

OCEANEERING INTERNATIONAL INC

Form DEF 14A

March 22, 2007

**UNITED STATES SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549  
SCHEDULE 14A**

**Proxy Statement Pursuant to Section 14(a) of the  
Securities Exchange Act of 1934**

Filed by the Registrant

Filed by a Party other than the Registrant

Check the appropriate box:

- Preliminary Proxy Statement
- Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))
- Definitive Proxy Statement
- Definitive Additional Materials
- Soliciting Material Pursuant to §240.14a-12

**OCEANEERING INTERNATIONAL, INC.**

**(Name of Registrant as Specified In Its Charter)**

**(Name of Person(s) Filing Proxy Statement, if other than the Registrant)**

Payment of Filing Fee (Check the appropriate box):

No fee required.

Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

1) Title of each class of securities to which transaction applies:

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1) Amount previously paid:

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3) Filing party:

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**OCEANEERING INTERNATIONAL, INC.**  
**11911 FM 529, Houston, Texas 77041-3011**

March 23, 2007

Dear Shareholder:

You are cordially invited to attend the 2007 Annual Meeting of Shareholders of Oceaneering International, Inc. The meeting will be held on Friday, May 4, 2007, at 8:30 a.m., local time, in the Atrium of our corporate offices at 11911 FM 529, Houston, Texas 77041-3011.

On the following pages, you will find the Notice of Annual Meeting of Shareholders and Proxy Statement giving information concerning the matters to be acted on at the meeting. Our Annual Report to Shareholders describing Oceaneering's operations during the year ended December 31, 2006 is enclosed.

We hope you will be able to attend the meeting in person. Whether or not you plan to attend, please take the time to vote. In addition to using the enclosed paper proxy card to vote, which you may sign, date and return in the enclosed postage-paid envelope, you may vote your shares via the Internet or by telephone by following the instructions included in this package.

Thank you for your interest in Oceaneering.

John R. Huff  
Chairman of the Board

T. Jay Collins  
President and Chief Executive Officer

**OCEANEERING INTERNATIONAL, INC.  
11911 FM 529, Houston, Texas 77041-3011**

**NOTICE OF ANNUAL MEETING OF SHAREHOLDERS  
To Be Held May 4, 2007**

To the Shareholders of Oceaneering International, Inc.:

The Annual Meeting of Shareholders of Oceaneering International, Inc., a Delaware corporation ( Oceaneering ), will be held on Friday, May 4, 2007, at 8:30 a.m., local time, in the Atrium of our corporate offices at 11911 FM 529, Houston, Texas 77041-3011, to consider and take action on the following:

election of two Class III directors as members of the Board of Directors of Oceaneering to serve until the 2010 Annual Meeting of Shareholders or until a successor has been duly elected and qualified (Proposal 1);

ratification of the appointment of Ernst & Young LLP as independent auditors of Oceaneering for the year ending December 31, 2007 (Proposal 2); and

transaction of such other business as may properly come before the Annual Meeting of Shareholders or any adjournment or postponement thereof.

**The Board of Directors recommends a vote in favor of Proposal 1 and Proposal 2.**

The close of business on March 12, 2007 is the record date for the determination of shareholders entitled to notice of, and to vote at, the meeting or any adjournment thereof.

Our Board welcomes your personal attendance at the meeting. Whether or not you expect to attend the meeting, please submit a proxy as soon as possible so that your shares can be voted at the meeting. You may submit your proxy by filling in, dating and signing the enclosed proxy card and returning it in the enclosed postage-paid envelope. Please refer to page 1 of the Proxy Statement and the proxy card for instructions for proxy voting by telephone or over the Internet.

By Order of the Board of Directors,

George R. Haubenreich, Jr.  
Senior Vice President, General Counsel and Secretary

March 23, 2007

**YOUR VOTE IS IMPORTANT**

**WHETHER OR NOT YOU PLAN TO ATTEND THE MEETING, PLEASE SIGN, DATE AND MAIL YOUR PROXY PROMPTLY IN THE ENCLOSED POSTAGE-PAID ENVELOPE, OR VOTE BY TELEPHONE OR OVER THE INTERNET IN ACCORDANCE WITH INSTRUCTIONS IN THIS PROXY STATEMENT AND ON YOUR PROXY CARD.**

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**OCEANEERING INTERNATIONAL, INC.**

**PROXY STATEMENT**

**PROXIES AND VOTING AT THE MEETING**

Only shareholders of record at the close of business on March 12, 2007 will be entitled to notice of, and to vote at, the meeting. As of that date, 54,483,838 shares of our Common Stock, \$.25 par value per share ( Common Stock ), were outstanding. Each of those outstanding shares is entitled to one vote at the meeting. We are initially sending this Proxy Statement and the accompanying proxy to our shareholders on or about March 23, 2007. The requirement for a quorum at the meeting is the presence in person or by proxy of holders of a majority of the outstanding shares of Common Stock. There is no provision for cumulative voting.

**Solicitation of Proxies**

The accompanying proxy is solicited on behalf of our Board of Directors for use at our annual meeting of shareholders to be held at the time and place set forth in the accompanying notice. We will pay all costs of soliciting proxies. We will solicit proxies primarily by mail. In addition to solicitation by mail, our officers, directors and employees may solicit proxies in person or by telephone, facsimile and electronic transmissions, for which such persons will receive no additional compensation. We have retained Georgeson Shareholder Communications, Inc. to solicit proxies at a fee estimated at \$7,500, plus out-of-pocket expenses. We will reimburse brokerage firms, banks and other custodians, nominees and fiduciaries for their reasonable expenses in forwarding proxy material to beneficial owners of our Common Stock.

The persons named as proxies were designated by our Board and are officers of Oceaneering. All properly executed proxies will be voted (except to the extent that authority to vote has been withheld), and where a choice has been specified by the shareholder as provided in the proxy, the proxy will be voted in accordance with the specification so made. Proxies submitted without specified choices will be voted **FOR Proposal 1** to elect the director nominees proposed by our Board, and **FOR Proposal 2** to ratify the appointment of Ernst & Young LLP as independent auditors of Oceaneering for the year ending December 31, 2007.

**Methods of Voting**

Voting by Mail You may sign, date and return your proxy card in the pre-addressed, postage-paid envelope provided. If you return your proxy card without indicating how you want to vote, the designated proxies will vote as recommended by our Board.

