.

Property and Equipment and Goodwill

Oceaneering provides for depreciation of property and equipment primarily 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. Goodwill arising from business acquisitions made before June 30, 2001 was amortized on the straight-line method over 15 years.

The costs of repair and maintenance of property and equipment are charged to operations as incurred, while the costs of improvements are capitalized. Oceaneering accrues in advance for anticipated drydocking expenses of its larger vessels. Accrued drydock costs, which are included in accrued liabilities on the balance sheets, were \$3.6 million and \$3.2 million at December 31, 2001 and 2000, respectively. Interest is capitalized on assets where the construction period is anticipated to be more than three months. Oceaneering does 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 the resulting gain or loss is included as an adjustment to cost of services and products.

During the nine-month period ended December 31, 2000, Oceaneering exchanged its diving-related assets, including a vessel, in Asia, Australia and the Middle East for 11 remotely operated vehicles. The assets acquired were recorded at their fair market value and the transaction did not result in a material gain or loss to Oceaneering.

Management periodically, and upon the occurrence of a triggering event, reviews the realizability of goodwill and other long-term assets and makes any appropriate impairment adjustments and disclosures. During the year ended December 31, 2001 and the nine-month period ended December 31, 2000, Oceaneering recorded impairment adjustments of \$1.5 million and \$2.5 million, respectively, in the form of additional depreciation included in Cost of Services and Products within the Mobile Offshore Production Systems business segment. These adjustments decreased the carrying value of an out-of-service tanker to its estimated scrap value. During the year ended December 31, 2001, Oceaneering also recorded an impairment adjustment of \$600,000 in the form of additional depreciation included in the Cost of Services and Products within the Other Services business segment. This adjustment decreased the carrying value of a crane barge held for sale to its estimated market value. No other impairment adjustments were made during the periods presented.

In July 2001, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standard ("SFAS") No. 141, "Business Combinations," and SFAS No. 142, "Goodwill and Other Intangible Assets." SFAS No. 141 requires that all business combinations be accounted for under the purchase method. SFAS No. 141 also establishes criteria for the separate recognition of intangible assets acquired in a business combination. The adoption of SFAS No. 141 will have no effect on our consolidated financial position or results of operations. SFAS No. 142 requires for 2002 that goodwill no longer be amortized to earnings, but instead be subject to periodic testing for impairment. In addition, goodwill for acquisitions after June 30, 2001 is not amortized. SFAS No. 142 is effective for fiscal years beginning after December 15, 2001 and the non-amortization provisions are effective for acquisitions taking place after June 30, 2001. For the year ended December 31, 2001, Oceaneering amortized \$1,696,000 of goodwill. Oceaneering also made an acquisition in the third quarter of 2001 which generated \$3,259,000 of goodwill which, in accordance with the provisions of SFAS No. 142, was not amortized. We are reviewing the effect SFAS No. 142 will have on our consolidated financial position and results of operations and, other than ceasing goodwill amortization effective January 1, 2002, we do not presently anticipate that SFAS No. 142 will have a significant impact on our consolidated financial position or results of operations.

Revenue Recognition

Oceaneering's revenue is primarily derived from billings under contracts that provide for specific time, material and equipment charges, which are accrued daily and billed periodically, ranging from weekly to monthly. Significant lump-sum contracts, particularly in the Subsea Products segment, are accounted for using the percentage-of-completion method. Under this method, we measure the extent of progress toward completion based on physical progress. Revenue in Excess of Amounts Billed relates to recoverable costs and accrued profits on contracts in process. Billings in Excess of Revenue Recognized on uncompleted contracts are classified in accrued liabilities. Revenue on contracts with a substantial element of research and development is recognized to the extent of cost until such time as the probable final profitability can be determined. Anticipated losses on contracts, if any, are recorded in the period that such losses are first determinable. Oceaneering believes its revenue recognition accounting policies comply with SEC Staff Accounting Bulletin No. 101, "Revenue Recognition in Financial Statements."

