

TIDEWATER INC
Form 10-K
May 25, 2007
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

x **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the fiscal year ended March 31, 2007

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

Commission file number: 1-6311

Tidewater Inc.

(Exact name of registrant as specified in its charter)

Delaware
(State of incorporation)

72-0487776
(I.R.S. Employer Identification No.)

601 Poydras St., Suite 1900

New Orleans, Louisiana 70130
(Address of principal executive offices)

70130
(Zip Code)

Registrant's telephone number, including area code: (504) 568-1010

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

Title of each class

Name of each exchange on which registered

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Common Stock, par value \$0.10

New York Stock Exchange
Securities registered pursuant to Section 12(g) of the Act: None

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 if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer (as defined in Rule 12b-2 of the Exchange Act).

Large accelerated filer

Accelerated filer

Non-accelerated filer

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

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The aggregate market value of the voting common stock held by non-affiliates of the registrant as of September 30, 2006, was approximately \$2,432,237,176 based upon the last sales price reported for such date. Excluded from the calculation of market value are 1,972,658 shares held by the Registrant's grantor stock ownership trust.

56,276,391 shares of Tidewater Inc. common stock \$0.10 par value per share were outstanding on April 6, 2007. Excluded from the calculation of shares outstanding at April 6, 2007 are 1,200,507 shares held by the Registrant's grantor stock ownership trust. Registrant has no other class of common stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Proxy Statement for Registrant's 2007 Annual Meeting of Stockholders are incorporated into Part III of this report.

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Forward-looking Information and Cautionary Statement

In accordance with the safe harbor provisions of the Private Securities Litigation Reform Act of 1995, the company notes that this Annual Report on Form 10-K and the information incorporated herein by reference contain certain forward-looking statements which reflect the company's current view with respect to future events and financial performance. Any such forward-looking statements are subject to risks and uncertainties and the company's future results of operations could differ materially from historical results or any forward-looking statements included herein. Some of these risks are discussed in this report, and include, without limitation, fluctuations in oil and gas prices; fleet additions by competitors and industry overcapacity; changes in capital spending by customers in the energy industry for exploration, development and production; changing customer demands for different vessel specifications which may make some of our vessels technologically obsolete for certain customer projects or in certain markets; acts of terrorism; significant weather conditions; unsettled political conditions, war, civil unrest and governmental actions, especially in higher risk countries of operations; foreign currency fluctuations; and environmental and labor laws.

Forward-looking statements, which can generally be identified by the use of such terminology as may, expect, anticipate, estimate, forecast, believe, think, could, continue, intend, seek, plan, and similar expressions contained in this report, are predictions and not guarantees of performance or events. Any forward-looking statements are based on current industry, financial or economic information, which the company has assessed but which by its nature is dynamic and subject to rapid and possibly abrupt changes. The company's actual results could differ materially from those stated or implied by such forward-looking statements due to risks and uncertainties associated with our business. The forward-looking statements should be considered in the context of the risk factors listed above and discussed elsewhere in this Form 10-K. Investors and prospective investors are cautioned not to place undue reliance on such forward-looking statements. Management disclaims any obligation to update or revise the forward-looking statements contained herein to reflect new information, future events or developments.

PART I

ITEM 1. BUSINESS

General

Tidewater Inc. (the company), a Delaware corporation, provides offshore supply vessels and marine support services to the offshore energy industry through the operation of the world's largest fleet of offshore marine service vessels. The company's worldwide headquarters and principal executive offices are located at 601 Poydras Street, New Orleans, Louisiana 70130, and its telephone number is (504) 568-1010. The company was incorporated in 1956. Unless otherwise required by the context, the term company as used herein refers to Tidewater Inc. and its consolidated subsidiaries.

With a fleet of over 463 vessels at March 31, 2007, including 48 stacked vessels, 29 vessels withdrawn from service and 13 vessels operated pursuant to joint venture or other agreements, the company operates in most of the world's significant oil and gas exploration and production markets and provides services supporting all phases of offshore exploration, development and production, including: towing of and anchor handling of mobile drilling rigs and equipment; transporting supplies and personnel necessary to sustain drilling, workover and production activities; assisting in offshore construction activities; and a variety of specialized services including pipe laying, cable laying and 3-D seismic work.

Website Access to Company Reports

The company's Internet website address is <http://www.tdw.com>. The company makes available free of charge, on or through its website, its annual reports on Form 10-K, quarterly reports on Form 10-Q and current reports on Form 8-K and any amendments to those reports, as soon as reasonably practicable after they are electronically filed with the Securities and Exchange Commission. The public may read and copy

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any materials the company has filed with the SEC at the SEC's Public Reference Room at 450 Fifth Street, NW, Washington, DC 20549. Information on the operation of the Public Reference Room may be obtained by calling the SEC at 1-800-SEC-0330. The SEC maintains an internet site that contains the company's reports, proxy and information statements, and the company's other SEC filings. The address of that site is www.sec.gov. Information appearing on the company's website is not part of any report filed with the Securities and Exchange Commission.

The company has posted on its internet website address the company's Code of Business Conduct and Ethics. The company has adopted a Code of Business Conduct and Ethics (Code) for its directors, chief executive officer, chief financial officer, principal accounting officer, and other officers and employees on matters of business conduct and ethics, including compliance standards and procedures. The company intends to satisfy the disclosure requirements of the Securities and Exchange Commission regarding amendments to, or waivers from, the Code by posting such information on the same web site. Any changes to and waivers to the Code will be posted on the company's website within five business days and maintained for at least 12 months. A copy of the Code is also available in print to any stockholder upon written request addressed to Tidewater Inc., 601 Poydras Street, Suite 1900, New Orleans, Louisiana 70130.

Business Highlights

During fiscal 2007, strong industry fundamentals improved the company's operating performance above fiscal 2006 levels as fiscal 2007 revenues exceeded the one billion dollar mark for only the second time in the 51-year history of the company. The company recorded \$1.1 billion in revenues during fiscal 2007, an increase of approximately \$247.6 million, or 28%, over the revenue amounts reported during fiscal 2006. Net earnings rose approximately 51%, or \$120.9 million, during fiscal 2007 as compared to fiscal 2006. The company's international operations continue to provide the most significant contribution to earnings and, during fiscal 2007, revenues generated from international operations as a percentage of the company's total revenues were 78%.

During the second quarter of fiscal 2007, the company entered into a definitive agreement with Crosby Marine Transportation, LLC to sell 14 of its offshore tugs, of which 12 operated in the United States and two operated internationally. The sale of 11 of the tugs closed in the company's second quarter of fiscal 2007 for a total cash price of \$34.8 million. The sale of the other three tugs closed during the third quarter of fiscal 2007 for a total sales price of \$8.9 million. The culmination of the entire transaction resulted in an approximate \$34.0 million pre-tax financial gain during fiscal 2007, or approximately \$20.8 million after-tax (\$0.37 per diluted common share after-tax).

An aggressive new-build vessel construction and acquisition program over the past seven years has facilitated the company's entrance into deepwater markets around the world and allowed the company to begin to replace its core fleet with fewer, larger, more technologically sophisticated vessels. During this time the company purchased and/or constructed 31 anchor handling towing supply vessels for approximately \$594.2 million, of which 11 are deepwater vessels. In addition, the company entered into two capitalized lease obligations for a total \$22.8 million on two newly constructed 5,500 BHP anchor handling towing supply vessels. The company also added 39 platform supply vessels during this time for approximately \$620.0 million, of which 23 are deepwater platform supply vessels, 15 are U.S. built replacement vessels (vessels intended to replace the company's core fleet) and one is an international built replacement vessel. During this same seven year period, the company also expanded its crewboat fleet by 49 vessels and increased its other type of vessels by four vessels for an approximate cost of \$174.3 million. Twenty-five of the crewboats and other type of vessels were built in the U.S. while 24 were built by international shipyards.

The vessel construction and acquisition program and the expansion program were initiated with the intent of strengthening the company's presence in all major oil and gas producing regions of the world through the replacement of aging vessels in the company's core fleet. In order to avoid potential overcapacity in our markets that could be created through the addition of the vessels discussed above, the company sold, primarily to buyers who operate outside of our industry, 222 vessels and scrapped 63 vessels between April 2000 and March 2007. Most of the vessel sales were at prices that exceeded carrying values.

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To date, the company has funded all of its vessel commitment programs from current cash balances, operating cash flow, and funds provided by its \$300 million senior unsecured notes and its revolving credit facility. At March 31, 2007, the company had 35 vessels under construction for a total capital commitment of \$520.6 million, of which the company has already expended \$147.0 million. A full discussion of the company's capital commitments, scheduled delivery dates and vessel sales is disclosed in the Vessel Construction Programs and Acquisitions and Vessel Dispositions section of Item 7 and Note 10 of Notes to Consolidated Financial Statements.

In July 2006, the company's Board of Directors authorized a new program for the company to use up to \$157.9 million to repurchase shares of its common stock in open-market or privately-negotiated transactions. The company intends to use its available cash and, when considered advantageous, borrowings under its revolving credit facility, to fund the share repurchases. The repurchase program will end when all the authorized funds have been expended or June 30, 2007, whichever is earlier, unless extended by the Board of Directors. From inception of the July 2006 authorized repurchase program through March 31, 2007, the company expended \$40.4 million for the repurchase and cancellation of 867,100 common shares, at an average price paid per common share of \$46.57. At March 31, 2007, approximately \$117.5 million was available to repurchase shares of the company's common stock pursuant to its current stock repurchase program.

During the prior fiscal year, in July 2005, the company's Board of Directors authorized the company to use up to \$120.0 million to repurchase shares of its common stock through open market or privately-negotiated transactions, with the program expiring on June 30, 2006. From inception of this repurchase program through its conclusion on June 30, 2006, the company used \$112.1 million for the repurchase and cancellation of 2,396,100 common shares, at an average price paid per common share of \$46.79.

During the second quarter of fiscal 2006, the company completed the sale of six of its KMAR 404 class of Anchor Handling Towing Supply vessels to Deep Sea Supply ASA for a total cash price of \$188.0 million. The transaction resulted in a \$65.9 million pre-tax financial gain, or approximately \$42.8 million after-tax, or \$0.74 per diluted common share. The transaction resulted in an approximate \$112.0 million taxable gain, but no cash taxes are due because of the availability of net operating loss carryforwards. The company used a portion of the proceeds of the sale to repay \$95.0 million of outstanding borrowings under the company's revolving credit agreement.

The provisions of the American Jobs Creation Act of 2004 (the Act), were effective for the company as of April 1, 2005. As a result of the Act, the company will no longer be liable for U.S. taxes on future undistributed earnings of most non-U.S. subsidiaries and business ventures that it considers indefinitely reinvested abroad. Accordingly, at March 31, 2005, the company reversed all previously recorded deferred tax assets and liabilities related to timing differences, foreign tax credits, or prior undistributed earnings of these entities whose future and prior earnings are now anticipated to be indefinitely reinvested abroad. This resulted in an approximate \$31.8 million reduction of income tax expense in the fourth quarter of fiscal 2005.

