

Deep Down, Inc.
Form 10-K
March 28, 2014

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington D.C., 20549

FORM 10-K

o ANNUAL REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2013

o TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

Commission File No. 0-30351

DEEP DOWN, INC.

(Exact name of registrant as specified in its charter)

Nevada

(State of other jurisdiction of incorporation)

75-2263732

(I.R.S. Employer Identification No.)

8827 W. Sam Houston Pkwy North, Suite 100, Houston, Texas

(Address of Principal Executive Office)

77040

(Zip Code)

Registrant's telephone number, including area code: **(281) 517-5000**

Securities registered pursuant to Section 12(b) of the Act: **NONE**

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Securities registered pursuant to Section 12(g) of the Act: **Common Stock \$0.001 par value**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.
Yes No

Indicate by check mark whether the issuer is not required to file reports pursuant to Section 13 or 15(d) of the Act.
Yes No

Indicate by check mark whether the issuer (1) 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 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 whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark if disclosures of delinquent filers in response to Item 405 of Regulations S-K is not contained in this form, 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.

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

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company

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

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As of June 30, 2013, the aggregate market value of the voting and non-voting common equity held by non-affiliates, computed by reference to the price at which the common equity was sold, was \$14,087,119.

At March 25, 2014, the issuer had 15,195,287 shares outstanding of common stock, par value \$0.001 per share.

DOCUMENTS INCORPORATED BY REFERENCE

None.

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Forward-Looking Information

Unless otherwise indicated, the terms “Deep Down, Inc.”, “Deep Down”, “Company”, “we”, “our” and “us” are used in this report to refer to Deep Down, Inc., a Nevada corporation, and its wholly-owned subsidiaries.

In this Annual Report on Form 10-K (“the Report”), we may make certain forward-looking statements (“Statements”), including statements regarding our plans, strategies, objectives, expectations, intentions and resources that are made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. We do not undertake to update, revise or correct any of the forward-looking information. The following discussion should also be read in conjunction with the audited consolidated financial statements and the notes thereto.

The Statements contained in this Report that are not historical fact are forward-looking statements (as such term is defined in the Private Securities Litigation Reform Act of 1995), within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. The forward-looking statements contained herein are based on current expectations that involve a number of risks and uncertainties. These Statements can be identified by the use of forward-looking terminology such as “believes”, “expects”, “may”, “will”, “should”, “intend”, “plan”, “could”, “is likely”, or “anticipates”, or the negative thereof or other variations thereon or comparable terminology, or by discussions of strategy that involve risks and uncertainties. We wish to caution the reader that these forward-looking statements that are not historical facts are only predictions. No assurances can be given that the future results indicated, whether expressed or implied, will be achieved. While sometimes presented with numerical specificity, these projections and other forward-looking statements are based upon a variety of assumptions relating to the business of the Company, which, although considered reasonable by us, may not be realized. Because of the number and range of assumptions underlying our projections and forward-looking statements, many of which are subject to significant uncertainties and contingencies that are beyond the reasonable control of us, some of the assumptions inevitably will not materialize, and unanticipated events and circumstances may occur subsequent to the date of this report. These forward-looking statements are based on current expectations and we assume no obligation to update this information. Therefore, our actual experience and the results achieved during the period covered by any particular projections or forward-looking statements may differ substantially from those projected. Consequently, the inclusion of projections and other forward-looking statements should not be regarded as a representation by us or any other person that these estimates and projections will be realized, and actual results may vary materially. There can be no assurance that any of these expectations will be realized or that any of the forward-looking statements contained herein will prove to be accurate.

PART I

ITEM 1. Business.

History

Deep Down, Inc. is a Nevada corporation engaged in the oilfield services industry. As used herein, “Deep Down”, “Company”, “we”, “our” and “us” may refer to Deep Down, Inc. and/or its subsidiaries. Deep Down, Inc. (OTCQX: DPDW), a publicly traded Nevada corporation, was incorporated on December 14, 2006, through a reverse merger with MediQuip Holdings, Inc. (“MediQuip”), a publicly-traded Nevada corporation.

Deep Down is the parent company of the following wholly-owned subsidiaries: Deep Down, Inc., a Delaware corporation (“Deep Down Delaware”); Mako Technologies, LLC, a Nevada limited liability company (“Mako”); Deep Down International Holdings, LLC, a Nevada limited liability company (“DDIH”) and Deep Down Brasil Soluções Petróleo e Gás Ltda., a Brazil limited liability company (“Deep Down Brasil”). In August 2012, we consolidated the operations of Mako into Deep Down Delaware.

Our current operations are primarily conducted in Deep Down Delaware. In addition to our strategy of continuing to grow and strengthen our operations, including by expanding our services and products in response to our customers’ demands, we intend to continue to seek strategic acquisitions of complementary service providers, product manufacturers and technologies that are focused primarily on supporting deepwater and ultra-deepwater offshore exploration, development and production of oil and gas reserves and other maritime operations.

Our website address is www.deepdowninc.com. We make available, free of charge on or through our website, copies of our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934 as soon as reasonable after we electronically file such material with, or furnish it to, the Securities and Exchange Commission (“SEC”). Paper or electronic copies of such material may be requested by contacting the Company at our corporate offices. Information filed with the SEC is also available at www.sec.gov or may be read and copied at the SEC’s Public Reference Room at 100 F. Street, NE, Washington, DC 20549. Information regarding operations of the Public Reference Room may be obtained by calling the SEC at 1-800-SEC-0330.

On December 1, 2007, we acquired all of the common stock of Mako Technologies, Inc. We formed a wholly-owned subsidiary, Mako Technologies, LLC to complete the acquisition. Located in Morgan City, Louisiana, Mako served

the offshore petroleum and marine industries with technical support services, and equipment vital to offshore petroleum production, through the provision of highly qualified technicians, remotely operated vehicle (“ROV”) services, topside and subsea equipment and support systems used in diving operations, maintenance and repair operations, and offshore construction. In August 2012, we consolidated the operations of Mako in Morgan City, Louisiana into Deep Down Delaware in Channelview, Texas.

On June 5, 2008, we completed the acquisition of Flotation Technologies, Inc., a Maine corporation (“Flotation”). We effectively dated the acquisition for accounting purposes as of May 1, 2008 and consummated the closing on June 6, 2008. Flotation engineers, designs and manufactures deepwater buoyancy systems using high-strength Flotec™ syntactic foam and polyurethane elastomers from its facilities in Biddeford, Maine. Effective December 31, 2010, we engaged in a transaction in which all of the operating assets and liabilities of Flotation were contributed, along with other contributions we made, to a joint venture entity named Cuming Flotation Technologies, LLC (“CFT”), in return for a 20 percent common unit ownership interest in CFT. In August 2012, we transferred Flotation’s ownership in CFT to Deep Down and dissolved Flotation.

As noted above, effective December 31, 2010, we engaged in a joint venture transaction in which all of Flotation’s operating assets and liabilities (except for one intercompany corporate overhead payable) were contributed, along with other contributions we made, to CFT in return for a 20 percent common unit ownership interest in CFT (the “JV”). For a more detailed explanation of this transaction, please see Note 3, “Investment in Joint Venture”, to the consolidated financial statements included in this Report.

On October 7, 2011, CFT consummated a transaction pursuant to that certain Stock Purchase Agreement (the “Purchase Agreement”), by and between CFT and a Houston-based company (“Buyer”) pursuant to which Buyer purchased from CFT (i) all of the issued and outstanding shares of capital stock of Cuming, (ii) the shares of 230 Bodwell Corporation, a Massachusetts corporation and subsidiary of Cuming, and (iii) certain assets that, immediately prior to closing, were acquired by Cuming, for a purchase price of \$60,000,000 (less certain debt and subject to purchase price adjustment for working capital and potential earn-out payments). Deep Down is entitled to 20 percent of the common equity proceeds (including earn-out payments) from the sale and will be subject to 20 percent of any indemnity obligations over the indemnity escrow amount (5 percent) pursuant to the Purchase Agreement. Such indemnity obligation will be capped at the amount of proceeds Deep Down receives pursuant to that certain Indemnification and Contribution Agreement dated October 7, 2011 (the “Indemnification Agreement”). Deep Down’s proceeds received from the sale were approximately \$6,375,000, which does not include any potential earn-out payments. The proceeds of approximately \$6,375,000 are comprised of a \$3,400,000 return of capital to Deep Down and Flotation and an estimated \$2,975,000 distribution of Deep Down and Flotation’s share of the estimated profit on the sale. These sums do not include incremental proceeds anticipated from the return of escrow or future earn-out payments.

Business Overview

We are a global provider of specialized services to the offshore energy industry to support deepwater and ultra-deepwater exploration, development and production of oil and gas and other maritime operations. While we are primarily a service company, we also produce custom engineered products that assist us in fulfilling service objectives for specific projects on a contractual basis. We design and manufacture a broad line of deepwater and ultra-deepwater, surface and offshore equipment solutions which are used by major integrated, large independent and foreign national oil and gas companies in offshore areas throughout the world. Our products are often developed in direct response to customer requests for solutions to critical problems in the field. We serve the growing offshore petroleum and maritime industries with technical management and support services. One of our greatest strengths is the extensive knowledge base of our service, engineering and management personnel in many aspects of the deepwater and ultra-deepwater industry. Set forth below is a more detailed description of important services and products we provide.

Our goal is to provide superior services and products to our customers in a safe, cost-effective and timely manner. We believe there is significant demand for, and brand name recognition of, our established products due to the technological capabilities, reliability, cost-effectiveness, timeliness of delivery and operational efficiency features of these products. Since our formation, we have introduced many new products that continue to broaden the market we currently serve.

See Note 1, "Description of Business and Summary of Significant Accounting Policies", to the consolidated financial statements included in this Report for information related to segment reporting.

Services and Products

Services. We provide a wide variety of engineering and management services, including the design, installation and retrieval of subsea equipment and systems, connection and termination operations, well-commissioning services, as well as construction support and ROV operations support. We pride ourselves in our ability to collaborate with the engineering functions of oil and gas operators, installation contractors and subsea equipment manufacturers to determine the fastest, safest, and most cost-effective solutions to the full spectrum of complex issues which arise in our industry.

Project Management and Engineering. Our project management teams specialize in deepwater subsea developments. Our services are centered on the utilization of standardized hardware, proven, well-tested installation techniques, and experienced, consistent teams that have proven to be safe and skilled in all aspects of the installation process. Many installation contractors find it beneficial to utilize our services to help reduce on-board personnel since our specialized

technicians can perform multiple tasks. Our teams have vast experience with the installation of flexible and rigid risers and flowlines, umbilicals, flexible and rigid jumpers, steel tube and thermoplastic hose flying leads, pipeline end terminations (“PLETs”) and manifolds. Our engineers have experience ranging from the initial conceptual design phases through manufacturing and installation, and concluding with topside connections and commissioning. Our experience provides us with a level of “hands on” and practical understanding that has proven to be indispensable in enabling us to offer customer solutions to the many problems encountered both subsea and topside. Because of our wide knowledge base, our engineering team is often hired by oil and gas operators, installation contractors and subsea equipment manufacturers to provide installation management and engineering support services. Our engineering team has been involved in several of the innovative solutions used today in deepwater subsea systems. We specialize in offshore installation engineering and the writing of practical installation procedures. We deal with issues involving flying leads, compliant umbilical splices, bend stiffener latches, umbilical hardware, hold-back clamps, and the development of distribution system components. We are heavily involved in the fabrication of installation aids to simplify offshore executions, and offer hydraulic, fiber optic, and electrical testing services and various contingency testing tools.

Spooling Services. Our experienced personnel are involved in the operation of spooling equipment on many projects, including operations for other companies to run their spooling equipment. We have developed a very efficient (in both time and cost) system for spooling, utilizing our horizontal drive units, under-rollers, tensioners, carousels and rapid deployment cartridges.

Testing and Commissioning Services. Umbilical manufacturers, control suppliers, installation contractors, and oil and gas operators utilize our services to perform all aspects of testing, including initial Factory Acceptance Testing (“FAT”), Extended Factory Acceptance Testing (“EFAT”) and System Integration Testing (“SIT”), relating to the connecting of the umbilical termination assemblies, the performing of installations, and the completion of the commissioning of the system thereafter. To execute these services, we have assembled a variety of personnel and equipment to ensure that all testing operations are done in a safe and time-efficient manner, ensuring a reduced overall project cost. We also work hard to utilize the most detailed digital testing and monitoring equipment to ensure that the most accurate data is provided to our clients. We have been hired to perform coiled tubing flushing, cleaning, and hydro testing, umbilical filling, flushing, pressure, flow rate, and cleanliness testing, load out monitoring and testing, installation monitoring, post installation testing, system commissioning, umbilical intermediate testing, and umbilical termination assembly cleanliness, flow, and leak testing. We employ a variety of different pumping systems to meet industry needs and offer maximum flexibility. Our philosophy is to flush through the maximum number of lines at the highest flow rate possible to maximize efficiency. Due to the different requirements for testing and commissioning of subsea systems, we have an assortment of pumps and equipment to deploy to ensure a safe and efficient commissioning program. We have experience handling all types of commissioning fluids, including asphaltine dispersants, diesel, methanol, xylene, corrosion inhibitors, water-based control fluids, oil-based control fluids, 100 percent glycol, paraffin inhibitors, and alcohol. We have been involved in the design, procurement, testing, installation, and operation of the testing equipment. Our engineers and service technicians can also assist in writing the testing procedures and sequences from simple FAT to very extensive multiple pressures and fluids testing up to full system SIT procedures. We work closely with the project managers and production platform engineers to help ensure that all aspects of the installation or retrieval project, including potential risks and dangers, are identified, planned for, and eliminated prior to arrival on the production platform.

Storage Management. Our facility in Channelview, TX covers more than 50,000 square feet of internal high quality warehousing capacity and 300,000 square feet of external storage and is strategically located in Houston's Ship Channel area. Our warehouse is designed to provide clients with flexible and cost effective warehousing and storage management alternatives. Our professional and experienced warehouse staff, combined with the very latest in information technology, results in a fully integrated warehousing package designed to deliver effective solutions to client needs. Among other capabilities, we are capable of providing long-term specialized contract warehousing; long and short-term storage; modern materials handling equipment; undercover loading areas; quality security systems; integrated inventory management; packing and repacking; computerized stock controls; and labeling.

Our shore-based facility located at Core Industries, Inc. in Mobile, AL has 6,500 square feet and houses our 3,400 ton carousel system, used to store customers’ products. The site is sufficient to allow for full system integration testing of our customers’ equipment prior to deployment offshore.

ROV and ROV Tooling Services. As part of our ROV services, we have observation and light work class ROV units capable of operating in depths of 10,000 feet. Our services include offering these vehicles to strategic alliance partners who lease our vehicles and provide the actual services of platform inspection, platform installation and abandonment, search and recovery, salvage, subsea sampling, subsea intervention, telecommunication cable inspections, anchor handling, ROV consulting and project management, ROV pilots and technicians, and underwater cinematography. We provide an extensive line of ROV intervention tooling, both used to support our own operations

and for rental to our customers. Our ROV Tooling equipment includes flying lead orientation tools (FLOT), torque tools class 1-5, hot stabs, pipe cutting systems, dredging and pumping systems, ROV clamps and ROV-friendly hooks and shackles that are state-of-the-art in design.

Deep Down Marine Technologies (DDMT). DDMT is a specialized division of Deep Down, Inc. primarily focused on the refurbishment and repurposing of recovered subsea distribution assets and providing support for offshore interventions.

Items refurbished and repurposed for clients include Logic Caps (LCs), Intermediate Logic Caps (ILCs), and Hydraulic Distribution Manifolds (HDMs). Once a recovered asset is received, it is cleaned, any production fluids are flushed out with a water-based control fluid, and the asset is moved into storage. As an emergency or intervention arises, we pull the stored asset, reroute and weld the tubing, and then perform a Factory Acceptance Test (FAT) per client specifications. Finally, we send out our service technicians and equipment to support the offshore campaign.

Additionally, we perform various tasks in support of offshore interventions. We reconfigure Deep Down Hydrate Remediation Frames and Hydraulic Flying Leads (HFLs) at either one of our facilities or in the field. Our service technicians go offshore to pre-charge and make any changes to the frame needed to remediate hydrates.

We also developed the Fast Response Box (FRB), a concept cultivated from our vast offshore campaign experience. Our team identified the necessary components for an emergency reroute of a chemical or hydraulic line performed on the deck of a vessel. After the subsea distribution hardware is brought up, our service technicians safely depressurize, flush, cut out tubing, and reroute as required to get the well or field back up and producing. We then pre-charge the system and assist in overboarding and reinstallation. Our ability to provide a fully functional temporary solution brings the well or field back into production immediately and allows time for a permanent solution to be developed.

Our capabilities further include in-house software and hardware engineering to provide innovative solutions from wireless testing and monitoring equipment, to Dynamic Positioning (DP) systems. We have also developed camera systems that can be setup at any site, enabling our clients to witness FATs, System Integration Testing (SIT) or vessel load-outs in real-time, from any location in the world.

Products. We provide installation support equipment and component parts and assemblies for subsea distribution systems. We believe the key to successful installations of hardware is to design the subsea system by considering installation issues first, working backwards to the design of the hardware itself. This is why we have been instrumental in the development of hardware and techniques to simplify deepwater installations. We design, manufacture, fabricate, inspect, assemble, test subsea equipment, surface equipment and offshore equipment that is used by major integrated, large independent and foreign national oil and gas companies in offshore areas throughout the world. Our products are used during oil and gas exploration, development and production operations on offshore drilling rigs, such as floating rigs and jack-ups, and for drilling and production of oil and gas wells on offshore platforms, tension leg platforms and moored vessels such as floating production storage and offloading vessels (“FPSO”).

Flying Leads. Deep Down is a leader in flying lead design, manufacture and installation; in particular steel tube flying leads. Our flagship product, the LSFL® (Loose Steel Tube Flying Lead), was developed to eliminate the residual memory left in traditional flying leads due to the bundling process. The loose lay of the tubes significantly reduces stiffness of the assembly, allows the bundle to lay flat on the sea floor, follow the prescribed lay path precisely, bend in a tight radius with minimal resistance and offers maximum compliance for easy makeup in lengths up to 1,000’. When greater lengths up to 10,000’ are required, we utilize our patented NHU® (Non-Helical Umbilical) in conjunction with a compliant section on each end of the assembly to achieve the same result. We also offer hybrid LSFL® assemblies which can include any number and combination of electrical, optical, hose and steel tube elements. Hybrid LSFL® technology provides installation savings in both time and money as fewer operations are required to install the combined unit.

Deep Down employs the patented Moray® termination system on each end of the LSFL®. The Moray® termination is a light weight, high-strength, configurable and field serviceable framework used to connect any commercially available MQC (Multi-Quick Connect) plate to the LSFL® bundle. The Moray® termination assembly allows the installation load from the steel tubes or strength member to be transmitted directly to the framework and through to the installation rigging while isolating couplers from the load to maintain maximum compliance. The Moray® termination with compliant section is ideal for umbilical end terminations; it eliminates the need for bulky armor pots and is more manageable than a traditional umbilical end termination. In this application, the Moray® termination can be used to house multiple electrical, optical and auxiliary hydraulic interfaces in integrated ROV panels. Moray® termination assemblies can be outfitted with integrated buoyancy allowing quicker installation times by eliminating the need to recover buoyancy modules. Additionally, this allows for the use of a smaller class ROV on a vessel of opportunity should the need for rework arise.

