

TIDEWATER INC  
Form 10-Q  
November 04, 2011

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**  
**Washington, D.C. 20549**

**FORM 10-Q**

**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**  
**For the quarterly period ended September 30, 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**  
*(State of incorporation)*

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

**601 Poydras St., Suite 1900**

**New Orleans, Louisiana 70130**

*(Address of principal executive offices) (zip code)*

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

Not Applicable

*(Former name or former address, if changed since last report)*

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 of such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

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

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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  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

51,898,578 shares of Tidewater Inc. common stock \$.10 par value per share were outstanding on October 21, 2011. Registrant has no other class of common stock outstanding.

## PART I. FINANCIAL INFORMATION

**ITEM 1. FINANCIAL STATEMENTS****TIDEWATER INC.****UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEETS**

(In thousands, except share and par value data)

| ASSETS  | September 30,<br>2011 | March 31,<br>2011 |
|---|-----------------------|-------------------|
| Current assets:   |                       |                   |
| Cash and cash equivalents   | \$ 302,186            | 245,720           |
| Trade and other receivables, net                                    | 287,475               | 272,467           |
| Marine operating supplies   | 53,517                | 50,748            |
| Other current assets  | 14,865                | 10,212            |
| <b>Total current assets</b>   | <b>658,043</b>        | <b>579,147</b>    |
| Investments in, at equity, and advances to unconsolidated companies | 38,415                | 39,044            |
| Properties and equipment:   |                       |                   |
| Vessels and related equipment                                       | 3,881,444             | 3,910,430         |
| Other properties and equipment                                      | 92,854                | 85,589            |
|   | 3,974,298             | 3,996,019         |
| Less accumulated depreciation and amortization                      | 1,185,490             | 1,294,239         |
| Net properties and equipment  | 2,788,808             | 2,701,780         |
| Goodwill  | 297,822               | 328,754           |
| Other assets  | 113,119               | 99,391            |
| <b>Total assets</b>   | <b>\$ 3,896,207</b>   | <b>3,748,116</b>  |
| <br>  |                       |                   |
| LIABILITIES AND STOCKHOLDERS' EQUITY                                |                       |                   |
| Current liabilities:  |                       |                   |
| Accounts payable  | 55,259                | 45,177            |
| Accrued expenses  | 131,067               | 120,869           |
| Accrued property and liability losses                               | 3,825                 | 3,846             |
| Other current liabilities   | 21,711                | 13,697            |
| <b>Total current liabilities</b>                                    | <b>211,862</b>        | <b>183,589</b>    |
| Long-term debt  | 825,000               | 700,000           |
| Deferred income taxes   | 211,423               | 216,735           |
| Accrued property and liability losses                               | 6,732                 | 5,327             |
| Other liabilities and deferred credits                              | 128,630               | 128,521           |
| Commitments and Contingencies Note (6)                              |                       |                   |
| Stockholders' equity:   |                       |                   |
|   | 5,190                 | 5,188             |

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Common stock of \$0.10 par value, 125,000,000 shares authorized, issued 51,898,578 shares at September 30, 2011 and 51,876,038 shares at March 31, 2011

|   |                     |                  |
|---|---------------------|------------------|
| Additional paid-in capital                        | 95,848              | 90,204           |
| Retained earnings                                 | 2,430,474           | 2,436,736        |
| Accumulated other comprehensive loss              | (18,952)            | (18,184)         |
| <b>Total stockholders' equity</b>                 | <b>2,512,560</b>    | <b>2,513,944</b> |
| <b>Total liabilities and stockholders' equity</b> | <b>\$ 3,896,207</b> | <b>3,748,116</b> |

See Notes to Unaudited Condensed Consolidated Financial Statements.

## TIDEWATER INC.

## UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF EARNINGS

(In thousands, except share and per share data)

