TIDEWATER INC
Form 10-K
May 19, 2011
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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, 2011

¨ **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	**72-048776**
(State of incorporation)	**(I.R.S. Employer Identification No.)**

601 Poydras St., Suite 1900

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

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 x 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 x

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

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405 of this chapter) 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. ¨

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

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

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

As of September 30, 2010, the aggregate market value of the registrant s voting common stock held by non-affiliates of the registrant was $2,286,393,685 based on the closing sales price as reported on the New York Stock Exchange of $44.81.

As of May 5, 2011, 51,876,038 shares of Tidewater Inc. common stock $0.10 par value per share were outstanding. Registrant has no other class of common stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Registrant s definitive proxy statement for its 2011 Annual Meeting of Stockholders to be filed with the Securities and Exchange Commission within 120 days after the end of the Registrant s last fiscal year is incorporated by reference into Part III of this Annual Report on Form 10-K.

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FOR THE FISCAL YEAR ENDED MARCH 31, 2011

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FORWARD-LOOKING STATEMENT

In accordance with the safe harbor provisions of the Private Securities Litigation Reform Act of 1995, 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. All such forward-looking statements are subject to risks and uncertainties, and the company s future results of operations could differ materially from its historical results or current expectations. Some of these risks are discussed in this report and in Item 1A. Risk Factors and include, without limitation, volatility in worldwide energy demand and oil and gas prices; fleet additions by competitors and industry overcapacity; changes in capital spending by customers in the energy industry for offshore exploration, field development and production; changing customer demands for vessel specifications, which may make some of our older vessels technologically obsolete for certain customer projects or in certain markets; uncertainty of global financial market conditions and difficulty in accessing credit or capital; acts of terrorism and piracy; significant weather conditions; unsettled political conditions, war, civil unrest and governmental actions, such as expropriation, especially in higher risk countries where we operate; foreign currency fluctuations; labor influences proposed by international conventions; increased regulatory burdens and oversight following the Deepwater Horizon incident; and enforcement of laws related to the environment, labor and foreign corrupt practices.

Forward-looking statements, which can generally be identified by the use of such terminology as may, expect, anticipate, estimate, forec believe, think, could, continue, intend, seek, plan, and similar expressions contained in this report, are predictions and not guarantee performance or events. Any forward-looking statements are based on the company s assessment of current industry, financial and economic information, which by its nature is dynamic and subject to rapid and possibly abrupt changes. The company s actual results may differ materially from those stated or implied by such forward-looking statements due to risks and uncertainties associated with our business. While management believes that these forward-looking statements are reasonable when made, there can be no assurance that future developments that affect us will be those that we anticipate and have identified. The forward-looking statements should be considered in the context of the risk factors listed above and discussed in greater detail elsewhere in this Annual Report on Form 10-K. Investors and prospective investors are cautioned not to rely unduly on such forward-looking statements, which speak only as of the date hereof. Management disclaims any obligation to update or revise any forward-looking statements contained herein to reflect new information, future events or developments.

In certain places in this report, we refer to reports published by third parties that purport to describe trends or developments in energy production and drilling and exploration activity. The company does so for the convenience of our investors and potential investors and in an effort to provide information available in the market that will lead to a better understanding of the market environment in which the company operates. The company specifically disclaims any responsibility for the accuracy and completeness of such information and undertakes no obligation to update such information.

PART I

ITEM 1. BUSINESS

General

Tidewater Inc., a Delaware corporation that is listed on the New York Stock Exchange under the symbol TDW , provides offshore service vessels and marine support services to the global offshore energy industry through the operation of a diversified fleet of marine service vessels. The company was incorporated in 1956 and conducts its operations through wholly-owned United States (U.S.) and international subsidiaries and joint ventures. Unless otherwise required by the context, the term company as used herein refers to Tidewater Inc. and its consolidated subsidiaries.

The company provides services in support of all phases of offshore exploration, field development and production, including towing of, and anchor handling for, mobile offshore drilling units; transporting supplies and personnel necessary to sustain drilling, workover and production activities; offshore construction and seismic support; and a variety of specialized services such as pipe and cable laying. The size and composition of the

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company s offshore service vessel fleet includes vessels that are operated under joint ventures, as well as vessels that have been stacked or withdrawn from service.

The company has one of the widest operating global footprints in the offshore energy industry with operations in most of the world s significant crude oil and natural gas exploration and production regions. The company is also one of the most experienced international operators in the offshore energy industry with over five decades of international experience.