Prior to the April 1, 2005, effective date of the Act, the company provided income taxes at the U.S. statutory rate on generally all profits the company generated from both U.S. and international operations. Effective April 1, 2005, income taxes on earnings generated in the U.S. are provided for at the U.S. statutory income tax rate and earnings generated from international operations which we expect to be permanently invested abroad is provided at the tax rates of the respective countries where the profits are generated. Generally, these international tax rates are significantly less than the U.S. statutory income tax rate; therefore, the company's consolidated effective tax rate is significantly lower post April 1, 2005, than what the company historically experienced. The company's consolidated effective tax rate in the future could be more volatile as a result of changing profit levels from the various countries in which the company operates.

Areas of Operation

The company's fleet is deployed in the major offshore oil and gas areas of the world. The principal areas of the company's operations include the U.S. Gulf of Mexico, the Persian Gulf, the Caspian Sea, and areas offshore Australia, Brazil, Egypt, India, Indonesia, Malaysia, Mexico, Trinidad, Venezuela and West Africa. The company conducts its operations through wholly-owned subsidiaries and joint ventures. Information

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concerning revenues and operating profit derived from domestic and international marine operations and domestic and international total marine assets for each of the fiscal years ended March 31 are summarized below:

(In thousands)	2007	2006	2005
Revenues:			
Vessel operations:			
United States	\$ 229,247	180,374	118,288
International	868,335	666,608	537,238
Other marine services	27,678	30,635	36,624
	\$ 1,125,260	877,617	692,150
Operating profit (loss):			
Vessel operations:			
United States	\$ 91,465	61,227	2,022
International	320,971	186,044	95,383
Impairment of long-lived assets		(3,050)	(1,733)
Gain on sales of assets	42,787	86,337	11,977
Other marine operations	3,013	6,511	6,623
	\$ 458,236	337,069	114,272
Total marine assets:			
United States	\$ 591,856	566,707	532,097
International	1,589,350	1,490,083	1,542,996
Total marine assets	\$ 2,181,206	2,056,790	2,075,093

A significant portion of the company's operations are conducted internationally. Revenues from international operations as a percentage of the company's total revenues were 78%, 77% and 80% during fiscal 2007, 2006 and 2005, respectively. The company's international marine vessel operations are vulnerable to the usual risks inherent in doing business in countries other than the United States. Such risks include political and economic instability, possible vessel seizures or nationalization of assets and other governmental actions, currency fluctuations and revaluations, and import/export restrictions; all of which are beyond the control of the company. In addition, the ability to recruit and retain management for overseas operations presents a challenge to operating internationally.

Please refer to Item 7 of this report and Note 13 of Notes to Consolidated Financial Statements for further discussion of revenues, operating profit and total assets.

Marine Vessel Fleet

The company's vessels regularly and routinely move from one operating area to another, often to and from offshore operating areas of different continents. Tables comparing the average size of the company's marine fleet by class and geographic distribution for the last three fiscal years are included in Item 7 of this report. The company discloses its vessel statistical information, such as utilization and average day rates, by vessel class. Listed below are the company's five major vessel classes along with a description of the type of vessels categorized in each class and the services the respective vessels perform.

Deepwater Vessels. This is the company's newest vessel class, which is often referred to as its North Sea-type vessel class. Included in this class are large, platform supply vessels and large, high-horsepower (generally greater than 10,000 horsepower) anchor handling towing supply vessels. This vessel class is chartered to customers for use in transporting supplies and equipment from shore bases to deepwater and intermediate water depth offshore drilling rigs, platforms and other installations. Platform supply vessels, which have large cargo handling capabilities, serve drilling and production facilities and support offshore construction and maintenance work. The anchor handling towing supply

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vessels are equipped for and are capable of towing drilling rigs and other marine equipment, as well as setting anchors for positioning and mooring drilling rigs.

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Towing Supply and Supply Vessels. This is the company's largest fleet class by number of vessels. Included in this class are anchor handling towing supply vessels and supply vessels with average horsepower below 10,000 BHP, and platform supply vessels that are generally less than 220 feet. The vessels in this class perform the same functions and services as their deepwater vessel class counterparts except they are generally chartered to customers for use in intermediate and shallow waters.

Crewboats and Utility Vessels. Crewboats and utility vessels are chartered to customers for use in transporting personnel and small quantities of supplies from shore bases to offshore drilling rigs, platforms and other installations.

Offshore Tugs. Offshore tugs tow floating drilling rigs; assist in the docking of tankers; tow barges; assist pipe laying, cable laying and construction barges; and are used in a variety of other commercial towing operations, including towing barges carrying a variety of bulk cargoes and containerized cargo.

Other Vessels. The company's vessels also include inshore tugs; offshore barges; and production, line-handling and various other special purpose vessels. Inshore tugs, which are operated principally within inland waters, tow drilling rigs to and from their locations, and tow barges carrying equipment and materials for use principally in inland waters for drilling and production operations. Barges are either used in conjunction with company tugs or are chartered to others.

Revenue Contribution of Main Classes of Vessels

Revenues from vessel operations were derived from the main classes of vessels in the following percentages:

	Year Ended March 31,		
	2007	2006	2005
Deepwater vessels	23.8%	22.4%	22.3%
Towing-supply/supply	58.6%	58.5%	57.7%
Crew/utility	10.7%	10.9%	10.7%
Offshore tugs	6.5%	7.8%	8.8%
Other	0.4%	0.4%	0.5%

Shipyard Operations

Quality Shipyards, LLC, a wholly-owned subsidiary of the company, operates two shipyards in Houma, Louisiana, which construct, modify and repair vessels. The shipyard performs work for outside customers, as well as the construction, repair and modification of the company's own vessels. During the last three fiscal years, Quality Shipyards, LLC constructed and delivered two 220-foot platform supply vessels and is currently constructing two additional 220-foot platform supply vessels for the company. One of the supply vessels was delivered during fiscal 2006 while the second vessel was delivered during fiscal 2007. The two 220-foot platform supply vessels currently under construction are expected to be delivered during fiscal 2008.

Safety and Risk Management

The company is committed to ensuring the safety of its operations. Management regularly communicates with its personnel to promote safety and instill safe work habits through company media and safety review sessions. The company also regularly conducts safety training meetings for its seaman and staff personnel. The company dedicates personnel and resources to ensure safe operations and regulatory compliance. The company employs safety personnel at every operating location who are responsible for administering the company's safety programs. The company's Director of Health and Safety is involved in the review of all incidents.

The operation of any marine vessel involves an inherent risk of catastrophic marine disaster, adverse weather conditions, mechanical failure, collisions, and property losses to the vessel and business

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interruption due to political action in countries other than the United States. Any such event may result in a reduction in revenues or increased costs. The company's vessels are insured for their estimated market value against damage or loss, including war, terrorism acts, and pollution risks. The company also carries workers' compensation, maritime employer's liability, directors and officers liability, general liability (including third party pollution) and other insurance customary in the industry.

The company secures appropriate insurance coverage at competitive rates by maintaining a self-retention layer up to certain limits on its marine package policies. The company carefully monitors claims and participates actively in claims estimates and adjustments. The estimated costs of our self-insured claims, which include estimates for incurred but unreported claims, are accrued as liabilities on the balance sheet based on the analysis of third-party actuaries.

The continued threat of terrorist activity and other acts of war, or hostility, have significantly increased the risk of political, economic and social instability in some of the geographic areas in which the company operates. It is possible that further acts of terrorism may be directed against the United States domestically or abroad and such acts of terrorism could be directed against properties and personnel of U.S.-owned companies such as ours. The resulting economic, political and social uncertainties, including the potential for future terrorist acts and war, could cause the premiums charged for our insurance coverage to increase. The company currently maintains war risk coverage on its entire fleet. To date, the company has not experienced any property losses as a result of terrorism, political instability or war.

Management believes that the company's insurance coverage is adequate. The company has not experienced a loss in excess of insurance policy limits; however, there is no assurance that the company's liability coverage will be adequate to cover all potential claims that may arise. While the company believes that it should be able to maintain adequate insurance in the future at rates considered commercially acceptable, it cannot guarantee such with the current level of uncertainty in the insurance market.

Industry Conditions, Competition and Customers

The company's operations are materially dependent upon the levels of activity in offshore crude oil and natural gas exploration, development and production throughout the world. Such activity levels are affected by the trends in worldwide crude oil and natural gas prices that are ultimately influenced by the supply and demand relationship for these natural resources. A discussion of current market conditions appears under "General Market Conditions and Results of Operations" in Item 7 of this report.

The principal competitive factors for the offshore vessel service industry are suitability and availability of equipment, price and quality of service. The company has numerous competitors in virtually all areas around the world in which it operates, so the business environment is highly competitive.

The company's diverse, mobile asset base and the geographic distribution of its assets enable the company to respond to changes in market conditions and provide a broad range of vessel services to its customers throughout the world. Management believes the company has a competitive advantage because of the size, diversity and geographic distribution of its vessel fleet as well as the company's financial condition, economies of scale and experience level in the many areas of the world in which we operate.

The worldwide offshore marine vessel market faces a potential risk of overcapacity. An estimated 548 new-build vessels are expected to be delivered to the worldwide offshore vessel market within the next five years (excluding the number of vessels currently being constructed by the company) as reported by ODS-Petrodata. An increase in vessel capacity would result in increased competition in the industry which may have the effect of lowering charter rates which, in turn, would result in lower revenues to the company. However, the worldwide offshore marine vessel industry has a large portfolio of aging vessels whose collective ages are nearing or exceeding the estimated economic life of the respective vessels. These older vessels could potentially retire from the market within the next few years if the cost of extending the vessels' economic life is not economically justifiable. Although the attrition rate of these aging vessels is unknown, a reduction in worldwide vessel capacity may negate the potential effects the offshore marine industry may encounter when the new-build vessels begin being delivered to the market. Additionally, during the same period, over 150 new drilling and production support units will be added to the worldwide drilling and

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production support vessel fleet, that may, in turn, if fully utilized, create additional demand and minimize the effects of 548 new-build vessels being added to the offshore support vessel fleet.

The company's principal customers are major oil and natural gas exploration, development and production companies, foreign government-owned or controlled organizations and companies that explore and produce oil and natural gas, and companies that provide other services to the offshore energy industry. Over the last several years, consolidation of exploration, development and production companies has occurred which has, and will continue to have, an impact on the company's global operations. Although Chevron Corporation (including its worldwide subsidiaries and affiliates) accounted for approximately 15% and Petroleo Brasileiro SA accounted for approximately 10% of revenues during the year ended March 31, 2007, the five largest customers accounted for approximately 43% of the company's revenues. The company does not consider its operations dependent on any single customer.

Regulatory Matters

The company is subject to various statutes and regulations governing the operation and maintenance of its vessels. Under the citizenship provisions of the Merchant Marine Act of 1920 and the Shipping Act, 1916, the company would not be permitted to engage in U.S. coastwise trade if more than 25% of the company's outstanding stock were owned by non-U.S. citizens. The company has a dual stock certificate system to protect against non-U.S. citizens owning more than 25% of its common stock. In addition, the company's charter provides the company with certain remedies with respect to any transfer or purported transfer of shares of the company's common stock that would result in the ownership by non-U.S. citizens of more than 24% of its common stock. Based on information supplied to the company by its transfer agent, approximately 11% of the company's outstanding common stock was owned by non-U.S. citizens as of March 31, 2007.