Revenue in Excess of Amounts Billed are summarized as follows:

<i>(in thousands)</i>	December 31,	
	2001	2000
Revenues recognized on uncompleted contracts	\$157,858	\$117,177
Less: Billings of customers	<u>(132,053)</u>	<u>(90,617)</u>
Revenue in excess of amounts billed	<u>\$ 25,805</u>	<u>\$ 26,560</u>

Billings in Excess of Revenues Recognized are summarized as follows:

<i>(in thousands)</i>	December 31,	
	2001	2000
Amounts billed to customers	\$26,745	\$8,269
Less: Revenues recognized	<u>(23,752)</u>	<u>(5,356)</u>
Billings in excess of revenue recognized	<u>\$ 2,993</u>	<u>\$ 2,913</u>

Income Taxes

Oceaneering provides income taxes at appropriate tax rates in accordance with its interpretation of the respective tax laws and regulations after review and consultation with its internal tax department, tax advisors and, in some cases, legal counsel in the various jurisdictions. Deferred income taxes are provided for temporary differences in the recognition of income and expense for financial and tax reporting purposes. Oceaneering's policy is to provide for deferred U.S. income taxes on repatriated foreign income only to the extent such income is not to be invested indefinitely in the related foreign entity.

Foreign Currency Translation

The functional currency for several of Oceaneering's 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.

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 2001 exclude an average of 667,000 stock options which were antidilutive.

Other Long-term Liabilities

At December 31, 2001 and 2000, other long-term liabilities include \$10.0 million and \$9.1 million, respectively, for self-insurance reserves not expected to be paid out in the following year and \$28.5 million and \$22.0 million, respectively, for deferred income taxes.

Financial Instruments

Oceaneering recognizes all derivative instruments as either assets or liabilities in the balance sheet and measures 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.

Reclassifications

Certain amounts from prior periods have been reclassified to conform with the current year presentation.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to 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.

2. INCOME TAXES

Oceaneering and its domestic subsidiaries, including acquired companies from their respective dates of acquisition, file a consolidated U.S. federal income tax return. Oceaneering conducts its 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. Management believes that adequate provisions have been made for all taxes that will ultimately be payable. On a geographic basis, income before minority interests and income taxes attributable to the United States was \$5.4 million, \$6.7 million and \$10.5 million for the year ended December 31, 2001, the nine-month period ended December 31, 2000 and the fiscal year ended March 31, 2000, respectively.

The provisions for income taxes were as follows:

<i>(in thousands)</i>	Year Ended December 31,	Nine-Month Period Ended December 31,	Fiscal Year Ended March 31,
	2001	2000	2000
U.S. federal and state	\$ 9,764	\$ 1,671	\$ 4,988
Foreign	<u>8,064</u>	<u>4,692</u>	<u>4,453</u>
Total provision	<u>\$17,828</u>	<u>\$ 6,363</u>	<u>\$ 9,441</u>
Current	\$13,623	\$ 6,375	\$ 2,135
Deferred	<u>4,205</u>	<u>(12)</u>	<u>7,306</u>
Total provision	<u>\$17,828</u>	<u>\$ 6,363</u>	<u>\$ 9,441</u>
Cash taxes paid	<u>\$10,320</u>	<u>\$ 4,538</u>	<u>\$ 7,906</u>

During the nine-month period ended December 31, 2000, Oceaneering also received a cash tax refund of \$4,353,000.

As of December 31, 2001, Oceaneering's Brazil subsidiary had net operating loss carryforwards ("NOLs") of approximately \$9 million, which are available to reduce future Brazil income taxes that would otherwise be payable.

As of December 31, 2001 and 2000, Oceaneering's worldwide deferred tax assets and liabilities were as follows:

<i>(in thousands)</i>	December 31,	
	2001	2000
Current deferred tax assets	<u>\$10,359</u>	<u>\$ 8,057</u>
Gross deferred tax assets – long-term	\$ 3,216	\$ 5,612
Valuation allowance	<u>(3,150)</u>	<u>(5,600)</u>
Net deferred tax assets – long-term	<u>\$ 66</u>	<u>\$ 12</u>
Deferred tax liabilities	<u>\$28,517</u>	<u>\$21,956</u>

Oceaneering's gross deferred tax assets consist primarily of NOLs in its Brazilian subsidiary, which have no expiration date, and insurance claim reserves for which a tax deduction has not yet been allowed. Deferred tax liabilities consist primarily of depreciation and amortization book/tax differences and provisions for income of foreign subsidiaries expected to be repatriated.

