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 EXHANGE 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	**72-0487776**
(State of incorporation)	**(I.R.S. Employer Identification No.)**

601 Poydras St., Suite 1900

New Orleans, Louisiana 70130	**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 the filing requirements for the past 90 days. Yes x 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 x	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 x

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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 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 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 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.

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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.

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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 t