At March 31, 2011, the company had 378 vessels (of which 10 were operated through joint ventures, 90 were stacked and four were withdrawn from service) available to serve the global energy industry. Please refer to Note (1) of Notes to Consolidated Financial Statements included in Item 8 of this report for additional information regarding our stacked vessels and vessels withdrawn from service.

The company also operates two shipyards, which construct, modify and repair vessels. The shipyards perform both repair work and new construction work for outside customers, as well as the construction, repair and modification of the company s own vessels.

The company s revenues, net earnings and cash flows from operations are largely dependent upon the activity level of its offshore marine vessel fleet. As is the case with other energy service companies, our business activity is largely dependent on the level of drilling and exploration activity by our customers. Our customers business activity, in turn, is dependent on crude oil and natural gas prices, which fluctuate depending on expected future levels of supply and demand for crude oil and natural gas, and on estimates of the cost to find, develop and produce reserves. Since the Deepwater Horizon incident, the level of drilling activity off the continental shelf of the U.S. Gulf of Mexico (GOM) had been suppressed while the federal government evaluated the causes of the incident and announced a plan for enhanced regulatory and safety oversight as a condition to granting additional drilling and exploration permits. The Bureau of Ocean Energy Management Regulation and Enforcement (BOEMRE) began issuing permits for deepwater exploration and drilling in the latter part of February 2011 although the pace of issuing new permits has been slow to date.

Offices and Facilities

The company s worldwide headquarters and principal executive offices are located at 601 Poydras Street, Suite 1900, New Orleans, Louisiana 70130, and its telephone number is (504) 568-1010. The company s U.S. marine operations are based in Amelia, Louisiana; Oxnard, California; and Houston, Texas. The company s shipyards and shipyard operations are located in Houma, Louisiana. We conduct our international operations through facilities and offices located in over 30 countries. Our principal international offices and/or warehouse facilities, most of which are leased, are located in Rio de Janeiro and Macae, Brazil; Ciudad Del Carmen, Mexico; Port of Spain, Trinidad; Aberdeen, Scotland; Cairo, Egypt; Luanda and Cabinda, Angola; Lagos and Onne Port, Nigeria; Douala, Cameroon; Singapore; Perth, Australia; Shenzhen, China; Port Moresby, Papua New Guinea; and Dubai, United Arab Emirates. The company s operations generally do not require highly specialized facilities, and suitable facilities are generally available on a lease basis as required.

Business Segments

The company operates in two reportable segments: International and the United States. The principal customers for each business segment are major and independent oil and natural gas exploration, field development and production companies; drilling contractors; and other companies that provide various services to the offshore energy industry, including but not limited to, offshore construction companies, diving companies and well stimulation companies. The international business segment also has customers that are foreign government-owned or -controlled organizations and companies that explore and produce oil and natural gas.

The company s vessels in its international segment are geographically dispersed throughout the major crude oil and natural gas exploration and development areas of the world. Although barriers such as mobilization costs, the availability of suitable vessels and cabotage rules in certain countries occasionally restrict the ability of the company to move vessels between international markets, the company s diverse, mobile asset base and the wide geographic distribution of its vessel assets enable the company to respond relatively quickly to changes in market conditions. As such, significant variations between international regions tend to be of a short-term duration, as the company routinely moves vessels between and within geographic regions.

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The company s internationally-based vessels operate in the shallow, intermediate and deepwater offshore markets around the world. The deepwater offshore market continues to be a growing sector of the international offshore crude oil and natural gas markets due in part to technological developments that have made such exploration feasible. It is the one sector that has not experienced significant negative effects from the 2008-2009 global economic recession, largely because deepwater exploration and development typically involves significant capital investment and multi-year development plans. Such projects are generally underwritten by the participating exploration, development and production companies using relatively conservative assumptions in regards to crude oil and natural gas prices and therefore are not as susceptible to short-term fluctuations in the price of crude oil and natural gas.

The company s international market segment revenue is derived primarily from vessel time charter contracts that are generally three months to two years in duration. The base rate of hire for a term contract is generally a fixed rate, though some charter arrangements include clauses to recover specific additional costs.

The company s vessels in its U.S. segment operate primarily in shallow, intermediate and deep waters of the U.S. GOM. A small percentage of the vessels in the U.S. segment operate in the U.S. coastal waters of the Pacific and Atlantic oceans. Drilling in the shallow and intermediate waters of the U.S. GOM generally are more susceptible to short-term fluctuations in the commodity prices of crude oil and natural gas. The deepwater offshore market has been a growing sector of the U.S. GOM and is the one domestic market that did not experience any significant negative effects from the 2008-2009 global economic recession for the reasons cited above. However, the April 2010 Deepwater Horizon incident did significantly affect drilling activity in the U.S. GOM. The Department of the Interior, through the BOEMRE, imposed a moratorium on certain drilling activities in the U.S. GOM while the BOEMRE overhauled the offshore crude oil and natural gas regulatory process.