Umbilical Hardware. Our blend of experiences with umbilical manufacturers, subsea engineers and installation contractors has been effective giving us a unique perspective when fabricating and designing terminations for umbilical manufacturers. Members of our team were involved with the designs for the armored thermo plastic umbilicals at Multiflex, the first steel tube umbilical in the Gulf of Mexico for the Shell Popeye® umbilical, and the standardization of many steel tube umbilical terminations. Our designs are often much lighter in weight and smaller than the typical hardware that has been created and used in the past by our competitors. Our engineering team has designed and fabricated bending restrictors, armor pots, split barrels, tubing fittings and unions, hinging umbilical splices and topsides terminations with our unique threaded welded fittings, umbilical compliant splice, and the bend

stiffener latch. We offer both polymer and steel bend limiters. The compliant splice is a patented method of converting spare umbilicals into actual production umbilicals by splicing spare umbilicals together to produce any length required or to repair a damaged umbilical. This termination system eliminates the burdens of dealing with umbilical splices during installation and is capable of housing both electrical and fiber optic fiber termination assemblies while still allowing for the splice to be spooled up onto a reel or carousel. Our UTA and new compliant UTA allows us to terminate the umbilical with a higher degree of quality and place the critical components of the base unit on the Reel or on the carousel and handle it with additional ease and safety. Then it is combined with the mud mat assembly easily and offers both first end stab and hangover features as well as Yoke second end landing. The new compliant version allows the UTA to be expanded for multiple J-plates and yet feature the same compliant features in our compliance splicing increasing the ease of handling on the deployment equipment – overboarding – and landing on the seafloor. Our in the field termination services is becoming popular offering the ability to take existing umbilical hang offs from multiple manufacturers which may have may have been exposed to terrible environmental conditions and to add temporary handling clamps – lifting up the umbilical and provide a completely new hangoff arrangement and thus extending the life of the umbilical and the subsea field. This service is being utilized on a project now. Bend Stiffener Latchers™ are still the leaders in the industry allowing bend stiffeners to be carried by the umbilical topside termination assembly in a more compact and overlapping configuration and overboarded with the highest strength and then installed into an existing I-tube with existing flange or an I-tube with the DDI mating bell mouth and be latched in by ROV allowing the bend stiffener be securely attached to the I-tube transferring all the dynamic bending moment while the umbilical is pulled up and hung off and elimination handling two major pieces of hardware and eliminating the need to have measurements between the components as the system is fully extending and adjustable.

Riser Isolation Valves (RIV) and Subsea Isolation Valve (SSIV) Services. Deep Down's new Riser Isolation Valve (RIV) and Subsea Isolation Valve (SSIV) control systems are unique solutions providing platform personnel the hydraulic control and electrical indication for subsea production valve manipulation. These systems provide numerous advantages to the client including: emergency shutdown capabilities (ESD), valve positioning monitoring systems, and auxiliary positions for spare and/or future field development.

In addition to fabrication of these systems, Deep Down provides subsea installation engineering, consulting, and service personnel to support clients, installation contractors, valve vendors and more. Our expertise ensures scope is fully defined and delegated allowing for safe and successful installations. The Deep Down team provides commissioning and technical assistance to clients and platform personnel ensuring the systems are working properly and all operational information is handed over to the end users.

Capitalizing on our expertise in umbilical manufacturing, Subsea and Topside Umbilical Termination Assemblies (SUTA / TUTA), hydraulic and electrical flying leads, and super duplex welding, we provide quality products our clients can depend on. Project designs are guaranteed to be installation friendly and client specifications met. When Deep Down's expert installation team is on the job, product integrity is preserved, ensuring successful installations.

Installation Aids. To help our customers and to meet our own internal needs, we have developed an extensive array of installation aids, including steel flying lead installation systems, tensioners, lay chutes, many varieties of buoyancy, clump weights, VIV strakes, mud mats, dual tank skids, gang boxes, work vans, pumping and testing skids, control booths, fluid drum carriers, crimping systems, load cells, 300 and 340-ton under-rollers, powered reels, 200-ton, 400-ton and 3,400-ton and 3,500 – ton carousel, UTAJ and bridging Jumper running and parking deployment frames, termination shelters, pipe straighteners, ROV hooks and shackles, stackable SeaStax® tanks, baskets, Subsea Deployment Basket System (SDB®), Horizontal Drive Units (HDU) and Rapid Deployment Cartridges (RDC).

Buoyancy Products. We design, engineer and manufacture deepwater buoyancy systems and support hardware essential to installation and operational requirements. Deep Down's rotational molding operations produces high density polyethylene products including bend restrictors, VIV suppression strakes and fairings, protective outer shells for distributed buoyancy modules and other flotation products. Our unique distributed buoyancy module clamps are designed for quick and easy installation for both "over the stinger" and VLS methods.

Further expansion of our flotation product line includes drilling riser buoyancy support hardware and installation services and development of a "Buoyant Rod" concept that can revolutionize the flotation industry.

NHU®. Deep Down's patented Non-Helical Umbilical (NHU®) combines our experience manufacturing miles of loose steel tube flying leads, terminating conventional steel umbilicals, and observing installation behavior of all

umbilicals. The NHU® can be manufactured in lengths up to 10 miles using super duplex tubes in standard sizes and in any configuration of hydraulic, electrical or optical elements. It is intended for long-term infield (static) or short-term dynamic service applications.

Multiple tubes are fed into the patented Deep Down NHU® manufacturing mechanism, bundled, then extruded with a HDPE outer jacket. Umbilicals are not torque balanced on their own, so rather than expending resources to balance and imparting stresses to helically wind them, the NHU® uses the imbalance to its advantage, resulting in a standard bundle.

The proprietary NHU® manufacturing concept is fully containerized, portable and easily transported for setup anywhere in the world. The ability to manufacture in close proximity to subsea fields offers the benefits of reduced lead times, the use of smaller installation vessels, use of compact Deep Down equipment, the incorporation of the appropriate percentages of local content, and more favorable economics.

Manufacturing

For over a decade, our primary manufacturing facility was in Channelview, Texas, a suburb of Houston. In June of 2013, we reorganized our manufacturing efforts in order to maximize production and satisfy the increasing demand in the oil and gas industry. We are now operational at our new 215,000 sq. ft. facility on 20 acres off Beaumont Highway, conveniently located 10 minutes from our Channelview facility.

In addition to increasing our production capacity, this move also provided the space to build our Steel Tube Flying Lead (STFL) Overhead Tracking System. This system will allow us to easily move STFL's from station to station during production for welding, X-ray and Factory Acceptance Testing (FAT). We have also significantly expanded our clean, stainless steel welding and tube bending environment, which is separated from all carbon steel fabrication.

We are nearing completion of our 12'x60' wet testing tank, adding the capability to test our products and rigging with buoyancy scenarios in the water. Featuring filtered water and underwater lighting, it will also enable us to launch and test small ROV's and ROV operations.

The most substantial benefit to the new facility will come when the dock on the property is completed. This will allow us to move large equipment and fabricated items by barge, eliminating the costs and limitations of highway transportation.

Our manufacturing plant is ISO 9001 certified. We continue to improve our standards and product quality through the use of quality assurance specialists working with our product manufacturing personnel throughout the manufacturing process. We have the capacity to complete large turn-key projects and still have reserve space for unforeseen emergency projects requiring immediate service and attention oil companies are accustomed to.

Customers

Demand for our deepwater and ultra-deepwater services, surface equipment and offshore rig equipment is substantially dependent on the condition of the oil and gas industry to invest in substantial capital expenditures as well as continual maintenance and improvements on its offshore exploration, drilling and production operations. The level of these expenditures is generally dependent upon various factors such as expected prices of oil and gas, exploration and production costs of oil and gas, and the level of offshore drilling and production activity. The prevailing view of future oil and gas prices are influenced by numerous factors affecting the supply and demand for oil and gas. These factors include worldwide economic activity, interest rates, cost of capital, environmental regulation, tax policies, and production levels and prices set and maintained by producing nations and OPEC. Capital expenditures are also dependent on the cost of exploring for and producing oil and gas, the sale and expiration dates of domestic and international offshore leases, the discovery rate of new oil and gas reserves in offshore areas and technological advances. Oil and gas prices and the level of offshore drilling and production activity have historically been characterized by significant volatility.

Our principal customers are major integrated oil and gas companies, large independent oil and gas companies, foreign national oil and gas companies, subsea equipment manufacturers and subsea equipment installation contractors involved in offshore exploration, development and production. Offshore drilling contractors, engineering and construction companies, and other companies involved in maritime operations represent a smaller customer base.

We are not dependent on any one customer or group of customers. The number and variety of our products required in a given period by a customer depends upon their capital expenditure budget as well as the results of competitive bids. Consequently, a customer may account for a material portion of revenues in one period and may represent an

immaterial portion of revenues in a subsequent period. While we are not dependent on any one customer or group of customers, the loss of one or more of our significant customers could, at least on a short-term basis, have an adverse effect on the results of our operations.

Marketing and Sales

We market our services and products throughout the world directly through our sales personnel in our Channelview, Texas office. We periodically advertise in trade and technical publications of our customer base. We also participate in industry conferences and trade shows to enhance industry awareness of our products and services. Our customers generally order products and services after consultation with us on their project. Orders are typically completed within two weeks to three months depending on the type of product or service. Larger and more complex products may require four to six months to complete, though we have accepted several longer-term projects, requiring significantly more time to complete. Our customers select our products and services based on the quality, reliability and reputation of the product or service, price, timely delivery and advance technology. For large production system orders, we engage our project management team to coordinate customer needs with engineering, manufacturing and service organizations, as well as with subcontractors and vendors. Our profitability on projects is dependent on performing accurate and cost-effective bids as well as performing efficiently in accordance with bid specifications. Various factors can adversely affect our performance on individual projects that could potentially adversely affect the profitability of a project.

Product Development and Engineering

The technological demands of the oil and gas industry continue to increase as offshore exploration and drilling operations expand into deeper and more hostile environments. Conditions encountered in these environments include well pressures of up to 15,000 psi, mixed flows of oil and gas under high pressure that may also be highly corrosive, and water depths in excess of 5,000 feet. We are continually engaged in product development activities to generate new products and to improve existing products and services to meet our customers' specific needs. We also focus our activities on reducing the overall cost to the customer, which includes not only the initial capital cost but also operating costs associated with its products.

We have an established track record of introducing new products and product enhancements. Our product development work is conducted at our facilities in Houston and Channelview, Texas, and in the field. Our application engineering staff also provides engineering services to customers in connection with the design and sales of our products. Our ability to develop new products and maintain technological advantages is important to our future success.

We believe that the success of our business depends more on the technical competence, creativity and marketing abilities of our employees than on any individual patent, trademark or copyright. Nevertheless, as part of our ongoing product development and manufacturing activities, our policy is to seek patents when appropriate on inventions concerning new products and product improvements. All patent rights for products developed by employees are assigned to us.

Competition

The principal competitive factors in the petroleum drilling, development and production and maritime equipment markets are quality, reliability and reputation of the product, price, technology, and timely delivery. We face significant competition from other manufacturers of exploration, production, and maritime equipment. Several of our primary competitors are diversified multinational companies with substantially larger operating staffs and greater capital resources and have a longer history in the manufacturing of these types of equipment.

Employees

At March 1, 2014, we had a total of 84 employees, of which all 84 were full-time employees. Our employees are not covered by collective bargaining agreements and we generally consider our employee relations to be good. Our operations depend in part on our ability to attract a skilled labor force. While we believe that our wage rates are competitive and that our relationship with our skilled labor force is good, a significant increase in the wages paid by competing employers could result in a reduction of our skilled labor force, increases in the wage rates that we pay or both.

Governmental Regulations

A significant portion of our business activities are subject to federal, state, local and foreign laws and regulations and similar agencies of foreign governments. The technical requirements of these laws and regulations are becoming increasingly expensive, complex and stringent. These regulations are administered by various federal, state and local

health and safety and environmental agencies and authorities, including the Occupational Safety and Health Administration of the U.S. Department of Labor and the U.S. Environmental Protection Agency. From time to time, we are also subject to a wide range of reporting requirements, certifications and compliance as prescribed by various federal and state governmental agencies. Expenditures relating to such regulations are made in the normal course of our business and are neither material nor place us at any competitive disadvantage. We do not currently expect that compliance with such laws will require us to make material additional expenditures.

We are also affected by tax policies, price controls and other laws and regulations generally relating to the oil and gas industry, including those specifically directed to offshore operations. Adoption of laws and regulations that curtail exploration and development drilling for oil and gas could adversely affect our operations by limiting demand for our services or products.

Increased concerns about the environment have resulted in offshore drilling in certain areas being opposed by environmental groups, and certain areas have been restricted. To the extent that new or additional environmental protection laws that prohibit or restrict offshore drilling are enacted and result in increased costs to the oil and gas industry in general, our business could be materially affected. In addition, these laws may provide for "strict liability" for damages to natural resources or threats to public health and safety, rendering a party liable for the environmental damage without regard to negligence or fault on the part of such party. Sanctions for noncompliance may include revocation of permits, corrective action orders, administrative or civil penalties and criminal prosecution. Certain environmental laws provide for joint and several strict liabilities for remediation of spills and releases of hazardous substances. In addition, companies may be subject to claims alleging personal injury or property damage as a result of alleged exposure to hazardous substances, as well as damage to natural resources. Such laws and regulations may also expose us to liability for the conduct of or conditions caused by others, or for our acts that were in compliance with all applicable laws at the time such acts were performed. Compliance with environmental laws and regulations may require us to obtain permits or other authorizations for certain activities and to comply with various standards or procedural requirements.

We cannot determine to what extent our future operations and earnings may be affected by new legislation, new regulations or changes in existing regulations. We believe that our facilities are in substantial compliance with current regulatory standards. Based on our experience to date, we do not currently anticipate any material adverse effect on our business or consolidated financial position as a result of future compliance with existing environmental laws and regulations controlling the discharge of materials into the environment. However, future events, such as changes in existing laws and regulations or their interpretation, more vigorous enforcement policies of regulatory agencies, or stricter or different interpretations of existing laws and regulations, may require additional expenditures which may be material.

Intellectual Property

While we are the holder of various patents, trademarks and licenses relating to our business, we do not consider any individual intellectual property to be material to our business operations.

ITEM 2. Description of Property

Our principal corporate offices are located at 8827 W. Sam Houston Parkway North, Suite 100, Houston, TX 77040. The 89-month lease term began in February 2009 and includes an allowance for leasehold improvements by the landlord, plus a charge for monthly common area expenses (“CAM charges”) on a pro-rata basis of the total building expenses (including insurance, security, maintenance, property taxes and utilities). Monthly lease costs range from \$12,177 to \$14,391 plus CAM charges, due to a rent escalation clause over the term of the lease. Effective September 1, 2013, we sub-leased approximately 50% of our space for \$9,000 per month for the remainder of the lease term.

Our operating facilities for Deep Down Delaware are located at 15473 East Freeway, Channelview, Texas 77530 (“Channelview”) and at 18511-810 Beaumont Highway, Houston, Texas 77049 (“Highway 90”). Channelview consists of approximately 11 acres of land that houses 60,000 square feet of manufacturing space and 7,000 square feet of office space. These manufacturing facilities in Channelview, Texas, are subject to the liens of our lender, Whitney Bank, under our credit agreement. Highway 90 consists of approximately 20 acres of land, which includes 215,000 sq. ft. of indoor manufacturing space. We believe that our current space is suitable, adequate and of sufficient capacity to support our current operations. The 10-year lease commenced in June 2013 at a base rate of \$60,000 per month for the first 7 months and \$90,000 per month for the remainder of the lease term.

Additionally, we lease 6,500 square feet of storage space in Mobile, AL to house our 3,400 ton carousel system. The 5-year lease commenced in August 2010 at a base rate of \$5,000 per month.

Mako leases its property and buildings from Sutton Industries at a base rate of \$8,122 per month. Mako is located at 125 Mako Lane, Morgan City, LA 70380. The 5-year lease term commenced on June 1, 2006, and was renewed for five additional years in June 2011. As a result of our closure of our operations in Morgan City in August 2012, on December 13, 2012, this property was subleased for the remainder of the lease term.

We have a fabrication facility located in Cleveland, Texas on property currently owned by one of our employees (and who is not one of our “named executive officers”). In October 2012, we reached an understanding with the owner of the property to purchase the property for aggregate consideration of \$500. The property includes 15 acres of land, and

currently contains residential buildings, recreational facilities and livestock. We plan to expand the fabrication facility in order to increase our production capacity at such location, use the residential buildings at such location to house employees and contractors for projects being conducted at the site, and otherwise use the facilities at the site for general corporate purposes.

Although the transaction had yet to be consummated, we took possession of the property in October 2012, and had paid the full purchase price of \$500,000 by December 31, 2013. These payments have been accounted for in our financial statements as purchase deposits. We hope to consummate the transaction within sixty days of the date of this Report.

ITEM 3. Legal Proceedings

From time to time, we may be involved in legal proceedings arising in the normal course of business. As of the date of this Report, we are currently not involved as defendant in any pending, material legal proceedings.

PART II**ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES****Price Range for Common Stock**

Our common stock trades on the OTC Markets Group (OTCQX) under the symbol (OTCQX: DPDW). The following table sets forth, for the periods indicated, the high and low bid quotations for our common stock as reported by the OTC Markets.

	High	Low
Fiscal Year 2013:		
December 31, 2013	\$2.63	\$1.80
September 30, 2013	\$2.70	\$1.44
June 30, 2013	\$2.17	\$1.55
March 31, 2013	\$2.18	\$1.22
Fiscal Year 2012:		
December 31, 2012	\$1.44	\$1.17
September 30, 2012	\$1.60	\$1.05
June 30, 2012	\$1.80	\$1.00
March 31, 2012	\$1.59	\$0.80

Stockholders of Record

As of March 25, 2014, there were 1,088 stockholders of record of our common stock. All common stock held in street names are recorded in the Company's stock register as being held by one stockholder.

Dividend Policy

To date, we have not paid any cash dividends and our present policy is to retain earnings for working capital use. Under the terms of our credit agreement with Whitney Bank, we are restricted from paying cash dividends on our common stock, unless no default under the credit agreement exists at the time of or would arise after giving effect to

any such distribution. We intend to retain operating capital for the growth of the Company operations.

Equity Compensation Plan Information

The following table sets forth the outstanding equity instruments as of December 31, 2013:

Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants and rights	Weighted-average exercise price of outstanding options, warrants and rights	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in first column)
Equity compensation plans approved by securityholders	945,000 (1)	\$ 1.98	2,289,153 (1)
Equity compensation plans not approved by securityholders	1,055,005 (2)		–
TOTAL	2,000,005	\$ 1.98	2,289,153

(1) Represents 945,000 shares of common stock that may be issued upon exercise of outstanding options, pursuant to equity awards granted as of December 31, 2013 under the 2003 Directors, Officers and Consultants Stock Option, Stock Warrant and Stock Award Plan (the “Plan”) plus 2,289,153 additional shares of common stock available for future grant under the Plan. The total number of shares subject to grants and awards is 15 percent of issued and outstanding shares of common stock. The Plan was approved by security holders of our predecessor MediQuip Holdings, Inc.