Voting by Telephone or the Internet If you have stock certificates issued in your own name, you may vote by proxy by using the toll-free number or at the Internet address listed on the proxy card.

The telephone and Internet voting procedures are designed to verify your vote through the use of a voter control number that is provided on each proxy card. The procedures also allow you to vote your shares and to confirm that your instructions have been properly recorded. Please see your proxy card for specific instructions.

If you hold shares through a brokerage firm, bank or other custodian, you may vote by telephone or the Internet only if the custodian offers that option.

### **Revocability of Proxies**

If you have certificates issued in your own name, and you vote by proxy, mail, the Internet or telephone, you may later revoke your proxy instructions by:

sending a written statement to that effect to our Corporate Secretary at P. O. Box 40494, Houston, Texas 72240-0494, the mailing address for the executive offices of Oceaneering;

submitting a proxy card with a later date signed as your name appears on the stock certificate;

voting at a later time by telephone or the Internet; or

voting in person at the Annual Meeting.

If you have shares held through a brokerage firm, bank or other custodian, and you vote by proxy, you may later revoke your proxy instructions only by informing the custodian in accordance with any procedures it sets forth.

### **PROPOSAL 1**

#### **Election of Directors**

Our Certificate of Incorporation divides our Board into three classes, each consisting as nearly as possible of one-third of the members of the whole Board. There are currently two members of each class. The members of each class serve for three years following their election, with one class being elected each year.

Two Class III directors are to be elected at the 2007 Annual Meeting. In accordance with our bylaws, directors are elected by a plurality of the votes cast. Accordingly, abstentions and broker non-votes marked on proxy cards will not be counted in the election. The Class III directors will serve until the 2010 Annual Meeting of Shareholders or until a successor has been duly elected and qualified. The directors of Classes I and II will continue to serve their terms of office, which will expire at the Annual Meetings of Shareholders to be held in 2008 and 2009, respectively.

The persons named in the accompanying proxy intend to vote all proxies received in favor of the election of the nominees named below, except in any case where authority to vote for the directors is withheld. Although we have no reason to believe that the nominees will be unable to serve as directors, if either nominee withdraws or otherwise becomes unavailable to serve, the persons named as proxies will vote for any substitute nominee our Board designates.

Set forth below is information (ages are as of May 4, 2007) with respect to the nominees for election as directors of Oceaneering.

#### **Nominees 2007 Class III Directors**

David S. Hooker

Mr. Hooker, 64, has been Chairman of Avoco Secure Ltd., a software development and distribution company which principally focuses on applications providing document content security and authentication, since November 2006, and Chairman of Ocean Hover Limited, an oilfield hovercraft marketing organization, since January 2004. Previously, he served as Chairman of Goshawk Insurance Holdings PLC, an insurance company, from January 1996 to October 2003. He is also a director of Aminex plc, an oil and gas exploration and production company. He is Chairman of the Audit Committee of Oceaneering's Board and a member of the Nominating and Corporate Governance Committee of Oceaneering's Board. Mr. Hooker has been a director of Oceaneering since 1973.

Harris J. Pappas

Mr. Pappas, 62, has been President of Pappas Restaurants, Inc., a privately owned and operated multi-state restaurant group, since 1983 and Chief Operating Officer and director of Luby's, Inc., a publicly owned restaurant company, since March 2001. He also serves on the Advisory Boards of Frost National Bank in Houston and the Boys & Girls Clubs of Greater Houston. He is Chairman of the Compensation Committee of Oceaneering's Board and a member of the Audit Committee of Oceaneering's Board. Mr. Pappas has been a director of Oceaneering since 1996.

**Continuing Directors**

Information below (ages are as of May 4, 2007) is for those directors whose terms will expire in 2008 and 2009.

**2008 Class I Directors**

T. Jay Collins

Mr. Collins, 60, has been Chief Executive Officer of Oceaneering since May 2006 and President of Oceaneering since 1998. He previously served as Chief Operating Officer of Oceaneering from 1998 until 2006. He also served as Executive Vice President - Oilfield Marine Services of Oceaneering from 1995 to 1998 and as Senior Vice President and Chief Financial Officer of Oceaneering from 1993 until 1995. Mr. Collins has been a director of Oceaneering since 2002.

D. Michael Hughes

Mr. Hughes, 68, has been owner of The Broken Arrow Ranch and affiliated businesses, which harvest, process and market wild game meats, since 1983. He has been associated with Oceaneering since its incorporation, serving as Chairman of the Board from 1984 to 1990. He is Chairman of the Nominating and Corporate Governance Committee of Oceaneering's Board and a member of the Audit Committee of Oceaneering's Board. Mr. Hughes has been a director of Oceaneering since 1970.

**2009 Class II Directors**

Jerold J. DesRoche

Mr. DesRoche, 70, has been a partner and a director of National Power Company, a privately owned company that owns and operates power generation facilities using waste fuels and renewable energy, since 1991. He served as President and Chief Executive Officer of ABB Combustion Engineering Canada, Inc. from 1988 to 1991. He is a member of the Compensation Committee and the Nominating and Corporate Governance Committee of Oceaneering's Board. Mr. DesRoche has been a director of Oceaneering since 2003.

John R. Huff

Mr. Huff, 61, has been Chairman of Oceaneering's Board of Directors since August 1990. He served as Chief Executive Officer of Oceaneering from 1986 to May 2006. Mr. Huff also serves as a director of BJ Services Company, Rowan Companies, Inc. and Suncor Energy, Inc. Mr. Huff has been a director of Oceaneering since 1986.



**Security Ownership of Management and Certain Beneficial Owners**

The following table sets forth the number of shares of Common Stock beneficially owned as of March 12, 2007 by each director and nominee for director, each of the executive officers named in the Summary Compensation Table in this Proxy Statement and all directors and executive officers as a group. Except as otherwise indicated, each individual named has sole voting and dispositive power with respect to the shares shown.