The company s U.S. market segment revenue is derived from vessel time charter contracts that are on a term basis and on a spot basis, which is a short-term agreement (one day to three months) to provide offshore marine services to a customer for a specific short-term job. The company s U.S.-based deepwater class vessels are primarily contracted on a term basis.

Please refer to Item 7 Management s Discussion and Analysis of Financial Condition and Results of Operations of this report for a greater discussion of the company s International and U.S. segments, including the macroeconomic environment and market direction for each segment. In addition, please refer to Note (13) of Notes to Consolidated Financial Statements for segment, geographical data and major customer information.

The Past and Potential Future Impact of the Deepwater Horizon Disaster on Our Business

As an international energy service company that derives over 90% of its revenues from operations outside of United States territorial waters, we believe that the overall impact of the Deepwater Horizon incident will not have a significant immediate impact on our overall operations or financial performance. Less than 7% of our total fleet operates in the U.S. GOM, and, if necessary, these vessels can be mobilized to serve other markets if demand for their services does not continue to exist in the U.S. GOM because of any precipitous and long-term reduction in the level of drilling and exploration activity in that region.

On October 12, 2010, the U.S. government lifted the previously imposed moratorium suspending all deepwater drilling and exploration activity. New regulations of the BOEMRE calling for additional safety measures and inspections have caused significant disruption and delays in the permit process and are creating uncertainty as to when drilling activity will recommence to pre-moratorium levels. One of the consequences of the new regulatory environment may be that future deepwater exploration activity domestically will be limited to very large oil companies, which may limit the number of customers for the company s services in supporting deepwater exploration.

Although exploration activity in the shallow waters of the U.S. GOM was allowed to re-commence prior to October 12, 2010, and the BOEMRE began issuing permits for deepwater exploration and drilling in the latter part of February 2011, but only a limited number of new drilling permits have been issued since the spill. It appears the re-commencement of new drilling activities in the Gulf of Mexico will be a slow process. Over the longer term, we, like others that operate in the U.S. GOM, are concerned that new safety standards and other regulatory responses to the rig explosion and oil spill will result in higher operating costs and reduced

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exploration and field development (and particularly deepwater exploration and field development). We do not know when, or if, drilling activities will return to the levels seen prior to the Deepwater Horizon disaster.

In an effort to promote offshore drilling, a number of bills were introduced in the U.S. House of Representatives in late March 2011, that aim to increase offshore drilling by requiring the U.S. Department of the Interior to act on drilling application permits within 30 days of receipt, to conduct the postponed crude oil and natural gas lease sales in the U.S. GOM and offshore Virginia, and also to auction a majority of the crude oil and natural gas leases that contain the most known reserves. It is too early in the legislative process to determine if any or all of these bills will be passed or signed into law.

If exploration and production activity continues to migrate from the U.S. GOM to international markets because of the additional regulations and higher operating costs in the U.S. GOM, it is also probable that other offshore supply vessel owners will redeploy additional vessels to international markets. This could increase competition and have a negative effect on vessel utilization and day rates in international markets, depending on the number of drilling rigs and offshore supply vessels that exit the U.S. GOM and move to international markets.

Geographic Areas of Operation

The company s fleet is deployed in the major global offshore oil and gas areas of the world. The principal areas of the company s operations include the U.S. GOM, the Persian/Arabian Gulf, and areas offshore Australia, Brazil, Egypt, India, Indonesia, Malaysia, Mexico, Trinidad, and West and East Africa. The company regularly evaluates the deployment of its assets and repositions its vessels based on customer demand, relative market conditions, and other considerations.