(2) Represents 1,055,005 shares of nonvested common stock.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion of our financial condition and results of operations should be read in conjunction with our consolidated financial statements and the notes to those financial statements appearing elsewhere in this Form 10-K. This discussion contains forward-looking statements that involve significant risks and uncertainties. As a result of many factors, our actual results may differ materially from those anticipated in our forward-looking statements.

In this Part II, Item 7 "Management's Discussion and Analysis of Financial Condition and Results of Operations", all dollar and share amounts are in thousands of dollars and shares, unless otherwise indicated.

General

We are an oilfield services company specializing in complex deepwater and ultra-deepwater oil production distribution system support services, serving the worldwide offshore exploration and production industry. Our services and technological solutions include distribution system installation support and engineering services, umbilical terminations, loose-tube steel flying leads, ROVs and related services. We support subsea engineering, installation, commissioning, and maintenance projects through specialized, highly experienced service teams and engineered technological solutions. Our primary focus is on more complex deepwater and ultra-deepwater oil production distribution system support services and technologies, used between the platform and the wellhead.

Industry and Executive Outlook

The outlook for deepwater and ultra-deepwater drilling and production continues to be very strong. The Gulf of Mexico continues to strengthen, and as a result, our business is increasing. Our current backlog is approximately \$29,000 and continues to grow. We expect to see continued growth in the deepwater and ultra-deepwater sectors in 2014.

Our 2013 results were lower than planned primarily because of lower than anticipated revenues on a 3.5 MT portable umbilical carousel order, which we bought back from our customer at cost. This caused our revenues and net income to be lower by \$1,418. Additionally, our financial performance on a significant fixed-price order for a major oil company operating in Brazil was not as expected and ended up in a loss of \$827. Finally, we had increased rent of \$600 related to our new facility.

Nevertheless, we are very pleased with our continued success in obtaining new orders. The new facility has enabled us to expand our steel flying lead business, and we believe it will continue to positively impact future growth.

Results of Operations

Revenues

	Year Ended December 31,		Increase (Decrease)	
	2013	2012	\$	%
Revenues	\$29,593	\$29,034	\$559	2%

Revenues for the year ended December 31, 2013 were \$29,593. Revenues for the year ended December 31, 2012 were \$29,034. The \$559 increase in revenues in the 2013 period was due to an increase of \$1,871 in our subsea solutions services due to continued strong demand for our technologically innovative solutions, offset by a decrease of \$1,312 in our ROV and topside equipment rental services due to decreased demand.

Cost of sales and gross profit

	Year Ended December 31,		Increase (Decrease)	
	2013	2012	\$	%
Cost of sales	\$20,879	\$19,741	\$1,138	6%
Gross Profit	\$8,714	\$9,293	\$(579)	(6)%
Gross Profit %	29%	32%		(3)%

Gross profit for the year ended December 31, 2013 was \$8,714, or 29 percent of revenues. Gross profit for the year ended December 31, 2012 was \$9,293 or 32 percent of revenues. The \$579, or 3 percentage-point decrease in gross profit in the 2013 period compared to the same period in 2012, was due primarily to a \$1,495 decrease related to our subsea solutions services, partially offset by a \$916 improvement in our ROV and topside equipment rental services.

The \$1,495 decrease related to our subsea solutions services occurred as a result of much lower than anticipated gross profit on two large fabrication projects. In addition, we incurred incremental rent expense on our new facility which we began leasing June 1, 2013. The \$916 improvement in our ROV and topside equipment rental services resulted from the consolidation of our Morgan City, Louisiana operations into our Channelview, Texas operations in August 2012, significantly reducing our costs there.

We record depreciation expense related to revenue-generating property, plant and equipment as cost of sales, which totaled \$1,425 and \$1,317 for the years ended December 31, 2013 and 2012, respectively. Depreciation included in cost of sales increased \$108 from 2012 to 2013 primarily as a result of the commencement of depreciation of new assets acquired to increase our capabilities and efficiency.

Selling, general and administrative expenses

	Year Ended		Increase	
	December 31,		(Decrease)	
	2013	2012	\$	%
Selling, general & administrative	\$8,769	\$8,947	\$(178)	(2)%
Selling, general & administrative as a % of revenues	30%	31%		(1)%

Selling, general and administrative expenses (“SG&A”) for the year ended December 31, 2013 was \$8,769, or 30 percent of revenues. SG&A for the year ended December 31, 2012 was \$8,947, or 31 percent of revenues. The \$178, or 1 percent of revenues, decrease was driven primarily by \$1,393 in savings realized from the previously mentioned consolidation of our businesses, partially offset by increases in payroll and related costs, property tax, professional and insurance fees from our expansion efforts.

Depreciation and amortization expense (excluded from Cost of sales)

	Year Ended		Increase	
	December		(Decrease)	
	2013	2012	\$	%
Depreciation expense excluded from Cost of sales	\$139	\$140	\$(1)	(1)%
Amortization expense	19	316	\$(297)	(94)%
Total depreciation and amortization expense excluded from Cost of sales	\$158	\$456	\$(298)	(65)%

Depreciation expense excluded from cost of sales consists of depreciation related to our non-revenue generating property, plant and equipment. Depreciation expense excluded from cost of sales decreased \$1 from 2012 to 2013.

Amortization expense consists of amortization of our intangible assets, including customer lists, trademarks, non-compete covenants, and patents. Amortization expense decreased \$297 from 2012 to 2013 primarily as a result of the impairment of intangible assets recorded in the fourth quarter of 2012.

Impairment of long-lived assets

In August 2012, we closed down our office in Morgan City, Louisiana, and consolidated the operations of Mako into Deep Down Delaware in Channelview, Texas. In November 2012, we evaluated Mako's customer lists, trademarks and non-compete covenants in light of the consolidation and determined that these intangible assets had no future economic benefit. As a result, in the year ended December 31, 2012, we recorded impairment expense of \$2,156 primarily to fully impair the remaining carrying value of the Mako intangibles.

Net interest expense

Net interest expense for the year ended December 31, 2013 was \$195. Net interest expense for the year ended December 31, 2012 was \$155. Net interest expense increased \$40, due to higher interest-bearing debt balances. Net interest expense for each period was generated by our outstanding bank debt, capital leases and a note payable, and was offset by interest income on invested cash balances.

Equity in net (loss) income of joint venture

Equity in net loss of joint venture improved by \$162 in 2013 compared to 2012. The CFT joint venture is in the process of liquidation and there was no operating activity in 2013.

Other income (expense), net

Net other expense for the year ended December 31, 2013 was \$188, and included \$225 of technology investment expense. Net other income for the year ended December 31, 2012 was \$198, and consisted entirely of gains on the sale of property, plant and equipment.

Modified EBITDA

Our management evaluates our performance based on a non-GAAP measure, which consists of earnings (net income or loss) available to common shareholders before net interest expense, income taxes, non-cash share-based compensation expense, equity in net income or loss of joint venture, non-cash impairments, depreciation and amortization, other non-cash items and one-time charges (“Modified EBITDA”). This measure may not be comparable to similarly titled measures employed by other companies and is not a measure of performance calculated in accordance with US GAAP. The measure should not be considered in isolation or as a substitute for operating income, net income or loss, cash flows provided by operating, investing or financing activities, or other cash flow data prepared in accordance with US GAAP. The amounts included in the Modified EBITDA calculation, however, are derived from amounts included in the accompanying consolidated statements of operations.

We believe Modified EBITDA is useful to investors in evaluating our operating performance because it is widely used to measure a company’s operating performance, which can vary substantially from company to company depending upon accounting methods and book value of assets, financing methods, capital structure and the method by which assets were acquired. It helps investors more meaningfully evaluate and compare the results of our operations from period to period by removing the impact of our capital structure (primarily interest); asset base (primarily depreciation and amortization); actions that do not affect liquidity (share-based compensation expense, equity in net income or loss of joint venture) from our operating results; and it helps investors identify items that are within our operational control. Depreciation and amortization charges, while a component of operating income, are fixed at the time of the asset purchase or acquisition in accordance with the depreciable lives of the related asset and as such are not a directly controllable period operating charge.

The following is a reconciliation of net (loss) income to Modified EBITDA for the years ended December 31, 2013 and 2012:

	Year Ended	
	December 31,	
	2013	2012
Net (loss) income	\$ (595)	\$ (2,454)

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Add back interest expense, net of interest income	195	155
Add back depreciation and amortization	1,583	1,773
Add back income tax (benefit) expense	(18)	52
Add back share-based compensation	610	554
Add back impairment of long-lived assets	–	2,156
Add back (deduct) bad debt expense (credit)	61	1,134
Add back non-recurring operational consolidation expense	–	240
Adjustment for estimated revenue reduction due to buy-back of fabricated asset	1,418	(1,418)(1)
Add back technology investment expense	225	–
Add back equity in net loss of joint venture	16	179
Modified EBITDA	\$3,495	\$2,371

(1) Modified EBITDA for the year ended December 31, 2012 has been adjusted to include this transaction in order to enhance comparability of the measurement between periods.

Modified EBITDA was \$3,495 for the year ended December 31, 2013. Modified EBITDA was \$2,371 for the year ended December 31, 2012. Modified EBITDA increased \$1,124 from the 2012 period to the 2013 period primarily due to a \$2,235 increase in gross profit before estimated revenue reduction due to the buy-back of a fabricated asset, non-recurring operational consolidation expense and depreciation, offset by an increase of \$949 in SG&A before share-based compensation, bad-debt provision, and non-recurring operational consolidation expense, and a decrease of \$162 in other income before technology investment expense.

Liquidity and Capital Resources

Overview

During the fiscal years ended December 31, 2013 and 2012, we supplemented the financing of our capital needs primarily through debt and equity financings.

Credit Facility

Since 2008, we have maintained a credit facility (the "Facility") with Whitney Bank, a state chartered bank ("Whitney"). The Facility has been amended and restated several times, most recently on March 5, 2013. The current relevant terms of the Facility include:

- a committed amount under the revolving credit facility ("Revolving Credit Facility") of \$5,000, at an interest rate of 4.0 percent annum, maturing April 15, 2014;

- a real estate term facility ("RE Term Facility") of \$2,000, at an interest rate of 4.0 percent annum, maturing April 15, 2018, with the Company obligated to make monthly increasing repayments of principal (along with accrued and unpaid interest thereon) starting at \$8, beginning April 1, 2013; and

- outstanding balances under the Facility are secured by all of the Company's assets.

As of December 31, 2013, the Company's indebtedness under the Revolving Credit Facility and the RE Term Facility was \$0 and \$1,917, respectively. We are currently in negotiations with Whitney for an extension of the Revolving Credit Facility beyond the current April 15, 2014 maturity. We are confident that we will be able to reach an agreement regarding this extension on or before April 15, 2014.

Our credit agreement with Whitney obligates us to comply with the following financial covenants:

Leverage Ratio - The ratio of total debt to consolidated EBITDA must be less than 3.0 to 1.0; actual Leverage Ratio as of December 31, 2013: 2.78 to 1.0.

Fixed Charge Coverage Ratio - The ratio of consolidated EBITDA to consolidated net interest expense, plus principal payments on total debt, must be greater than 1.5 to 1.0; actual Fixed Charge Coverage Ratio as of December 31, 2013: 1.51 to 1.0.

Tangible Net Worth - Our consolidated net worth, after deducting other assets as are properly classified as “intangible assets,” plus 50 percent of net income, after provision for taxes, must be in excess of \$13,000; actual Tangible Net Worth as of December 31, 2013: \$25,344.

Moreover, we continue to have obligations for other covenants, including, among others, limitations on issuance of common stock, liens, transactions with affiliates, additional indebtedness and permitted investments.

As of December 31, 2013 and 2012, we were in compliance with all of the covenants.

Other Debt

On November 5, 2013, we entered into a Purchase and Sale Agreement with a customer to buy back a 3.5 metric ton portable umbilical carousel, which we had fabricated specifically for this customer. Such Purchase and Sale Agreement calls for purchase price of \$3,293 to be paid in 24 monthly installments of \$137.2, commencing November 5, 2013 through October 5, 2015. The obligation is non-interest bearing. The balance of this debt at December 31, 2013 was \$2,906.

Private Placement

During the third quarter of 2013, we issued an additional 4,444 shares of common stock resulting in net cash proceeds of \$7,628.

As a result of the Credit Facility, the Private Placement and cash we expect to generate from operations, we believe we will have adequate liquidity to meet our future operating requirements.

Summary of Significant Accounting Policies

Principles of Consolidation

The consolidated financial statements include the accounts of Deep Down and its wholly-owned subsidiaries for the years ended December 31, 2013 and 2012. All intercompany transactions and balances have been eliminated.

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 and disclosure of contingent assets and liabilities at the date of the financial statements, and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Segments

For the years ended December 31, 2013 and 2012, our operating segments, Deep Down Delaware and Mako have been aggregated into a single reporting segment. In August 2012, we consolidated the operations of Mako in Morgan City, Louisiana into Deep Down Delaware in Channelview, Texas. While the operating segments have different product lines, they are very similar. They are both service-based operations revolving around our personnel's expertise in the deepwater and ultra-deepwater industry, and any equipment is produced to a customer specified design and engineered using Deep Down personnel's expertise, with installation and project management as part of our service revenue to the customer. Additionally, the operating segments have similar customers and distribution methods, and their economic characteristics are similar with regard to their gross margin percentages. Our operations are located in the United States, although we occasionally generate sales to international customers.

Long-Lived Assets

Property, plant and equipment. Property, plant and equipment is stated at cost, net of accumulated depreciation and amortization. Depreciation and amortization is computed using the straight-line method over the estimated useful lives of the respective assets. Replacements and betterments are capitalized, while maintenance and repairs are expensed as incurred. It is our policy to include amortization expense on assets acquired under capital leases with depreciation expense on owned assets. Additionally, we record depreciation and amortization expense related to revenue-generating assets as a component of cost of sales in the accompanying statements of operations.

Goodwill. Goodwill is the excess of cost of an acquired entity over the amounts assigned to identifiable assets acquired and liabilities assumed in a business combination. Goodwill is not subject to amortization, but is tested for impairment annually during the fourth quarter, or more frequently if an event occurs or circumstances change that would indicate a potential impairment. These circumstances may include an adverse change in the business climate or a change in the assessment of future operations of a reporting unit.

The Company assesses whether a goodwill impairment exists using both qualitative and quantitative assessments. The qualitative assessment involves determining whether events or circumstances exist that indicate it is more likely than not that the fair value of a reporting unit is less than its carrying amount, including goodwill. If, based on this qualitative assessment, it is determined that it is not more likely than not that the fair value of a reporting unit is less than its carrying amount, the Company does not perform a quantitative assessment.

If the qualitative assessment indicates that it is more likely than not that the fair value of a reporting unit is less than its carrying amount or if the Company elects not to perform a qualitative assessment, a quantitative assessment or two-step impairment test is performed to determine whether goodwill impairment exists at the reporting unit.

The first step is to compare the estimated fair value of each reporting unit with goodwill to its carrying amount, including goodwill. To determine fair value estimates, the Company uses the income approach based on discounted cash flow analyses, combined with a market-based approach. The market-based approach considers valuation comparisons of recent public sale transactions of similar businesses and earnings multiples of publicly traded businesses operating in industries consistent with the reporting unit. If the fair value of a reporting unit is less than its carrying amount, the second step of the impairment test is performed to determine the amount of impairment loss, if any. The second step compares the implied fair value of the reporting unit goodwill with the carrying amount of that goodwill. If the carrying amount of the reporting unit's goodwill exceeds its implied fair value, an impairment loss is recognized in an amount equal to that excess.

There was no impairment of goodwill for the years ended December 31, 2013 and 2012. The quantitative assessment of goodwill we performed as of December 31, 2013 demonstrated that our goodwill's fair value exceeded its carrying value by \$1,350. Not achieving the financial performance estimates used in calculating the fair value may give rise to a future impairment.

Other intangible assets. Our other intangible assets generally consist of assets acquired related to previous business combinations and are primarily comprised of customer lists, trademarks and non-compete covenants. We amortize intangible assets over their useful lives ranging from six to twenty-five years on a straight-line basis. We make judgments and estimates in conjunction with the carrying value of these assets, including amounts to be capitalized, amortization methods, useful lives and the valuation of acquired other intangible assets. All the intangible assets of Flotation were contributed to CFT effective December 31, 2010; see additional discussion in Note 3, "Investment in Joint Venture."

We test for the impairment of other intangible assets upon the occurrence of a triggering event. We base our evaluation on impairment indicators such as the nature of the assets, the future economic benefit of the assets, any historical or future profitability measurements and other external market conditions or factors that may be present. If these impairment indicators are present or other factors exist that indicate the carrying amount of an asset may not be recoverable, we determine whether an impairment has occurred through the use of an undiscounted cash flow analysis of the asset at the lowest level for which identifiable cash flows exist. The undiscounted cash flow analysis consists of estimating the future cash flows that are directly associated with and expected to arise from the use and eventual disposition of the asset over its remaining useful life. These cash flows are inherently subjective and require significant estimates based upon historical experience and future expectations reflected in our budgets and internal projections. If the undiscounted cash flows do not exceed the carrying value of the long-lived asset, an impairment has occurred, and we recognize a loss for the difference between the carrying amount and the estimated fair value of the asset. The fair value of the asset is measured using quoted market prices or, in the absence of quoted market prices, is based on an estimate of discounted cash flows. Cash flows are generally discounted at an interest rate commensurate with our weighted average cost of capital for a similar asset.

In August 2012, we closed down our office in Morgan City, Louisiana, and consolidated the operations of Mako into Deep Down Delaware in Channelview, Texas. In November 2012, we evaluated Mako's customer lists, trademarks and non-compete covenants in light of the consolidation and determined that these other intangible assets had no future economic benefit. As a result, in the year ended December 31, 2012, we recorded impairment expense of \$2,156 primarily to write-off the remaining carrying value of the Mako other intangibles.

Revenue Recognition

We recognize revenue once the following four criteria are met: (i) persuasive evidence of an arrangement exists; (ii) delivery of the equipment has occurred or services have been rendered, (iii) the price of the equipment or service is fixed and determinable and (iv) collectability of the related receivable is reasonably assured. Service revenue is recognized as the service is provided, and time and materials contracts are billed on a bi-weekly or monthly basis as costs are incurred. Customer billings for shipping and handling charges are included in revenue. Revenues are recorded net of sales taxes.

From time to time, we enter into fixed-price contracts. The percentage-of-completion method is used as a basis for recognizing revenue on these contracts. We recognize revenue as costs are incurred because we believe the incurrence of cost reasonably reflects progress made toward project completion.

Provisions for estimated losses on uncompleted fixed-price contracts (if any) are recorded in the period in which it is determined it is more likely than not a loss will be incurred. Changes in job performance, job conditions, and total contract values may result in revisions to costs and income and are recognized in the period in which the revisions are determined. Unapproved change orders are accounted for in revenue and cost when it is probable that the costs will be recovered through a change in the contract price. In circumstances where recovery is considered probable but the revenues cannot be reliably estimated, costs attributable to change orders are deferred pending determination of contract price.

Costs and estimated earnings in excess of billings on uncompleted contracts arise when revenues are recorded on a percentage-of-completion basis but cannot be invoiced under the terms of the contract. Such amounts are invoiced upon completion of contractual milestones. Billings in excess of costs and estimated earnings on uncompleted contracts arise when milestone billings are permissible under the contract, but the related costs have not yet been incurred. All contract costs are recognized currently on jobs formally approved by the customer and contracts are not shown as complete until virtually all anticipated costs have been incurred and the risk of loss has passed to the customer.