The company's vessels are subject to various statutes and regulations governing their operation. The laws of the United States require that vessels engaged in U.S. coastwise trade must be built in the U.S. In addition, once a U.S.-built vessel is registered under a non-U.S. flag, it cannot thereafter engage in U.S. coastwise trade. Therefore, the company's non-U.S. flag vessels must operate outside of U.S. territorial waters, and if the company is not able to secure adequate numbers of charters abroad for such vessels, even if work would otherwise have been available for such vessels in the United States, the company's financial performance could be affected. However, it is the company's significant international presence that is driving its revenues and earnings. Of the total 463 vessels owned or operated by the company at March 31, 2007, 325 vessels were registered under flags other than the United States and 138 vessels were registered under the U.S. flag.

All of the company's offshore vessels are subject to international safety and classification standards. U.S. flag towing supply, supply vessels and crewboats are required to undergo periodic inspections twice every five years. Vessels registered under flags other than the United States are subject to similar regulations as governed by the laws of the applicable jurisdictions, and the regulations of classifications societies.

Seasonality

The company's vessel fleet generally has its highest utilization rates in the warmer temperature months when the weather is more favorable for offshore exploration, development and construction work. However, business volume for the company is more dependent on oil and natural gas prices and the global supply and demand conditions for the company's services than any seasonal variation.

Environmental Compliance

During the ordinary course of business the company's operations are subject to a wide variety of environmental laws and regulations. Compliance with existing governmental regulations that have been enacted or adopted regulating the discharge of materials into the environment, or otherwise relating to the protection of the environment, has not had, nor is expected to have, a material effect on the company. The company is proactive in establishing policies and operating procedures for safeguarding the environment against any environmentally hazardous material aboard its vessels and at shore base locations. Whenever possible, hazardous materials are maintained or transferred in confined areas to ensure containment if

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accidents occur. In addition, the company has established operating policies that are intended to increase awareness of actions that may harm the environment.

Employees

As of March 31, 2007, the company had approximately 8,000 employees worldwide. The company considers relations with its employees to be satisfactory. The company is not a party to any union contract in the United States but through several subsidiaries is a party to union agreements covering local nationals in several countries other than the United States. For the past few years, the company has been a target of a union organizing campaign for the U.S. Gulf of Mexico employees by maritime labor unions. These union organizing efforts have recently abated, although the threat has not been completely eliminated. If the Gulf employees were to unionize, the company's flexibility in managing industry changes in the domestic market could be adversely affected.

Internal Investigation

In April 2007, the company announced that it was conducting an internal investigation of its Nigerian operations, focusing on the legality, under the U.S. Foreign Corrupt Practices Act (FCPA) and local laws, of its Nigerian affiliate's reimbursement of certain expenses incurred by a customs agent in connection with the temporary importation of its vessels into Nigeria, particularly the obtaining of certain permits that are necessary for the company's vessels to operate in Nigerian offshore waters. The company further announced that the Audit Committee of the company's Board of Directors had engaged the law firm of Steptoe & Johnson of Washington, D.C., a leading international law firm with significant experience in investigating and advising upon FCPA matters, to lead the investigation.

The Audit Committee commissioned the internal investigation in late February 2007 after management brought to its attention a settlement earlier that month of well-publicized criminal FCPA proceedings (the second in recent years) involving Vetco Gray Controls, a Houston-based oil service company with substantial operations in Nigeria. Tidewater's management and the Audit Committee were concerned that the company's Nigerian affiliate used the same third-party agent to process its temporary importation permits in Nigeria that was thought to be significantly implicated in the 2007 Vetco Gray proceedings. Given that the company uses the same third-party agent in other countries where its vessel are deployed, the Audit Committee also commissioned special counsel to assess the company's compliance with the FCPA in those selected other countries.

Although the internal investigation is ongoing, enough progress has been made and reported to the Audit Committee by special counsel for the company to conclude that certain changes to its FCPA compliance program would provide the company greater assurance that its assets are not used, directly, or through an intermediary, to make improper payments, including in the areas of customs and immigration, and to also assure that the company is in compliance with the FCPA's record-keeping requirements. Although the company has had a long term published policy requiring compliance with the FCPA, and broadly prohibiting any improper payments by the company to foreign or domestic officials, the company is in the process of adopting intermediate measures intended to minimize the possibility of FCPA violations while the internal investigation is ongoing, although additional measures may be required once the final report has been rendered to the Audit Committee.

The company has voluntarily contacted the Securities and Exchange Commission and the United States Department of Justice to advise both agencies that an internal investigation is underway and that it will cooperate fully with both agencies. The company is unable to predict whether either agency will open a proceeding to separately investigate this matter, or, if a proceeding is opened, what potential remedies, if any, these agencies may seek. In addition, although management will seek to avoid material disruption to its Nigerian operations, the company cannot gauge at this time the long-term effects of implementing the necessary corrective measures on its business in Nigeria. Based on the information obtained to date in the investigation, the company does not believe that any potential liability that may result is either probable or reasonably estimable, and, thus, no accrual has been recorded as of March 31, 2007. Should additional information be obtained the company will record a provision when the amount is both probable and reasonably estimable.

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ITEM 1A. RISK FACTORS

The company operates in a business environment that has many risks. Listed below are some of the more critical risk factors that affect the company and the offshore marine service industry and should be considered when evaluating any forward-looking statement. The effect of any one risk factor or a combination of several risk factors could materially affect the company's results of operations, financial condition and cash flows and the accuracy of any forward-looking statement made in this Form 10-K.

Oil and Gas Prices Are Highly Volatile

Commodity prices for crude oil and natural gas are highly volatile. Prices are extremely sensitive to the supply/demand relationship for the respective natural resources. High demand for crude oil and natural gas and/or low inventory levels for the resources as well as any perceptions about future supply interruptions can cause commodity prices for crude oil and natural gas to rise, while generally, low demand for natural resources and/or increases in crude oil and natural gas supplies cause commodity prices for the respective natural resources to decrease.

Factors that affect the supply of crude oil and natural gas include but are not limited to the following: the Organization of Petroleum Exporting Countries (OPEC) ability to control crude oil production levels and pricing, as well as, the level of production by non-OPEC countries; political and economic uncertainties; advances in exploration and development technology; worldwide demand for natural resources; significant weather conditions; and governmental restrictions placed on exploration and production of natural resources.

Changes in the Level of Capital Spending by Our Customers

The company's principal customers are major oil and natural gas exploration, development and production companies and foreign government-owned or controlled organizations. The company's results of operations are highly dependent on the level of capital spending by the energy industry. The energy industry's level of capital spending is substantially related to the demand for the resource and the prevailing commodity price of natural gas and crude oil. During periods of low commodity prices, the company's customers generally reduce their capital spending budgets for offshore drilling, exploration and development.

Historically, strong fundamentals such as high commodity prices for natural gas and crude oil, tight inventory levels for the resources along with strong consumer demand have been positive indicators for increases in capital spending by the company's customers. Other factors that influence the level of capital spending by our customers which are beyond the control of the company include: worldwide demand for crude oil and natural gas and the cost of exploring and producing oil and natural gas which can be affected by environmental regulations, significant weather conditions and technological advances that affect energy and its usage.

The Offshore Marine Service Industry is Highly Competitive

The company operates in a highly competitive environment. Competitive factors include price and quality of service by vessel operators and the quality and availability of vessels. Decreases in the level of offshore drilling and development activity by the energy industry generally negatively affect the demand for the company's vessels thereby exerting downward pressure on day rates. Extended periods of low vessel demand and/or low day rates will reduce the company's revenues.

Excess marine service capacity exerts downward pressure on charter rates. Excess capacity can occur when newly constructed vessels enter the market and when vessels are mobilized between market areas. While the company has committed to the construction of several vessels, it has also sold and/or scrapped a significant number of vessels over the last several years. A discussion about the aging of the company's fleet that has necessitated the company's new vessel construction programs appears in the "Vessel Construction Programs and Acquisitions" section of Item 7.

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Failure to Attract and Retain Key Management and Technical Personnel

The company's success depends upon the continued service of its executive officers and other key management and technical personnel, particularly the company's area managers and fleet personnel, and the company's ability to attract, retain, and motivate highly qualified personnel. The loss of the services of a number of the company's executive officers, area managers, fleet personnel or other key employees, or our ability to recruit replacements for such personnel or to otherwise attract, retain and motivate highly qualified personnel could harm the company. The company currently does not carry key employee life insurance payable to the company with respect to any of its management employees.

Risks Associated with Operating Internationally

For the fiscal years ended March 31, 2007, 2006 and 2005, 78%, 77%, and 80%, respectively, of the company's total revenues were generated by international operations. The company's international vessel operations are vulnerable to the usual risks inherent in doing business in countries other than the United States. Such risks include political and economic instability, possible vessel seizures or nationalization of assets and other governmental actions, the ability to recruit and retain management of overseas operations, currency fluctuations and revaluations, and import/export restrictions; all of which are beyond the control of the company.

The continued threat of terrorist activity and other acts of war, or hostility, have significantly increased the risk of political, economic and social instability in some of the geographic areas in which the company operates. It is possible that further acts of terrorism may be directed against the United States domestically or abroad and such acts of terrorism could be directed against properties and personnel of U.S.-owned companies such as ours. To date, the company has not experienced any property losses or material adverse effects on its results of operations and financial condition as a result of terrorism, political instability or war.

At present, the company believes the risks of operating internationally to be within acceptable limits and, in view of the mobile nature of the company's principal revenue producing assets, does not consider them to constitute a factor materially adverse to the conduct of its international vessel operations as a whole.

Operational Risks Inherent to the Offshore Marine Industry

The operation of any marine vessel involves an inherent risk of catastrophic marine disaster, adverse weather and sea conditions, mechanical failure, collisions, and property losses to vessels, and business interruption due to political action in countries other than the United States. Any such event may result in a reduction in revenues or increased costs. The company's vessels are insured for their estimated market value against damage or loss, including war, terrorism acts, and pollution risks. The company also carries workers' compensation, maritime employer's liability, directors and officers' liability, general liability (including third party pollution) and other insurance customary in the industry.

Potential Overcapacity in the Offshore Marine Industry

The worldwide offshore marine vessel market faces a potential risk of overcapacity. An estimated 548 new-build vessels are expected to be delivered to the worldwide offshore vessel market within the next five years (excluding the number of vessels currently being constructed by the company) as reported by ODS-Petrodata. An increase in vessel capacity would result in increased competition in the industry which may have the effect of lowering charter rates which in turn would result in lower revenues to the company. However, the worldwide offshore marine vessel industry has a large portfolio of aging vessels whose collective ages are nearing or exceeding the estimated economic life of the respective vessels. These older vessels could potentially retire from the market within the next few years if the cost of extending the vessels' economic life is not economically justifiable. Although the attrition rate of these aging vessels is unknown, a reduction in worldwide vessel capacity may negate the potential effects the offshore marine industry may encounter when the new-build vessels begin being delivered to the market. Additionally, during the same period, over 150 new drilling and production support units will be added to the worldwide drilling and production support vessel fleet, that may, in turn, if fully utilized, create additional demand and minimize the effects of 548 new-build vessels being added to the offshore support vessel fleet.

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ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

Information on Properties is contained in Item 1 of this Form 10-K.