Revenues and operating profit derived from International and United States marine operations and total marine assets for the International and United States segments for each of the fiscal years ended March 31 are summarized below:

(In thousands)

		2011	2010	2009
Revenues:				
Vessel revenues:				
International	$	962,522	1,048,553	1,209,426
United States		88,691	89,609	146,896
Other marine revenues		4,175	30,472	34,513
	$	1,055,388	1,168,634	1,390,835
Marine operating profit:				
Vessel activity:				
International	$	162,051	252,354	437,695
United States		11,581	9,196	34,797
		173,632	261,550	472,492
Corporate expenses		(46,361)	(51,432)	(38,622)
Gain on asset dispositions, net		13,228	28,178	27,251
Other marine services		(1,163)	2,034	4,348
Operating income	$	139,336	240,330	465,469
Total marine assets:				
International	$	3,237,846	2,822,058	2,575,637
United States		381,077	334,182	394,129
Total marine assets	$	3,618,923	3,156,240	2,969,766

Please refer to Item 7 of this report and Note (13) of Notes to Consolidated Financial Statements included in Item 8 of this report for further disclosure of segment revenues, operating profits, and total assets by geographical areas in which the company operates.

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Our Global Vessel Fleet

The company continues an aggressive but disciplined vessel construction, acquisition and replacement program that was initiated with the intent of assuring the company s presence in nearly all major oil and gas producing regions of the world through the replacement of aging vessels in the company s fleet with fewer, larger, and more technologically sophisticated vessels. Since calendar 2000, the company purchased and/or constructed 214 vessels for approximately $2.9 billion. To date, the company has generally funded its vessel programs from its operating cash flow and funds provided by the private placements of $725.0 million in senior unsecured notes, borrowings under revolving credit facilities, and various sales-leaseback arrangements.

The company s strategy contemplates organic growth through the construction of vessels at a variety of shipyards worldwide and possible acquisitions of recently built vessels and/or other owners and operators having attractive offshore supply vessels or fleets. The company has the largest number of new vessels among its competitors in the industry, but it also has the largest number of older vessels for which management regularly evaluates disposition and other alternatives. The company intends to pursue its long-term fleet replenishment and modernization strategy on a disciplined basis and, in each case, will carefully consider whether proposed investments and transactions have the appropriate risk/reward profile.

The average age of the company s 364 owned or chartered vessel fleet (including stacked vessels but excluding joint-venture vessels and vessels withdrawn from service) at March 31, 2011 is approximately 16.5 years. The average age of the 193 vessels that the company acquired or constructed since calendar year 2000 as part of its new build and acquisition program (and which accounted for approximately 80% of vessel revenue in fiscal 2011) is approximately 5.4 years. The remaining 171 vessels have an average age of 29.0 years. Of the company s 364 vessels, 65 are deepwater class vessels, 217 are in the towing-supply/supply class vessels, 56 are crew/utility class vessels and 26 are offshore tugs.

At March 31, 2011, the company had agreements to acquire eight vessels and commitments to build 28 vessels at a number of different shipyards around the world (with one of these vessels being constructed in the United States by the company s wholly-owned shipyard, Quality Shipyards, L.L.C.) at a total cost, including contract costs and other incidental costs, of approximately $857.2 million. Of the 28 new-build vessels, eight are anchor handling towing supply vessels ranging between 5,150 and 8,200 brake horsepower (BHP), 19 are platform supply vessels ranging between 3,200 and 6,360 deadweight tons of cargo capacity, and one is a fast crew/supply boat. Scheduled delivery for these vessels began in April 2011, with delivery of the final vessel expected in April 2013.

Of the eight vessels to be purchased, seven are anchor handling towing supply vessels and one is a platform supply vessel. The aggregate approximate purchase price for these eight vessels is $107.9 million. The company expects to take possession of six of the seven anchor handling towing supply vessels throughout calendar year 2011 and the final anchor handling towing supply vessel in February 2012 for an aggregate purchase price of $86.0 million. The company took possession of the platform supply vessel in April 2011 for an approximate purchase price of $21.9 million. At March 31, 2011, the company had expended $21.8 million for the acquisition of these eight vessels.

At March 31, 2011, the company had invested $341.2 million in progress payments towards the construction of 28 vessels and $21.8 million towards the purchase of the eight vessels. At March 31, 2011, the remaining expenditures necessary to complete construction of the 28 vessels currently under construction (based on contract prices), and to fund the acquisition of the eight vessels was $494.2 million.

A full discussion of the company s capital commitments, scheduled delivery dates and vessel sales is disclosed in the Vessel Count, Dispositions, Acquisitions and Construction Programs section of Item 7 and Note (10) of Notes to Consolidated Financial Statements included in Item 8 of this report. The Vessel Count, Dispositions, Acquisitions and Construction Programs section of Item 7 also contains a table comparing the actual March 31, 2011 vessel count and the average number of vessels by class and geographic distribution during the three years ended March 31, 2011, 2010 and 2009.