Assets and liabilities related to costs and estimated earnings in excess of billings on uncompleted contracts, as well as billings in excess of costs and estimated earnings on uncompleted contracts, have been classified as current. The contract cycle for certain long-term contracts may extend beyond one year, thus complete collection of amounts related to these contracts may extend beyond one year, though such long-term contracts include contractual milestone billings as discussed above.

Income Taxes

We follow the asset and liability method of accounting for income taxes. This method takes into account the differences between financial statement treatment and tax treatment of certain transactions. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect of a change in tax rates is recognized as income or expense in the period that includes the enactment date.

We record a valuation allowance to reduce the carrying value of our deferred tax assets when it is more likely than not that some or all of the deferred tax assets will expire before realization of the benefit or that future deductibility is not probable. The ultimate realization of the deferred tax assets depends upon our ability to generate sufficient taxable income of the appropriate character in the future. This requires management to use estimates and make assumptions regarding significant future events such as the taxability of entities operating in the various taxing jurisdictions. In evaluating our ability to recover our deferred tax assets, we consider all reasonably available positive and negative evidence, including our past operating results, the existence of cumulative losses in the most recent years and our forecast of future taxable income. In estimating future taxable income, we develop assumptions, including the amount of future state, and federal pre-tax operating income, the reversal of temporary differences and the implementation of feasible and prudent tax planning strategies. These assumptions require significant judgment. When the likelihood of the realization of existing deferred tax assets changes, adjustments to the valuation allowance are charged in the period in which the determination is made, either to income or goodwill, depending upon when that portion of the valuation allowance was originally created.

We record an estimated tax liability or tax benefit for income and other taxes based on what we determine will likely be paid in the various tax jurisdictions in which we operate. We use our best judgment in the determination of these amounts. However, the liabilities ultimately realized and paid are dependent upon various matters, including resolution of tax audits, and may differ from amounts recorded. An adjustment to the estimated liability would be recorded as a provision or benefit to income tax expense in the period in which it becomes probable that the amount of the actual liability or benefit differs from the recorded amount.

Our future effective tax rates could be adversely affected by changes in the valuation of our deferred tax assets or liabilities or changes in tax laws or interpretations thereof. If and when our deferred tax assets are no longer fully reserved, we will begin to provide for taxes at the full statutory rate. In addition, we are subject to the examination of our income tax returns by the Internal Revenue Service and other tax authorities. We regularly assess the likelihood of adverse outcomes resulting from these examinations to determine the adequacy of our provision for income taxes.

Share-Based Compensation

We record share-based payment awards exchanged for employee service at fair value on the date of grant and expense the awards in the consolidated statements of operations over the requisite employee service period. Share-based compensation expense includes an estimate for forfeitures and is generally recognized over the expected term of the award on a straight-line basis. At December 31, 2013, we had two types of share-based employee compensation: stock options and restricted stock. In addition to employee service, the restricted stock awards also have a performance component.

Key assumptions used in the Black-Scholes model for stock option valuations include (1) expected volatility (2) expected term (3) discount rate and (4) expected dividend yield. Since we do not have a sufficient trading history to determine the volatility of our own stock, we based our estimates of volatility on a representative peer group consisting of companies in the same industry, with similar market capitalizations and similar stage of development. Additionally, we continue to use the simplified method related to employee option grants.

Earnings or Loss per Common Share

Basic earnings or loss per common share ("EPS") is calculated by dividing net earnings or loss by the weighted average number of common shares outstanding for the period. Diluted EPS is calculated by dividing net earnings or loss by the weighted average number of common shares and dilutive common stock equivalents (stock options and warrants) outstanding during the period. Diluted EPS reflects the potential dilution that could occur if stock options and warrants to purchase common stock were exercised for shares of common stock. In periods where losses are reported, the weighted-average number of common shares outstanding excludes common stock equivalents, because their

inclusion would be anti-dilutive.

Recent Accounting Pronouncements

Recent Accounting Pronouncements are included in Note 1, “Description of Business and Summary of Significant Accounting Policies”, to the consolidated financial statements included in this Report.

Off-Balance Sheet Arrangements

We have no off-balance sheet arrangements that have or are reasonably likely to have a current or future effect on our financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources.

Inflation and Seasonality

We do not believe that our operations are significantly impacted by inflation. Our business is not seasonal in nature.

Item 8. Financial Statements

The financial statements are included herewith commencing on page F-1.

Report of Independent Registered Public Accounting Firm	F-1
Consolidated Balance Sheets – December 31, 2013 and 2012	F-2
Consolidated Statements of Operations – Years ended December 31, 2013 and 2012	F-3
Consolidated Statements of Changes in Stockholders' Equity – Years ended December 31, 2013 and 2012	F-4
Consolidated Statements of Cash Flows – Years ended December 31, 2013 and 2012	F-5
Notes to Consolidated Financial Statement– Years ended December 31, 2013 and 2012	F-6

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

None.

Item 9A. Controls and Procedures

Material Weakness Related to Percentage-of-Completion Accounting for Fixed-Price Contracts. During the audit of our financial statements for the year ended December 31, 2012, we identified a control deficiency related to our percentage-of-completion (“POC”) accounting associated with fixed-price contracts. We concluded that the Company’s processes, procedures and internal controls were not effective to ensure that, in general, amounts related to the revenue and costs associated with these contracts could be accounted for in accordance with generally accepted accounting principles.

Specifically, we determined that there was: (i) failure to account for a significant fixed-price contract using POC accounting; (ii) incorrect total contract revenue values input into the POC schedules; (iii) inaccurate cost-to-complete estimates; and (iv) intermingling of revenues and costs from contracts containing both fixed-price and time and expense components.

We established that these deficiencies resulted from: (i) lack of effective communication between operations and accounting personnel; (ii) lack of effective management review of contract terms; and (iii) lack of effective management review of the POC revenue recognition calculations.

During 2013, we effectively implemented the following internal controls and procedures over our POC accounting for fixed-price contracts:

- Addition of a contracts financial analysis function within project management to ensure:
 - o Timely and accurate preparation of initial and updated detailed cost estimates and POC schedules for fixed-price contracts;
 - o Proper segregation of accounting for time and materials aspects from POC aspects of contracts containing both;
 - o Effective management review of contract terms;
 - o Effective communication with accounting personnel; and
 - o Effective management review of the POC revenue recognition calculations.

For these reasons, we believe we have successfully remediated this material weakness as of December 31, 2013.

Evaluation of Disclosure Controls and Procedures. The Company’s disclosure controls and procedures are designed to ensure that such information required to be disclosed by the Company in reports filed or submitted under the Exchange Act as amended, is recorded, processed, summarized and reported within the time periods specified in the SEC’s rules and forms. The Company’s disclosure controls and procedures are also designed to ensure that such

information is accumulated and communicated to management, including the principal executive and the principal financial officer, as appropriate to allow timely decisions regarding required disclosures. There are inherent limitations to the effectiveness of any system of disclosure controls and procedures, including the possibility of human error and the circumvention or overriding of controls and procedures. Accordingly, even effective disclosure controls and procedures can only provide reasonable assurance that control objectives are attained. The Company's disclosure controls and procedures are designed to provide such reasonable assurance.

The Company's management, with the participation of the principal executive and principal financial officer, evaluated the effectiveness of the design and operation of the Company's disclosure controls and procedures as of December 31, 2013, as required by Rule 13a-15(e) of the Exchange Act. Based upon that evaluation, the principal executive and the principal financial officer have concluded that the Company's disclosure controls and procedures were effective as of December 31, 2013.

Management's Report on Internal Control Over Financial Reporting. The Company's management is responsible for establishing and maintaining adequate internal controls over financial reporting, as defined in Rule 13a-15(f) of the Exchange Act. Although the internal controls over financial reporting were not audited, the Company's management, including the principal executive and principal financial officer, assessed the effectiveness of internal controls over financial reporting as of December 31, 2013, based on criteria issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) entitled *Internal Control-Integrated Framework*. Upon evaluation, the Company's management has concluded that the Company's internal controls over financial reporting were effective as of December 31, 2013.

Changes in Internal Control Over Financial Reporting. The Company's management, with the participation of the principal executive and principal financial officer, have concluded that there were no changes in internal control over financial reporting during the fiscal quarter ended December 31, 2013.

Item 9B. Other Information

None.

PART III**Item 10. Directors, Executive Officers and Corporate Governance**

The following table sets forth the names, ages and positions of our directors and executive officers.

<u>Name</u>	<u>Age</u>	<u>Position Held With Deep Down</u>
Ronald E. Smith (1)	55	President, Chief Executive Officer and Director
Eugene L. Butler	72	Executive Chairman and Chief Financial Officer
Mary L. Budrunas (1)	62	Vice President, Corporate Secretary and Director
Randolph W. Warner	66	Director

(1) Ronald E. Smith and Mary L. Budrunas are married.

Biographical information regarding each of our directors and named executive officers is as follows. The following paragraphs also include specific information about each director's experience, qualifications, attributes or skills that led the Board of Directors to the conclusion that the individual should serve on the Board as of the time of this filing, in light of our business and structure:

Ronald E. Smith, President, Chief Executive Officer and Director. Mr. Smith co-founded Deep Down in 1997 and has served as our Chief Executive Officer, President and Director since December 2006. Prior to December 2006, Mr. Smith was Deep Down's President. Mr. Smith graduated from Texas A&M University with a Bachelor of Science degree in Ocean Engineering in 1981. Mr. Smith worked both onshore and offshore in management positions for Ocean Drilling and Exploration Company (ODECO), Oceaneering Multiflex, Mustang Engineering and Kvaerner before founding Deep Down. Mr. Smith's interests include all types of offshore technology, nautical innovations, state of the art communications, diving technology, hydromechanics, naval architecture, dynamics of offshore structures, diving technology and marketing of new or innovative concepts. Mr. Smith is directly responsible for the invention or development of many innovative solutions for the offshore industry, including the first steel tube flying lead installation system. Mr. Smith is also credited for the new patented Steel Flying leads – Subsea deployment systems – New subsea J-plates – and the recently patented NHU (Non Helical umbilical), which is mobile steel tube umbilical production facility employing a new concept to build Steel Tube Umbilicals.

Mr. Smith is qualified for service on the Board due to his extensive background in many aspects of the offshore industry, spanning almost three decades. Mr. Smith's wide range of knowledge and experience with the various technologies and platforms in the deepwater industry brings invaluable expertise to our Board.

Eugene L. Butler, Executive Chairman and Chief Financial Officer. Mr. Butler has served as Chief Financial Officer and Director with Deep Down since June 2007, and was appointed Executive Chairman of the Board effective September 1, 2009. Mr. Butler was Managing Director of CapSource Services, Inc., an investment banking firm specializing in mergers, acquisitions and restructurings, from 2002 until 2007. Prior to this, Mr. Butler served in various capacities as a director, president, chief executive officer, chief financial officer and chief operating officer for Weatherford International, Inc., a multi-billion dollar multinational service and equipment corporation serving the worldwide energy market, from 1974 to 1991. He was elected to Weatherford's Board of Directors in May of 1978, elected president and chief operating officer in 1979, and president and chief executive officer in 1984. He successfully developed and implemented a turnaround strategy eliminating debt and returning the company to profitability during a severe energy recession. Mr. Butler also expanded operations into international markets allowing Weatherford to become a major worldwide force with its offshore petroleum products and services. Mr. Butler graduated from Texas A&M University in 1963, and served as an officer in the U.S. Navy until 1969 when he joined Arthur Andersen & Co. Mr. Butler is distinguished by numerous medals and decorations, including the Bronze Star with combat "V" and the Presidential Unit Citation for his service with the river patrol force in Vietnam. Mr. Butler has also served on the Board of Powell Industries, Inc. (Nasdaq: POWL) since 1990, where he is the Chairman of the Audit Committee and member of the Governance Committee. Mr. Butler is a Certified Public Accountant.

In addition to his extensive knowledge of Deep Down, Mr. Butler is qualified for service on the Board based on his leadership skills and long-standing senior management experience in the energy and petroleum industries. Additionally, his background in public accounting and investment banking, familiarity with complex accounting issues and financial statements, as well as his service on the board, including various committees, of another public company, provide invaluable financial expertise and overall insight to our Board.

Mary L. Budrunas, Vice-President, Corporate Secretary and Director. Ms. Budrunas, co-founder of Deep Down, Inc. along with current chief executive officer Ronald E. Smith, has served as our Vice-President, Corporate Secretary and Director since December 2006. Ms. Budrunas is responsible for our administrative functions, including human resources and accounting. Ms. Budrunas has more than 30 years of logistical management experience in manufacturing, fabrication, and industrial sourcing in the oil and gas industry. Prior to Ms. Budrunas co-founding Deep Down in 1997, she managed the purchasing efforts of many projects over a 10-year period for Mustang Engineering, and previously directed procurement for a large petroleum drilling and production facility project in Ulsan, Korea.

Ms. Budrunas is qualified for service on the Board based on her extensive oil and gas industry experience. Such expertise provides valuable insight to the Board.

Randolph W. Warner, Director. Mr. Warner joined the Board as an independent director effective May 28, 2013, and was appointed Chairman of the Audit Committee of the Board of Directors. Mr. Warner is currently President and Chief Operating Officer of WHC, Inc. (“WHC”), a multi-state service company which provides pipeline and facilities construction; a position he has held since January 2005. Prior to WHC, Mr. Warner served as Principal of R.W. Warner Consulting Services from July 2000 to January 2005 and was elected to the board of directors of the Houston Chapter of the Associated Builders and Contractors in February 2000. Mr. Warner graduated from the Air Force Academy and served as a captain in the United States Air Force from 1970 to 1976. He served in Vietnam and received numerous awards including the Distinguished Flying Cross. He also received an MBA in Business Administration from University of Houston in 1980.

Mr. Warner is qualified for service on the Board based on his senior management experience and expertise in the construction industry, and qualifies as an Audit Committee financial expert as defined in Item 407(d)(5)(ii) of Regulation S-K.

Corporate Governance

Code of Ethics

The Company has adopted Codes of Ethical Conduct that apply to all its directors, officers (including its chief executive officer, chief financial officer, controller and any person performing such functions) and employees. The Company has previously filed copies of these Codes of Ethical Conduct and they can be located pursuant to the information shown in the Exhibit list items 14.1 and 14.2 to this Report. Copies of the Company’s Codes of Ethical Conduct may also be obtained at the Investors section of the Company’s website, www.deepdowninc.com, or by written request addressed to the Corporate Secretary, Deep Down, Inc., 8827 W. Sam Houston Pkwy North, Suite

100, Houston, Texas 77040. The Company intends to satisfy the requirements under Item 5.05 of Form 8-K regarding disclosure of amendments to, or waivers from, provisions of its code of ethics that apply to the Chief Executive Officer, Chief Financial Officer or Controller by posting such information on the Company's website. Information contained on the website is not part of this Report.

The Company's Board of Directors is responsible for reviewing and making recommendations concerning the selection of outside auditors, reviewing the scope, results and effectiveness of the annual audit of the Company's financial statements and other services provided by the Company's independent public accountants. The Board of Directors reviews the Company's internal accounting controls, practices and policies. Our Board of Directors has determined that Mr. Warner qualifies as an independent audit committee financial expert as defined in Item 407(d)(5)(ii) of Regulation S-K.

Section 16(a) Beneficial Ownership Reporting Compliance

Section 16(a) of the Exchange Act requires our officers and directors, and persons who own more than ten percent of a registered class of our equity securities, to file reports of securities ownership and changes in such ownership with the SEC. Officers, directors and greater than ten percent shareholders also are required by rules promulgated by the SEC to furnish us with copies of all Section 16(a) forms they file.

Based solely upon a review of the copies of such forms furnished to us or written representations of our officers and directors, we believe that all Section 16(a) filing requirements were filed on a timely basis.

Item 11. Executive Compensation

As a “smaller reporting company” as defined in Item 10(f)(1) of Regulation S-K, we have elected to follow scaled disclosure requirements for smaller reporting companies with respect to the disclosures required by Item 402 of Regulation S-K. Under the scaled disclosure requirements, the Company is not required to provide a Compensation Discussion and Analysis, Compensation Committee Report and certain other tabular and narrative disclosures relating to executive compensation.

The following table sets forth information concerning total compensation earned in the years ended December 31, 2013 and 2012 by our Principal Executive Officer (“PEO”), our two highest compensated executive officers other than our PEO and another individual for whom disclosure would have been provided under this Item but for the fact such person was not an executive officer at December 31, 2013 (collectively, our “Named Officers”).

Summary Compensation Tables for the years ended December 31, 2013 and 2012

Name and Principal Position	Year	Salary	Bonus	Stock Awards	Option Awards (1)	All Other Compensation	Total
Ronald E. Smith, President and Chief Executive Officer	2013	\$412,096	\$-	\$812,000	\$ -	\$ 68,143	\$ 1,292,239
	2012	\$386,250	\$2,500	\$-	\$ -	\$ 19,500	\$408,250
Eugene L. Butler, Executive Chairman and Chief Financial Officer	2013	\$362,423	\$-	\$609,000	\$ -	\$ 64,440	\$ 1,035,863
	2012	\$349,500	\$-	\$-	\$ -	\$ 44,037	\$393,537
Ira B. Selya, Corporate Controller	2013	\$184,404	\$-	\$-	\$ -	\$ -	\$184,404
Michael J. Newbury, Vice President (2)	2013	\$54,808	\$-	\$-	\$ -	\$ 15,309	\$70,117
	2012	\$190,000	\$-	\$-	\$ -	\$ 12,000	\$202,000

(1) Amounts in 2013 represent:

- Automobile allowances of \$19,500, \$19,500 and \$3,462 to Messrs. Smith, Butler and Newbury, respectively;
- Payments for vacation not taken in 2013 of \$48,643, \$14,365 and \$11,847 for Messrs. Smith, Butler and Newbury, respectively;
- Reimbursement of \$16,775 to Mr. Butler for federal and state payroll withholdings customarily withheld for an employee; and
- Reimbursement of \$13,800 to Mr. Butler for healthcare premiums.

(2) Mr. Newbury resigned as Vice President of the Company effective March 28, 2013.

Narrative Disclosure to Summary Compensation Table

Employment agreements with Named Executive Officers

All of the compensation described in the foregoing table, other than those amounts shown in the “Bonus”, “Stock Awards” and “Option Awards” columns, was paid to the Named Officers pursuant to agreements with Deep Down.

Agreement with Mr. Smith. On January 1, 2010, the Company entered into an employment agreement with Mr. Smith for a term of three years, and is subject to further automatic renewals for annual periods up to an additional two years. The employment agreement provides that Mr. Smith receive an annual cash compensation of \$386,250. Effective June 1, 2013, our Board of Directors approved an annual increase of \$48,000 under the terms of the employment agreement.

Agreement with Mr. Butler. On January 1, 2010, the Company entered into an employment agreement with Mr. Butler for a term of three years, and is subject to further automatic renewals for annual periods up to an additional two years. The employment agreement provides that Mr. Butler receive an annual cash compensation of \$349,500 and reimbursement for healthcare premiums and federal and state payroll withholdings customarily withheld for an employee. Effective June 1, 2013, our Board of Directors approved an annual increase of \$24,000 under the terms of the employment agreement.

Agreement with Mr. Newbury. On March 15, 2013, Mr. Newbury notified the Company that he would resign as Vice President effective March 28, 2013 to pursue other opportunities. At the time of Mr. Newbury’s departure, the employment agreement provided an annual cash compensation of \$190,000.