Oceaneering has established a valuation allowance for deferred tax assets after taking into account factors that are likely to affect Oceaneering's ability to utilize the tax assets. In particular, Oceaneering conducts its business through several foreign subsidiaries and, although Oceaneering expects its consolidated operations to be profitable, there is no assurance that profits will be earned in entities or jurisdictions that have NOLs available. Changes in the valuation allowance primarily relate to the expected utilization of foreign NOLs and realization of foreign tax credits. 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:

<i>(in thousands)</i>	Year Ended December 31, 2001	Nine-Month Period Ended December 31, 2000	Fiscal Year Ended March 31, 2000
Computed U.S. statutory expense	\$17,705	\$ 5,981	\$ 9,298
Change in valuation allowances	(2,450)	1,224	(6,008)
Withholding taxes and foreign earnings taxed at rates different from U.S. statutory rates	2,319	1,066	3,375
State and local taxes and other, net	<u>254</u>	<u>(1,908)</u>	<u>2,776</u>
Total provision for income taxes	<u>\$17,828</u>	<u>\$ 6,363</u>	<u>\$ 9,441</u>

3. DEBT

Long-term Debt consisted of the following:

<i>(in thousands)</i>	December 31,	
	2001	2000
6.72% Senior Notes	\$100,000	\$100,000
Revolving credit facility	23,000	65,000
Term loan agreement	47,000	15,000
Capital lease	--	73
Long-term Debt	<u>170,000</u>	<u>180,073</u>
Current portion	--	(73)
Long-term Debt, net of current portion	<u>\$170,000</u>	<u>\$180,000</u>

Oceaneering has \$100 million aggregate principal amount of 6.72% Senior Notes outstanding and scheduled to be paid in five equal annual installments beginning September 2006.

Oceaneering has an \$80 million revolving credit facility (the "Credit Agreement"). There is a commitment fee ranging from .20% to .25% per annum, depending on Oceaneering's debt-to-capitalization ratio, on the unused portion of the banks' commitments. Principal maturity is in October 2003. Under the Credit Agreement, Oceaneering has the option to borrow dollars at the London Interbank Offered Rate ("LIBOR") plus a margin ranging from .50% to 1.00%, depending on Oceaneering's debt-to-capitalization ratio, or at the agent bank's prime rate. The weighted average interest rate for borrowings under the Credit Agreement was 2.56% at December 31, 2001.

In March 2000, Oceaneering entered into a four-year, \$50 million term loan agreement (the "Term Loan"). Borrowings under the Term Loan were made until March 2001 and principal repayments commenced in October 2001 with final maturity in April 2004. There are no further borrowings available and no commitment fees on the Term Loan. Under the Term Loan, Oceaneering pays interest at LIBOR plus a margin ranging from .75% to 1.25%, depending on Oceaneering's debt-to-capitalization ratio. The weighted average interest rate for borrowings under the Term Loan was 3.21% at December 31, 2001. At December 31, 2001, Oceaneering had an interest rate hedge in place that effectively fixed LIBOR at 3.24% for the remainder of the Term Loan.

Scheduled maturities of Long-term Debt outstanding as of December 31, 2001 were as follows:

<i>(in thousands)</i>	6.72% Notes	Credit Agreement	Term Loan	Total
2002	\$ --	\$ --	\$12,000	\$ 12,000
2003	--	23,000	12,000	35,000
2004	--	--	23,000	23,000
2005	--	--	--	--
2006	20,000	--	--	20,000
Thereafter	<u>80,000</u>	--	--	<u>80,000</u>
Total	<u>\$100,000</u>	<u>\$23,000</u>	<u>\$47,000</u>	<u>\$170,000</u>

Maturities in 2002 are not classified as current as of December 31, 2001 since Oceaneering can extend the maturity by re-borrowing under the Credit Agreement with a maturity date after one year.