ITEM 3. LEGAL PROCEEDINGS

Tidewater Inc. (the company) and its chief financial officer, J. Keith Lousteau, have submitted to the Securities and Exchange Commission an offer of settlement which, if accepted by the Commission, would bring to a conclusion the previously disclosed informal inquiry by the Miami office of the Commission into an approximate \$26.5 million impairment charge recognized by the company at the end of its 2004 fiscal year.

The offer of settlement submitted to the Commission includes a draft cease and desist order that has been negotiated between the company, Mr. Lousteau, and the enforcement staff of the Miami office. If the offer of settlement is accepted by the Commission and the cease and desist order is entered, the company will be found by the Commission, for certain reporting periods preceding the fiscal year ended March 31, 2004, not to have (i) performed proper impairment analysis on certain of its supply vessels in the Gulf of Mexico, (ii) reviewed properly its depreciation estimates related to such vessels, (iii) disclosed fully and accurately in certain of its public filings the inactive status of certain of the vessels, or (iv) maintained adequate internal controls to assure a proper impairment analysis of its Gulf of Mexico fleets. By reason of the foregoing findings, the order would cite the company for violating Sections 13(a) and 13(b)(2)(B) of the Exchange Act and Rules 12b-20, 13a-1 and 13a-13 thereunder, and Mr. Lousteau would be cited for causing the company to violate the foregoing statutes and regulations. The order would also cite Mr. Lousteau for improperly signing Sarbanes-Oxley civil certifications for the fiscal year ended March 31, 2003 and for fiscal quarters beginning with the quarter ended September 30, 2002 and ending December 31, 2003. Neither the company nor Mr. Lousteau will admit nor deny the findings of the Commission under the order; however, the order would require the company and Mr. Lousteau to cease and desist from committing or causing any current or future violation of the foregoing statutes and regulations. In January 2005, while the informal inquiry of the Commission was ongoing, the company adopted new asset impairment review policies.

If entered in the form submitted in the offer of settlement, the cease and desist order would not require the company to restate any of its historical financial statements, pay any fines or penalties, impose any other sanctions on the company or Mr. Lousteau, or impose any prospective or forward-looking compliance or supervisory measures on the company.

Various legal proceedings and claims are outstanding which arose in the ordinary course of business. In the opinion of management, the amount of ultimate liability, if any, with respect to these actions will not have a material adverse effect on the company's financial position, results of operations, or cash flows.

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

There were no matters submitted to a vote of security holders during the fourth quarter of fiscal 2007.

Table of Contents**Index to Financial Statements****PART II****ITEM 5. MARKET FOR THE REGISTRANT'S COMMON STOCK AND RELATED STOCKHOLDER MATTERS****Common Stock Market Prices and Dividends**

The company's common stock is traded on the New York Stock Exchange under the symbol TDW. At March 31, 2007, there were approximately 1,052 record holders of the company's common stock, based upon the record holder list maintained by the company's stock transfer agent. The following table sets forth the high and low closing sale prices of the company's common stock as reported on the New York Stock Exchange Composite Tape and the amount of cash dividends per share declared on Tidewater common stock for the periods indicated.

Fiscal Year	Quarter	High	Low	Dividend
2007	First	\$ 62.50	\$ 41.81	\$.15
	Second	51.26	41.68	.15
	Third	55.69	40.06	.15
	Fourth	59.85	43.27	.15
2006	First	\$ 40.23	\$ 31.85	\$.15
	Second	49.77	37.09	.15
	Third	49.24	41.00	.15
	Fourth	59.17	44.90	.15

Performance Graph

The following graph compares the change in the cumulative total stockholder return on the company's common stock with the cumulative total return of the Standard & Poor's 500 Stock Index and the cumulative total return of the Value Line Oilfield Services Group Index over the last five fiscal years. The analysis assumes the investment of \$100 on April 1, 2002, at closing prices on March 31, 2002, and the reinvestment of dividends. The Value Line Oilfield Services Group consists of 21 companies.

Table of Contents**Index to Financial Statements****Indexed Returns****Years ended March 31**

Company name/Index	2002	2003	2004	2005	2006	2007
Tidewater Inc.	100	69.15	69.09	97.20	140.03	150.21
S&P 500	100	75.24	101.67	108.47	121.19	135.53
Peer Group	100	77.78	106.95	141.86	226.35	230.42

The above graph is being furnished pursuant to the Securities and Exchange Commission rules. It will not be incorporated by reference into any filing under the Securities Act of 1933 or the Securities Exchange Act of 1934, except to the extent that the company specifically incorporates it by reference.

Issuer Repurchases of Equity Securities

In July 2006, the company's Board of Directors authorized a program for the company to use up to \$157.9 million to repurchase shares of its common stock in open-market or privately-negotiated transactions. The company intends to use its available cash and, when considered advantageous, borrowings under its revolving credit facility, to fund the share repurchases. The repurchase program will end when all the authorized funds have been expended or June 30, 2007, whichever is earlier, unless extended by the Board of Directors. Due to the fact that certain potential transactions were under consideration by the company, no shares of its common stock were repurchased during the quarter ended March 31, 2007. From inception of the July 2006 authorized repurchase program through March 31, 2007, the company used \$40.4 million for the repurchase and cancellation of 867,100 common shares, at an average price paid per common share of \$46.57. At March 31, 2007, approximately \$117.5 million was available to repurchase shares of the company's common stock pursuant to its current stock repurchase program.

In July 2005, the company's Board of Directors authorized the company to use up to \$120.0 million to repurchase shares of its common stock through open market or privately-negotiated transactions. The Board of Directors' authorization for this repurchase program expired on June 30, 2006. From inception of the July 2005 repurchase program through its conclusion on June 30, 2006, the company used \$112.1 million for the repurchase and cancellation of 2,396,100 common shares, at an average price paid per common share of \$46.79. As of March 31, 2006, the company spent \$20.8 million for the repurchase and cancellation of 455,000 common shares, or an average price paid per common share of \$45.64. At March 31, 2006, approximately \$99.2 million was available to repurchase shares of the company's common stock pursuant to the July 2005 stock repurchase program.

The following table summarizes the stock repurchase activity for the fiscal year ended March 31, 2007 and the average price paid per share:

Period	Total number of shares purchased	Average price paid per share
April 1, 2006 - June 30, 2007	1,941,100	\$ 47.06
July 1, 2006 - September 30, 2007	867,100	\$ 46.57
October 1, 2006 - December 31, 2006		
January 1, 2007 - March 31, 2007		

Securities Authorized for Issuance under Equity Compensation Plans

Please refer to Item 12 of this Annual Report on Form 10-K for information concerning common stock authorized for issuance under the company's equity compensation plan.

Table of Contents**Index to Financial Statements****ITEM 6. SELECTED FINANCIAL DATA**

The following table sets forth a summary of selected financial data for each of the last five fiscal years. This information should be read in conjunction with Management's Discussion and Analysis of Financial Condition and Results of Operations and the Consolidated Financial Statements of the company included in this report.

Years Ended March 31

(In thousands, except ratio and per share amounts)	2007 (A)	2006 (B)	2005 (C)	2004 (D)	2003
Statement of Earnings Data :					
Revenues:					
Vessel revenues	\$ 1,097,582	846,982	655,526	625,948	624,555
Other marine revenues	27,678	30,635	36,624	26,682	11,268
	\$ 1,125,260	877,617	692,150	652,630	635,823
Net earnings	\$ 356,646	235,756	101,339	41,662	88,630
Basic earnings per common share	\$ 6.38	4.11	1.78	.74	1.57
Diluted earnings per common share	\$ 6.31	4.07	1.78	.73	1.57
Cash dividends declared per common share	\$.60	.60	.60	.60	.60
Balance Sheet Data (at end of period):					
Cash and cash equivalents	\$ 393,806	246,109	15,376	17,636	17,767
Total assets	\$ 2,649,298	2,364,540	2,213,173	2,081,790	1,849,578
Long-term debt	\$ 300,000	300,000	380,000	325,000	139,000
Capitalized lease obligations	\$ 19,712				
Stockholders' equity	\$ 1,886,010	1,659,121	1,442,702	1,366,110	1,351,395
Working capital	\$ 584,869	413,289	133,643	152,585	141,225
Current ratio	4.98	4.57	2.42	3.12	2.95
Cash Flow Data:					
Net cash provided by operating activities	\$ 435,095	297,378	160,062	129,049	202,000
Net cash provided by (used in) investing activities	\$ (151,156)	53,208	(189,125)	(285,429)	(255,931)
Net cash (used in) provided by financing activities	\$ (136,242)	(119,853)	26,803	156,249	59,816

(A) During fiscal 2007, the company sold 14 offshore tugs for a cash price of \$43.7 million resulting in a \$34.0 million pre-tax financial gain or approximately \$20.8 million after-tax, or \$0.37 per diluted common share.

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- (B) In July 2005, the company sold six KMAR 404 class of anchor handling towing supply vessels for a cash price of \$188.0 million resulting in a \$65.9 million pre-tax financial gain or approximately \$42.8 million after-tax, or \$0.74 per diluted common share.
- (C) In March 2005, the company recorded a tax benefit of \$31.8 million (\$0.56 per share) to reverse previously recorded deferred tax assets and liabilities no longer required as a result of the American Jobs Creation Act of 2004 (for a full discussion see Note 3 of Notes to Consolidated Financial Statements).
- (D) In March 2004, the company recorded a non-cash asset impairment charge of \$26.5 million (\$17.2 million after-tax, or \$0.30 per share) on 83 older Gulf of Mexico supply vessels.

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ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS
Forward-looking Information and Cautionary Statement

In accordance with the safe harbor provisions of the Private Securities Litigation Reform Act of 1995, the company notes that this Annual Report on Form 10-K and the information incorporated herein by reference contain certain forward-looking statements which reflect the company's current view with respect to future events and financial performance. Any such forward-looking statements are subject to risks and uncertainties and the company's future results of operations could differ materially from historical results or any forward-looking statements included herein. Some of these risks are discussed in this report, and include, without limitation, fluctuations in oil and gas prices; fleet additions by competitors and industry overcapacity; changes in capital spending by customers in the energy industry for exploration, development and production; changing customer demands for different vessel specifications which may make some of our vessels technologically obsolete for certain customer projects or in certain markets; acts of terrorism; significant weather conditions; unsettled political conditions, war, civil unrest and governmental actions, especially in higher risk countries of operations; foreign currency fluctuations; and environmental and labor laws.

Forward-looking statements, which can generally be identified by the use of such terminology as may, expect, anticipate, estimate, forecast, believe, think, could, continue, intend, seek, plan, and similar expressions contained in this report, are predictions and not guarantees of performance or events. Any forward-looking statements are based on current industry, financial or economic information, which the company has assessed but which by its nature is dynamic and subject to rapid and possibly abrupt changes. The company's actual results could differ materially from those stated or implied by such forward-looking statements due to risks and uncertainties associated with our business. The forward-looking statements should be considered in the context of the risk factors listed above and discussed elsewhere in this Form 10-K. Investors and prospective investors are cautioned not to place undue reliance on such forward-looking statements. Management disclaims any obligation to update or revise the forward-looking statements contained herein to reflect new information, future events or developments.