The amounts included for 2013 in the “Stock Awards” column above reflect awards of restricted stock, which were granted on June 5, 2013, which will vest in one-third increments on the next three anniversary dates of the date of grant. Vesting is dependent on continued employment with Deep Down on the anniversary dates. The restricted stock was awarded to incentivize key employees to remain with the Company.

Outstanding Equity Awards at December 31, 2013

The following table summarizes outstanding stock option awards classified as exercisable and unexercisable as of December 31, 2013 for our Named Officers. The table also summarizes nonvested stock awards assuming a market value of \$2.06 per share (the closing market price of the Company’s stock on December 31, 2013). See Note 8, “Share-Based Compensation” to our consolidated financial statements included in this Report for additional information.

Name	OPTION AWARDS			STOCK AWARDS		
	Number of Securities Underlying Unexercised Options	Number of Securities Underlying Unexercised Options	Option Exercise Price	Option Expiration	Number of Shares or Units of Stock That Have Not Vested	Market Value of Shares or Units of Stock that Have Not Vested
	Exercisable (#)	Unexercisable (#)	(\$)(1)	Date (2)	(#)(3)	(\$)
Ronald E. Smith	83,334	41,666	1.80	6/8/2016	41,667	85,834
					400,000	824,000
Eugene L. Butler	83,334	41,666	1.80	6/8/2016	41,667	85,834
	500,000	–	2.00	9/1/2014		
	100,000	–	2.40	3/23/2014		
					300,000	618,000
Ira B. Selya	25,000	12,500	1.80	6/8/2016	12,500	25,750

The exercise price is equal to the closing price of Deep Down’s common stock on the grant date. These options will (1) vest in three equal increments on each anniversary of the grant date, subject to continued employment with Deep Down through these vesting dates.

(2)

Each option grant has a five-year term. Each option is scheduled to vest in three equal increments on each anniversary of the grant date, subject to continued employment with Deep Down through these vesting dates.

The restrictions on these shares of nonvested stock will lapse in one-third increments on each anniversary of the grant date, subject to achievement of both the performance-based and service-based conditions. The (3) performance-based condition is based upon the Company reaching designated EBITDA targets established by the Board of Directors on the date of grant. The service-based condition requires that the employee must remain employed by the Company continuously through the third anniversary of the date of grant.

Benefits payable upon change in control

Each of Mr. Butler's and Mr. Smith's (the "Executive") employment agreements contain provisions related to change in control.

In the event of termination of the Executive's employment for any reason, he will be entitled to receive all accrued, unpaid salary and vacation time through the date of termination and all benefits to which the Executive is entitled or vested under the terms of all employee benefit and compensation plans, agreements and arrangements in which the Executive is a participant as of the date of termination. In addition, subject to executing a general release in favor of us, the Executive will be entitled to receive certain severance payments in the event his employment is terminated by the Company "other than for cause" or by the Executive with "good reason." These severance payments include the following:

(i) a lump sum in cash equal to one times the Executive's annual base salary (at the rate in effect on the date of termination), provided, however, that if such termination occurs prior to the date that is twelve months following a change of control, then such payment will be equal to three times the Executive's annual base salary (at the rate in effect on the date of termination);

(ii) a lump sum in cash equal to the average annual bonus paid to the Executive for the prior two full fiscal years preceding the date of termination; provided, however, that if such termination occurs prior to the date that is twelve months following a change of control, then such payment will be equal to two times the average annual bonus paid to the Executive for the prior two full fiscal years preceding the date of termination;

(iii) a lump sum in cash equal to a pro rata portion of the annual bonus payable for the period in which the date of termination occurs based on the actual performance under our annual incentive bonus arrangement; provided, however, that such pro rata portion shall be calculated based on the Executive's annual bonus for the previous fiscal year; but if no previous annual bonus has been paid to the Executive, then the lump sum cash payment for this current pro rata annual bonus obligation shall be no less than fifty percent of Executive's annual base salary; and

(iv) if the Executive's termination occurs prior to the date that is twelve months following a change of control, then each and every share option, restricted share award and other equity-based award that is outstanding and held by the Executive shall immediately vest and become exercisable.

Each of the Executives have agreed to not, during the respective term of his employment and for a one-year period after his termination, engage in "Competition" (as defined in the Employment Agreement) with us, solicit business from any of our customer or potential customers, solicit the employment or services of any person employed by or a consultant to us on the date of termination or with six months prior thereto, or otherwise knowingly interfere with our business or accounts or any of our subsidiaries.

The Employment Agreements also provide that we, to the extent permitted by applicable law and our by-laws, will defend, indemnify and hold harmless the Executive from any and all claims, demands or causes of action, including reasonable attorneys' fees and expenses, suffered or incurred by the Executive as a result of the assertion or filing of any claim, demand, litigation or other proceedings based upon statements, acts or omissions made by or on behalf of the Executive pursuant to the Employment Agreement or in the course and scope of the Executive's employment with us. We will also maintain and pay all applicable premiums for directors' and officers' liability insurance which shall provide full coverage for the defense and indemnification of the Executives, to the fullest extent permitted by applicable law.

Compensation of Directors

Determining Director Compensation

The Company's Audit Committee of the Board of Directors makes all decisions regarding director compensation. Only directors, who are not employees of the Company or any of its subsidiaries or affiliates ("Independent Directors"), are entitled to receive a fee, plus reimbursement of reasonable out-of-pocket expenses incurred to attend Board and Audit Committee meetings.

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The Company uses a combination of cash and equity-based compensation, in the form of restricted stock and options to purchase common shares, to attract and retain qualified candidates to serve on the Board. We believe our compensation arrangement for Independent Directors is comparable to the standards of peer companies within our industry and geographical location.

We pay our Independent Directors meeting fees of \$1,500 per meeting of the Board of Directors attended.

The following table provides certain information with respect to the 2013 compensation of our directors who served in such capacity during the year. The 2013 compensation of those directors who are also our named executive officers is disclosed in the Summary Compensation Table above. Compensation for our Independent Directors consists of equity and cash as described below. Our only Independent Director as of the date of this Report is Randolph W. Warner.

Name	Fees Earned or Paid in Cash (\$)	Stock Awards (\$) ⁽¹⁾	Option Awards (\$)	All Other Compensation (\$)	Total
Eugene L. Butler ⁽²⁾	\$-	\$-	\$	- \$	- \$-
Ronald E. Smith ⁽²⁾	\$-	\$-	\$	- \$	- \$-
Mary L. Budrunas ⁽²⁾	\$-	\$-	\$	- \$	- \$-
Randolph W. Warner	\$3,000	\$60,000	\$	- \$	- \$63,000

Included in the “Stock Awards” column is the aggregate grant date fair value of restricted stock awards made to our Independent Director in 2013. The grant date fair value of the award was computed in accordance with FASB ASC (1)Topic 718. For a discussion of the assumptions and methodologies used to value the stock and option awards reported in the table above, see Note 8. “Share-Based Compensation” to our consolidated financial statements included in this Report. Stock awards are grants of restricted stock representing time-vesting shares.

In May 2013, we granted 30,000 restricted shares, par value \$0.001 per share, to Mr. Warner. The shares were valued at \$2.00 per share and vest over three years in equal tranches on the grant date anniversary, with continued service on our Board of Directors; we are amortizing the related share-based compensation of \$60,000 over the three-year requisite service period.

(2) Each of our directors who also serve as our executive officers, do not receive any additional compensation for their performance of services as directors. We may agree to provide compensation to these directors in the future.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters*Security Ownership of Certain Beneficial Owners and Management*

Set forth below is certain information with respect to beneficial ownership of Common Stock as of March 25, 2013 by (i) each person known by us to beneficially own more than 5 percent of the outstanding shares of our common stock; (ii) each Director; (iii) our “Named Officers” (as determined under Item 402(m) of Regulation S-K); and (iv) all directors and executive officers of Deep Down as a group. To our knowledge, all persons listed in the table have sole voting and investment power with respect to their shares, except to the extent that authority is shared with their respective spouse under applicable law. The table includes transactions effected prior to the close of business on March 25, 2014.

Name of Beneficial Owner (1)	Shares Beneficially Owned		Total Beneficial Ownership as of May 25, 2014	Percent of Outstanding Common Stock (2)
	Shares of Common Stock Beneficially Owned as of March 25, 2014	Shares Underlying Options Which Are or Will Become Exercisable Prior to May 24, 2014		
Goldman Capital Management, Inc.	845,000	–	845,000 (3)	5.3%
The Perlus Microcap Fund L.P.	1,077,706	–	1,077,706 (4)	6.8%
Wellington Management Company, LLC	2,000,000	–	2,000,000 (5)	12.5%
Directors and Executive Officers:				
Ronald E. Smith (6)	1,588,859	83,334	1,672,193 (7)	10.5%
Mary L. Budrunas (6)	930,651	–	930,651	5.8%
Eugene L. Butler	381,585	583,334	964,919 (8)	6.0%
Randolph W. Warner	30,000	–	30,000 (9)	*
Ira B. Selya	12,500	25,000	37,500 (10)	*
All directors and officers as a group (5 persons)	2,943,595	691,668	3,635,263	22.8%

* Less than 1%

- A person is deemed to be the beneficial owner of securities that can be acquired within 60 days from the date set forth above through the exercise of any option, warrant or right. Shares of common stock subject to options,
- (1) warrants or rights that are currently exercisable or exercisable within 60 days are deemed outstanding for computing the percentage of the person holding such options, warrants or rights, but are not deemed outstanding for computing the percentage of any other person.
 - (2) The percentages in the table are calculated using the total shares outstanding plus the number of securities that can be acquired within 60 days of March 25, 2014 or a total of 15,952,691 shares.
 - (3) Based on a Schedule 13G filed with the SEC dates April 1, 2013, Goldman Capital Management Inc. may be deemed the beneficial owners of 845,000 shares outstanding as of December 31, 2013.
Based on a Schedule 13G/A filed with the SEC dated January 30, 2014. The Perlus Microcap Fund L.P., Perlus
 - (4) Limited and Perlus Investment Management LLP may be deemed the beneficial owners of 1,077,706 shares outstanding as of December 31, 2013.
Based on a Schedule 13G filed with the SEC dated September 30, 2013, Wellington Management Company, LLC
 - (5) may be deemed the beneficial owners of 2,000,000 shares outstanding as of December 31, 2013. Wellington Trust Company, NA similarly filed a Schedule 13G on such date and we presume it is part of a group with Wellington Management Company, LLP.
 - (6) Mr. Smith and Ms. Budrunas are married and hold an aggregate of 2,519,510 shares of common stock, or approximately 20 percent of outstanding common stock.
 - (7) Includes 41,667 shares of restricted stock, which will vest June 8, 2014 plus 400,000 shares of restricted stock which will vest in three equal installments on June 5, 2014, June 5, 2015 and June 5, 2016.
 - (8) Includes 41,667 shares of restricted stock, which vest will June 8, 2014 plus 300,000 shares of restricted stock which will vest in three equal installments on June 5, 2014, June 5, 2015 and June 5, 2016.
 - (9) Includes 30,000 shares of restricted stock, which will vest in three equal installments on May 28, 2014, May 28, 2015 and May 28, 2016.
 - (10) Includes 12,500 shares of restricted stock, which will vest on June 8, 2014.

Disclosure regarding our equity compensation plans as required by this item is incorporated by reference to the information set forth under Item 5 “Market for the Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities” in Part II of this Report.

ITEM 13. Certain Relationships and Related Transactions, and Director Independence

Certain Relationships and Related Transactions

Our Board of Directors and management recognize that related person transactions present a heightened risk of conflicts of interest, and therefore we review all relationships and transactions in which we and our directors, director nominees and executive officers or their immediate family members, as well as holders of more than 5 percent of any class of our voting securities and their family members, have a direct or indirect material interest. As required under SEC rules, transactions that are determined to be directly or indirectly material to us or a related person are disclosed in the appropriate annual and/or quarterly statements filed with the SEC.

Director Independence

We believe that director Randolph W. Warner is “independent” under the requirements of Rule 303A.02 of the NYSE Listed Company Manual.

We intend to add an additional independent director to our Board in the second quarter of 2014.

ITEM 14. Principal Accountant Fees and Services

We retained HEIN & Associates, LLP (“HEIN”) as our principal accountant in 2011. We had no relationship with HEIN prior to their retention as our principal accountant. The following table sets forth the aggregate fees paid to HEIN for audit services rendered in connection with the Company’s consolidated financial statements and reports for the years ended December 31, 2013 and 2012, and for other services rendered during those years on behalf of Deep Down and its subsidiaries:

	December 31, 2013	December 31, 2012
(i) Audit Fees	\$200,019	\$173,650
(ii) Audit Related Fees	–	–
(iii) Tax Fees	41,500	42,558
(iv) All Other Fees	–	–

Audit Fees: Consists of fees billed for professional services rendered for the audit of Deep Down's consolidated financial statements, the review of interim condensed consolidated financial statements included in quarterly reports, services that are normally provided in connection with statutory and regulatory filings or engagements and attest services, except those not required by statute or regulation.

Audit-Related Fees: Consists of fees billed for assurance and related services that are reasonably related to the performance of the audit and review of Deep Down's consolidated financial statements and are not reported under "Audit Fees."

Tax Fees: Consists of tax compliance, tax preparation and other tax services. Tax compliance and tax preparation consists of fees billed for professional services related to assistance with tax returns. Other tax services consist of fees billed for other miscellaneous tax consulting.

All Other Fees: None.

Pre-Approval of Audit and Permissible Non-Audit Services of Independent Auditors

The Board of Directors pre-approves all audit and permissible non-audit services provided by HEIN. These services may include audit services, audit-related services, tax services and other services. The Board of Directors may also pre-approve particular services on a case-by-case basis and may delegate pre-approval authority to one or more directors. If so delegated, the director must report any pre-approval decision to the Board of Directors at its first meeting after the pre-approval was obtained.

PART IV

ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES

(a) The following consolidated financial statements of Deep Down, Inc. and subsidiaries are filed as part of this Report under Item 8 – Financial Statements and Supplementary Data:

Reports of Independent Registered Public Accounting Firms	F-1
Consolidated Balance Sheets – December 31, 2013 and 2012	F-2
Consolidated Statements of Operations – Years ended December 31, 2013 and 2012	F-3
Consolidated Statements of Changes in Stockholders’ Equity – Years ended December 31, 2013 and 2012	F-4
Consolidated Statements of Cash Flows – Years ended December 31, 2013 and 2012	F-5
Notes to Consolidated Financial Statements– Years ended December 31, 2013 and 2012	F-6

(b) Exhibits.

- 2.1 Agreement and Plan of Reorganization among MediQuip Holdings, Inc., Deep Down, Inc., and the majority shareholders of Deep Down, Inc. (incorporated by reference from Exhibit 2.1 to our Form 10-KSB/A filed on May 1, 2008).
- 3.1 Articles of Incorporation of Deep Down, Inc. (conformed to include the amendment of the Articles of Incorporation filed with the Secretary of State of the State of Nevada on September 29, 2008 (incorporated by reference from Exhibit A to our Schedule 14C filed on August 15, 2008).
- 3.2 Amended and Restated By Laws of Deep Down, Inc. (incorporated by reference from Exhibit B to our Schedule 14C filed on August 15, 2008).
- 4.1 Securities Purchase Agreement, dated September 9, 2013, between Deep Down, Inc. and the purchaser parties thereto (incorporated by reference from Exhibit 10.1 to our Form 8-K filed on September 16, 2013).
- 4.2 Registration Rights Agreement, dated September 9, 2013, between Deep Down, Inc. and the purchaser parties thereto (incorporated by reference from Exhibit 10.2 to our Form 8-K filed on September 16, 2013).
- 10.1 Amended and Restated Credit Agreement, entered into as of April 14, 2010, between Deep Down, Inc., as borrower, and Whitney National Bank, as lender, including the Guarantor’s Consent and Agreement as signed on behalf of ElectroWave USA, Inc., Flotation Technologies, Inc., Mako Technologies, LLC, Deep Down, Inc. and Deep Down International Holdings, LLC (incorporated herein by reference from Exhibit 10.31 to our Form 10-K filed on April 15, 2010).
- 10.2 First Amendment to Amended and Restated Credit Agreement, dated December 31, 2010, by and among Deep Down, Inc., as borrower, and Whitney National Bank, as lender, including the Guarantor’s Consent and Agreement as signed on behalf of ElectroWave USA, Inc., Flotation Technologies, Inc., Mako Technologies,

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LLC, Deep Down, Inc. and Deep Down International Holdings, LLC (incorporated herein by reference from Exhibit 10.4 to our Form 8-K filed on January 5, 2011).

10.3 Second Amendment to Amended and Restated Credit Agreement, dated April 12, 2011, by and among Deep Down, Inc., as borrower, and Whitney National Bank, as lender, including the Guarantor's Consent and Agreement as signed on behalf of ElectroWave USA, Inc., Flotation Technologies, Inc., Mako Technologies, LLC, Deep Down, Inc. and Deep Down International Holdings, LLC (incorporated by reference from Exhibit 10.42 to our Form 10-K filed on April 15, 2011).

10.4 Third Amendment to Amended and Restated Credit Agreement, dated as of June 9, 2011, by and among Deep Down, Inc. and Whitney Bank (incorporated by reference from Exhibit 10.1 to our Form 8-K filed on June 15, 2011).

10.5 Fourth Amendment to Amended and Restated Credit Agreement, dated April 15, 2012, by and among Deep Down, Inc. and Whitney Bank (incorporated by reference from Exhibit 10.1 to our Form 10-Q filed on May 15, 2012).

10.6 Fifth Amendment to Amended and Restated Credit Agreement, dated as of March 5, 2013, by and among Deep Down, Inc. and Whitney Bank (incorporated by reference from Exhibit 10.1 to our Form 8-K filed on March 12, 2013).