All of these credit arrangements contain similar 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 Oceaneering's consolidated net income after April 1, 1998, plus cash proceeds from any sales of common stock.

Cash interest payments of \$12.0 million, \$6.7 million and \$7.7 million were made in the year ended December 31, 2001, the nine-month period ended December 31, 2000 and the fiscal year ended March 31, 2000, respectively. Interest charges of \$2.0 million, \$3.0 million and \$1.8 million were capitalized as part of construction in progress in the year ended December 31, 2001, the nine-month period ended December 31, 2000 and the fiscal year ended March 31, 2000, respectively.

4. EMPLOYEE BENEFIT PLANS AND SHAREHOLDER RIGHTS PLAN

Retirement Investment Plans

Oceaneering has three separate employee retirement investment plans which, taken together, cover most of its full-time employees. The Oceaneering Retirement Investment Plan is a 401(k) plan in which domestic employees may participate by deferring a portion of their gross monthly salary and directing Oceaneering to contribute the deferred amount to the plan. Oceaneering matches a portion of the employees' deferred compensation. Oceaneering's contributions to the plan were \$3,679,000, \$3,220,000 and \$2,867,000 for the plan years ended December 31, 2001, 2000 and 1999, respectively.

The second plan is the Oceaneering International Services Pension Scheme for employees in the United Kingdom. Under this plan, employees may contribute a portion of their gross monthly salary. Oceaneering also contributes an amount equal to a portion of the participant's gross monthly salary. The plan assets exceed vested benefits and are not material to the assets of Oceaneering. Company contributions to this plan for the year ended December 31, 2001, the nine-month period ended December 31, 2000 and the fiscal year ended March 31, 2000 were \$207,000, \$41,000 and \$32,000, respectively.

The third plan is the Oceaneering International, Inc. Supplemental Executive Retirement Plan, which covers selected key management employees and executives of Oceaneering as approved by the Compensation Committee of Oceaneering's Board of Directors (the "Compensation Committee"). Under the plan, Oceaneering accrues 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 year ended December 31, 2001, the nine-month period ended December 31, 2000 and the fiscal year ended March 31, 2000 were \$2,134,000, \$921,000 and \$972,000, respectively.

Incentive and Stock Option Plans

Under the 1996 and 1999 Incentive Plans and the 2000 Non-Executive Incentive Plan (the "Incentive Plans"), totals of 1,165,000, 1,450,000 and 1,000,000 shares of common stock of Oceaneering, respectively, were made available for awards to employees and other persons (excluding nonemployee directors except with respect to automatic grants as described

below and, with respect to the 2000 Non-Executive Incentive Plan, excluding executive officers) having an important business relationship or affiliation with Oceaneering. Under the 1999 Incentive Plan, each director of Oceaneering is automatically granted an option to purchase 10,000 shares of common stock on the date the director becomes a nonemployee director and each year thereafter at an exercise price per share equal to the fair market value of a share of common stock on the date the option was granted. These options granted to nonemployee directors become fully exercisable six months following the date of grant.

The Incentive Plans are administered by the Compensation Committee, which 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. The Compensation Committee may grant stock options, stock appreciation rights and stock and cash awards. The exercise price for each option is not less than the fair market value of the optioned shares at the date of grant. Options outstanding vest over a three- or four-year period and are exercisable over a period of four, five or ten years after the date of grant or five years after the date of vesting.

Oceaneering recognizes no compensation cost for stock options it issues unless options are granted at an option price below the fair market value of the stock at the date of the grant. Had compensation cost for these stock options been determined based on fair value, Oceaneering's pro forma net income for the year ended December 31, 2001, the nine-month period ended December 31, 2000 and for fiscal 2000 would have been \$29,302,000, \$9,137,000 and \$15,442,000, respectively, and its diluted earnings per share for those periods would have been \$1.23, \$0.39 and \$0.67, respectively.