Executive Summary and Overview

The company provides services and equipment to the global offshore energy industry through the operation of a diversified fleet of marine service vessels. Revenues, net earnings and cash flows from operations are dependent upon the activity level of the vessel fleet that is ultimately dependent upon oil and natural gas prices that, in turn, are determined by the supply/demand relationship for oil and natural gas. The following discussion should be read in conjunction with the Selected Financial Data and the Consolidated Financial Statements and related disclosures.

Strong industry fundamentals during fiscal 2007 improved the company's operating performance above fiscal 2006 levels as fiscal 2007 revenues exceeded the one billion dollar mark for only the second time in the 51-year history of the company. The company recorded \$1.1 billion in revenues during fiscal 2007, an increase of approximately \$247.6 million, or 28%, over the revenue amounts reported during fiscal 2006. Net earnings rose approximately 51%, or \$120.9 million, during fiscal 2007 as compared to fiscal 2006. The company's international operations continue to provide the most significant contribution to earnings and, during fiscal 2007, revenues generated from international operations as a percentage of the company's total revenues were 78%.

The company's international results of operations are primarily dependent on the demand and supply relationship for crude oil. During fiscal 2007, international-based revenues and operating profit increased approximately \$201.7 million and \$134.9 million, or 30% and 73%, respectively, as compared to fiscal 2006 due to strong worldwide demand for oil and gas and an improved operating environment which resulted in an escalation of vessel dayrates. Higher fiscal 2007 international-based vessel revenues were partially offset by higher operating costs and depreciation expense. Fiscal 2007's international-based operating costs

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increased approximately 15% from fiscal 2006 levels due primarily to higher crewing costs and repair and maintenance costs.

The company's United States results of operations are primarily dependent on the demand and supply relationship for natural gas. The company's U.S.-based revenues and operating profit increased approximately \$48.9 million and \$30.2 million, or 27% and 49%, respectively, during fiscal 2007 as compared to fiscal 2006 due to higher average day rates on all vessel classes operating in the U.S. market. Average day rates were propelled by strong demand for offshore supply vessels during calendar years 2004 through 2006 due to high demand associated with the continuation of repair work to the offshore energy infrastructure that was damaged by Hurricane Ivan in calendar year 2004 and due to the extensive damage caused to the energy infrastructure in the oil producing areas of the U.S. Gulf Coast by Hurricanes Katrina and Rita in late August and September 2005. The offshore vessel market tightened as exploration and production (E&P) companies competed to find available vessels for the necessary repair work resulting from the damage caused by the storms which propelled charter rates past levels achieved in the 1997 and 2001 industry upturns.

As the necessary repair work in the U.S. Gulf of Mexico nears completion, the number of available drilling rigs in the U.S. market should be the primary driver of the company's future profitability in the U.S. market. The strength of the international drilling market has attracted offshore rigs from the U.S. market over the past few years. Over the longer term, the company's U.S.-based fleet should be influenced more by the active Gulf of Mexico rig count than by any other single outside influence, although the number of available vessels of competitor companies will also have a significant effect.

During the second quarter of fiscal 2007, the company entered into a definitive agreement with Crosby Marine Transportation, LLC to sell 14 of its offshore tugs, of which 12 operated in the United States and two operated internationally. The sale of 11 of the tugs closed in the company's second quarter of fiscal 2007 for a total cash price of \$34.8 million. The sale of the other three tugs closed during the third quarter of fiscal 2007 for a total sales price of \$8.9 million. The culmination of the entire transaction resulted in an approximate \$34.0 million pre-tax financial gain during fiscal 2007, or approximately \$20.8 million after-tax (\$0.37 per diluted common share after-tax). The company also sold and/or scrapped an additional 52 vessels which resulted in additional gains on sales of assets of approximately \$9.2 million during fiscal 2007.

Fiscal 2007 witnessed the delivery of eight newly-constructed vessels, which consisted of five anchor handling towing supply vessels, one platform supply vessel and two crewboats. The newly built anchor handlers and the platform supply vessels expanded the company's core vessel fleet. To date, the company has funded all of its vessel commitment programs from current cash balances, operating cash flow, and funds provided by its \$300 million senior unsecured notes and its revolving credit facility.

Key Focus for Fiscal 2007 and Outlook

During fiscal 2007, the company continued its focus on growing its international markets, improving its domestic profitability, and regenerating its vessel fleet in order to generate future earnings capacity. The company is effectively utilizing its strong cash position to grow the industry's largest new fleet of vessels and also fund common stock repurchases when appropriate. In the company's operating business, management focused on improving dayrates and utilization, maintaining disciplined cost control in the sourcing of critical supplies and services, and continuing to improve its industry-leading safety record. Fiscal 2007 was a year of strong financial performance with solid improvements in revenue, operating profit and earnings per share, all building the foundation for long-term growth.

Given the progress the company has made in executing its strategies, the company is poised to continue to grow organically and, given the right opportunity, to grow through targeted and disciplined acquisitions. The company will continue to pursue its long-term growth strategies on a disciplined basis. The company has targeted two additional dimensions within its strategic initiatives to include (1) assessing opportunities for its older fleet; and (2) targeted acquisitions. In each case, the company will carefully consider whether proposed transactions have the appropriate risk/reward profile. These areas of opportunity have a common

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theme which is to leverage the company's existing strengths and capitalize on favorable market conditions to improve operating profit, earnings per share and cash flows.

Vessel Construction Programs and Acquisitions

Current Commitments

As of March 31, 2007, the company is constructing 19 anchor handling towing supply vessels, varying in size from 5,000 brake horsepower (BHP), to 13,600 BHP for a total commitment cost of approximately \$322.2 million. Five different international shipyards are constructing the vessels. Two of the anchor handling towing supply vessels are large deepwater class vessels. Scheduled deliveries for the 19 vessels begin in August 2007, with the last vessel scheduled for delivery in August 2009. As of March 31, 2007, \$80.7 million has been expended on the vessels.

The company is also committed to enter into two bareboat charter agreements on two anchor handling towing supply vessels that are currently under construction. The bareboat charter agreements will each have a purchase option allowing the company to purchase the vessels for \$17.2 million each at specific times during the lease term. One of the anchor handling towing supply vessels was delivered in April 2007. Scheduled delivery for the second anchor handling towing supply vessel is expected in October 2007.

The company is also committed to the construction of two 220-foot, two 230-foot and three 250-foot platform supply vessels for a total cost of approximately \$103.2 million. The company's shipyard, Quality Shipyard, LLC, is constructing the two 220-foot vessels, while a different U.S. shipyard is constructing the three 250-foot vessels. An international shipyard is constructing the two 230-foot vessels. Scheduled delivery of the two 220-foot vessels is expected in October 2007 and February 2008, while the three 250-foot vessels, which will be considered deepwater class vessels, are expected to be delivered in June, August and December of 2007. The two 230-foot vessels are scheduled for delivery in September and November of 2008. As of March 31, 2007, \$49.9 million has been expended on these five vessels.

The company is also committed to the construction of two 175-foot, state-of-the-art, fast, crew/supply boats, and three tugboats for an aggregate cost of approximately \$32.1 million. A U.S. shipyard is constructing the 175-foot crewboats, while three international shipyards are each constructing one tugboat. Scheduled delivery for the two 175-foot crewboats is expected in October 2007. One tugboat was delivered in early May 2007 while a second tugboat is expected to be delivered in the latter part of May 2007. The third tugboat is expected to be delivered in July 2007. As of March 31, 2007, \$11.2 million has been expended on these five vessels.

The company is also committed to enter into two bareboat charter agreements for two offshore tug vessels that are currently under construction. The bareboat charter agreements will each have a purchase option allowing the company to purchase the vessels for \$14.3 million each at specific times during the lease term. Scheduled delivery for the two offshore tugs is expected in June and August of 2009.

The company has also contracted for the construction of a new corporate aircraft for a total approximate cost of \$28.7 million. As of March 31, 2007, \$17.2 million has been expended, and the airplane was available for use in May of 2007.

Table of Contents**Index to Financial Statements****Vessel Commitments Summary at March 31, 2007**

The table below summarizes the various vessel commitments by vessel class and type as of March 31, 2007:

Vessel class and type	U. S. Built Total			International Built Total		
	Number of Vessels	Cost Commitment (In thousands)	Expended Through 3/31/07 (In thousands)	Number of Vessels	Cost Commitment (In thousands)	Expended Through 3/31/07 (In thousands)
Deepwater vessels:						
Anchor handling towing supply				2	\$ 54,227	\$ 5,090
Platform supply vessels	3	\$ 52,584	\$ 34,157			
Replacement fleet:						
Anchor handling towing supply				19	\$ 302,453	\$ 75,597
Platform supply vessels	2	\$ 27,049	\$ 11,405	2	\$ 23,575	\$ 4,332
Crewboats and offshore tugs:						
Crewboats 175-foot	2	\$ 15,142	\$ 2,491			
Offshore tugs				5	\$ 45,565	\$ 13,928
Totals	7	\$ 94,775	\$ 48,053	28	\$ 425,820	\$ 98,947

The table below summarizes by vessel class and vessel type the number of vessels expected to be delivered by quarter of the various vessel commitments as discussed above:

Vessel class and type	Quarter Period Ended					
	6/07	9/07	12/07	03/08	6/08	Thereafter
Deepwater vessels:						
Anchor handling towing supply						2
Platform supply vessels		2	1			
Replacement Fleet:						
Anchor handling towing supply	1	3	4	4	1	6
Platform supply vessels			1	1		2
Crewboats and offshore tugs:						
Crewboats 175-foot			2			
Offshore tugs	3					2
Totals	4	5	8	5	1	12

The company anticipates that over the next several years, it will continue to build, acquire or lease newer vessels in order to replace its aging vessels. The majority of the company's core group of older vessels, its supply and towing supply vessels, were constructed between 1976 and 1983. As such, most of this vessel class exceeds 24 years of age and may be replaced within the next several years depending on the strength of the market during this time frame. In addition to age, market conditions also help determine when a vessel is no longer economically viable. The company anticipates using future operating cash flows, existing borrowing capacities or new borrowings or lease arrangements to fund over the next few years the continuing replacement of the company's mature fleet of vessels. These vessels would replace the company's aging vessels in the core international fleet with fewer, larger and more efficient vessels. The company believes that adequate capital resources and liquidity will be available to fund the continuation of fleet replacement.

Subsequent to March 31, 2007, the company committed to the construction of ten additional vessels for a total cost of approximately \$166.6 million. Two of the vessels are large, anchor handling towing supply vessels while another two vessels are large platform supply vessels. All

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four of these vessels are capable of working in most deepwater regions of the world. The remaining six vessels comprise of four 230-foot platform supply vessels and two 175-foot crewboats. The vessels are expected to be delivered to the market beginning in April 2009 with delivery of the last vessel in December 2009.

Fiscal 2007 Vessel Deliveries and Acquisitions

During fiscal 2007, three anchor handling towing supply vessels were delivered to the company that vary in size from 6,500 to 8,000 BHP. The vessels were delivered by two different international shipyards for a total approximate cost of \$54.3 million.

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The company entered into two capitalized lease obligations during fiscal 2007 for a total \$22.8 million and accordingly increased its anchor handling towing supply vessel count by two vessels. Both vessels have a BHP of 5,500 and were built by international shipyards.