- 10.7 Guaranty, dated as of November 11, 2008, by ElectroWave USA, Inc., Flotation Technologies, Inc., Mako Technologies, LLC and Deep Down, Inc. for the benefit of Whitney National Bank (incorporated herein by reference from Exhibit 10.2 to our Form 10-Q filed on November 14, 2008).
- 10.8 Joinder to Guaranty, dated as of February 13, 2009, by Deep Down International Holdings, LLC (incorporated herein by reference from Exhibit 10.5 to our Form 10-K filed on March 16, 2009).
- 10.9 Security Agreement, dated as of November 11, 2008, among Deep Down, Inc., ElectroWave USA, Inc., Flotation Technologies, Inc., Mako Technologies, LLC and Deep Down, Inc. for the benefit of Whitney National Bank (incorporated herein by reference from Exhibit 10.3 to our Form 10-Q filed on November 14, 2008).
- 10.10 Joinder to Security Agreement, dated as of February 13, 2009, by Deep Down International Holdings, LLC (incorporated herein by reference from Exhibit 10.7 to our Form 10-K filed on March 16, 2009).
- 10.11 First Amendment to Security Agreement, dated as of December 18, 2008, by Deep Down, Inc., ElectroWave USA, Inc., Flotation Technologies, Inc., Mako Technologies, LLC and Deep Down, Inc. for the benefit of Whitney National Bank (incorporated herein by reference from Exhibit 10.3 to our Form 8-K filed on December 19, 2008).
- 10.12 Second Amendment to Security Agreement, executed as of May 29, 2009, by Deep Down, Inc., ElectroWave USA, Inc., Flotation Technologies, Inc., Mako Technologies, LLC and Deep Down, Inc., for the benefit of Whitney National Bank (incorporated by reference from Exhibit 10.4 to our Form 8-K filed on June 2, 2009).
- 10.13 Deed of Trust, Security Agreement and UCC Financing Statement for Fixture Filing, executed as of May 29, 2009, by Deep Down, Inc., as grantor, in favor of Gary M. Olander, as trustee, for the benefit of Whitney National Bank, as beneficiary (incorporated by reference from Exhibit 10.2 to our Form 8-K filed on June 2, 2009).
- 10.14 Ratification of Guaranty, Security Agreement, and Intercreditor Agreement, dated April 14, 2010, among Deep Down, Inc., a Nevada corporation, as borrower, and ElectroWave USA, Inc., Flotation Technologies, Inc., Mako Technologies, LLC, Deep Down, Inc., a Delaware corporation, each a guarantor, and Whitney National Bank, a national banking association, as lender (incorporated by reference from Exhibit 10.36 to our Form 10-K filed on April 15, 2011).
- 10.15 First Modification to Deed of Trust, dated April 14, 2010, executed by Deep Down, Inc., as grantor, for the benefit of Whitney National Bank, as lender (incorporated by reference from Exhibit 10.37 to our Form 10-K filed on April 15, 2010).
- 10.16 First Modification to Assignment of Leases and Rents, dated April 14, 2010, executed by Deep Down, Inc., as assignor, and Whitney National Bank, as assignee (incorporated by reference from Exhibit 10.38 to our Form 10-K filed on April 15, 2010).
- 10.17 Office Building Lease, dated November 24, 2008, between Deep Down, Inc. and A-K-S-L 49 Beltway 8, L.P. (incorporated herein by reference from Exhibit 10.18 to our Form 10-K filed on March 16, 2009).
- 10.18 Purchase and Sale Agreement, dated May 22, 2009, by and between Deep Down, Inc. and JUMA Properties, LLC (incorporated by reference from Exhibit 10.1 to our Form 8-K filed on June 2, 2009).
- 10.19 Employment Agreement, dated effective as of January 1, 2010, between Deep Down, Inc. and Eugene L. Butler (incorporated by reference from Exhibit 10.2 to our Form 8-K filed on January 15, 2010).
- 10.20 Amended and Restated Employment Agreement, dated effective as of January 1, 2010, between Deep Down, Inc. and Ronald E. Smith (incorporated by reference from Exhibit 10.1 to our Form 8-K filed on January 15, 2010).
- 10.21 Stock Option, Stock Warrant and Stock Award Plan (incorporated by reference from Exhibit 4.10 to our Form S-1 Registration Statement (file no. 333-152435) filed on July 21, 2008).
- 10.22 Stock Purchase Agreement, dated May 3, 2010, among Deep Down, Inc., Cuming Corporation and the Selling Stockholders named therein (incorporated by reference from Exhibit 10.1 to our Form 8-K filed on May 5, 2010).
- 10.23

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Amendment No. 1 to Stock Purchase Agreement, dated July 13, 2010, among Deep Down, Inc., Cuming Corporation and the Selling Stockholders named therein (incorporated by reference from Exhibit 10.1 to our Form 8-K filed on July 14, 2010).

10.24 Amendment No. 2 to Stock Purchase Agreement, dated October 4, 2010, among Deep Down, Inc., Cuming Corporation and the Selling Stockholders named therein (incorporated by reference from Exhibit 10.1 to our Form 8-K filed on October 4, 2010).

- 10.25 Amendment No. 3 to Stock Purchase Agreement, dated effective as of October 31, 2010, among Deep Down, Inc., Cuming Corporation and the Selling Stockholders named therein (incorporated by reference from Exhibit 10.1 to our Form 8-K filed on November 8, 2010).
- 10.26 Agreement and Amendment No. 4 to Stock Purchase Agreement, dated effective as of November 30, 2010, among Deep Down, Inc., Cuming Corporation and the Selling Stockholders named therein (incorporated by reference from Exhibit 10.1 to our Form 8-K filed on December 9, 2010).
- 10.27 Contribution Agreement, dated December 31, 2010, by and among Deep Down, Inc., Flotation Technologies, Inc., Cuming Flotation Technologies, LLC and Flotation Investor, LLC (incorporated by reference from Exhibit 10.1 to our Form 8-K filed on January 5, 2011).
- 10.28 Contract Assignment and Amendment Agreement, dated December 31, 2010, by and among Deep Down, Inc., Cuming Flotation Technologies, LLC and Cuming Corporation (incorporated by reference from Exhibit 10.2 to our Form 8-K filed on January 5, 2011).
- 10.29 Amended and Restated Limited Liability Company Agreement of Cuming Flotation Technologies, LLC, dated December 31, 2010 (incorporated by reference from Exhibit 10.5 to our Form 8-K filed on January 5, 2011).
- 10.30 Management Services Agreement, dated effective as of January 1, 2011, by and among Deep Down, Inc. and Cuming Flotation Technologies, LLC (incorporated by reference from Exhibit 10.6 to our Form 8-K filed on January 5, 2011).
- 10.31 First Amendment to Management Services Agreement, dated effective as of March 1, 2011, by and among Deep Down, Inc. and Cuming Flotation Technologies, LLC (incorporated by reference from Exhibit 10.1 to our Form 8-K filed on March 8, 2011).
- 10.32 Stock Repurchase Agreement, dated as of June 9, 2011, by and among Deep Down, Inc. and Whitney Bank (incorporated by reference from Exhibit 10.2 to our Form 8-K filed on June 15, 2011).
- 10.33 Acquisition Term Note, dated June 9, 2011, by and among Deep Down, Inc. and Whitney Bank (incorporated by reference from Exhibit 10.2 to our Form 8-K filed on June 15, 2011).
- 10.34 Indemnification and Contribution Agreement, dated October 7, 2011, by and among Deep Down, Inc., York Special Opportunities Fund, L.P., Flotation Investor, LLC and Cuming Flotation Technologies, LLC (incorporated by reference from Exhibit 10.1 to our Form 8-K filed on October 14, 2011).
- 10.35 Equipment Term Note, dated as of March 5, 2013, made by Deep Down, Inc. to the order of Whitney Bank (incorporated by reference from Exhibit 10.2 to our Form 8-K filed on March 12, 2013).
- 10.36 Building and Land Lease Agreement between W&P Development Corporation, as Landlord, and Deep Down, Inc., as Tenant, dated effective June 1, 2013 (incorporated by reference from Exhibit 10.1 to our Form 8-K filed on June 21, 2013).
- 14.1 Directors Code of Business Conduct (incorporated by reference from Exhibit 14.1 to our Form 10-K filed on April 15, 2010).
- 14.2 Financial Officer's Code of Business Conduct. (incorporated by reference from Exhibit 14.2 to our Form 10-K filed on April 15, 2010).
- 21.1* Subsidiary list.
- 31.1* Rule 13a-14(a)/15d-14(a) Certification of the President and Chief Executive Officer of Deep Down, Inc.
- 31.2* Rule 13a-14(a)/15d-14(a) Certification of the Chief Financial Officer of Deep Down, Inc.
- 32.1# Section 1350 Certification of the President and Chief Executive Officer of Deep Down, Inc.
- 32.2# Section 1350 Certification of the Chief Financial Officer of Deep Down, Inc.
- 101.INS* XBRL Instance Document
- 101.SCH* XBRL Schema Document
- 101.CAL* XBRL Calculation Linkbase Document
- 101.DEF* XBRL Definition Linkbase Document
- 101.LAB* XBRL Label Linkbase Document
- 101.PRE* XBRL Presentation Linkbase Document

* Filed herewith.

Furnished herewith.

† Exhibit constitutes a management contract or compensatory plan or arrangement.

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.

DEEP DOWN, INC.

/s/ Ronald E. Smith

Ronald E. Smith

President and Chief Executive Officer

(Principal Executive Officer)

/s/ Eugene L. Butler

Eugene L. Butler

Executive Chairman and Chief Financial Officer

(Principal Financial Officer)

/s/ Ira B. Selya

Ira B. Selya

Corporate Controller

(Principal Accounting Officer)

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

<u>Signature</u>	<u>Title</u>
/s/ Ronald E. Smith Ronald E. Smith	President, Chief Executive Officer and Director (Principal Executive Officer)
/s/ Eugene L. Butler Eugene L. Butler	Executive Chairman and Chief Financial Officer (Principal Financial Officer)
/s/ Mary L. Budrunas Mary L. Budrunas	Vice-President, Corporate Secretary and Director
/s/ Randolph W. Warner Randolph W. Warner	Director

Date: March 28, 2014

EXHIBIT INDEX

Exhibit Number	Description of Exhibit
2.1	Agreement and Plan of Reorganization among MediQuip Holdings, Inc., Deep Down, Inc., and the majority shareholders of Deep Down, Inc. (incorporated by reference from Exhibit 2.1 to our Form 10-KSB/A filed on May 1, 2008).
3.1	Articles of Incorporation of Deep Down, Inc. (conformed to include the amendment of the Articles of Incorporation filed with the Secretary of State of the State of Nevada on September 29, 2008 (incorporated by reference from Exhibit A to our Schedule 14C filed on August 15, 2008).
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- 10.28

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Contract Assignment and Amendment Agreement, dated December 31, 2010, by and among Deep Down, Inc., Cuming Flotation Technologies, LLC and Cuming Corporation (incorporated by reference from Exhibit 10.2 to our Form 8-K filed on January 5, 2011).

10.29 Amended and Restated Limited Liability Company Agreement of Cuming Flotation Technologies, LLC, dated December 31, 2010 (incorporated by reference from Exhibit 10.5 to our Form 8-K filed on January 5, 2011).

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- 14.1 Directors Code of Business Conduct (incorporated by reference from Exhibit 14.1 to our Form 10-K filed on April 15, 2010).
- 14.2 Financial Officer's Code of Business Conduct. (incorporated by reference from Exhibit 14.2 to our Form 10-K filed on April 15, 2010).
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- 31.2* Rule 13a-14(a)/15d-14(a) Certification of the Chief Financial Officer of Deep Down, Inc.
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- 101.LAB* XBRL Label Linkbase Document
- 101.PRE* XBRL Presentation Linkbase Document

* Filed herewith.

Furnished herewith.

† Exhibit constitutes a management contract or compensatory plan or arrangement.

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Shareholders

Deep Down, Inc.

Houston, Texas

We have audited the accompanying consolidated balance sheets of Deep Down, Inc. and subsidiaries (the "Company") as of December 31, 2013 and 2012, and the related consolidated statements of operations, changes in shareholders' equity and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits 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 Deep Down, Inc. and subsidiaries as of December 31, 2013 and 2012, and the results of their operations and their cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

We were not engaged to examine management's assertion about the effectiveness of Deep Down, Inc.'s internal control over financial reporting as of December 31, 2013 included in Item 9A of Part II in the Company's Annual Report on Form 10-K for the year ended December 31, 2013 and, accordingly, we do not express an opinion thereon.

/s/ Hein & Associates LLP

Hein & Associates LLP

Houston, Texas

March 28, 2014

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DEEP DOWN, INC.**CONSOLIDATED BALANCE SHEETS**

(In thousands, except par value amounts)

	December 31, 2013	December 31, 2012
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 5,260	\$ 1,523
Accounts receivable, net of allowance of \$1,006 and \$1,211, respectively	4,979	7,140
Inventory	254	232
Costs and estimated earnings in excess of billings on uncompleted contracts	5,847	2,547
Prepaid expenses and other current assets	274	321
Total current assets	16,614	11,763
Property, plant and equipment, net	15,395	13,103
Investment in joint venture	468	984
Intangibles, net	119	126
Goodwill	4,916	4,916
Other assets	790	607
Total assets	\$ 38,302	\$ 31,499
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 2,788	\$ 4,289
Billings in excess of costs and estimated earnings on uncompleted contracts	201	753
Deferred revenues	—	44
Current portion of long-term debt	1,716	680
Total current liabilities	4,705	5,766
Long-term debt, net	3,218	2,936
Total liabilities	7,923	8,702
Commitments and contingencies (Note 12)		
Stockholders' equity:		
Preferred stock, \$0.001 par value, 10,000 shares authorized, 0 shares issued and outstanding	—	—
Common stock, \$0.001 par value, 24,500 shares authorized, 15,261 and 10,152 shares issued and outstanding, respectively	15	10
Additional paid-in capital	72,142	63,970
Accumulated deficit	(41,778)	(41,183)
Total stockholders' equity	30,379	22,797
Total liabilities and stockholders' equity	\$ 38,302	\$ 31,499

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

DEEP DOWN, INC.**CONSOLIDATED STATEMENTS OF OPERATIONS****FOR THE YEARS ENDED DECEMBER 31, 2013 and 2012**

<i>(In thousands, except per share amounts)</i>	Year Ended	
	December 31,	December 31,
	2013	2012
Revenues	\$29,593	\$29,034
Cost of sales:		
Cost of sales	19,454	18,424
Depreciation expense	1,425	1,317
Total cost of sales	20,879	19,741
Gross profit	8,714	9,293
Operating expenses:		
Selling, general and administrative	8,769	8,947
Depreciation and amortization	158	456
Impairment of long-lived assets	—	2,156
Total operating expenses	8,927	11,559
Operating loss	(213)	(2,266)
Other income (expense):		
Interest expense, net	(195)	(155)
Equity in net loss of joint venture	(16)	(179)
Other, net	(189)	198
Total other income (expense)	(400)	(136)
Loss before income taxes	(613)	(2,402)
Income tax benefit (expense)	18	(52)
Net loss	\$(595)	\$(2,454)
Net loss per share:		
Basic	\$(0.05)	\$(0.24)
Diluted	\$(0.05)	\$(0.24)
Weighted-average shares outstanding:		
Basic	11,858	10,185
Diluted	11,860	10,185

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

DEEP DOWN, INC.**CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY****FOR THE YEARS ENDED DECEMBER 31, 2013 and 2012**

(In thousands)	Common Stock		Additional	Accumulated	Total
	Shares (#)	Amount (\$)	Paid-in Capital	Deficit	
Balance at December 31, 2011	10,244	\$ 10	\$ 63,504	\$ (38,729)) \$24,785
Net loss	—	—	—	(2,454)) (2,454)
Shares purchased and retired	(40)	—	(48)	—) (48)
Shares issued due to reverse split rounding	2	—	—	—	—
Unvested restricted stock award shares forfeited and retired	(16)	—	—	—	—
Shares surrendered to settle employee tax liabilities and retired	(38)	—	(40)	—) (40)
Share-based compensation	—	—	554	—	554
Balance at December 31, 2012	10,152	\$ 10	\$ 63,970	\$ (41,183)) \$22,797
Net loss	—	—	—	(595)) (595)
Restricted stock awards	730	1	(1)	—	—
Issuance of common stock, net	4,444	4	7,624	—	7,628
Unvested restricted stock award shares forfeited and retired	(33)	—	—	—	—
Shares surrendered to settle employee tax liabilities and retired	(32)	—	(61)	—) (61)
Share-based compensation	—	—	610	—	610
Balance at December 31, 2013	15,261	\$ 15	\$ 72,142	\$ (41,778)) \$30,379

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

DEEP DOWN, INC.**CONSOLIDATED STATEMENTS OF CASH FLOWS****FOR THE YEARS ENDED DECEMBER 31, 2013 and 2012**

(In thousands)	Year Ended December 31,	
	2013	2012
Cash flows from operating activities:		
Net loss	\$(595)	\$(2,454)
Adjustments to reconcile net loss to net cash used in operating activities:		
Impairment of long-lived assets	–	2,156
Depreciation and amortization	1,583	1,773
Share-based compensation	610	554
Bad debt expense	61	1,134
Equity in net loss of joint venture	16	179
Abandonment of patents	–	80
Forgiveness of debt	–	(10)
Gain on sales of property, plant and equipment	(30)	(198)
Changes in operating assets and liabilities:		
Accounts receivable	2,039	(2,460)
Inventory	(22)	–
Costs and estimated earnings in excess of billings on uncompleted contracts	(3,300)	(2,463)
Prepaid expenses and other current assets	47	(59)
Other assets	250	34
Accounts payable and accrued liabilities	(1,501)	1,723
Deferred revenues	(44)	(216)
Billings in excess of costs and estimated earnings on uncompleted contracts	(552)	(1,014)
Net cash used in operating activities	(1,438)	(1,241)
Cash flows from investing activities:		
Proceeds from sale of property, plant and equipment	120	263
Payments received on notes receivable	13	55
Cash paid for patents	–	(35)
Cash paid for exclusive product rights	–	(125)
Cash paid for deposits, net	(413)	(166)
Purchases of property, plant and equipment	(776)	(1,519)
Cash distribution received from joint venture	500	–
Net cash (used in) provided by investing activities	(556)	(1,527)
Cash flows from financing activities:		
Proceeds from long-term debt	1,021	1,170
Deferred financing costs on bank term loan	(45)	–
Proceeds from issuance of common stock, net	7,628	–
Cash paid for purchase of our common stock	–	(48)

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Principal payments on long-term debt	(2,873)	(1,810)
Net cash provided by financing activities	5,731	(688)
(Decrease) increase in cash and cash equivalents	3,737	(3,456)
Cash and cash equivalents, beginning of year	1,523	4,979
Cash and cash equivalents, end of year	\$5,260	\$1,523

Supplemental schedule of operating, investing and financing activities:

Cash paid for interest	\$170	\$139
Prepaid insurance purchased on credit	\$-	\$385
Property, plant and equipment acquired via debt	\$3,170	\$1,200
Shares of common stock surrendered to settle employee payroll tax liabilities	\$61	\$40

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

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Notes to Consolidated Financial Statements for the Years ended December 31, 2013 and 2012

(Amounts in thousands except per share amounts)

NOTE 1: DESCRIPTION OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Description of Business

Deep Down, Inc., a Nevada corporation (“Deep Down Nevada”), and its wholly-owned subsidiaries, Deep Down, Inc., a Delaware corporation (“Deep Down Delaware”); Mako Technologies, LLC, a Nevada limited-liability company (“Mako”) (operations consolidated into Deep Down Delaware in August 2012); Flotation Technologies, Inc., a Maine corporation (dissolved in August 2012), Deep Down International Holdings, LLC, a Nevada limited-liability company, and Deep Down Brasil, Ltda., a Brazil limited liability company (“Deep Down Brasil”), (collectively referred to as “Deep Down”, “we”, “us” or the “Company”) is an oilfield services company specializing in complex deepwater and ultra-deepwater oil production distribution system support services, serving the worldwide offshore exploration and production industry. Our services and technological solutions include distribution system installation support and engineering services, umbilical terminations, loose-tube steel flying leads, flotation and Remote Operated Vehicles (“ROVs”) and related services. We support subsea engineering, installation, commissioning, and maintenance projects through specialized, highly experienced service teams and engineered technological solutions. Deep Down’s primary focus is on more complex deepwater and ultra-deepwater oil production distribution system support services and technologies, used between the platform and the wellhead.

Additionally in August 2012, we consolidated the operations of Mako in Morgan City, Louisiana into Deep Down Delaware in Channelview, Texas.