|   | Quarter Ended<br>September 30, |            | Six Months Ended<br>September 30, |            |
|---|--------------------------------|------------|-----------------------------------|------------|
|   | 2011                           | 2010       | 2011                              | 2010       |
| <b>Revenues:</b>                                      |                                |            |                                   |            |
| Vessel revenues                                       | \$ 248,412                     | 266,870    | 501,727                           | 528,866    |
| Other marine revenues                                 | 2,482                          | 230        | 3,774                             | 759        |
|   | 250,894                        | 267,100    | 505,501                           | 529,625    |
| <b>Costs and expenses:</b>                            |                                |            |                                   |            |
| Vessel operating costs                                | 161,290                        | 169,892    | 313,592                           | 324,475    |
| Costs of other marine revenues                        | 2,031                          | 203        | 3,262                             | 698        |
| Depreciation and amortization                         | 33,807                         | 35,832     | 67,556                            | 70,795     |
| Goodwill impairment                                   | 30,932                         | ---        | 30,932                            | ---        |
| General and administrative                            | 37,773                         | 37,919     | 75,354                            | 70,694     |
| Gain on asset dispositions, net                       | (9,458)                        | (3,638)    | (11,175)                          | (9,196)    |
|   | 256,375                        | 240,208    | 479,521                           | 457,466    |
| Operating income                                      | (5,481)                        | 26,892     | 25,980                            | 72,159     |
| <b>Other income (expenses):</b>                       |                                |            |                                   |            |
| Foreign exchange gain (loss)                          | 1,659                          | (436)      | 2,473                             | 1,174      |
| Equity in net earnings of unconsolidated companies    | 3,456                          | 2,785      | 5,945                             | 5,475      |
| Interest income and other, net                        | 766                            | 2,029      | 1,956                             | 2,407      |
| Interest and other debt costs                         | (4,766)                        | (1,686)    | (8,827)                           | (2,759)    |
|   | 1,115                          | 2,692      | 1,547                             | 6,297      |
| Earnings (loss ) before income taxes                  | (4,366)                        | 29,584     | 27,527                            | 78,456     |
| Income tax expense                                    | 510                            | 10,181     | 7,845                             | 19,222     |
| Net earnings (loss)                                   | \$ (4,876)                     | 19,403     | 19,682                            | 59,234     |
| Basic earnings (loss) per common share                | \$ (0.10)                      | 0.38       | 0.38                              | 1.16       |
| Diluted earnings (loss) per common share              | \$ (0.09)                      | 0.38       | 0.38                              | 1.15       |
| Weighted average common shares outstanding            | 51,296,924                     | 51,003,348 | 51,287,644                        | 51,165,791 |
| Dilutive effect of stock options and restricted stock | 281,129                        | 153,819    | 298,328                           | 193,872    |
| Adjusted weighted average common shares               | 51,578,053                     | 51,157,167 | 51,585,972                        | 51,359,663 |
| Cash dividends declared per common share              | \$ 0.25                        | 0.25       | 0.50                              | 0.50       |

See Notes to Unaudited Condensed Consolidated Financial Statements.



**TIDEWATER INC.****UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**

(In thousands)

|   | Six Months Ended<br>September 30, |           |
|---|-----------------------------------|-----------|
|   | 2011                              | 2010      |
| Operating activities:   |                                   |           |
| Net earnings  | \$ 19,682                         | 59,234    |
| Adjustments to reconcile net earnings to net cash provided by operating activities: |                                   |           |
| Depreciation and amortization   | 67,556                            | 70,795    |
| Provision (benefit) for deferred income taxes                                       | (20,819)                          | (10,660)  |
| Gain on asset dispositions, net   | (11,175)                          | (9,196)   |
| Goodwill impairment   | 30,932                            | ---       |
| Equity in earnings of unconsolidated companies, net of dividends                    | 629                               | 8,283     |
| Compensation expense - stock-based  | 4,944                             | 6,115     |
| Excess tax benefits on stock options exercised                                      | (124)                             | (195)     |
| Changes in assets and liabilities, net:   |                                   |           |
| Trade and other receivables   | (15,008)                          | 2,219     |
| Marine operating supplies   | (2,769)                           | (2,285)   |
| Other current assets  | (4,653)                           | (7,245)   |
| Accounts payable  | (1,751)                           | 522       |
| Accrued expenses  | 8,204                             | 15,412    |
| Accrued property and liability losses   | (21)                              | (887)     |
| Other current liabilities   | 7,272                             | 17,003    |
| Other liabilities and deferred credits  | 2,639                             | 3,085     |
| Other, net  | 1,644                             | 1,159     |
| Net cash provided by operating activities   | 87,182                            | 153,359   |
| Cash flows from investing activities:   |                                   |           |
| Proceeds from sales of assets   | 24,616                            | 18,368    |
| Proceeds from insurance settlements on Venezuela seized vessels                     | ---                               | 8,150     |
| Additions to properties and equipment   | (155,058)                         | (391,463) |
| Net cash used in investing activities   | (130,442)                         | (364,945) |
| Cash flows from financing activities:   |                                   |           |
| Principal payments on debt  | (40,000)                          | (75,000)  |
| Debt borrowings   | 165,000                           | 165,000   |
| Debt issuance costs   | (234)                             | (6,184)   |
| Proceeds from exercise of stock options   | 725                               | 1,919     |
| Cash dividends  | (25,889)                          | (25,773)  |
| Excess tax benefits on stock options exercised                                      | 124                               | 195       |
| Stock repurchases   | ---                               | (19,988)  |
| Net cash provided by financing activities   | 99,726                            | 40,169    |
| Net change in cash and cash equivalents   | 56,466                            | (171,417) |
| Cash and cash equivalents at beginning of period                                    | 245,720                           | 223,070   |
| Cash and cash equivalents at end of period  | \$ 302,186                        | 51,653    |