<b>Name</b>	<b>Number of Shares (1)</b>	<b>Shares Underlying Restricted Stock Units (2)</b>	<b>Total</b>
T. Jay Collins	75,000	164,000	239,000
Jerold J. DesRoche	56,000		56,000
Philip D. Gardner	33,800	36,400	70,200
George R. Haubenreich, Jr.	36,420	71,600	108,020
David S. Hooker	96,000		96,000
John R. Huff	229,000	200,000	429,000
D. Michael Hughes	143,696		143,696
M. Kevin McEvoy	46,045	78,000	124,045
Marvin J. Migura	36,000	72,000	108,000
Harris J. Pappas	104,390		104,390
All directors and executive officers as a group (11 persons)	856,381	626,000	1,482,381

(1) Includes the following shares subject to stock options exercisable within 60 days of March 12, 2007:  
 Mr. DesRoche 40,000;  
 Mr. Gardner 27,500;  
 Mr. Hooker 80,000;  
 Mr. Huff 25,000;  
 Mr. Hughes 64,000;  
 Mr. Pappas 80,000; and all directors and officers as a group 316,500.  
 Also includes the following

shares granted pursuant to restricted stock award agreements, as to which the recipient has sole voting power and no dispositive power: Mr. DesRoche 8,000; Mr. Hooker 8,000; Mr. Hughes 8,000; Mr. Pappas 8,000 and all directors and executive officers as a group 32,000. Also includes the following share equivalents, which are fully vested but are held in trust pursuant to the Oceaneering Retirement Investment Plan (the 401(k) Plan ), for which the individual has no voting rights until the shares are withdrawn from the 401(k) Plan: Mr. Hughes 36,484; Mr. McEvoy 10,045; and all directors and executive officers as a group 46,559. At withdrawal,

the share equivalents are settled in shares of Common Stock. Each executive officer and director owns less than 1% of the outstanding Common Stock; all directors and executive officers as a group own 1.6% of the outstanding Common Stock.

- (2) Includes shares of Common Stock that are represented by restricted stock units of Oceaneering that are credited to the accounts of certain individuals and are subject to vesting. The individuals have no voting or investment power over these restricted stock units.

Listed below are the only persons who, to our knowledge, may be deemed to be a beneficial owner as of March 12, 2007 of more than 5% of the outstanding shares of Common Stock. This information is based on statements filed with the Securities and Exchange Commission (the SEC).

<b>Name and Address of Beneficial Owner</b>	<b>Amount and Nature of Beneficial Ownership</b>	<b>Percent of Class (1)</b>
EARNEST Partners, LLC 1180 Peachtree Street NE, Suite 2300 Atlanta, GA 30309	5,549,387(2)	10.2
Neuberger Berman, Inc. 605 Third Avenue New York, NY 10158	3,191,321(3)	5.9
FMR Corp. 82 Devonshire Street Boston, MA 02109	2,873,500(4)	5.3

(1) The percentages are based on the total number of issued and outstanding shares of Common Stock at March 12, 2007.

(2) According to a Schedule 13G, dated February 7, 2007, filed with the SEC by EARNEST Partners, LLC, EARNEST Partners, LLC beneficially owned 5,549,387 shares of Common Stock as of December 31, 2006, of which it had sole voting

power over  
1,474,550  
shares, shared  
voting power  
over 1,928,366  
shares and sole  
dispositive  
power over  
5,549,387  
shares.

- (3) According to a  
Schedule 13G,  
dated  
February 13,  
2007, filed with  
the SEC by  
Neuberger  
Berman, Inc.,  
Neuberger  
Berman, LLC  
beneficially  
owned  
3,191,321  
shares of  
Common Stock  
as of December  
31, 2006. That  
filing states that  
Neuberger  
Berman, Inc.  
makes the  
filings since it  
owns 100% of  
Neuberger  
Berman, LLC  
and Neuberger  
Management  
Inc. That filing  
also states that  
of the 3,191,321  
shares of  
Common Stock  
beneficially  
owned,  
Neuberger  
Berman, LLC  
had sole voting  
power over  
7,145 shares,  
shared voting

power with  
Neuberger  
Berman  
Management  
Inc. over  
2,352,900  
shares and  
shared  
dispositive  
power over  
3,191,321  
shares. To the  
extent voting  
power or  
dispositive  
power is shared,  
the filing  
indicates it is  
shared with  
Neuberger  
Berman's mutual  
fund clients.

- (4) The amount  
beneficially  
owned of  
2,873,500  
shares as shown,  
is as reported by  
FMR Corp.  
( FMR ) in a  
Schedule 13G  
filed on  
February 14,  
2007. Includes  
2,306,800  
shares  
beneficially  
owned by  
Fidelity  
Management &  
Research  
Company  
( Fidelity ), a  
wholly owned  
subsidiary of  
FMR, as a result  
of its serving as  
an investment  
advisor to  
various

investment companies (the Funds ). Edward C. Johnson III, Chairman of FMR, through its control of Fidelity, and the Funds each has sole power to dispose of the 2,306,800 shares owned by the Funds. Neither FMR nor Edward C. Johnson III has the sole power to vote or direct the voting of the shares owned directly by the Funds, which power resides with the Funds Boards of Trustees. Fidelity carries out the voting of the shares under written guidelines established by the Funds Boards of Trustees. Also includes 26,600 shares and sole power to vote or to direct the voting of 26,600 shares. Pyramis Global Advisors Trust Company ( PGATC ), 53 State Street, Boston, MA 02109, an indirect wholly-owned subsidiary of

FMR and a bank as defined in Section 3(a)(6) of the Securities and Exchange Act of 1934, is the beneficial owner of 540,100 shares as a result of its serving as an investment manager of institutional accounts owning such shares. Edward C. Johnson III and FMR, through its control of PGATC, each has sole dispositive power over 540,100 shares and sole power to vote or to direct the voting of 474,300 shares owned by the institutional accounts managed by PGATC.



## Corporate Governance

During 2006, our Board of Directors held seven meetings of the full Board and 24 meetings of the committees of the Board. Each director attended at least 75% of the aggregate number of meetings of the Board and meetings of the committees of the Board on which he served. In addition, we have a policy that directors are encouraged to attend the annual meeting. Last year, all of the individuals now serving as directors attended our annual meeting except for Mr. Hooker. In 2006, the nonemployee directors met in regularly scheduled executive sessions without management present, and similar sessions are scheduled for 2007. The chairmen of the Audit Committee, Compensation Committee and Nominating and Corporate Governance Committee chair these executive sessions on a rotating basis. Interested parties may communicate directly with the nonemployee directors by sending a letter to the Board of Directors (independent members), c/o Corporate Secretary, Oceaneering International, Inc., 11911 FM 529, Houston, Texas 77041-3011.