Liquidity

As a deepwater service provider, our revenues, profitability, cash flows, and future rate of growth are substantially dependent on the condition of the global oil and gas industry generally, and our customers’ ability to invest capital for offshore exploration, drilling and production and maintain or increase levels of expenditures for maintenance of offshore drilling and production facilities. Oil and gas prices and the level of offshore drilling and production activity have historically been characterized by significant volatility. We enter into large, fixed-price contracts which may require significant lead time and investment. A decline in offshore drilling and production activity could result in lower contract volume or delays in significant contracts which could negatively impact our earnings and cash flows. Our earnings and cash flows could also be negatively affected by delays in payments by significant customers or

delays in completion of our contracts for any reason. While our objective is to enter into contracts with our customers that are cash flow positive, we may not always be able to achieve this objective. We are dependent on our cash flows from operations to fund our working capital requirements and the uncertainties noted above create risks that we may not achieve our planned earnings or cash flow from operations, which may require us to raise additional debt or equity capital. There can be no assurance that we could raise additional capital.

During the fiscal years ended December 31, 2013 and 2012, we supplemented the financing of our capital needs primarily through debt and equity financings. Since 2008, we have maintained a credit facility with Whitney Bank, a state chartered bank (“Whitney”); see additional discussion in Note 6, “Long-Term Debt”. During the third quarter of 2013, we issued an additional 4,444 shares of common stock resulting in net cash proceeds of \$7,628. As a result of our credit facility, the private placement and cash we expect to generate from operations, we believe we will have adequate liquidity to meet our future operating requirements.

Summary of Significant Accounting Policies

Principles of Consolidation

The consolidated financial statements include the accounts of Deep Down and its wholly-owned subsidiaries for the years ended December 31, 2013 and 2012. All intercompany transactions and balances have been eliminated.

Reclassifications

Certain prior period amounts have been reclassified to conform to the current period presentation. These reclassifications have not resulted in any changes to previously reported net income (loss) or cash flows.

Notes to Consolidated Financial Statements for the Years ended December 31, 2013 and 2012

(Amounts in thousands except per share amounts)

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 and disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Segments

For the years ended December 31, 2013 and 2012, our operating segments, Deep Down Delaware and Mako have been aggregated into a single reporting segment. In August 2012, we consolidated the operations of Mako in Morgan City, Louisiana into Deep Down Delaware in Channelview, Texas. While the operating segments have different product lines, they are very similar. They are all service-based operations revolving around our personnel's expertise in the deepwater and ultra-deepwater industry, and any equipment is produced to a customer specified design and engineered using Deep Down personnel's expertise, with installation and project management as part of our service revenue to the customer. Additionally, the operating segments have similar customers and distribution methods, and their economic characteristics are similar with regard to their gross margin percentages. Our operations are located in the United States, although we occasionally generate sales to international customers.

Cash and Cash Equivalents

We consider all highly liquid investments with maturities from date of purchase of three months or less to be cash equivalents. Cash and cash equivalents consist of cash on deposit with domestic banks and, at times, may exceed federally insured limits.

Fair Value of Financial Instruments

Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. We utilize a fair value hierarchy, which maximizes the use of observable inputs and minimizes the use of unobservable inputs when measuring fair value. The fair value hierarchy has three levels of inputs that may be used to measure fair value:

Level 1 - Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities.

Level 2 - Quoted prices in markets that are not active; or other inputs that are observable, either directly or indirectly, for substantially the full term of the asset or liability.

Level 3 - Prices or valuation techniques that require inputs that are both significant to the fair value measurement and unobservable.

Our financial instruments consist primarily of cash equivalents, trade receivables and payables, and debt instruments. The carrying values of cash equivalents and trade receivables and payables approximated their fair values at December 31, 2013 and 2012 due to their short-term maturities. We calculated the fair values of our debt instruments using time value of money principles, and determined their carrying values at December 31, 2013 and 2012 also approximated their fair values.

Accounts Receivable

Trade receivables are uncollateralized customer obligations due under normal trade terms. We provide an allowance for doubtful trade receivables based on a specific review of each customer's trade receivable balance with respect to their ability to make payments. When specific accounts are determined to require an allowance, they are expensed by a provision for bad debts in that period. At December 31, 2013 and 2012, we estimated the allowance for doubtful accounts requirement to be \$1,006 and \$1,211, respectively. Bad debt expense totaled \$61 and \$1,134 for the years ended December 31, 2013 and 2012, respectively.

Notes to Consolidated Financial Statements for the Years ended December 31, 2013 and 2012

(Amounts in thousands except per share amounts)

Concentration of Credit Risk

As of December 31, 2013, five of our customers accounted for 31 percent, 14 percent, 14 percent, 12 percent and 9 percent of total trade accounts receivable. As of December 31, 2012, five of our customers accounted for 53 percent, 7 percent, 7 percent, 6 percent and 5 percent of total trade accounts receivable.

For the year ended December 31, 2013, our five largest customers accounted for 38 percent, 13 percent, 11 percent, 8 percent and 7 percent of total revenues. For the year ended December 31, 2012, our four largest customers accounted for 30 percent, 15 percent, 6 percent and 5 percent of total revenues.

Inventory

Inventory, which consists of spare parts and materials used in our operations, is stated at lower of cost (first-in, first out) or net realizable value.

Long-Lived Assets

Property, plant and equipment. Property, plant and equipment is stated at cost, net of accumulated depreciation and amortization. Depreciation and amortization is computed using the straight-line method over the estimated useful lives of the respective assets. Replacements and betterments are capitalized, while maintenance and repairs are expensed as incurred. It is our policy to include amortization expense on assets acquired under capital leases with depreciation expense on owned assets. Additionally, we record depreciation and amortization expense related to revenue-generating assets as a component of cost of sales in the accompanying statements of operations.

Goodwill. Goodwill is the excess of cost of an acquired entity over the amounts assigned to identifiable assets acquired and liabilities assumed in a business combination. Goodwill is not subject to amortization, but is tested for impairment annually during the fourth quarter, or more frequently if an event occurs or circumstances change that would indicate a potential impairment. These circumstances may include an adverse change in the business climate or

a change in the assessment of future operations of a reporting unit.

The Company assesses whether a goodwill impairment exists using both qualitative and quantitative assessments. The qualitative assessment involves determining whether events or circumstances exist that indicate it is more likely than not that the fair value of a reporting unit is less than its carrying amount, including goodwill. If, based on this qualitative assessment, it is determined that it is not more likely than not that the fair value of a reporting unit is less than its carrying amount, the Company does not perform a quantitative assessment.

If the qualitative assessment indicates that it is more likely than not that the fair value of a reporting unit is less than its carrying amount or if the Company elects not to perform a qualitative assessment, a quantitative assessment or two-step impairment test is performed to determine whether goodwill impairment exists at the reporting unit.

The first step is to compare the estimated fair value of each reporting unit with goodwill to its carrying amount, including goodwill. To determine fair value estimates, the Company uses the income approach based on discounted cash flow analyses, combined with a market-based approach. The market-based approach considers valuation comparisons of recent public sale transactions of similar businesses and earnings multiples of publicly traded businesses operating in industries consistent with the reporting unit. If the fair value of a reporting unit is less than its carrying amount, the second step of the impairment test is performed to determine the amount of impairment loss, if any. The second step compares the implied fair value of the reporting unit goodwill with the carrying amount of that goodwill. If the carrying amount of the reporting unit's goodwill exceeds its implied fair value, an impairment loss is recognized in an amount equal to that excess.

There was no impairment of goodwill for the years ended December 31, 2013 and 2012. The quantitative assessment of goodwill we performed as of December 31, 2013 demonstrated that our goodwill's fair value exceeded its carrying value by \$1,350. Not achieving the financial performance estimates used in calculating the fair value may give rise to a future impairment.

Other intangible assets. Our other intangible assets generally consist of assets acquired related to previous business combinations and are primarily comprised of customer lists, trademarks and non-compete covenants. We amortize intangible assets over their useful lives ranging from six to twenty-five years on a straight-line basis. We make judgments and estimates in conjunction with the carrying value of these assets, including amounts to be capitalized, amortization methods, useful lives and the valuation of acquired other intangible assets. All the intangible assets of Flotation were contributed to CFT effective December 31, 2010; see additional discussion in Note 3, "Investment in Joint Venture."

Notes to Consolidated Financial Statements for the Years ended December 31, 2013 and 2012

(Amounts in thousands except per share amounts)

We test for the impairment of other intangible assets upon the occurrence of a triggering event. We base our evaluation on impairment indicators such as the nature of the assets, the future economic benefit of the assets, any historical or future profitability measurements and other external market conditions or factors that may be present. If these impairment indicators are present or other factors exist that indicate the carrying amount of an asset may not be recoverable, we determine whether an impairment has occurred through the use of an undiscounted cash flows analysis of the asset at the lowest level for which identifiable cash flows exist. The undiscounted cash flow analysis consists of estimating the future cash flows that are directly associated with and expected to arise from the use and eventual disposition of the asset over its remaining useful life. These cash flows are inherently subjective and require significant estimates based upon historical experience and future expectations reflected in our budgets and internal projections. If the undiscounted cash flows do not exceed the carrying value of the long-lived asset, an impairment has occurred, and we recognize a loss for the difference between the carrying amount and the estimated fair value of the asset. The fair value of the asset is measured using quoted market prices or, in the absence of quoted market prices, is based on an estimate of discounted cash flows. Cash flows are generally discounted at an interest rate commensurate with our weighted average cost of capital for a similar asset.

In August 2012, we closed down our office in Morgan City, Louisiana, and consolidated the operations of Mako into Deep Down Delaware in Channelview, Texas. In November 2012, we evaluated Mako's customer lists, trademarks and non-compete covenants in light of the consolidation and determined that these other intangible assets had no future economic benefit. As a result, in the year ended December 31, 2012, we recorded impairment expense of \$2,156 primarily to fully impair the remaining carrying value of the Mako intangibles.

Equity Method Investments

Equity method investments in joint ventures are reported as investments in joint venture on the consolidated balance sheets, and our share of earnings or losses in the joint venture is reported as equity in net income or loss of joint venture in the consolidated statements of operations.

Lease Obligations

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We lease land, buildings, vehicles and certain equipment under non-cancellable operating leases. Since February 2009, we have leased our corporate headquarters in Houston, Texas, under a non-cancellable operating lease. Deep Down Delaware leases indoor manufacturing space and Mako leases office, warehouse and operating space in Morgan City, Louisiana, under a non-cancellable operating lease. As a result of the consolidation of Mako's operations into Deep Down Delaware in August 2012; in December 2012, we sub-leased this space to a third party. We also lease certain office and other operating equipment under capital leases; the related assets are included with property, plant and equipment on the consolidated balance sheets.

At the inception of a lease, we evaluate the agreement to determine whether the lease will be accounted for as an operating or capital lease. The term of the lease used for such an evaluation includes renewal option periods only in instances in which the exercise of the renewal option can be reasonably assured and failure to exercise such option would result in an economic penalty.

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Notes to Consolidated Financial Statements for the Years ended December 31, 2013 and 2012

(Amounts in thousands except per share amounts)

Revenue Recognition

We recognize revenue once the following four criterion are met: (i) persuasive evidence of an arrangement exists; (ii) delivery of the equipment has occurred or services have been rendered, (iii) the price of the equipment or service is fixed and determinable and (iv) collectability of the related receivable is reasonably assured. Service revenue is recognized as the service is provided, and time and materials contracts are billed on a bi-weekly or monthly basis as costs are incurred. Customer billings for shipping and handling charges are included in revenue. Revenues are recorded net of sales taxes.

From time to time, we enter into fixed-price contracts. The percentage-of-completion method is used as a basis for recognizing revenue on these contracts. We recognize revenue as costs are incurred because we believe the incurrence of cost reasonably reflects progress made toward project completion.

Provisions for estimated losses on uncompleted large fixed-price contracts (if any) are recorded in the period in which it is determined it is more likely than not a loss will be incurred. Changes in job performance, job conditions, and total contract values may result in revisions to costs and income and are recognized in the period in which the revisions are determined. Unapproved change orders are accounted for in revenue and cost when it is probable that the costs will be recovered through a change in the contract price. In circumstances where recovery is considered probable but the revenues cannot be reliably estimated, costs attributable to change orders are deferred pending determination of contract price.

Costs and estimated earnings in excess of billings on uncompleted contracts arise when revenues are recorded on a percentage-of-completion basis but cannot be invoiced under the terms of the contract. Such amounts are invoiced upon completion of contractual milestones. Billings in excess of costs and estimated earnings on uncompleted contracts arise when milestone billings are permissible under the contract, but the related costs have not yet been incurred. All contract costs are recognized currently on jobs formally approved by the customer and contracts are not shown as complete until virtually all anticipated costs have been incurred and the risk of loss has passed to the customer.

Assets and liabilities related to costs and estimated earnings in excess of billings on uncompleted contracts, as well as liabilities related to billings in excess of costs and estimated earnings on uncompleted contracts, have been classified as current. The contract cycle for certain long-term contracts may extend beyond one year, thus complete collection of

amounts related to these contracts may extend beyond one year, though such long-term contracts include contractual milestone billings as discussed above.

Income Taxes

We follow the asset and liability method of accounting for income taxes. This method takes into account the differences between financial statement treatment and tax treatment of certain transactions. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect of a change in tax rates is recognized as income or expense in the period that includes the enactment date.

We record a valuation allowance to reduce the carrying value of our deferred tax assets when it is more likely than not that some or all of the deferred tax assets will expire before realization of the benefit or that future deductibility is not probable. The ultimate realization of the deferred tax assets depends upon our ability to generate sufficient taxable income of the appropriate character in the future. This requires management to use estimates and make assumptions regarding significant future events such as the taxability of entities operating in the various taxing jurisdictions. In evaluating our ability to recover our deferred tax assets, we consider all reasonably available positive and negative evidence, including our past operating results, the existence of cumulative losses in the most recent years and our forecast of future taxable income. In estimating future taxable income, we develop assumptions, including the amount of future state, and federal pre-tax operating income, the reversal of temporary differences and the implementation of feasible and prudent tax planning strategies. These assumptions require significant judgment. When the likelihood of the realization of existing deferred tax assets changes, adjustments to the valuation allowance are charged in the period in which the determination is made, either to income or goodwill, depending upon when that portion of the valuation allowance was originally created.

We record an estimated tax liability or tax benefit for income and other taxes based on what we determine will likely be paid in the various tax jurisdictions in which we operate. We use our best judgment in the determination of these amounts. However, the liabilities ultimately realized and paid are dependent upon various matters, including resolution of tax audits, and may differ from amounts recorded. An adjustment to the estimated liability would be recorded as a provision or benefit to income tax expense in the period in which it becomes probable that the amount of the actual liability or benefit differs from the recorded amount.

Notes to Consolidated Financial Statements for the Years ended December 31, 2013 and 2012

(Amounts in thousands except per share amounts)

Our future effective tax rates could be adversely affected by changes in the valuation of our deferred tax assets or liabilities or changes in tax laws or interpretations thereof. If and when our deferred tax assets are no longer fully reserved, we will begin to provide for taxes at the full statutory rate. In addition, we are subject to the examination of our income tax returns by the Internal Revenue Service and other tax authorities. We regularly assess the likelihood of adverse outcomes resulting from these examinations to determine the adequacy of our provision for income taxes.

Share-Based Compensation

We record share-based payment awards exchanged for employee service at fair value on the date of grant and expense the awards in the consolidated statements of operations over the requisite employee service period. Share-based compensation expense includes an estimate for forfeitures and is generally recognized over the expected term of the award on a straight-line basis. At December 31, 2013, we had two types of share-based employee compensation: stock options and restricted stock. In addition to employee service, the restricted stock awards also have a performance component.

Key assumptions used in the Black-Scholes model for stock option valuations include (1) expected volatility (2) expected term (3) discount rate and (4) expected dividend yield. Since we do not have a sufficient trading history to determine the volatility of our own stock, we based our estimates of volatility on a representative peer group consisting of companies in the same industry, with similar market capitalizations and similar stage of development. Additionally, we continue to use the simplified method related to employee option grants.

Earnings or Loss per Common Share

Basic earnings or loss per common share ("EPS") is calculated by dividing net earnings or loss by the weighted average number of common shares outstanding for the period. Diluted EPS is calculated by dividing net earnings or loss by the weighted average number of common shares and dilutive common stock equivalents (stock options and warrants) outstanding during the period. Diluted EPS reflects the potential dilution that could occur if stock options and warrants to purchase common stock were exercised for shares of common stock. In periods where losses are reported, the weighted-average number of common shares outstanding excludes common stock equivalents, because their inclusion would be anti-dilutive.

Recent Accounting Pronouncements

In July 2013, the Financial Accounting Standards Board issued accounting guidance on the presentation of an unrecognized tax benefit when a net operating loss carryforward, a similar tax loss, or a tax credit carryforward exists. The guidance states that an unrecognized tax benefit, or a portion of an unrecognized tax benefit, should be presented in the financial statements as a reduction to a deferred tax asset for a net operating loss carryforward, a similar tax loss, or a tax credit carryforward. To the extent a net operating loss carryforward, a similar tax loss, or a tax credit carryforward is not available at the reporting date under the tax law of the applicable jurisdiction to settle any additional income taxes that would result from the disallowance of a tax position or the tax law of the applicable jurisdiction does not require the entity to use, and the entity does not intend to use, the deferred tax asset for such purpose, the unrecognized tax benefit should be presented in the financial statements as a liability and should not be combined with deferred tax assets. This guidance is effective for fiscal years, and interim periods within those years, beginning after December 15, 2013, which would be for our year ended December 31, 2014. This guidance should be applied prospectively to all unrecognized tax benefits that exist at the effective date. Retrospective application is permitted. The adoption of this guidance is not expected to have a significant impact on our consolidated financial position or results of operation.

Off-Balance Sheet Arrangements

We have no off-balance sheet arrangements that have or are reasonably likely to have a current or future effect on our financial condition, results of operations, liquidity, capital expenditures or capital resources.

Notes to Consolidated Financial Statements for the Years ended December 31, 2013 and 2012*(Amounts in thousands except per share amounts)***NOTE 2: COSTS, ESTIMATED EARNINGS AND BILLINGS ON UNCOMPLETED CONTRACTS**

Costs, estimated earnings and billings on uncompleted contracts are summarized below:

	December 31, 2013	December 31, 2012
Costs incurred on uncompleted contracts	\$ 14,496	\$ 9,915
Estimated earnings on uncompleted contracts	5,539	4,714
	20,035	14,629
Less: Billings to date on uncompleted contracts	(14,389)	(12,835)
	\$ 5,646	\$ 1,794
Included in the accompanying consolidated balance sheets under the following captions:		
Costs and estimated earnings in excess of billings on uncompleted contracts	\$ 5,847	\$ 2,547
Billings in excess of costs and estimated earnings on uncompleted contracts	(201)	(753)
	\$ 5,646	\$ 1,794

The balances in costs in excess of billings and estimated earnings on uncompleted contracts at December 31, 2013 and 2012 consisted of earned but unbilled revenues related to fixed-price projects.

The balances in billings in excess of costs and estimated earnings on uncompleted contracts at December 31, 2013 and 2012 consisted of unearned milestone billings related to fixed-price projects.

NOTE 3: INVESTMENT IN JOINT VENTURE

Effective December 31, 2010, we engaged in a transaction in which all of the operating assets and substantially all of the liabilities of Flotation were contributed, along with other contributions we made, to the CFT joint venture in return for a 20 percent common unit ownership interest.