Between April 1999 and March 2011, the company also sold, primarily to buyers that operate outside of our industry, 543 vessels. Most of the vessel sales were at prices that exceeded their carrying values. In aggregate,

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proceeds from, and pre-tax gains on, vessel dispositions during this period approximated $605.8 million and $279.1 million, respectively.

Our Vessel Classifications

The company s vessels regularly and routinely move from one operating area to another, often to and from offshore operating areas of different continents. The company discloses its vessel statistical information, such as revenue, 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 typically perform. 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.

Deepwater Vessels

Included in this vessel class are large (typically greater than 230-feet and/or with at least 2,801 tons in dead weight cargo carrying capacity), platform supply vessels (PSVs) and large, higher-horsepower (generally greater than 10,000 horsepower) anchor handling towing supply (AHTS) vessels. This vessel class is generally 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 capacities, serve drilling and production facilities and support offshore construction and maintenance work. The anchor handling towing supply vessels are equipped to tow drilling rigs and other marine equipment, as well as to set anchors for the positioning and mooring of drilling rigs. Also included in this vessel class are specialty vessels that can support offshore well stimulation, construction work, subsea services and/or have fire fighting capabilities and/or accommodation facilities. These vessels are generally available for routine supply and towing services but are outfitted and primarily intended for specialty services. Included in the specialty vessel category is the company s one multi-purpose platform supply vessel (MPSV), which is designed for subsea service and construction support activities.

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 horsepower below 10,000 BHP, and platform supply vessels that are generally less than 230 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 supplies from shore bases to offshore drilling rigs, platforms and other installations. These vessels are also often equipped for oil field security missions in markets where piracy, kidnapping or other potential violence presents a concern.

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

Until the first quarter of fiscal 2010, the company s Other Vessels included inshore tugs 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. The company sold its remaining other type vessels during the first quarter of fiscal 2010.

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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,		
	2011	2010	2009
Deepwater vessels	39.6%	31.9%	24.0%
Towing-supply/supply	49.2%	56.9%	61.9%
Crew/utility	7.8%	7.9%	9.0%
Offshore tugs	3.4%	3.3%	4.6%
Other	0.0%	0.0%	0.5%

Shipyard Operations

Quality Shipyards, L.L.C., a wholly-owned subsidiary of the company, operates two shipyards in Houma, Louisiana, that construct, modernize and repair vessels. The shipyards perform repair work and new construction work for third-party customers, as well as the construction, repair and modification of the company s own vessels. During the last three fiscal years, Quality Shipyards, L.L.C. constructed and delivered two 266-foot platform supply vessels and is currently constructing one additional 266-foot platform supply vessel for the company. The two 266-foot platform supply vessels were delivered during fiscal 2010. The 266-foot deepwater, platform supply vessel that is currently under construction is expected to be delivered in November 2011.

Customers and Contracts

The company s operations are materially dependent upon the levels of activity in offshore crude oil and natural gas exploration, field development and production throughout the world, which is affected by trends in worldwide crude oil and natural gas prices (including expectations of future commodity pricing) that are ultimately influenced by the supply and demand relationship for these natural resources. The activity levels of our customers are also influenced by the cost of exploring and producing crude oil and natural gas, which can be affected by environmental regulations, technological advances that affect energy production and consumption, significant weather conditions, the ability of our customers to raise capital, and local and international economic and political environments, including government mandated moratoriums. A discussion of current market conditions and trends appears under Macroeconomic Environment and Outlook in Item 7 of this report.

The company s principal customers are major and independent oil and natural gas exploration, field development and production companies; foreign government-owned or -controlled organizations and companies that explore and produce oil and natural gas; drilling contractors; and companies that provide other services to the offshore energy industry, including but not limited to, offshore construction companies, diving companies and well stimulation companies.

In recent years, consolidation of exploration, field development, and production companies has occurred and this trend may continue in the future. Consolidation reduces the number of customers for the company s equipment, and may negatively affect exploration, field development and production activity as consolidated companies generally focus on increasing efficiency and reducing costs and delay or abandon exploration activity with less promise. Such activity could adversely affect demand for the company s vessels, and reduce the company s revenues.

The company s primary source of revenue is derived from time charter contracts of its vessels on a rate per day of service basis; therefore, vessel revenues are recognized on a daily basis throughout the contract period. As noted above, these time charter contracts are generally either on a term or spot basis. There are no material differences in the cost structure of the company s contracts based on whether the contracts are spot or term because the operating costs are generally the same without regard to the length of a contract.