Information regarding these option plans is as follows:

	Shares under <u>Option</u>	Weighted Average <u>Exercise Price</u>
Balance at March 31, 1999	1,685,170	\$ 13.37
Granted	384,000	16.88
Exercised	(319,760)	12.48
Forfeited	<u>(45,280)</u>	<u>14.12</u>
Balance at March 31, 2000	1,704,130	14.31
Granted	803,800	14.57
Exercised	(66,035)	12.51
Forfeited	<u>(93,620)</u>	<u>15.47</u>
Balance at December 31, 2000	2,348,275	14.40
Granted	748,400	23.57
Exercised	(620,685)	13.74
Forfeited	<u>(141,330)</u>	<u>17.19</u>
Balance at December 31, 2001	<u>2,334,660</u>	<u>\$ 17.35</u>

The weighted average fair value of options granted in the year ended December 31, 2001, the nine-month period ended December 31, 2000 and the fiscal year ended March 31, 2000 was \$9.98, \$7.18 and \$8.90, respectively. The fair value of the stock options granted was estimated on the date of grant using the Black-Scholes option pricing model, with the following assumptions:

(in thousands)	Year Ended December 31, 2001	Nine-Month Period Ended December 31, 2000	Fiscal Year Ended March 31, 2000
Risk-free interest rate	4.69%	6.13%	5.87%
Expected dividend yield	0%	0%	0%
Expected life	3.0 years	4.5 years	6.0 years
Expected volatility	57.09%	51.24%	46.14%

The following table provides information about the options outstanding at December 31, 2001.

Range of Exercise Prices	Outstanding			Exercisable	
	Number of Shares at December 31, 2001	Weighted Average Remaining Contractual Life (years)	Weighted Average Exercise Price	Number of Shares at December 31, 2001	Weighted Average Exercise Price
\$4.72 – 14.36	403,300	2.07	\$10.65	317,525	\$10.73
\$14.37 – 16.56	988,360	3.37	\$15.03	507,160	\$15.05
\$16.57 – 23.82	943,000	3.71	\$22.65	434,250	\$21.62

At December 31, 2001, there were 277,450 shares of Oceaneering common stock under these plans available for grant, in the form of stock options, stock appreciation rights or stock awards, subject to no more than 144,150 shares being used for awards other than stock options or stock appreciation rights to employees.

During the nine-month period ended December 31, 2000 and the fiscal year ended March 31, 2000, the Compensation Committee granted restricted common stock of Oceaneering to certain of its key executives. No restricted common stock of Oceaneering was granted in 2001. These grants are subject to earning requirements on the basis of a percentage change between the price of the common stock of Oceaneering versus the average of the common stock price of a peer group of companies over two- and three- year periods, respectively. Up to one-half of the grant made in the nine-month period ended December 31, 2000 and up to one-third of the grants made in the fiscal year ended March 31, 2000 may be earned each year depending on Oceaneering's cumulative common stock performance, with any amount earned subject to vesting in four equal installments over a four-year period, conditional upon continued employment. At the time of each vesting, a participant receives a tax assistance payment for which the participant must reimburse Oceaneering if the vested common stock is sold by the participant within three years after the vesting date. As of December 31, 2001, one-half of the grant made in the nine-month period ended December 31, 2000 had been earned and two-thirds of the grants made in the fiscal year ended March 31, 2000 had been earned. As of December 31, 2001, a total of 533,000 shares of restricted stock was outstanding and unvested under these and former, similar grants, of which 360,000 shares were earned, subject to vesting requirements. The numbers and weighted average grant date fair values of restricted stock granted were 16,000 and \$19.87, respectively, during the nine-month period ended December 31, 2000 and 549,000 and \$17.06, respectively, during the fiscal year ended March 31, 2000. In June 1999, certain key executives also elected to receive restricted common stock of Oceaneering totaling 42,812 shares with grant date fair values of \$16.56 per share, subject to similar vesting requirements and tax assistance payments, in lieu of cash for all or part of their fiscal 1999 bonus awards. Each grantee of shares of restricted stock mentioned in this paragraph 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.

Shareholder Rights Plan

Oceaneering has a Shareholder Rights Plan dated as of November 20, 1992, as amended and restated as of November 16, 2001. One preferred share purchase right exists for each outstanding share of Oceaneering's common stock. The plan will cause substantial dilution to a party that attempts to acquire Oceaneering in a manner or on terms not approved by Oceaneering's Board of Directors. The rights, which do not have voting rights and are not entitled to dividends until such time as they become exercisable, are scheduled to expire in November 2011.