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On October 7, 2011, CFT consummated a transaction pursuant to that certain Stock Purchase Agreement (the “Purchase Agreement”), by and between CFT and a Houston-based company (“Buyer”) pursuant to which Buyer purchased from CFT (i) all of the issued and outstanding shares of capital stock of Cuming Corporation (“Cuming”), the principal operating subsidiary of CFT, (ii) the shares of 230 Bodwell Corporation, a Massachusetts corporation and subsidiary of Cuming, and (iii) certain assets that, immediately prior to closing, were acquired by Cuming, for a purchase price of \$60,000 (less certain debt and subject to purchase price adjustment for working capital and potential earn-out payments). We are entitled to 20 percent of future earn-out proceeds from the sale.

The components of our Investment in joint venture are summarized below:

Investment in joint venture, December 31, 2011	\$1,163
Equity in net loss of CFT for the year ended December 31, 2012	(179)
Investment in joint venture, December 31, 2012	\$984
Equity in net loss of CFT for the year ended December 31, 2013	(16)
Cash distribution from CFT for the year ended December 31, 2013	(500)
Investment in joint venture, December 31, 2013	\$468

Notes to Consolidated Financial Statements for the Years ended December 31, 2013 and 2012*(Amounts in thousands except per share amounts)*

Below are unaudited condensed statements of operations data of CFT for the years ended December 31, 2013 and 2012:

	Year Ended December 31,	
	2013	2012
Revenues	\$-	\$2,744
Gross profit	\$-	\$518
Net loss	\$(80)	\$(895)

Below are unaudited condensed consolidated balance sheets of CFT as of December 31, 2013 and December 31, 2012:

	December 31, 2013	December 31, 2012
Current assets	\$ 863	\$ 5,749
Property, plant and equipment, net	1,527	1,675
Total assets	\$ 2,390	\$ 7,424
Current liabilities	\$ 51	\$ 2,500
Equity	2,339	4,924
Total liabilities and equity	\$ 2,390	\$ 7,424

NOTE 4: PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment consisted of the following as of December 31, 2013 and 2012:

December 31, 2013	December 31, 2012	Range of Asset Lives
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Land	\$ 1,582	\$ 1,582	–
Buildings and improvements	1,571	1,555	7 - 36 years
Leasehold improvements	602	221	2 - 5 years
Equipment	17,840	14,251	2 - 30 years
Furniture, computers and office equipment	1,329	1,248	2 - 8 years
Construction in progress	189	487	–
Total property, plant and equipment	23,113	19,344	
Less: Accumulated depreciation and amortization	(7,718)	(6,241)	
Property, plant and equipment, net	\$ 15,395	\$ 13,103	

Included in property, plant and equipment are assets under capital lease of \$253 and \$1,493 at December 31, 2013 and 2012, respectively, with related accumulated amortization of \$55 and \$133 at December 31, 2013 and 2012, respectively.

Depreciation expense excluded from cost of sales in the accompanying consolidated statements of operations was \$139 and \$140 for the years ended December 31, 2013 and 2012, respectively. Depreciation expense included in cost of sales in the accompanying consolidated statements of operations was \$1,425 and \$1,317 for the years ended December 31, 2013 and 2012, respectively.

At December 31, 2013 and 2012, construction in progress represents assets that are not ready for service or are in the construction stage. We will begin depreciating these assets once they are placed in service.

Notes to Consolidated Financial Statements for the Years ended December 31, 2013 and 2012*(Amounts in thousands except per share amounts)***NOTE 5: GOODWILL AND OTHER INTANGIBLE ASSETS***Goodwill*

Goodwill represents the excess of the cost over the net tangible and identifiable intangible assets of acquired businesses.

At December 31, 2013 and 2012, our management completed the annual impairment test of goodwill. There was no impairment indicated at December 31, 2013 or 2012.

Other Intangible Assets

Identifiable intangible assets acquired in business combinations are recorded based upon fair market value at the date of acquisition. Amounts allocated to intangible assets are amortized on a straight-line basis over their estimated useful lives. Estimated intangible asset values, net of accumulated amortization include the following:

		December 31, 2013			December 31, 2012		
	Estimated	Gross Carrying	Accumulated Amortization	Net Carrying Amount	Gross Carrying	Accumulated Amortization	Net Carrying Amount
	Useful Life	Amount	Amount	Amount	Amount	Amount	Amount
Patents	17 Years	138	(19)	119	138	(12)	126
Total		\$138	\$ (19)	\$ 119	\$138	\$ (12)	\$ 126

In August 2012, we closed down our office in Morgan City, Louisiana, and consolidated the operations of Mako into Deep Down Delaware in Channelview, Texas. In November 2012, we evaluated Mako's customer lists, trademarks and non-compete covenants in light of the consolidation and determined that these long-lived assets had no future economic benefit. As a result, in the year ended December 31, 2012, we recorded impairment expense of \$2,156 primarily to fully impair the remaining carrying value of the Mako other intangibles. There was no impairment of

other intangible assets for the year ended December 31, 2013.

Amortization expense is estimated to be an average of \$6 over each of the next five years.

NOTE 6: LONG-TERM DEBT

Long-term debt consisted of the following:

	December 31, 2013	December 31, 2012
Secured credit agreement - Whitney Bank	\$ 1,917	\$ 2,909
Note payable	2,906	-
Capital lease obligations	111	707
Total long-term debt	4,934	3,616
Less: Current portion of long-term debt	(1,716)	(680)
Long-term debt, net of current portion	\$ 3,218	\$ 2,936

Notes to Consolidated Financial Statements for the Years ended December 31, 2013 and 2012

(Amounts in thousands except per share amounts)

Whitney Credit Agreement

Since 2008, we have maintained a credit facility (the “Facility”) with Whitney Bank, a state chartered bank (“Whitney”). The Facility has been amended and restated several times, most recently on March 5, 2013. The current relevant terms of the Facility include:

a committed amount under the revolving credit facility (“Revolving Credit Facility”) of \$5,000, at an interest rate of 4.0 percent annum, maturing April 15, 2014;

a real estate term facility (“RE Term Facility”) of \$2,000, at an interest rate of 4.0 percent annum, maturing April 15, 2018, with the Company obligated to make monthly increasing repayments of principal (along with accrued and unpaid interest thereon) starting at \$8, beginning April 1, 2013; and

outstanding balances under the Facility are secured by all of the Company’s assets.

As of December 31, 2013, the Company’s indebtedness under the Revolving Credit Facility and the RE Term Facility was \$0 and \$1,917, respectively. We are currently in negotiations with Whitney for an extension of the Revolving Credit Facility beyond the current April 15, 2014 maturity. We are confident that we will be able to reach an agreement regarding this extension on or before April 15, 2014.

Our credit agreement with Whitney obligates us to comply with the following financial covenants:

Leverage Ratio - The ratio of total debt to consolidated EBITDA must be less than 3.0 to 1.0; actual Leverage Ratio as of December 31, 2013: 2.78 to 1.0.

Fixed Charge Coverage Ratio - The ratio of consolidated EBITDA to consolidated net interest expense, plus principal payments on total debt, must be greater than 1.5 to 1.0; actual Fixed Charge Coverage Ratio as of December 31, 2013: 1.51 to 1.0.

Tangible Net Worth - Our consolidated net worth, after deducting other assets as are properly classified as “intangible assets,” plus 50 percent of net income, after provision for taxes, must be in excess of \$13,000; actual Tangible Net Worth as of December 31, 2013: \$25,344.

Moreover, we continue to have obligations for other covenants, including, among others, limitations on issuance of common stock, liens, transactions with affiliates, additional indebtedness and permitted investments.

As of December 31, 2013 and 2012, we were in compliance with all of the covenants.

Other Debt

On November 5, 2013, we entered into a Purchase and Sale Agreement (“PSA”) with a customer to buy back a 3.5 metric ton portable umbilical carousel, which we had fabricated specifically for this customer. The PSA calls for purchase price of \$3,293 to be paid in 24 monthly installments of \$137.2, commencing November 5, 2013 through October 5, 2015. The obligation is non-interest bearing. The balance of this debt at December 31, 2013 was \$2,906.

Notes to Consolidated Financial Statements for the Years ended December 31, 2013 and 2012*(Amounts in thousands except per share amounts)**Debt Maturities*

Maturities of long-term debt as of December 31, 2013 were as follows:

	Debt Maturities
Years ending December 31,:	
2014	\$ 1,716
2015	1,510
2016	111
2017	116
2018	1,481
	\$ 4,934

NOTE 7: EARNINGS OR LOSS PER COMMON SHARE

The following is a reconciliation of the number of shares used in the basic and diluted net earnings or loss per common share calculation:

	Year Ended December 31,	
	2013	2012
Numerator:		
Net loss	\$(595)	\$(2,454)
Denominator:		
Weighted average number of common shares outstanding	11,858	10,185
Effect of dilutive securities	2	-
Denominator for diluted earnings per share	11,860	10,185
Net (loss) income per common share outstanding, basic and diluted	\$(0.05)	\$(0.24)

At December 31, 2013 and 2012, there were outstanding warrants convertible to 0 and 6 shares of common stock, respectively. At December 31, 2013 and 2012, there were outstanding stock options convertible to 945 and 1,008 shares of common stock, respectively.

NOTE 8: SHARE-BASED COMPENSATION

We have a share-based compensation plan, the “2003 Directors, Officers and Consultants Stock Option, Stock Warrant and Stock Award Plan” (the “Plan”). Awards of stock options and stock granted under the Plan have vesting periods of three years. Some awards of stock have performance criteria as an additional condition of vesting. Once vested, stock options may be exercised for up to five years. Share-based compensation expense related to awards is based on the fair value at the date of grant, and is recognized over the vesting periods, net of estimated forfeitures. The value of performance-based awards is recognized as expense only when it is considered probable that the performance criteria will be met. Under the Plan, the total number of options permitted is 15 percent of issued and outstanding common shares.

Notes to Consolidated Financial Statements for the Years ended December 31, 2013 and 2012*(Amounts in thousands except per share amounts)**Summary of Shares of Restricted Stock*

For the years ended December 31, 2013 and 2012, we recognized a total of \$460 and \$213, respectively, of share-based compensation expense related to restricted stock awards, which is included in selling, general and administrative expenses in the accompanying consolidated statements of operations. The unamortized estimated fair value of restricted stock awards was \$980 at December 31, 2013.

The following table summarizes the activity of our restricted stock for the years ended December 31, 2013 and 2012. The aggregate intrinsic value is based upon the closing price of \$2.06 of our common stock on December 31, 2013.

	Restricted Shares	Weighted-Average Grant-Date Fair Value	Aggregate Intrinsic Value
Outstanding at December 31, 2011	400	\$ 1.80	\$ 400
Forfeited	(17)	1.80	
Vested	(8)	1.80	
Outstanding at December 31, 2012	375	\$ 1.80	\$ 488
Granted	730	2.03	
Forfeited	(33)	1.80	
Vested	(17)	1.80	
Outstanding at December 31, 2013	1,055	\$ 1.96	\$ 2,173

Summary of Stock Options

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Based on the shares of common stock outstanding at December 31, 2013, there were approximately 2,289 options available for grant under the Plan as of that date. We expense all stock options on a straight-line basis, net of forfeitures, over the requisite expected service periods. We determine the fair value of stock options on the date of the grant using the Black-Scholes option pricing model.

For the years ended December 31, 2013 and 2012, we recognized a total of \$150 and \$341, respectively, of share-based compensation expense related to outstanding stock option awards, which is included in selling, general and administrative expenses in the accompanying consolidated statements of operations. The unamortized portion of the estimated fair value of outstanding stock options was \$44 at December 31, 2013.

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Notes to Consolidated Financial Statements for the Years ended December 31, 2013 and 2012*(Amounts in thousands except per share amounts)*

The following table summarizes our stock option activity for the years ended December 31, 2013 and 2012:

<i>In thousands, except per share amounts</i>	Shares Underlying Options	Weighted- Average Exercise Price	Weighted- Average Remaining Contractual Term (in years)
Outstanding at December 31, 2011	1,063	\$ 2.00	2.4
Cancellations & Forfeitures	(55)	2.19	
Outstanding at December 31, 2012	1,008	\$ 2.00	2.4
Cancellations & Forfeitures	(63)	1.93	
Outstanding at December 31, 2013	945	\$ 1.98	1.3
Exercisable at December 31, 2013	837	\$ 2.01	1.2

The aggregate intrinsic value is based on the closing price of \$2.06 on December 31, 2013. As of December 31, 2013, the aggregate intrinsic value of stock options outstanding and stock options exercisable was \$76. The total fair value of stock options vested during the year ended December 31, 2013 was \$42. The following summarizes our outstanding options and their respective exercise prices at December 31, 2013:

Exercise Price	Shares Underlying Options
\$1.80	325
\$2.00	500
\$2.40	120
	945

NOTE 9: WARRANTS

We have issued warrants related to various transactions in previous years; a summary of warrant transactions follows for the year ended December 31, 2013. The aggregate intrinsic value is based on the closing price of \$2.06 on

December 31, 2013.

	Shares Underlying Warrants	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value (In-The-Money)
Outstanding and exercisable at December 31, 2012	6	\$ 20.20	–	\$ –
Outstanding and exercisable at December 31, 2013	–	\$ –	–	\$ –

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Notes to Consolidated Financial Statements for the Years ended December 31, 2013 and 2012

(Amounts in thousands except per share amounts)

NOTE 10: COMMON STOCK

On July 17, 2012, we filed a Certificate of Change with the Nevada Secretary of State for the purposes of reducing the number of authorized and outstanding shares of the Company's common stock, on a basis of one share of common stock for each twenty shares of common stock outstanding (the "Reverse Stock Split"). The change was effective as of July 18, 2012.

During the third quarter of 2013, we issued an additional 4,444 shares of common stock resulting in net cash proceeds of \$7,628.

NOTE 11: INCOME TAXES

The provision for income taxes is comprised of the following for the years ended December 31, 2013 and 2012.

	Year Ended December 31, 2013 2012	
Federal:		
Current	\$(4)	\$15
Deferred	(36)	(520)
Total	\$(40)	\$(505)
State:		
Current	\$(14)	\$37
Deferred	36	520
Total	\$22	\$557
Total income tax expense (benefit)	\$(18)	\$52

The provision for income taxes differs from the amount computed by applying the U.S. statutory income tax rate before income taxes for the reasons set forth below for the years ended December 31, 2013 and 2012.

	Year Ended	
	December 31,	
	2013	2012
Income tax expense at federal statutory rate	34.00%	34.00%
State taxes, net of federal expense	(4.32)%	(21.53)%
Return to provision adjustments	47.30%	24.30%
Valuation allowance	(67.93)%	(36.39)%
Permanent differences	(6.03)%	(2.57)%
Total effective rate	3.02%	(2.19)%

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Notes to Consolidated Financial Statements for the Years ended December 31, 2013 and 2012*(Amounts in thousands except per share amounts)*

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes, as well as operating loss and tax credit carry forwards. The tax effects of the temporary differences and carry forwards are as follow at December 31, 2013 and 2012:

	Year Ended December 31,	
	2013	2012
Deferred tax assets:		
Allowance for doubtful accounts	\$ 198	\$ 353
Net operating loss	5,258	4,249
Share-based compensation	1,140	990
Investment in joint venture	4,599	4,700
Other	90	122
Total deferred tax assets	\$ 11,285	\$ 10,414
Deferred tax liabilities:		
Depreciation and amortization on property, plant and equipment	\$(2,797)	\$(2,360)
Amortization of intangibles	(59)	(41)
Total deferred tax liabilities	\$(2,856)	\$(2,401)
Less: valuation allowance	(8,429)	(8,013)
Net deferred tax position	\$-	\$-

We have \$15,444 in net operating loss (“NOL”) carry forwards available to offset future taxable income. These federal NOL’s will expire at various dates through 2028. Management analyzed its current operating results and future projections and determined that a full valuation allowance was needed due to our cumulative losses in recent years. We have no uncertain tax positions at December 31, 2013. Our tax returns from the tax years ended December 31, 2009 through December 31, 2012 are open to examination by the IRS.

NOTE 12: COMMITMENTS AND CONTINGENCIES*Litigation*

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We are from time to time involved in legal proceedings arising from the normal course of business. As of the date of this Report, we are not currently involved in any material legal proceedings.

Operating Leases

We lease certain offices, facilities, equipment and vehicles under non-cancellable operating and capital leases expiring at various dates through 2016.

At December 31, 2013, future minimum contractual lease obligations were as follows:

Years ending December 31,:	Capital Leases	Operating Leases
2014	\$ 63	\$ 1,346
2015	58	1,348
2016	–	1,246
2017	–	1,080
2018	–	1,080
Thereafter	–	4,770
Total minimum lease payments	\$ 121	\$ 10,870
Residual principal balance	–	
Amount representing interest	(10)	
Present value of minimum lease payments	\$ 111	
Less current maturities of capital lease obligations	(55)	
Long-term contractual obligations	\$ 56	

Rent expense for the years ended December 31, 2013 and 2012 was \$1,007 and \$498, respectively.

Notes to Consolidated Financial Statements for the Years ended December 31, 2013 and 2012*(Amounts in thousands except per share amounts)**Letters of Credit*

Certain customers could require us to issue standby letters of credit in the normal course of business to ensure performance under terms of contracts or as a form of product warranty. The beneficiary of a letter of credit could demand payment from the issuing bank for the amount of the outstanding letter of credit. Letters of credit outstanding at December 31, 2013 and 2012 under the Fifth Amendment with Whitney are as follows:

Type	December 31, 2013	December 31, 2012
Performance	\$ –	\$ 235
Warranty	415	592
Total	\$ 415	\$ 827

Employment Agreements

Certain of our Executives are employed under employment agreements containing severance provisions. In the event of termination of an Executive's employment for any reason, the Executive will be entitled to receive all accrued, unpaid salary and vacation time through the date of termination and all benefits to which the Executive is entitled or vested under the terms of all employee benefit and compensation plans, agreements and arrangements in which the Executive is a participant as of the date of termination.

In addition, subject to executing a general release in favor of the Company, the Executive will be entitled to receive certain severance payments in the event his employment is terminated by the Company "other than for cause" or by the Executive with "good reason." These severance payments include: (i) a lump sum in cash equal to one to three times the Executive's annual base salary; ii) a lump sum in cash equal to one to two times the average annual bonus paid to the Executive for the prior two full fiscal years preceding the date of termination; (iii) a lump sum in cash equal to a pro rata portion of the annual bonus payable for the period in which the date of termination occurs based on the actual performance under the Company's annual incentive bonus arrangement, but no less than fifty percent of Executive's annual base salary; and (iv) if the Executive's termination occurs prior to the date that is twelve months following a change of control, then each and every share option, restricted share award and other equity-based award that is outstanding and held by the Executive shall immediately vest and become exercisable.

NOTE 13: RELATED PARTY TRANSACTIONS

We have a fabrication facility located in Cleveland, Texas on property currently owned by one of our employees (and who is not one of our “named executive officers”). In October 2012, we reached an understanding with the owner of the property to purchase the property for aggregate consideration of \$500. The property includes 15 acres of land, and currently contains residential buildings, recreational facilities and livestock. We plan to expand the fabrication facility in order to increase our production capacity at such location, use the residential buildings at such location to house employees and contractors for projects being conducted at the site, and otherwise use the facilities at the site for general corporate purposes.

Although the transaction had yet to be consummated, we took possession of the property in October 2012, and had paid the full purchase price of \$500 by December 31, 2013. These payments have been accounted for in our financial statements as purchase deposits. We hope to consummate the transaction within sixty days of the date of this Report.

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