Under rules adopted by the New York Stock Exchange, our Board of Directors must have a majority of independent directors. A director qualifies as independent only if the Board affirmatively determines that the director has no material relationship with us. In evaluating each director's independence, the Board considered relationships and transactions between each director, his family members and any business, charity or other entity in which the director has an interest, on the one hand, and us and our senior management, on the other hand. As a result of this review, the Board affirmatively determined that all our directors are independent, except for Mr. Huff, who relinquished his position as Chief Executive Officer in May 2006, and Mr. Collins, who is our President and Chief Executive Officer.

We have three standing committees of our Board of Directors: the Audit Committee; the Compensation Committee; and the Nominating and Corporate Governance Committee. Our Board of Directors has determined that each member of these committees is independent in accordance with the requirements of the New York Stock Exchange. Our Board has also determined that each member of the Audit Committee meets the independence requirements for service on an audit committee that the SEC has established.

### The Audit Committee

The Audit Committee, which is comprised of Messrs. Hooker (Chairman), Hughes and Pappas, held 11 meetings during 2006. The Board of Directors determined that Mr. Hooker is an audit committee financial expert as defined in the applicable rules of the SEC. For information relating to Mr. Hooker's background, see his biographical information under Proposal 1 Election of Directors. The Audit Committee is appointed by our Board of Directors, on the recommendation of the Nominating and Corporate Governance Committee, to assist the Board in its oversight of:

the integrity of our financial statements;

our compliance with legal and regulatory requirements;

the independence, qualifications and performance of our independent auditors;

the performance of our internal audit functions; and

the adequacy of our internal control over financial reporting.

Our management is responsible for our internal controls and preparation of our consolidated financial statements. Our independent auditors are responsible for performing an independent audit of the consolidated financial statements and issuing a report thereon. The Audit Committee is responsible for overseeing the conduct of these activities and, subject to shareholder ratification, appointing our independent auditors. As stated above and in the Audit Committee Charter, the Audit Committee's responsibility is one of oversight. The Audit Committee is not providing any expert or special assurance as to Oceaneering's financial statements or any professional certification as to the independent auditor's work.

In discharging its duties, the Audit Committee reviews and approves the scope of the annual audit, non-audit services to be performed by the independent auditors and the independent auditors' audit and non-audit fees; reviews and discusses with management (including the senior internal auditor) and the independent auditors the annual report of management regarding our internal control over financial reporting and the independent auditors' attestation of that report; recommends to our Board of Directors that the audited financial statements be included in the Annual Report on Form 10-K for filing with the SEC; meets independently with our internal auditors, independent auditors and management; reviews the general scope of our accounting, financial reporting, annual audit and internal audit programs and matters relating to internal control systems, as well as the results of the annual audit and interim financial statements, auditor independence issues and the adequacy of the Audit Committee charter; reviews with management and the independent auditors any correspondence with regulators or governmental agencies and any published reports that raise material issues regarding our financial statements or accounting policies; and reviews with management, our General Counsel and the independent auditors, disclosures of insider and affiliate transactions. A copy of the Audit Committee charter is available on the Corporate Governance page of our website ([www.oceaneering.com](http://www.oceaneering.com)). Any shareholder who so requests may obtain a written copy of the charter from us. The report of the Audit Committee is included in this Proxy Statement under the heading "Report of the Audit Committee."

### **The Compensation Committee**

The Compensation Committee, which is comprised of Messrs. Pappas (Chairman) and DesRoche, held ten meetings during 2006. The Compensation Committee is appointed by our Board of Directors to:

assist the Board in discharging its responsibilities relating to (1) compensation of our executives, other key employees and nonemployee directors and (2) employee benefit plans and practices; and

produce or assist management with the preparation of any reports that may be required from time to time by the rules of the NYSE or the SEC to be included in our proxy statements for our annual meetings of shareholders or annual reports on Form 10-K.

Specific duties and responsibilities of the Compensation Committee include: general oversight of our executive and key employee compensation plans and benefit programs; reviewing and approving objectives relevant to the compensation of executives and key employees, including administration of annual bonus plans, long-term incentive plans, supplemental executive retirement plan and severance, termination and change-of-control arrangements; approving employment agreements for key executives; reviewing and making recommendations to the Board regarding the director and officer's indemnification and insurance matters; evaluating the performance of executives and key employees, including our Chief Executive Officer; recommending to the Board the compensation for the Board and committees of the Board; and annually evaluating its performance and its charter.

Since 2004, the Compensation Committee has engaged Mercer Human Resource Consulting ( "Mercer" ) to assist the Compensation Committee in its administration of compensation for our executives and other key employees. Mercer assisted the Compensation Committee in the design and particulars of our 2006 long-term incentive program. Mercer performed a market analysis of total direct compensation (the sum of salary, annual incentive bonus, and long-term incentive compensation) and compensation for nonemployee directors among peer group companies and other survey data, see "Compensation Discussion and Analysis - Compensation Philosophy and Objectives" in this Proxy Statement. The Compensation Committee approved the form and amounts of our 2006 long-term incentive program and compensation for our executive officers and other key employees, and recommended to the Board the forms and amounts of compensation for nonemployee directors.

A copy of the Compensation Committee charter is available on the Corporate Governance page of our website ([www.oceaneering.com](http://www.oceaneering.com)). Any shareholder who so requests may obtain a written copy of the charter from us. The report of the Compensation Committee is included in this Proxy Statement under the heading "Report of the Compensation Committee."

### **The Nominating and Corporate Governance Committee**

The Nominating and Corporate Governance Committee, which is comprised of Messrs. Hughes (Chairman), DesRoche and Hooker, held three meetings during 2006. The Nominating and Corporate Governance Committee is appointed by our Board of Directors to:

identify individuals qualified to become directors of Oceaneering;

recommend to our Board candidates to fill vacancies on our Board or to stand for election to the Board by our shareholders;

recommend to our Board a director to serve as Chairman of the Board;

recommend to our Board committee assignments for directors;

periodically assess the performance of our Board and its committees; and

periodically review and assess the adequacy of our corporate governance policies and procedures.

The Nominating and Corporate Governance Committee operates under a written charter adopted by our Board of Directors. A copy of this charter and a copy of our Corporate Governance Guidelines are available on the Corporate Governance page of our website ([www.oceaneering.com](http://www.oceaneering.com)). Any shareholder who so requests may obtain a written copy of each of these documents from us.