5. COMMITMENTS AND CONTINGENCIES

Lease Commitments

At December 31, 2001, Oceaneering occupied several facilities under noncancellable operating leases expiring at various dates through 2023. Future minimum rentals under these leases are as follows:

	(in thousands)
2002	\$ 4,617
2003	3,893
2004	3,543
2005	2,794
2006	2,532
Thereafter	<u>8,497</u>
Total Lease Commitments	<u>\$25,876</u>

Rental expense, which includes hire of vessels, specialized equipment and real estate rental, was approximately \$14 million, \$13 million and \$22 million for the year ended December 31, 2001, the nine-month period ended December 31, 2000 and the fiscal year ended March 31, 2000, respectively.

Insurance

Oceaneering self-insures for workers' compensation, maritime employer's liability and comprehensive general liability claims to levels it considers financially prudent and carries insurance after it reaches the initial claim levels, which can be by occurrence or in the aggregate. Oceaneering determines the level of accruals by reviewing its historical experience and current year claim activity. It does not record accruals on a present-value basis. Oceaneering reviews each claim with insurance adjusters and establishes specific reserves for all known liabilities. It establishes an additional reserve for incidents incurred but not reported to Oceaneering for each year using management estimates and based on prior experience. Oceaneering's management believes that Oceaneering has established adequate accruals for uninsured expected liabilities arising from those obligations.

Litigation

Various actions and claims are pending against Oceaneering, most of which are covered by insurance. In the opinion of Oceaneering's management, the ultimate liability, if any, that may result from these actions and claims will not materially affect Oceaneering's financial position or results of operations.

Letters of Credit

Oceaneering had \$23 million and \$17 million in letters of credit outstanding as of December 31, 2001 and 2000, respectively, as guarantees in force for self-insurance requirements and various performance and bid bonds, which are usually for a period of approximately one year or the duration of the applicable contract.

Financial Instruments and Risk Concentration

In the normal course of business, Oceaneering manages 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, Oceaneering does not use derivative instruments unless there is an underlying exposure. We do not use derivative instruments for trading or speculative purposes.

As of December 31, 2001, Oceaneering had an interest rate hedge in place, which fixed three-month LIBOR at 3.24%, effective January 2, 2002. This applies to the scheduled balance of the Term Loan, and the amount is reduced by the scheduled amortization of the Term Loan.

Other financial instruments that potentially subject Oceaneering to concentrations of credit risk are primarily cash and cash equivalents, long-term bank and other borrowings 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 short-term duration of the associated interest rate periods. Accounts receivable are generated from a broad and diverse group of customers, primarily from within the energy industry, which is Oceaneering's major source of revenue. Oceaneering maintains an allowance for doubtful accounts based on expected collectibility.

Oceaneering estimated the fair value of its \$100 million of 6.72% Senior Notes (see Note 3) to be \$101 million as of December 31, 2001. This estimate was arrived at 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.

Post-Employment Benefit

In November 2001, Oceaneering entered into an agreement with its Chairman and Chief Executive Officer (the "Chairman"). The agreement provides for a specific employment period with Oceaneering through August 15, 2006, followed by 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 non-executive Chairman of the Board of Directors of Oceaneering if requested to serve in such capacity by the Board of Directors of Oceaneering. The agreement provides the Chairman with a post-employment benefit of ten years following his services to Oceaneering. The agreement also provides for medical coverage on an after-tax basis to the Chairman, his spouse and children during his employment with Oceaneering, and, under certain circumstances, thereafter for their lives. Oceaneering is recognizing the net present value of the post-employment benefits over the expected service period. If the service period is reduced or terminated, Oceaneering will recognize the previously unaccrued benefits.