The company also delivered to the market one 220-foot, platform supply vessel for approximately \$12.4 million. The company's shipyard, Quality Shipyard, LLC, constructed the vessel which is capable of working in domestic and international markets.

During fiscal 2007, the company delivered to the market one 175-foot, state-of-the-art, fast, crew/supply boat from a U.S. shipyard and one water jet crewboat from a shipyard in Holland for an approximate total cost of \$8.2 million. The company also acquired four used crewboats from Provident Marine Ltd., a 49%-owned joint-venture, due to the dissolution of the joint venture during fiscal 2007.

Fiscal 2006 Vessel Deliveries and Acquisitions

During fiscal 2006, the company delivered two large anchor handling towing supply vessels, with BHP in excess of 25,000, that are capable of working in most deepwater markets of the world. A Chinese shipyard constructed the vessels for an approximate cost of \$70.4 million which includes shipyard commitments and other incidental costs such as spare parts, management and supervision, and outfitting costs. The Chinese shipyard also constructed and delivered in December 2005, for approximately \$37.3 million, a third large anchor handling towing supply vessel to a second shipyard that modified and outfitted the vessel. This vessel was delivered to the company in April 2006.

The company delivered to the market seven anchor handling towing supply vessels varying in size from 6,500 to 8,000 BHP. The vessels were delivered by four international shipyards during fiscal 2006 for an approximate cost of \$81.8 million.

The company also delivered to the market during fiscal 2006 one 220-foot, platform supply vessel for approximately \$12.0 million. The company's shipyard, Quality Shipyard, LLC, constructed the vessel which is capable of working in domestic and international markets and was built to replace older supply vessels.

During fiscal 2006, the company delivered to the market one 175-foot, state-of-the-art, fast, crew/supply boat from a U.S. shipyard and six water jet crewboats from a shipyard in Holland for an approximate total cost of \$13.4 million.

Fiscal 2005 Vessel Deliveries and Acquisitions

During fiscal 2005, the company took delivery of two deepwater anchor handling towing supply vessels and five anchor handling towing supply vessels varying in size from 6,500 to 8,000 BHP. A shipyard in China constructed the two deepwater anchor handling towing supply vessels, with a BHP in excess of 25,000, for an approximate cost of \$68.6 million. The first China built deepwater vessel was delivered during the second quarter of fiscal 2005. The second deepwater anchor handler was delivered in March 2005 to a second shipyard that modified and outfitted the vessel before being delivered to the company in August 2005. All five of the anchor handling towing supply vessels were built by international shipyards for an approximate total cost of \$74.8 million.

The company also took delivery of one U.S.-built platform supply vessel, three U.S.-built 175-foot crewboats and one water jet crewboat built in Holland during fiscal 2005 for an approximate total cost of \$32.4 million. The platform supply vessel was built in order to replace older supply vessels and is intermediate in size and technically capable of working in certain domestic and international deepwater markets. Also during fiscal 2005, the company purchased three 5,500 to 6,500 BHP anchor handling towing supply vessels for approximately \$39.6 million and one platform supply vessel for approximately \$16.3 million.

Table of Contents**Index to Financial Statements****Vessel Deliveries and Acquisitions Summary**

The table below summarizes the number of vessels that have been added to the company's fleet during fiscal 2007, 2006 and 2005 by vessel class and vessel type:

Vessel class and type	Number of vessels added		
	2007	2006	2005
Deepwater vessels:			
Anchor handling towing supply		3	2
Platform supply vessels			
Replacement fleet:			
Anchor handling towing supply	5	7	8
Platform supply vessels	1	1	2
Crew/utility:			
Crewboats (A)	6	7	4
Offshore tugs			
Total number of vessels added to the fleet	12	18	16

(A) Included in the fiscal 2007 crewboats count are four used crewboats acquired from Provident Marine Ltd, a 49% owned joint-venture, due to the dissolution of the joint venture during fiscal 2007.

General Market Conditions and Results of Operations

Offshore service vessels provide a diverse range of services and equipment to the energy industry. The company's revenues and operating profit are primarily driven by fleet size, vessel utilization and day rates because operating costs and depreciation do not change proportionally with changes in revenue. Operating costs primarily consist of crew costs, repair and maintenance, insurance, fuel, lube oil and supplies. Fleet size and utilization are the major factors which affect crew costs. The timing and amount of repair and maintenance costs are influenced by customer demands, vessel age and scheduled drydockings to satisfy safety and inspection requirements mandated by regulatory agencies. Drydocking costs are only incurred if economically justified, taking into consideration the vessel's age, physical condition and future expected marketability. If the required drydocking is not performed, the vessel is either stacked or sold as it cannot work without the proper certifications.

The following table compares revenues and operating expenses (excluding general and administrative expenses and depreciation expense) for the company's vessel fleet for the years ended March 31. Vessel revenues and operating costs relate to vessels owned and operated by the company, while other marine services relate to third-party activities of the company's shipyards, brokered vessels and other miscellaneous marine-related activities.

(In thousands)	2007	2006	2005
Revenues (A):			
Vessel revenues:			
United States	\$ 229,247	180,374	118,288
International	868,335	666,608	537,238
	1,097,582	846,982	655,526
Other marine revenues	27,678	30,635	36,624
Total revenues	\$ 1,125,260	877,617	692,150

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Operating costs:				
Vessel operating costs:				
Crew costs	\$	273,996	243,584	226,653
Repair and maintenance		98,212	76,058	70,519
Insurance		12,377	15,820	18,568
Fuel, lube and supplies		44,600	39,617	40,329
Vessel operating leases		1,486	23	
Other		67,140	56,379	45,802
		497,811	431,481	401,871
Costs of other marine revenues		24,119	23,836	29,453
Total operating costs	\$	521,930	455,317	431,324

(A) For fiscal 2007, 2006 and 2005, Chevron Corporation (including its worldwide subsidiaries and affiliates) accounted for 14.8%, 15.0% and 13.2%, respectively, of revenues while Petroleo Brasileiro SA accounted for 10.2% of revenue during fiscal 2007 and 2005.

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The following table subdivides vessel operating costs presented above by the company's United States and International segments for the fiscal years ended March 31.

(In thousands)	2007	2006	2005
United States operating costs:			
Vessel operating costs:			
Crew costs	\$ 65,225	57,939	51,102
Repair and maintenance	18,005	14,730	14,299
Insurance	7,455	6,333	11,288
Fuel, lube and supplies	4,257	4,643	5,614
Vessel operating leases	564	23	
Other	7,041	4,574	2,952
	102,547	88,242	85,255
International operating costs:			
Vessel operating costs:			
Crew costs	\$ 208,771	185,645	175,551
Repair and maintenance	80,207	61,328	56,220
Insurance	4,922	9,487	7,280
Fuel, lube and supplies	40,343	34,974	34,715
Vessel operating leases	922		
Other	60,099	51,805	42,850
	395,264	343,239	316,616
Total operating costs	\$ 497,811	431,481	401,871

Marine operating profit and other components of earnings before income taxes for the years ended March 31 consists of the following:

(In thousands)	2007	2006	2005
Vessel activity:			
United States	\$ 91,465	61,227	2,022
International	320,971	186,044	95,383
	412,436	247,271	97,405
Impairment of long-lived assets		(3,050)	(1,733)
Gain on sales of assets	42,787	86,337	11,977
Other marine services	3,013	6,511	6,623
Operating profit	458,236	337,069	114,272
Other income	27,468	16,797	7,589
Corporate expenses	(25,212)	(21,280)	(15,179)
Interest and other debt costs	(9,657)	(9,074)	(6,887)
Earnings before income taxes	\$ 450,835	323,512	99,795

As a result of the uncertainty of a certain customer to make payment of vessel charter hire, the company has deferred the recognition of approximately \$5.3 million of billings as of March 31, 2007, \$6.1 million of billings as of March 31, 2006 and \$1.6 million of billings as of

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March 31, 2005 which would otherwise have been recognized as revenue. The company will recognize the amounts as revenue as cash is collected or at such time as the uncertainty has been resolved.

Comparison of Fiscal 2007 to Fiscal 2006

Fiscal 2007 Market Conditions

Strong industry fundamentals improved the company's operating performance above fiscal 2006 levels as fiscal 2007 revenues exceeded the one billion dollar mark for only the second time in the 51-year history of the company. The company recorded \$1.1 billion in revenues during fiscal 2007, an increase of approximately \$247.6 million, or 28%, over the revenue amounts reported during fiscal 2006. Net earnings rose approximately 51%, or \$120.9 million, during fiscal 2007 as compared to fiscal 2006. A significant portion of the company's operations are conducted internationally. During fiscal 2007, revenues generated from international operations as a percentage of the company's total revenues were 78%. The company's revenues generated by vessels working internationally increased approximately 30%, or \$201.7 million, during fiscal 2007 as compared to fiscal 2006 while revenues generated by vessels working in the United States increased \$48.9 million, or approximately 27%, during the same comparative period.

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Higher average day rates and utilization on all vessel classes operating internationally are the cause of the strength of the company's international-based results of operations during fiscal 2007. Average day rates for the total international-based fleet increased approximately 17% during fiscal 2007 as compared to fiscal 2006 while utilization for the entire international-based fleet increased approximately 10% during the same comparative period. The company's international results of operations have been primarily dependent on the supply and demand relationship for crude oil. Crude oil prices were quite volatile during fiscal 2007 but remained in a range of prices that were consistently attractive to the E&P companies. By the end of March 2007, crude oil prices were in the low \$60's (after reaching an all time closing high of \$77 in mid-July 2006) due to the Organization of Petroleum Exporting Countries (OPEC) commitment to maintain the \$60 price floor by deciding in November 2006 to cut oil production by one million barrels per day. Analysts forecast that global demand for crude oil will likely remain strong throughout calendar year 2007 and expect future crude oil prices to remain at attractive levels due to high worldwide consumer demand for oil, relatively low excess OPEC production capacity, OPEC's intention to defend a specific floor price for crude oil and continued concerns over possible supply interruptions caused by geopolitical risk in certain countries that are members of OPEC. Management anticipates international vessel demand will remain strong as long as crude oil prices remain at levels whereby E&P companies would continue to expend their anticipated E&P spending budgets, which are at levels that exceed 2006 actual expenditures.

Higher utilization and average day rates are also the basis of the company's improved U.S. results of operations during fiscal 2007 as compared to fiscal 2006. Average day rates increased on all vessel classes operating in the U.S. market. Total average day rates on the entire U.S.-based fleet increased approximately 48% during fiscal 2007 as compared to fiscal 2006, while utilization for the total U.S.-based fleet increased approximately 9% during the same comparative period. Fiscal 2007's strong financial performance is a result of several significant improvements that occurred in the offshore support vessel market in previous years. During the first half of calendar year 2005, the market for offshore support vessels improved as a result of the tightening of the supply of offshore support vessels due to high demand associated with the continuation of repair work to the offshore energy infrastructure that was damaged by Hurricane Ivan in calendar year 2004. Hurricanes Katrina and Rita, which caused extensive damage to the energy industry infrastructure in the oil producing areas of the U.S. Gulf Coast in late August and September 2005, respectively, further tightened the offshore vessel market as E&P companies competed to find available vessels for the necessary repair work resulting from the damage caused by the two storms. Demand for the company's vessels in the Gulf of Mexico prior to the two storms had already strengthened and business after the storms propelled charter rates past levels achieved in the 1997 and 2001 industry upturns. However, consistent with public reports, the company has seen some softening in the shallow water offshore vessel market as the needed infrastructure repair work slows and as numerous drilling rigs begin to relocate to international areas.