For the year ended March 31, 2011, Chevron Corporation (including its worldwide subsidiaries and affiliates) accounted for approximately 16.2% and Petroleo Brasileiro SA accounted for approximately 15.4% of total revenues. The unexpected loss of either or both of these two significant customers could, at least in the short term, have a material adverse effect on the company s vessel utilization and its results of operations. The five

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largest customers of the company accounted for approximately 45.3% of the company s fiscal 2011 total revenues, while the 10 largest customers accounted for approximately 62.8% of the company s total revenues.

Competition

The principal competitive factors for the offshore vessel service industry are the suitability and availability of vessel equipment, price and quality of service. In addition, the ability to demonstrate a strong safety record and attract and retain qualified and skilled personnel are also important competitive factors. The company has numerous competitors in all areas in which it operates around the world, and the business environment in all of these markets is highly competitive.

The company s diverse, mobile asset base and the wide geographic distribution of its assets generally enable the company to respond relatively quickly to changes in market conditions and to provide a broad range of vessel services to its customers around the world. The company s management believes the company has a competitive advantage because of the size, diversity and geographic distribution of its vessel fleet. Economies of scale and experience level in the many areas of the world in which we operate are also considered competitive advantages as is the company s strong financial position.

According to ODS-Petrodata, the global offshore supply vessel market has approximately 405 new-build offshore support vessels (platform supply vessels and anchor handlers only) at March 31, 2011 that are currently estimated to be under construction and that are expected to be delivered to the worldwide offshore vessel market primarily over the next three and a half years. The current worldwide fleet of these classes of vessels is estimated at approximately 2,590 vessels, of which we estimate in excess of 15% are stacked. An increase in worldwide vessel capacity could have the effect of lowering charter rates, particularly when there are lower levels of exploration, field development and production activity. The worldwide offshore marine vessel industry, however, also has a large number of aging vessels, including more than 760 vessels, or approximately 30% of the worldwide offshore fleet, that are at least 25 years old, that are nearing or exceeding original expectations of their estimated economic lives. These older vessels could potentially be removed from the market within the next few years if the cost of extending the vessels lives is not economically justifiable. Although the future attrition rate of these aging vessels cannot be accurately predicted, the company believes that the retirement of a sizeable portion of these aging vessels would likely mitigate the potential combined negative effects of new-build vessels on vessel utilization and vessel pricing. Additional vessel demand could also be created with the addition of new drilling rigs and floating production units that are expected to be delivered and become operational over the next few years, which should help minimize the possible negative effects of the new-build offshore support vessels being added to the offshore support vessel fleet. It is unknown at this time the extent to which the recovery from the recent global recession will influence the utilization of equipment currently in existence or the ultimate timing of delivery and placing into service of new drilling rigs, floating production units and vessels currently under construction.

Challenges We Confront as an International Offshore Vessel Company

The company operates in many challenging operating environments around the world that present varying degrees of political, social, economic and other uncertainties. We operate in markets where there are risks of expropriation, confiscation or nationalization of our vessels or other assets, terrorism, piracy, civil unrest, changing foreign currency exchange rates and controls, and changing political conditions, any of which may adversely affect our operations. Although the company takes what it believes to be prudent measures to safeguard its property, personnel and financial condition against these risks, it cannot mitigate entirely the foregoing risks, although the wide geographic dispersion of the company s vessels helps reduce the likely overall potential impact of these risks. In addition, immigration, customs, tax and other regulations (and administrative and judicial interpretations thereof) can have a material impact on our ability to work in certain countries and on our operating costs.

In some international operating environments, local customs or laws may require the company to form joint ventures with local owners or use local agents. The company is dedicated to carrying out its international operations in compliance with the rules and regulations of the Office of Foreign Assets Control (OFAC), the Trading with the Enemy Act, the Foreign Corrupt Practices Act (FCPA), and other applicable laws and regulations. The company has adopted policies and procedures to mitigate the risks of violating these rules and regulations.

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Sonatide

Tidewater has a 49% ownership interest in Sonatide, a joint venture that owns vessels that serve the Angolan offshore energy industry. Tidewater has previously disclosed that it has been in discussions with its joint venture partner, Sonangol, with respect to certain terms and conditions of the joint venture agreement under which Sonatide is managed and operated. This joint venture agreement was originally scheduled to expire by its terms on July 31, 2010; however, representatives of Sonangol and Tidewater have, from time to time, agreed to extend the expiration date of the joint venture agreement. The most recent extension extends the expiration date to July 31, 2011. The purpose of these extensions is to give the parties additional time to negotiate the terms of a new, more permanent joint venture agreement.