6. OPERATIONS BY BUSINESS SEGMENT AND GEOGRAPHIC AREA

Business Segment Information

Oceaneering supplies a comprehensive range of integrated technical services to a variety of industries and is one of the world's largest underwater services contractors. Oceaneering's Offshore Oil and Gas business consists of remotely operated vehicles ("ROVs"), Subsea Products, Mobile Offshore Production Systems and Other Services. Oceaneering's Subsea Products segment supplies umbilicals, production control equipment, pipeline repair systems and ROV tooling and work packages. Oceaneering's Other Services segment provides multiservice vessels, oilfield diving, nondestructive inspection and testing and support vessel operations, which are used primarily in inspection, repair and maintenance activities. Oceaneering's Advanced Technologies business provides project management, engineering services and equipment for applications in non-oilfield markets.

The following table presents Revenues, Income (Loss) from Operations and Depreciation and Amortization Expense for the years ended December 31, 2001 and 2000, for the nine-month period ended December 31, 2000 and the fiscal year ended March 31, 2000 by business segment:

<i>(in thousands)</i>	Year Ended		Nine-Month	Fiscal Year
	December 31, 2001	2000	Period Ended December 31, 2000	Ended March 31, 2000
	(unaudited)			
Revenue				
Offshore Oil and Gas				
Remotely Operated Vehicles	\$153,929	\$100,985	\$ 78,953	\$ 94,617
Subsea Products	125,608	92,165	65,771	69,744
Mobile Offshore Production Systems	39,154	21,653	15,788	23,983
Other Services	<u>102,250</u>	<u>93,291</u>	<u>65,206</u>	<u>105,505</u>
Total Offshore Oil and Gas	420,941	308,094	225,718	293,849
Advanced Technologies	<u>102,879</u>	<u>110,679</u>	<u>82,012</u>	<u>122,971</u>
Total	<u>\$523,820</u>	<u>\$418,773</u>	<u>\$307,730</u>	<u>\$416,820</u>

Income (Loss) from Operations

Offshore Oil and Gas				
Remotely Operated Vehicles	\$ 32,784	\$ 16,525	\$ 12,316	\$ 14,064
Subsea Products	7,243	2,334	1,225	1,499
Mobile Offshore Production Systems	8,552	6,303	4,271	7,629
Other Services	<u>3,543</u>	<u>(4,668)</u>	<u>(636)</u>	<u>(3,169)</u>
Total Offshore Oil and Gas	52,122	20,494	17,176	20,023
Advanced Technologies	<u>7,286</u>	<u>8,965</u>	<u>5,035</u>	<u>12,276</u>
Total	<u>\$ 59,408</u>	<u>\$ 29,459</u>	<u>\$ 22,211</u>	<u>\$ 32,299</u>

Depreciation and Amortization Expense

Offshore Oil and Gas				
Remotely Operated Vehicles	\$ 22,611	\$ 17,649	\$ 13,719	\$ 13,827
Subsea Products	5,449	4,525	3,401	4,212
Mobile Offshore Production Systems	8,800	6,534	5,497	4,239
Other Services	<u>8,225</u>	<u>7,965</u>	<u>5,791</u>	<u>7,906</u>
Total Offshore Oil and Gas	45,085	36,673	28,408	30,184
Advanced Technologies	<u>2,821</u>	<u>3,075</u>	<u>2,256</u>	<u>3,764</u>
Total	<u>\$ 47,906</u>	<u>\$ 39,748</u>	<u>\$ 30,664</u>	<u>\$ 33,948</u>

The following tables present Assets and Capital Expenditures by business segment as of and for the periods indicated:

<i>(in thousands)</i>	As of December 31,	
	2001	2000
Assets		
Offshore Oil and Gas		
Remotely Operated Vehicles	\$169,410	\$161,355
Subsea Products	109,522	85,401
Mobile Offshore Production Systems	115,186	107,677
Other Services	<u>93,500</u>	<u>84,110</u>
Total Offshore Oil and Gas	487,618	438,543
Advanced Technologies	50,729	49,555
Other	<u>41,264</u>	<u>27,419</u>
Total	<u>\$579,611</u>	<u>\$515,517</u>