With completion of the needed repair work in the U.S. Gulf of Mexico, the number of available drilling rigs in the U.S. market should be the primary driver of the company's future profitability in the U.S. market and, at present time, the offshore rig count in the Gulf of Mexico remains relatively depressed as compared to past up cycles. In addition, the strength of the international drilling market has attracted offshore rigs from the U.S. market over the past few years and this trend is expected to continue in the upcoming quarters. Over the longer term, the company's U.S.-based fleet should be influenced more by the active offshore rig count than by any other single outside influence. Industry reports indicate that over the next three years the worldwide moveable drilling rig count will increase as new-build rigs currently on order and under construction stand at approximately 129 rigs to supplement the current approximately 688 movable rigs worldwide. Analysts have reported that the majority of the new jackups being delivered in calendar year 2007 will work in the international markets.

Commodity prices for crude oil and natural gas are critical factors in E&P companies' decision to retain their drilling rigs in the U.S. Gulf of Mexico market or mobilize the rigs to profitable international markets. Natural gas prices were relatively weak during calendar year 2006 as inventory levels exceeded five-year averages due to mild weather. By mid-calendar year 2006, natural gas inventories exceeded the five-year average by 32% as reported by the Department of Energy and were well on their way to maximum storage capacity by the end of the summer which helped drive natural gas prices below \$5.00 per Mcf. Natural gas prices have strengthened since calendar year 2007 began as demand for natural gas increased due to late winter cold temperatures in the Northern Hemisphere which reduced inventories to normalized levels. The company's U.S. results of operations are primarily driven by natural gas exploration and production and, given the

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relative volatility and uncertainty in natural gas pricing in the near term, it is unknown how U.S.-based vessel demand will be affected. Certain industry analysts forecast near term weakness in the natural gas market but expect solid results in the latter portion of calendar year 2007 as excess inventory levels dissipate.

While these factors lead to questions about the immediate future activity level of the U.S. market, the company's assets are highly mobile and should the U.S. market soften, the company has the ability to redeploy its vessels to international markets where the vessels may benefit from strong average day rates and earnings are taxed at statutory income tax rates that are typically lower than in the United States. In reaction to rigs departing the Gulf of Mexico during the latter part of calendar year 2006, the company relocated 16 vessels to international areas during fiscal 2007 where the vessels were contracted for more attractive term work at effectively more profitable dayrates than what the vessels were achieving in the Gulf of Mexico. The company will continue to assess the demand for vessels in the Gulf and consider relocating additional vessels to stronger international areas as necessary.

United States-based Operations

U.S.-based vessel revenues increased 27%, or \$48.9 million, during fiscal 2007 as compared to fiscal 2006 due to higher average day rates and utilization. The company's deepwater class of vessels contributed approximately 47% of revenue growth during fiscal 2007 as compared to fiscal 2006. Towing supply/supply vessels, the company's most significant income producing vessel class in the U.S. market, generated approximately 67% of the revenue growth during the same comparative periods.

Revenues on the company's crew/utility class of vessels during fiscal 2007 decreased by 6% as compared to fiscal 2006, due to fewer crew/utility vessels operating in the U.S. market resulting from Tidewater's sale of crewboats during the fourth quarter of fiscal 2006. The company's offshore tug class of vessels also had a reduction in revenues during fiscal 2007 of approximately 30% compared to fiscal 2006 due to the sale of the company's offshore tugs that operated in the U.S. market.

Average day rates on the U.S.-based towing supply/supply vessels increased approximately 40% during fiscal 2007 as compared to fiscal 2006, while utilization rates on this same class of vessel decreased a modest 1% during fiscal 2007 as compared to fiscal 2006. Average day rates on the company's U.S.-based deepwater class of vessels increased approximately 36% during fiscal 2007 as compared to fiscal 2006. During fiscal 2007, utilization rates on the deepwater class of vessels decreased a modest 1% as compared to fiscal 2006. During fiscal 2007, average day rates for the crew/utility class of vessels increased approximately 35% as compared to fiscal 2006 while utilization rates on the same class of vessel increased 5% during fiscal 2007 as compared to fiscal 2006.

U.S.-based operating profit increased approximately 49%, or \$30.2 million, during fiscal 2007 as compared to fiscal 2006 primarily due to higher revenues which were partially offset by a 16% increase in vessel operating costs (primarily crew cost and repair and maintenance costs) and a 14% increase in depreciation expense. Increases in crew costs are primarily due to wage pressures while increases in repair and maintenance costs resulted from higher shipyard pricing combined with necessary repairs work needed on an aging fleet.

International-based Operations

International-based vessel revenues increased approximately 30%, or \$201.7 million, for fiscal 2007 as compared to fiscal 2006 due to an increase in utilization and average day rates on all classes of vessels operating in the international market. The company's international deepwater class, towing supply/supply class and crew/utility classes of vessels generated approximately 24%, 57% and 13% of the revenue growth during fiscal 2007 as compared to fiscal 2006 while the company's offshore tugs contributed 5% of the revenue growth during the same comparative period.

Average day rates on the company's international-based deepwater class of vessels increased approximately 25% during fiscal 2007 as compared to fiscal 2006 while utilization rates on the deepwater class of vessels increased 8% during the same comparative period. Average day rates on the international-based towing supply/supply vessels increased approximately 19% during fiscal 2007 as compared to fiscal 2006, while utilization rates on this same class of vessels increased 6% during fiscal 2007 as compared to

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fiscal 2006. During fiscal 2007, average day rates for the crew/utility class of vessels increased approximately 18% as compared to fiscal 2006 while utilization rates on the same class of vessels increased 13% during fiscal 2007 as compared to fiscal 2006. Average day rates and utilization on the company's international-based offshore tugs increased approximately 9% and 18%, respectively during fiscal 2007 as compared to fiscal 2006.

Fiscal 2007 international-based vessel operating profit increased 73%, or \$134.9 million, as compared to fiscal 2006 primarily due to higher revenues which were partially offset by an approximate 15% increase in vessel operating costs (primarily crew costs, repair and maintenance costs, fuel and lube, and brokers' commission) and a 7% increase in depreciation expense. International crew costs increased primarily because the newer, technically sophisticated anchor handling towing supply vessels and platform supply vessels that have been added to the fleet generally require a greater number of specially trained fleet personnel than the older smaller vessels in the fleet. These same vessels incur higher maintenance costs as a result of the increased complexity and sophistication of the newer equipment installed on the vessels. In addition, crew costs increased due to worldwide wage pressures on all crew staff positions. Repair and maintenance costs also increased during the comparative periods because of necessary repair work needed on an aging fleet combined with higher shipyard pricing. Fuel costs increased due to higher per gallon price for fuel and more vessel mobilizations during fiscal 2007 as compared to fiscal 2006. Brokers' commissions increased due to increases in revenues.

Other Items

Due to an improved safety record and lower claim costs and loss reserves, the company's insurance and loss reserve costs decreased approximately 22% during fiscal 2007 as compared to fiscal 2006.

The company performed a thorough review of all the vessel classes in its fleet for asset impairment during the third quarter of fiscal 2007. The review resulted in no impairment charge. During fiscal 2006, the company's review of asset impairment resulted in an impairment charge of \$3.1 million on eight vessels in the company's fleet. The eight vessels were written down to each vessel's respective estimated fair value.

During the second quarter of fiscal 2007, the company entered into a definitive agreement with Crosby Marine Transportation, LLC to sell 14 of its offshore tugs, of which 12 operated in the United States and two operated internationally. The sale of 11 of the tugs closed in the company's second quarter of fiscal 2007 for a total cash price of \$34.8 million. The sale of the other three tugs closed during the third quarter of fiscal 2007 for a total sales price of \$8.9 million. The culmination of the entire transaction resulted in an approximate \$34.0 million pre-tax financial gain during fiscal 2007, or approximately \$20.8 million after-tax (\$0.37 per diluted common share after-tax).

Gain on sales of assets during fiscal 2007 is approximately 50% lower than during fiscal 2006 primarily due to the July 2005 sale of six KMAR 404 class of anchor handling towing supply vessels to Deep Sea Supply ASA for a total cash price of \$188.0 million which resulted in a \$65.9 million pre-tax financial gain.

Interest and miscellaneous income increased approximately 64%, or \$10.7 million, as compared to fiscal 2006 because the company had higher levels of cash invested in short-term, interest-bearing securities during fiscal 2007 than in fiscal 2006.

Comparison of Fiscal 2006 to Fiscal 2005

Fiscal 2006 Market Conditions

Fiscal 2006 U.S. results of operations benefited from strong industry fundamentals which translated into higher utilization and average day rates for the company's U.S.-based vessel fleet. Prospects for growth in the offshore market in the U.S. Gulf of Mexico showed significant improvement from the previous fiscal year. However, Hurricanes Katrina and Rita caused extensive damage to the energy industry infrastructure in the Gulf of Mexico and along the U.S. Gulf Coast resulting in an interruption in oil and gas production in the Gulf of Mexico. The U.S. Minerals Management Service (MMS) statistical report on production shut-ins due to Hurricanes Katrina and Rita dated March 22, 2006 reported that total shut-in oil production, for the period of September 26, 2005 to March 22, 2006, totaled approximately 25% of the yearly U.S. Gulf oil production.

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During this same period of time, natural gas shut-in totaled approximately 19% of the yearly U.S. Gulf gas production as reported by MMS. Pre-storm offshore rig demand improved greatly and drilling activity was forecast to remain at improved levels well into calendar 2006. The E&P companies contracted offshore drilling rigs for longer durations than in past periods due to concerns over rig availability in the U.S. market. The market for offshore support vessels tightened as drilling operators discovered that offshore vessels that were in service were in short supply. The U.S. Gulf of Mexico supply boat market still had a significant number of vessels stacked that could resume active status, but only after expenditures to drydock to re-certify the vessels. The company did not experience any injuries to its personnel or damage or interruption of service to its fleet of vessels serving the offshore oil and gas industry in the Gulf of Mexico due to Hurricanes Katrina and Rita. The aftermath of the storms did not have any material impact on the company's ability to respond to customer needs or its ability to fulfill contract commitments. Demand for the company's available U.S.-based vessels prior to the two storms was strong and business after the storms propelled charter rates past levels achieved in the 1997 and 2001 industry upturns.

U.S.-based results of operations are primarily driven by natural gas exploration and production and, given the damage sustained to the offshore oil and gas infrastructure; the company's vessels were in high demand in the Gulf of Mexico while repairs were made to offshore pipelines and platforms. The repair work in the Gulf of Mexico kept U.S.-based vessel demand high for the near term, but the offshore rig count in the Gulf of Mexico remained relatively depressed as compared to past up cycles. The uptick in U.S.-based business during the second half of fiscal 2006 was related to the repair work resulting from damage caused by Hurricanes Katrina and Rita. After the completion of the needed repair work in the U.S. Gulf of Mexico, the number of available drilling rigs in the U.S. market became the primary driver of the company's future profitability in the U.S. market. The strength of the international drilling market attracted offshore rigs from the U.S. market over the past few years. This capacity constraint forced some E&P companies to delay drilling programs. Over the longer term, the company's U.S.-based fleet will be influenced more by the active offshore rig count than by any other single outside influence. Fiscal 2006 analysts' reports indicated that the offshore drilling rig count would increase as the new-build order books for jackup rigs stood at approximately 62 rigs. Nine of these rigs were scheduled for delivery in calendar 2006 while calendar years 2007, 2008 and 2009 were expected to have 21, 26 and 6 rig deliveries, respectively.