Successfully concluding a new joint venture agreement in a timely manner is a priority for the company. No assurances can be given, however, that these discussions will be successfully concluded or whether such terms will be advantageous to the company. Failing to further extend the existing Sonatide joint venture or reach a new joint venture agreement with Sonangol could impair the company s ability to continue to effectively compete for business in Angola in the future. More Tidewater vessels are deployed in Angola and more revenue is derived from our operations in Angola than in or from any of Tidewater s other countries of operation.

Sonangol and Tidewater have agreed to continue the Sonatide joint venture to the extent required to fulfill several new or renewed charterparty agreements with customers in Angola that extend well beyond July 31, 2011. These charterparty agreements cover a substantial portion of our vessels in Angola. Accordingly, while no assurances can be given that negotiations of a new, more permanent joint venture agreement will be successfully concluded, the joint venture has been extended, on a charter by charter basis, to fulfill the remaining term of existing charters for the vessels owned by the joint venture and the Tidewater-owned vessels operating in Angola. Over the course of the last few months, a number of new or renewed charters have been entered into on this basis.

International Labour Organization s Maritime Labour Convention

The International Labour Organization s Maritime Labour Convention, 2006 (the Convention) seeks to mandate globally, among other things, seafarer working conditions, ship accommodations, wages, conditions of employment, health and other benefits for all ships (and the seafarers on those ships) that are engaged in commercial activities. To date, this Convention has been ratified by 12 countries, namely, the Bahamas, Bosnia and Herzegovina, Bulgaria, Canada, Croatia, Liberia, Marshall Islands, Norway, Panama, St. Vincent and the Grenadines, Spain and Switzerland representing in excess of 33% of the world s vessel tonnage. If adopted by an additional 18 countries, then within 12 months thereof, the Convention will become law. In the unlikely event that ratification were to be achieved in 2011, the Convention would become law in 2012 or 2013, depending upon the date of final ratification. Even though the company believes that the labor changes proposed by this Convention are unnecessary in light of existing international labor laws that govern many of these issues, and the Company continues to work with industry representatives to oppose ratification of this Convention, the Company will continue to review and assess its seafarer labor relationships in light of the Convention requirements. Should this Convention become law, the company and its customers operations may be negatively affected by future compliance costs.

Government Regulation

The company is subject to various United States federal, state and local statutes and regulations governing the operation and maintenance of its vessels. The company s U.S. flag vessels are subject to the jurisdiction of the United States Coast Guard, the United States Customs and Border Protection, and the United States Maritime Administration. The company is also subject to international laws and conventions and the laws of international jurisdictions where the company and its offshore vessels operate.

Under the citizenship provisions of the Merchant Marine Act of 1920 and the Shipping Act, 1916, as amended, the company would not be permitted to engage in the U.S. coastwise trade if more than 25% of the company s outstanding stock were owned by non-U.S. citizens. For a company engaged in the U.S. coastwise trade to be deemed a U.S. citizen: (i) the company must be organized under the laws of the United States or of a state, territory or possession thereof, (ii) each of the chief executive officer and the chairman of the board of directors

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of such corporation must be a U.S. citizen, (iii) no more than a minority of the number of directors of such corporation necessary to constitute a quorum for the transaction of business can be non-U.S. citizens and (iv) at least 75% of the interest in such company must be owned by 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 18.6% of the company s outstanding common stock was owned by non-U.S. citizens as of March 31, 2011.

The laws of the U.S. require that vessels engaged in the 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 the U.S. coastwise trade. Of the total 378 vessels owned or operated by the company at March 31, 2011, 319 vessels were registered under flags other than the United States and 59 vessels were registered under the U.S. flag. If the company is not able to secure adequate numbers of charters abroad for its non-U.S. flag vessels, even if work would otherwise have been available for such vessels in the United States, these vessels cannot operate in the U.S. coastwise trade, and the company s financial performance could be affected.

All of the company s offshore vessels are subject to either United States or international safety and classification standards or sometimes both. U.S. flag towing-supply, supply vessels and crewboats are required to undergo periodic inspections twice within every five year period pursuant to U.S. Coast Guard regulations. Vessels registered under flags other than the United States are subject to similar regulations and are governed by the laws of the applicable international jurisdictions and the rules and requirements of various classification societies, such as the American Bureau of Shipping.