The Nominating and Corporate Governance Committee solicits ideas for potential Board candidates from a number of sources, including members of our Board of Directors and our executive officers. The Committee also has authority to select and compensate a third-party search firm to help identify candidates, if it deems it advisable to do so.

The Nominating and Corporate Governance Committee also considers nominees recommended by shareholders in accordance with our bylaws. In assessing the qualifications of all prospective nominees to the Board, the Nominating and Corporate Governance Committee will consider, in addition to criteria set forth in our bylaws, each nominee's personal and professional integrity, experience, skills, ability and willingness to devote the time and effort necessary to be an effective board member, and commitment to acting in the best interests of Oceaneering and its shareholders. Consideration will also be given to the Board's having an appropriate mix of backgrounds and skills. A shareholder who wishes to recommend a nominee for director should comply with the procedures specified in our bylaws, as well as applicable securities laws and regulations of the New York Stock Exchange. The Nominating and Corporate Governance Committee will consider all candidates identified through the processes described above, whether identified by the Committee or by a shareholder, and will evaluate each of them on the same basis.

As to each person a shareholder proposes to nominate for election as a director, our bylaws provide that the nomination notice must:

include the name, age, business address and principal occupation or employment of that person, the number of shares of Common Stock beneficially owned or owned of record by that person and any other information relating to that person that is required to be disclosed under Section 14 of the Securities Exchange Act of 1934, as amended (the Exchange Act), and the related SEC rules and regulations; and

be accompanied by the written consent of the person to be named in the proxy statement as a nominee and to serve as a director if elected.

The nomination notice must also include, as to that shareholder and the beneficial owner, if any, of Common Stock on whose behalf the nomination or nominations are being made:

the name and address of that shareholder, as they appear on our stock records and the name and address of that beneficial owner;

the number of shares of Common Stock which that shareholder and that beneficial owner own beneficially or of record;

a description of all arrangements and understandings between that shareholder or that beneficial owner and each proposed nominee of that shareholder and any other person or persons (including their names) pursuant to which the nomination(s) are to be made by that shareholder;

a representation by that shareholder that he or she intends to appear in person or by proxy at that meeting to nominate the person(s) named in that nomination notice;

a representation as to whether that shareholder or that beneficial owner, if any, intends, or is part of a group, as Rule 13d-5(b) under the Exchange Act uses that term, which intends, (1) to deliver a proxy statement and/or form of proxy to the holders of \_\_\_\_\_ shares of Common Stock having at least the percentage of the total votes of the holders of all outstanding shares of Common Stock entitled to vote in the election of each proposed nominee of that shareholder which is required to elect that proposed nominee and/or (2) otherwise to solicit proxies in support of the nomination; and

any other information relating to that shareholder and that beneficial owner that is required to be disclosed under Section 14 of the Exchange Act and the related SEC rules and regulations.

To be timely for consideration at our 2008 Annual Meeting, a shareholder's nomination notice must be received at our principal executive offices, 11911 FM 529, Houston, Texas 77041-3011, addressed to our Corporate Secretary, no earlier than November 6, 2007 and no later than the close of business on January 5, 2008.

#### **Compensation Committee Interlocks and Insider Participation**

No member of the Compensation Committee has served as one of our officers or employees at any time. None of our executive officers serve as a member of the compensation committee of any other company that has an executive officer serving as a member of our Board. None of our executive officers serve as a member of the board of directors of any other company that has an executive officer serving as a member of our Compensation Committee.

#### **Code of Ethics**

Our Board of Directors adopted a code of ethics that applies to our Chief Executive Officer, Chief Financial Officer, Chief Accounting Officer, Treasurer and Controller, and a code of business conduct and ethics that applies to our officers, directors and employees. Each is available on the Corporate Governance page of our website ([www.oceaneering.com](http://www.oceaneering.com)). Any shareholder who so requests may obtain a printed copy of these codes from us. Any change in or waiver of these codes of ethics will be disclosed on our website.

#### **Section 16(a) Beneficial Ownership Reporting Compliance**

Section 16(a) of the Exchange Act requires our directors, executive officers and persons who own more than 10% of our Common Stock to file with the SEC and the New York Stock Exchange initial reports of ownership and reports of changes in ownership of Common Stock. Based solely on a review of the copies of such reports furnished to us and representations that no other reports were required, we believe that all our directors and executive officers complied on a timely basis with all applicable filing requirements under Section 16(a) of the Exchange Act during 2006.

### **REPORT OF THE AUDIT COMMITTEE**

The Audit Committee of Oceaneering International, Inc.'s Board of Directors is comprised of the three directors named below. Each member of the Audit Committee is an independent director as defined by applicable Securities and Exchange Commission rules and New York Stock Exchange listing standards. The Committee met 11 times during the year ended December 31, 2006. The Committee reviewed with management and Ernst & Young LLP, Oceaneering's independent registered public accounting firm, the interim financial information included in Oceaneering's quarterly reports on Form 10-Q for the periods ended March 31, 2006, June 30, 2006 and September 30, 2006, prior to their being filed with the Securities and Exchange Commission. In addition, the Committee reviewed all of Oceaneering's earnings releases in 2006 with management and Ernst & Young prior to the public release of those earnings releases.

The Committee reviewed and discussed with management and Ernst & Young Oceaneering's consolidated financial statements for the year ended December 31, 2006. Members of management represented to the Committee that Oceaneering's consolidated financial statements were prepared in accordance with generally accepted accounting principles. The Committee discussed with Ernst & Young matters required to be discussed by Statement on Auditing Standards No. 61, *Communication with Audit Committees*, as amended. The Committee also reviewed and discussed with management and Ernst & Young management's report and Ernst & Young's report and attestation on internal control over financial reporting in accordance with Section 404 of the Sarbanes-Oxley Act.

Ernst & Young provided to the Committee the written disclosures required by Independence Standards Board Standard No. 1, *Independence Discussions with Audit Committees*, as amended, and the Committee discussed with Ernst & Young their independence. The Committee concluded that Ernst & Young's provision of non-audit services to Oceaneering and its affiliates is compatible with Ernst & Young's independence.