<i>(in thousands)</i>	Year Ended	Nine-Month	Fiscal Year
	December 31,	Period Ended	Ended
	2001	December 31,	March 31,
		2000	2000
Capital Expenditures			
Offshore Oil and Gas			
Remotely Operated Vehicles	\$23,242	\$ 25,293	\$ 29,614
Subsea Products	8,506	6,299	4,700
Mobile Offshore Production Systems	19,225	61,972	16,590
Other Services	<u>5,078</u>	<u>7,480</u>	<u>20,320</u>
Total Offshore Oil and Gas	56,051	101,044	71,224
Advanced Technologies	<u>1,610</u>	<u>597</u>	<u>9,534</u>
Total	<u>\$ 57,661</u>	<u>\$101,641</u>	<u>\$ 80,758</u>

Income (loss) from operations for each business segment is determined before interest income or expense, other income (expense), minority interests and provision for income taxes. An allocation of these items is not considered practical. All assets specifically identified with a particular business segment have been segregated. Cash and cash equivalents, certain

prepaid expenses and other current assets, certain investments and other assets have not been allocated to particular business segments.

No individual customer accounted for more than 10% of Oceaneering's consolidated revenue in the year ended December 31, 2001, the nine-month period ended December 31, 2000 or the fiscal year ended March 31, 2000.

Geographic Operating Areas

The following table summarizes certain financial data by geographic area:

<i>(in thousands)</i>	Year Ended December 31, 2001	Nine-Month Period Ended December 31, 2000	Fiscal Year Ended March 31, 2000
Revenue			
United States	\$277,550	\$165,858	\$207,415
Norway	27,671	18,484	26,934
United Kingdom	43,173	20,127	26,504
Australia	23,665	2,325	3,942
Indonesia	8,116	6,389	25,983
Other Asia	23,376	22,585	37,439
Africa	60,200	35,798	49,673
Brazil	40,349	21,061	16,515
Other	19,720	15,103	22,415
Total	<u>\$523,820</u>	<u>\$307,730</u>	<u>\$416,820</u>
Long-Lived Assets			
	<u>December 31, 2001</u>	<u>December 31, 2000</u>	<u>March 31, 2000</u>
United States	\$184,375	\$182,881	\$205,861
Europe	39,738	50,614	46,614
Africa	26,012	8,736	10,088
Asia	23,225	18,456	22,494
Australia	86,968	83,321	--
Brazil	8,792	14,814	14,738
Total	<u>\$369,110</u>	<u>\$358,822</u>	<u>\$299,795</u>

Revenue is based on location for services and facility location for products.

7. ACCRUED LIABILITIES

Accrued liabilities consisted of the following:

<i>(in thousands)</i>	December 31,	
	2001	2000
Payroll and related costs	\$25,230	\$18,130
Accrued job costs	28,172	22,415
Self insurance reserves for claims expected to be paid within one year	6,323	5,422
Billings in excess of revenue recognized	2,993	2,913
Other	11,475	11,259
Total Accrued Liabilities	<u>\$74,193</u>	<u>\$60,139</u>

SELECTED QUARTERLY FINANCIAL DATA (UNAUDITED)

(in thousands, except per share data)

Quarter Ended	Year Ended December 31, 2001				Total
	March 31	June 30	Sept. 30	Dec. 31	
Revenue	\$104,254	\$132,223	\$141,681	\$145,662	\$523,820
Gross profit	20,804	24,741	29,045	28,551	103,141
Income from operations	10,288	14,122	18,169	16,829	59,408
Net income	5,204	7,717	10,342	9,846	33,109
Diluted earnings per share	\$ 0.22	\$ 0.32	\$ 0.43	\$ 0.41	\$ 1.38
Weighted average number of common shares and equivalents	23,650	24,022	23,973	24,013	23,915

Quarter Ended	Year Ended December 31, 2000				Total
	March 31	June 30	Sept. 30	Dec. 31	
Revenue	\$111,043	\$104,039	\$100,464	\$103,227	\$418,773
Gross profit	17,477	15,373	18,373	19,325	70,548
Income from operations	7,248	5,378	7,980	8,853	29,459
Net income	3,639	2,703	4,112	4,498	14,952
Diluted earnings per share	\$ 0.16	\$ 0.12	\$ 0.18	\$ 0.19	\$ 0.64
Weighted average number of common shares and equivalents	23,074	23,186	23,221	23,271	23,188