The company is in compliance with the International Ship and Port Facility Security Code (ISPS), an amendment to the Safety of Life at Sea (SOLAS) Convention (1974/1988), and further mandated in the Maritime Transportation and Security Act of 2002 to align United States regulations with those of SOLAS and the ISPS Code. Under the ISPS Code, the company performs worldwide security assessments, risk analyses, and develops vessel and required port facility security plans to enhance safe and secure vessel and facility operations. Additionally, the company has developed security annexes for those U.S. flag vessels that transit or work in waters designated as high risk by the United States Coast Guard pursuant to Marsec Directive 104-6, Revision five.

Environmental Compliance

During the ordinary course of business, the company s operations are subject to a wide variety of environmental laws and regulations that govern the discharge of oil and pollutants into navigable waters. Violations of these laws may result in civil and criminal penalties, fines, injunction and other sanctions. Compliance with the 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. Environmental laws and regulations are subject to change however, and may impose increasingly strict requirements and, as such, the company cannot estimate the ultimate cost of complying with such potential changes to environmental laws and regulations.

All vessels over 79 feet in registered length, regardless of flag, that are operating as a means of transportation within the inland and offshore waters of the U.S. (but not beyond the three nautical mile territorial sea limit) must comply with the Environmental Protection Agency s National Pollutant Discharge Elimination System (NPDES) Vessel General Permit (VGP) for discharges incidental to the normal operation of vessels. For our vessels, that includes ballast water, bilge water, graywater, cooling water, chain locker effluent, deck wash down and runoff, cathodic protection, and other such type runoff. The company believes that it is in full compliance with the VGP.

The company is also involved in various legal proceedings that relate to asbestos and other environmental matters. In the opinion of management, based on current information, the amount of ultimate liability, if any, with respect to these proceedings is not expected to have a material adverse effect on the company s financial position, results of operations, or cash flows. The company is proactive in establishing policies and operating

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procedures for safeguarding the environment against any hazardous materials aboard its vessels and at shore base locations. Whenever possible, hazardous materials are maintained or transferred in confined areas in an attempt to ensure containment if accidents occur. In addition, the company has established operating policies that are intended to increase awareness of actions that may harm the environment.

Safety

The company is committed to ensuring the safety of its operations for both its employees and its customers. The company s principal operations occur in offshore waters where the workplace environment presents safety challenges. Because the work environment presents these challenges, the company must work diligently to maintain workplace safety. 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 seamen and shore based staff personnel. The company dedicates personnel and resources to ensure safe operations and regulatory compliance. The company s Director of Health, Safety and Environmental Management is involved in proactive efforts to prevent accidents and injuries and reviews all incidents that occur throughout the company. In addition, the company employs safety personnel at every operating location who are responsible for administering the company s safety programs and fostering the company s safety culture. The company believes that every employee is a safety supervisor, and gives each employee the right, the responsibility, and the obligation to stop any operation that the employee deems to be unsafe, whether it is deemed to be, in retrospect, unsafe or not.

Risk Management

The operation of any marine vessel involves an inherent risk of catastrophic marine disaster; adverse sea and weather conditions; mechanical failure; collisions and property losses to the vessel. In addition, the nature of our operations exposes the company to the potential risks of damage to and loss of drilling rigs and production facilities; war, sabotage, pirate and terrorism risks; and business interruption due to political action or inaction, including nationalization of assets by foreign governments. Any such event may result in a reduction in revenues or increased costs. The company s vessels are generally insured for their estimated market value against damage or loss, including war, terrorism acts, and pollution risks, but the company does not fully insure for business interruption. The company also carries workers compensation, maritime employer s liability, director and officer liability, general liability (including third party pollution) and other insurance customary in the industry.

The company seeks to secure 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. Estimated costs of self-insured claims, which include estimates for incurred but unreported claims, are accrued as liabilities on our balance sheet.

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.

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 markets the company operates.

Raw Materials

The company s wholly-owned subsidiary, Quality Shipyards, L.L.C., performs both repair work and new construction work for outside customers, as well as the construction, repair and modification of the company s own vessels. The shipyard operations require raw materials, such as alloy steels in various forms, welding

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gases, paint, fuels and lubricants, which are available from many sources. The shipyard does not depend on any one supplier or source for any of these materials. Although shortages for some of these materials and fuels have occurred from time to time, no material shortage currently exists nor does the shipyard anticipate any shortages. The commodity price for iron ore, the main component of steel, is typically volatile, and shortages may occur from time to time.

Seasonality

The company s global vessel fleet generally has its highest utilization rates in the warmer months when the weather is more favorable for offshore exploration, field development and construction work. The company s U.S. GOM operations can be impacted by the Atlantic hurricane season from the months of June through November, when offshore exploration, field development and construction work tends to slow or halt in an effort to mitigate pot