Based on the Committee's discussion with management and the independent auditors and the Committee's review of the representations of management and the report of the independent auditors, the Committee recommended to Oceaneering's Board of Directors that Oceaneering's audited consolidated financial statements as of and for the year ended December 31, 2006 be included in the Form 10-K for the year ended December 31, 2006 filed with the SEC.

Audit Committee  
David S. Hooker, Chairman  
D. Michael Hughes  
Harris J. Pappas

## COMPENSATION DISCUSSION AND ANALYSIS

*The following discussion and analysis contains statements regarding future individual and company performance goals and measures. These goals and measures are disclosed in the limited context of Oceaneering's compensation programs and should not be understood to be statements of management's expectations or estimates of results or other guidance. Oceaneering specifically cautions investors not to apply these statements to other contexts.*

The following Compensation Discussion and Analysis, or CD&A, provides information regarding the compensation programs in place for our Chief Executive Officers, Chief Financial Officer and three other most highly-compensated executive officers during 2006. Mr. Huff, our Chairman, relinquished his position as Chief Executive Officer in May 2006 and Mr. Collins, who was at the time President and Chief Operating Officer, was then promoted to Chief Executive Officer. We refer to these six individuals in this CD&A as the Named Executive Officers. This CD&A includes information regarding, among other things, the objectives of our compensation program, the achievements that the compensation program is designed to reward, the elements of the compensation program (including the reasons why we employ each element and how it determines amounts paid) and how each element fits into our overall compensation objectives.

### **Compensation Philosophy and Objectives**

Our executive compensation program is designed to attract and retain key executives, motivate them to achieve our short-term and long-term objectives, and reward them for superior performance. We use several different compensation elements in the executive compensation program which are geared to both our short-term and long-term performance. The following principles influence the design and administration of our executive compensation program:

#### *Compensation Should Be Related to Performance*

The Compensation Committee of our Board of Directors (the Committee), and our Board of Directors believe that a significant portion of a Named Executive Officer's compensation should be tied to overall company performance, measured against financial goals and objectives.

Under the performance-based portions of our compensation arrangements, our basic philosophy is that, in years when performance is better than the objectives established for the relevant performance period, Named Executive Officers should be paid more than the target awards and, when our performance does not meet planned objectives, incentive award payments should be less than such targets, in the absence of unusual circumstances.

#### *Compensation Programs Should Motivate Executives to Remain with Us*

We believe that there is significant value to our shareholders for Named Executive Officers to remain with our company over time. Our business is built significantly by executives who can develop and maintain customer relationships over time. Also, value is built by executives who understand the unique business and technical aspects of our industry. For this reason, a significant element of our historical executive compensation arrangements has been long-term incentive compensation arrangements, with awards that have provided for vesting over several years. In addition, we provide certain of our executive officers with some financial security in the event of a change of control, to promote long-term retention (see Change of Control Agreements below). We also provide for long-term benefits through retirement plans (see Post Employment Compensation Programs below).

#### *Incentive Compensation Should Represent a Significant Part of an Executive's Total Direct Compensation*

We believe that the portion of a Named Executive Officer's total compensation that varies with his and our overall performance objectives should increase as the scope and level of the individual's business responsibilities and role in the organization increase. We believe that more than one-half of the total direct compensation (the sum of salary, annual incentive bonus, and long-term incentive compensation) of the Named Executive Officers should be at risk against short- and long-term performance goals.

*Incentive Compensation Should Balance Short-Term and Long-Term Performance*

We strive to maintain an executive compensation program that balances short-term, or annual, results and long-term success. To reinforce the importance of this balancing we regularly provide the Named Executive Officers both annual and long-term incentives. The value for participants in our long-term incentive plans generally increases at higher levels of responsibility, as executives in these leadership roles have the greatest influence on our strategic direction and results over time.

Beginning in 2006, we adopted our current approach to long-term incentives, in which awards of service-based restricted stock units and performance units are made to our executive officers and other key employees. Assuming restricted stock value based on grant date value established by the Financial Accounting Standards Board's Statement of Financial Accounting Standards No. 123 (revised 2004), *Share-Based Payment* (SFAS 123R), and performance units notionally valued at \$100 per unit for achievement of performance goals at target level, we believe that the service-based restricted stock units should account for from one-third to one-half of the total annual long-term incentive compensation of the Named Executive Officers and the performance units should account for the balance. We believe that our new program promotes our philosophy of rewarding executives for growing shareholder value over time. Upon vesting, settlement of the restricted stock units will be made in shares of our common stock. Upon vesting, the value of the performance units will be paid in cash.

*Compensation Levels Should Be Competitive*

The Committee reviews competitive compensation information to ensure that our total direct compensation is competitive. In making compensation decisions, the Committee assesses each element of base salary, annual bonus incentives and long-term incentive awards against a combination of available information from the most recent proxy statements of a peer-group of 24 publicly traded companies (collectively, the Compensation Peer Group) and survey data from the energy and general industry. For 2006, this information was collected for the Committee by a compensation consultant, Mercer Human Resource Consulting (the Compensation Consultant), which was retained by the Committee to conduct a review of our total direct compensation program for the Named Executive Officers and other key employees. The sources of the survey data were the 2006 U.S. Energy Compensation Survey and 2006 U.S. Benchmark Database-Executive Survey (collectively, the Compensation Surveys) prepared by the Compensation Consultant.

The Compensation Peer Group was recommended by management and the Compensation Consultant, and approved by the Committee. The companies within the Compensation Peer Group were selected primarily due to their operational focus broadly within the oilfield service industry and our management's belief that we compete with these companies for talent and for stockholder investment. The companies comprising the Compensation Peer Group are as follows:

BJ Services Company	Grant Prideco, Inc.	Oil States International, Inc.
Bristow Group Inc.	Hanover Compressor Company	Pride International, Inc.
Cameron International Corporation	Helix Energy Solutions Group, Inc.	Rowan Companies, Inc.
Diamond Offshore Drilling, Inc.	Hydril Company	Smith International Inc.
ENSCO International Incorporated	Key Energy Services, Inc.	Superior Energy Services, Inc.
FMC Technologies, Inc.	McDermott International, Inc.	Tidewater Inc.
Global Industries, Ltd.	National Oilwell Varco, Inc.	Transocean Inc.
GlobalSantaFe Corporation	Noble Corporation	Weatherford International Ltd.