The company's fiscal 2006 international results of operations benefited from higher average day rates, utilization and an increase in the number of vessels operating internationally. Improvements in the company's average day rates and utilization were due to increases in international E&P spending and an increase in rig utilization in the international arena. Industry analysts forecast that demand for crude oil would remain strong throughout calendar year 2006 due to high crude oil prices due to strong domestic and international demand, tight crude oil inventory supplies and continued concerns over possible supply interruptions caused by geopolitical risk in certain countries that are members of the Organization of Petroleum Exporting Countries (OPEC). During fiscal 2006, analysts forecast that calendar year 2006 E&P spending in the international markets would increase by approximately 15% from amounts spent in calendar 2005. Management anticipated international vessel demand would continue to improve along with the strong market conditions, although management believed that demand would be limited by the availability of drilling and production units to serve the industry. There were also a number of vessels under construction in the industry that will enter into service in the upcoming years that would increase the available supply of vessels to satisfy customer demands.

The company's properties and equipment were unaffected by Hurricanes Katrina and Rita, which affected the Gulf Coast region of the United States. The company's fleet of vessels operating in the Gulf of Mexico did not sustain any damage and the company's main operational base in Amelia, Louisiana suffered only power and telephone outages. The company's corporate headquarters located in New Orleans, Louisiana did not sustain damage but was inaccessible for business for approximately three months. During this period, the company's New Orleans based staff personnel were assigned to the company's main operational base in Amelia, Louisiana while the company's senior management group operated from the company's Houston, Texas office. The company's shipyard, Quality Shipyards, LLC located in Houma, Louisiana also did not sustain any damage. All international operations of the company were unaffected by the two storms. The company's corporate headquarters are accessible for business and its New Orleans based staff personnel have resumed operations in New Orleans while the company's senior management group operates in both the New Orleans and Houston offices. The company maintains insurance against

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property damage, including extra-expense coverage which covers costs incurred to continue as nearly as practicable the normal operations of the business.

United States-based Operations

U.S.-based vessel revenues increased approximately 53%, or \$62.1 million, during fiscal 2006 as compared to fiscal 2005 due to an increase in utilization rates and average day rates on all classes of vessels operating in the U.S. market. The company's deepwater class of vessels contributed approximately 24% of revenue growth during fiscal 2006 as compared to fiscal 2005. Active towing supply/supply vessels, the company's most significant income producing vessel class in the U.S. market, generated approximately 55% of the revenue growth during the same comparative period, while the crew/utility class contributed 15% of the revenue growth during the same comparative period. The company's offshore tugs also had a positive contribution to the revenue increase generating 5% of the revenue growth during fiscal 2006 as compared to fiscal 2005.

Utilization rates on the company's U.S.-based deepwater class of vessels increased approximately 14% during fiscal 2006 as compared to fiscal 2005 while average day rates for the deepwater vessels increased 41% during the comparative period. Utilization rates and average day rates for the U.S.-based towing supply/supply vessels increased approximately 12% and 43%, respectively, during fiscal 2006 as compared to fiscal 2005. Utilization rates on the company's U.S.-based crew/utility class of vessels increased approximately 13% during fiscal 2006 as compared to fiscal 2005 while average day rates for the crew/utility class of vessels increased approximately 38% during the same comparative period. Lastly, utilization rates and average day rates on the U.S.-based offshore tugs increased approximately 7% and 28%, respectively, during fiscal 2006 as compared to fiscal 2005.

U.S.-based operating profit increased approximately \$59.2 million during fiscal 2006 as compared to fiscal 2005 primarily due to higher revenues. Revenues generated during fiscal 2006 were slightly offset by higher vessel operating costs, specifically crew costs which increased due to competitive pressure on wages rates.

International-based Operations

International-based vessel revenues increased approximately 24%, or \$129.4 million, during fiscal 2006 as compared to fiscal 2005 due to an increase in average day rates on all vessel classes. The company's international deepwater class, towing supply/supply class and crew/utility class of vessels generated approximately 22%, 64% and 10%, respectively, of the revenue growth during fiscal 2006 as compared to fiscal 2005. The company's offshore tugs and other classes of vessels also made positive contributions to fiscal 2006's revenue growth, each contributing approximately 4% and 1%, respectively, to the increase in revenues earned. Revenues also improved due to an increase in total utilization of the international-based fleet which increased 3% during fiscal 2006 as compared to fiscal 2005.

International-based vessel operating profit increased 95%, or \$90.7 million, during fiscal 2006 as compared to fiscal 2005 primarily due to higher revenues. Higher revenues were partially offset by increases in crew costs (resulting from an increase of vessels operating in the international market and due to additional United Kingdom multi-employer retirement fund expenses) and depreciation expense resulting from an increase in the number of vessels operating in the international market. Increased depreciation expense was a result of adding newly built vessels to the company's fleet of vessels.

Other Items

During the first quarter of fiscal 2006, the company performed a thorough review of all vessels withdrawn from service and stacked vessels in the company's fleet and during the third quarter of fiscal 2006, the company performed a thorough review of all vessels in its fleet for asset impairment. The reviews resulted in a December 2005 impairment charge of \$3.1 million on eight vessels withdrawn from service. The eight vessels were written down to each vessel's respective estimated fair value. An impairment charge of \$1.7 million was recorded in fiscal 2005 to reduce the carrying amount of 10 stacked vessels that were unlikely to return to active service.

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Due to an improved safety record and lower claim costs and loss reserves, the company's insurance and loss reserve costs decreased approximately 15% during fiscal 2006 as compared to fiscal 2005. Other marine services operating profit which consist of operating profit on the company's shipyard operations, brokered vessel and other marine services lines of business were comparable to fiscal 2005 levels.

Fiscal 2006 gain on sales of assets increased significantly as compared to fiscal 2005 due primarily to the July 26, 2005 sale of six KMAR 404 class of anchor handling towing supply vessels to Deep Sea Supply ASA for a total cash price of \$188.0 million. The transaction resulted in a \$65.9 million pre-tax financial gain, or approximately \$42.8 million after-tax, or \$0.74 per diluted common share. The company also sold and/or scrapped an additional 45 vessels which resulted in additional gains on sales of assets of approximately \$19.9 million during fiscal 2006.

Vessel Class Statistics

Vessel utilization is determined primarily by market conditions and to a lesser extent by drydocking requirements. Vessel day rates are determined by the demand created through the level of offshore exploration, development and production spending by energy companies relative to the supply of offshore service vessels. Suitability of equipment and the degree of service provided also influence vessel day rates. Vessel utilization rates are calculated by dividing the number of days a vessel works during a reporting period by the number of days the vessel is available to work in the reporting period. Average day rates are calculated by dividing the revenue a vessel earns during a reporting period by the number of days the vessel worked in the reporting period. Vessel utilization and average day rates are calculated only on vessels in service and, as such, do not include vessel withdrawn from service or joint venture vessels. The following tables compare day-based utilization percentages and average day rates by vessel class and in total for each of the quarters in the years ended March 31:

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Fiscal Year 2007	First	Second	Third	Fourth	Year
Domestic-based fleet:					
Deepwater vessels	93.8%	99.4	100.0	100.0	98.3
Towing-supply/supply	64.2	64.0	59.6	55.9	61.2
Crew/utility	96.4	87.4	87.2	87.8	89.7
Offshore tugs	39.8	41.8	100.0		42.6
Total	68.0%	69.5	69.4	67.6	68.6
International-based fleet:					
Deepwater vessels	89.3%	94.9	95.4	96.7	94.1
Towing-supply/supply	77.4	77.7	79.8	79.7	78.7
Crew/utility	83.8	86.2	89.3	85.7	86.3
Offshore tugs	72.1	65.1	63.3	70.7	67.7
Other	45.8	52.0	44.8	54.4	48.9
Total	78.4%	78.9	80.6	81.0	79.8
Worldwide fleet:					
Deepwater vessels	90.2%	95.8	96.3	97.3	94.9
Towing-supply/supply	74.8	75.1	76.1	75.9	75.5
Crew/utility	85.8	86.4	89.0	86.0	86.8
Offshore tugs	63.9	61.7	64.0	70.6	64.8
Other	45.8	52.0	44.8	54.4	48.9
Total	76.4%	77.2	78.8	79.1	77.9
Fiscal Year 2006	First	Second	Third	Fourth	Year
Domestic-based fleet:					
Deepwater vessels	100.0%	97.9	99.3	99.7	99.2
Towing-supply/supply	62.4	60.6	62.2	62.0	61.8
Crew/utility	80.6	86.6	88.0	86.6	85.5
Offshore tugs	26.2	26.4	32.7	30.8	28.9
Total	61.5%	61.9	65.0	64.5	63.2
International-based fleet:					
Deepwater vessels	85.5%	82.7	89.4	89.9	86.8
Towing-supply/supply	71.5	72.1	75.8	76.8	74.1
Crew/utility	75.2	74.1	79.9	76.2	76.4
Offshore tugs	57.5	46.4	63.0	63.3	57.5
Other	34.6	35.7	44.3	28.8	35.9
Total	70.9%	69.6	75.5	75.2	72.8
Worldwide fleet:					
Deepwater vessels	87.4%	85.2	91.1	91.7	88.8
Towing-supply/supply	69.7	69.9	73.2	74.0	71.7
Crew/utility	76.5	76.9	81.7	78.5	78.5
Offshore tugs	48.4	40.3	54.2	53.7	49.0
Other	34.6	35.7	44.3	28.8	35.9
Total	69.0%	68.0	73.3	72.9	70.8
Fiscal Year 2005	First	Second	Third	Fourth	Year
Domestic-based fleet:					
Deepwater vessels	74.9%	94.1	91.7	91.6	87.2
Towing-supply/supply	50.7	54.6	57.6	57.1	55.0
Crew/utility	68.1	80.3	77.1	80.0	76.0
Offshore tugs	28.6	29.3	24.6	25.1	27.1
Total	51.2%	57.4	57.2	58.0	55.8

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International-based fleet:					
Deepwater vessels	72.6%	87.9	91.8	84.8	84.5
Towing-supply/supply	68.7	68.5	72.2	70.9	70.1
Crew/utility	75.1	74.0	77.0	75.7	75.5
Offshore tugs	64.1	68.3	62.2	61.6	64.0
Other	55.5	49.4	45.4	47.3	49.4
Total	69.2%	70.6	72.8	71.2	71.0
Worldwide fleet:					
Deepwater vessels	73.1%	89.0	91.8	85.7	84.9
Towing-supply/supply	65.0	65.7	69.3	68.3	67.1
Crew/utility	73.2	75.6	77.0	76.7	75.6
Offshore tugs	50.2	55.6	50.8	51.3	52.0
Other	55.5	49.4	45.4		