**The Role of the Compensation Committee**

The Committee has the primary authority to establish compensation for the Named Executive Officers and other key employees and administers all our executive compensation plans and agreements. The Committee annually reviews corporate goals and objectives and sets the compensation levels for Named Executive Officers based on the Committee's evaluation. Our Chief Executive Officer assists the Committee by providing annual recommendations regarding the compensation of the Named Executive Officers and other key employees, excluding himself. The Committee can exercise its discretion in modifying or accepting these recommendations. For additional information regarding the role and responsibility of the Committee, see Proposal 1 Election of Directors The Compensation

Committee above.



## 2006 Executive Compensation Components

For 2006, the primary components of our total direct compensation program for Named Executive Officers were:  
base salary;

annual incentive award paid in cash; and

long-term incentive programs comprised of restricted stock units and performance units.

### Base Salary

The Committee considers adjustments to base salaries for Named Executive Officers regularly, based on the executive's position, responsibilities, experience, performance and competitive market data. Salary levels are considered annually in November, for changes to be effective the first day of the following year, as well as upon a promotion or other change in job responsibility. Each year, our Chief Executive Officer presents to the Committee his evaluation of each other Named Executive Officer, which includes a review of contributions and performance over the past year. Base salaries are approximately at the market median identified by our Compensation Consultant from a blend of compensation data for the Compensation Peer Group (weighted 50%) and from the Compensation Surveys (each of the two surveys weighted 25%). The Market Median for each component of executive compensation in this CD&A means the amount identified by the Compensation Consultant using this blend of compensation data for the component. In May 2006, and in connection with Mr. Collins' promotion to Chief Executive Officer and Mr. McEvoy's promotion to Executive Vice President, and the Committee's strategy to pay at approximately the Market Median, the Committee approved a salary increase of 33% for Mr. Collins and, as recommended by Mr. Collins, a salary increase of 10% for Mr. McEvoy. Additionally, in November 2006, consistent with its strategy, the Committee approved a salary increase of 10% for Mr. Collins and as recommended by Mr. Collins, a salary increase of 10% for Mr. McEvoy and salary increases ranging from 7% to 12% for the other Named Executive Officers, excluding Mr. Huff.

### Annual Incentive Awards Paid in Cash

In March of each year, the Committee approves a performance-based annual cash bonus award program under a shareholder approved Incentive Plan for the persons listed as named executive officers in the summary compensation table of our proxy statement for that year. These cash bonus award opportunities are based on a comparison of our net income for the year to target net income for that year, and are intended to provide a performance-based cash payment opportunity at approximately the Market Median. For each other participating employee in the program, the cash bonuses are based upon the level of achievement of a combination of our net income, financial and non-financial goals of our applicable profit center for that employee and individual goals. For each participant, the maximum award achievable is a percentage of the participant's annual salary as of March 1st of the year of the program. In March of each year, the Committee also approves the final bonus amounts under the cash bonus award program for the previous year.

In March 2006, the Committee approved bonuses under our 2005 cash bonus award program. In March 2006, the Committee approved a cash bonus award program for 2006. For the named executive officers in the proxy statement for the year of the program, bonuses were determined by a comparison of our net income in calendar year 2006 to target net income for that year. The maximum cash pay-out for each Named Executive Officer is a specified percentage of that executive's base salary as of March 1, 2006.

The target amount for our net income in 2006 was \$85.3 million, an amount 36% higher than the net income we achieved in 2005 and equated to the top end of our then-published earnings per share guidance range for 2006. Under the program, attainment of the target amount would result in a payout of 90% of the maximum amount payable to the Named Executive Officer. For any award in the program to be payable, more than 70% of the target net income for 2006 must be achieved. The Named Executive Officers in the program for 2006 and their respective maximum payouts as a percentage of base salary are: Messrs. Huff and Collins 125% and Messrs. McEvoy, Migura and Haubenreich 100%. Mr. Gardner was designated an executive officer of Oceaneering in November 2006, and he participated in this program as a profit center executive at maximum bonus level of 80% of his base salary.

The following table notes the percentage of maximum payout to a named executive officer under the program for the percentage of target net income achieved. The Committee has the discretion to award an amount less than that calculated.

In March 2007, the Committee approved bonuses under the 2006 Cash Bonus Award Program. Due to our achieving a record level of net income in 2006, which was in excess of the performance goal for 2006, the Committee awarded the maximum bonuses payable to the Named Executive Officers under the program. The Committee also approved additional merit bonuses to the current Named Executive Officers in the program based on Oceaneering's performance (the third consecutive year of record net income, almost twice the amount of net income achieved in 2005, on a 28% growth in revenue), the outstanding contributions to Oceaneering's performance by these officers, and with respect to Mr. Collins and Mr. McEvoy, the additional responsibilities they assumed as a result of their promotions in May 2006 to Chief Executive Officer and Executive Vice President, respectively.

Awards made to the Named Executive Officers for performance in 2006 are reflected in the Bonus and Non-Equity Incentive Plan Compensation columns of the Summary Compensation Table below.

#### **Long-Term Incentive Compensation**

Historically, we granted stock options annually and restricted stock or stock unit awards every three years to our executive officers and other key employees. In February 2006, the Committee decided that, in light of the new expense recognition requirements established by SFAS 123R, to refrain from using stock options as an employee compensation element for our executive officers and other employees for the foreseeable future and to instead use annual grants of service-based restricted stock unit awards and performance unit awards. Accordingly, no stock options were awarded in 2006. In prior years when we were using awards of stock options as an element of employee compensation, the option exercise price for each of those options was set at an amount equal to the fair market value of a share of our Common Stock as of the date of the grant. In the case of approximately 95% of the total awards made to all employees in the last ten years, including all awards made to our executive officers, the date of the grant was the date the Committee took the formal action to approve the option award. The remaining awards were granted to employees who were not executive officers by action of our Chief Executive Officer or President, as authorized by the Committee and the Incentive Plan pursuant to which the stock options awards were granted, in circumstances of a new hire, promotion, retention, and the date of grant for those awards was the date authorized by our Chief Executive Officer or President (as evidenced by the applicable option award agreement).

In deciding upon a methodology for determining changes to our long-term incentive program, we defined the following objectives:

deliver value substantially equivalent to the prior plan and competitive economic value;

reduce annual share utilization;

preserve the alignment of the executive's financial and shareholding interest with those of our shareholders, generally;

attract and retain executives and other key employees; and

focus management attention on specific performance measures that have a strong correlation with the creation of shareholder value.

In order to achieve these objectives, the Committee decided that the conceptual long-term incentive program to deliver value would be through two vehicles, restricted stock unit awards and performance unit awards. The Committee expects to consider such awards in February of each year that have a long-term incentive award value opportunity approximately at the Market Median. Such awards to new employees or in connection with other events such as promotions will be considered at the next scheduled Committee meeting after the hire date or after the event occasioning the consideration of the award.

In February 2006, service-based restricted stock unit awards and performance units, each comprising an estimated 36% and 64%, respectively, of the estimated grant date total long-term incentive value were awarded to the Named Executive Officers. These restricted stock units are scheduled to vest in full on the third anniversary of the award date, subject to earlier vesting if the employee meets certain age or age and years of service requirements; the termination or constructive termination of an employee's employment in connection with a change of control of Oceaneering or due to death or disability. Each restricted stock unit represents the equivalent of one share of our common stock. Upon vesting, settlement of the restricted stock units will be made in shares of our common stock. The grant date value of restricted stock units awarded to Named Executive Officers is reflected in the Grant Date Fair Value of Stock and Stock Option Awards column of the Grants of Plan-Based Awards table below.

The performance units awarded in February 2006 are scheduled to vest in full on the third anniversary of the award date, subject to similar early vesting terms as are applicable to the restricted stock units. The Committee has approved specific financial goals and measures based on cumulative cash flow from operations (as defined) and a comparison of return on invested capital and cost of capital for the three-year period January 1, 2006 through December 31, 2008 to be used as the basis for the final value of the performance units. The measures were selected because of our belief that they have a strong correlation with the creation of shareholder value. The amount of cumulative cash flow from operations during this three-year performance period necessary to achieve the target level goal for this measure is \$675 million. This amount was selected because it is three times the annual cash flow from operations expected to be achieved in 2006, which exceeded the record amount achieved in 2005. The amounts to be achieved by Oceaneering to reach the threshold and maximum are \$50 million less and more, respectively, than the target level amount. Oceaneering's return on invested capital must exceed its cost of capital over this three-year performance period by 15% for the target level goal to be achieved for this performance measure. For the threshold level to be achieved, the return on invested capital must equal the cost of capital and for the maximum level to be achieved it must be 30% in excess of the cost of capital. The final value of each performance unit may range from \$0 to \$125 with the threshold, target and maximum levels of achievement of goals valued at \$75, \$100 and \$125 respectively. If the calculated unit value exceeds \$100, the Committee retains discretion to reduce such value to any amount above or equal to \$100. Upon vesting, the value of the performance units will be payable in cash.

The determination of the final value of each performance unit is based on the application of the following grid (with interpolation between the specified levels):

Cumulative Cash Flow	UNIT VALUES				
	Maximum	Target	Threshold	Below Threshold	Maximum
	\$62.50	\$50.00	\$37.50	\$ 0.00	
	\$100.00	\$ 87.50	\$ 75.00	\$ 37.50	
	\$112.50	\$100.00	\$ 87.50	\$ 50.00	
	\$125.00	\$112.50	\$100.00	\$ 62.50	

### Return on Invested Capital/Cost of Capital

The estimated future payout of the performance unit awards to Named Executive Officers if each of the performance measures is achieved at the threshold, target or maximum level is reflected in the Estimated Future Payouts Under Non-Equity Incentive Plan Awards column of the Grants of Plan-Based Awards table below.

For 2006, approximately 61% of the total direct compensation of Mr. Collins, our Chief Executive Officer, was at risk against short- and long-term performance goals and approximately 55-60% was at risk for all other Named Executive Officers.

### Post-Employment Compensation Programs

#### Retirement Plans

We maintain a 401(k) Plan and a Supplemental Executive Retirement Plan ( SERP ). All of our employees who meet the eligibility requirements may participate in our 401(k) plan. The Named Executive Officers have elected not to participate in our 401(k) plan. Participation in our SERP includes Named Executive Officers and other key employees selected for participation by the Committee. Our SERP was established to provide a benefit to our executives and other key employees in excess of Internal Revenue Code limits for our 401(k) plan and to attract and motivate participants to remain with us. We credit a participant's notional account with a percentage determined by the Committee of each of the participant's base salary, subject to vesting. A participant may elect to defer a portion of base salary and annual bonus for accrual pursuant to our SERP. Amounts accrued under our SERP are adjusted for earnings and losses as if they were invested in one or more investment vehicles selected by the participant from those designated as alternatives by the Committee. A participant's interest in the plan is generally distributable upon termination. The percentage of base salary credited for Named Executive Officers in 2006 was: Mr. Huff 60%; Mr. Collins 50%; Mr. McEvoy 40% through May 2006 and 50% thereafter; Messrs. Migura and Haubenreich 40% each; and Mr. Gardner 20%. Please see the Non-Qualified Deferred Compensation table and accompanying narrative for further information about our SERP and contributions to the Named Executive Officer's accounts.

#### Service Agreement with Mr. Huff

##### *The Previously Existing Service Agreement*

In November 2001, we entered into a Service Agreement (the Service Agreement ) with Mr. Huff, who was then serving as our Chairman of the Board and Chief Executive Officer. The Service Agreement replaced Mr. Huff's prior employment agreement. As did the prior employment agreement, the Service Agreement provided medical coverage on an after-tax basis to Mr. Huff, his spouse and children during his employment with us and thereafter for their lives. The Service Agreement provides for a specific employment period (which, as subsequently amended, extended through December 30, 2006), followed by a specific service period ending no later than August 15, 2011 (the Post-Employment Service Period ), during which time Mr. Huff, acting as an independent contractor, will serve as nonexecutive Chairman of our Board of Directors if the Board requests that he serve in such capacity.

During the employment period under the Service Agreement, Mr. Huff's compensation consisted of an annual base salary, contributions by us into our SERP, an annual bonus and an aggregate long-term incentive opportunity no less than that existing at the commencement of the Service Agreement, as subsequently increased, and certain perquisites and administrative assistance. The Service Agreement provided that, if his employment was terminated during his employment period by us for reasons other than cause (as defined), by Mr. Huff for good reason (as defined) or by reason of Mr. Huff's death or disability:

Mr. Huff (or his