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### Supplemental disclosure of cash flow information:

#### Cash paid during the period for:

|                                       |    |        |        |
|---------------------------------------|----|--------|--------|
| Interest                              | \$ | 19,605 | 8,463  |
| Income taxes                          | \$ | 24,444 | 23,649 |
| Non-cash investing activities:        |    |        |        |
| Additions to properties and equipment | \$ | 11,833 | ---    |

See Notes to Unaudited Condensed Consolidated Financial Statements.



**TIDEWATER INC.****NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS****(1) INTERIM FINANCIAL STATEMENTS**

The unaudited condensed consolidated financial statements for the interim periods presented herein have been prepared in conformity with United States generally accepted accounting principles and, in the opinion of management, include all adjustments (consisting only of normal recurring adjustments) necessary for a fair presentation of the condensed consolidated balance sheets and the condensed consolidated statements of earnings and cash flows at the dates and for the periods indicated as required by Rule 10-01 of Regulation S-X of the Securities and Exchange Commission (SEC). Results of operations for interim periods are not necessarily indicative of results of operations for the respective full years. These unaudited condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto in the company's Annual Report on Form 10-K for the year ended March 31, 2011, filed with the SEC on May 19, 2011.

The unaudited condensed consolidated financial statements include the accounts of Tidewater Inc. and its subsidiaries. Intercompany balances and transactions are eliminated in consolidation. The company uses the equity method to account for equity investments over which the company exercises significant influence but does not exercise control and is not the primary beneficiary. All per share information included in this document is on a diluted earnings per share basis.

**Reclassifications**

In connection with a change in reportable segments, certain prior period amounts have been reclassified to conform to the September 30, 2011 presentation of our segments with no effect on net earnings or retained earnings. Please refer to Note (10) Segment and Geographical Distributions of Operations to these Unaudited Condensed Consolidated Financial Statements.

**(2) STOCKHOLDERS' EQUITY****Common Stock Repurchase Program**

In May 2011, the company's Board of Directors replaced its then existing July 2009 share repurchase program with a new \$200.0 million repurchase program that is in effect through June 30, 2012. The Board of Directors authorized the company to repurchase shares of its common stock in open-market or privately-negotiated transactions. The company uses its available cash and, when considered advantageous, borrowings under its revolving credit facility, or other borrowings, to fund any share repurchases. The company will evaluate share repurchase opportunities relative to other investment opportunities and in the context of current conditions in the credit and capital markets. At September 30, 2011, the entire \$200.0 million authorization remains available to repurchase shares under the May 2011 share repurchase program.

In July 2009, the Board of Directors had previously authorized the company to repurchase up to \$200.0 million in shares of its common stock in open-market or privately-negotiated transactions. The authorization of the July 2009 repurchase program ended in May 2011.

The value of common stock repurchased, along with number of shares repurchased, and average price paid per share are as follows:

| (In thousands, except share and per share data) | Quarter Ended         |                       | Six Months Ended      |                       |
|---|-----------------------|-----------------------|-----------------------|-----------------------|
|   | September 30,<br>2011 | September 30,<br>2010 | September 30,<br>2011 | September 30,<br>2010 |
| Value of common stock repurchased               | \$ ---                | ---                   | ---                   | 20,000                |
| Shares of common stock repurchased              | ---                   | ---                   | ---                   | 486,800               |

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|                                     |    |     |     |     |       |
|-------------------------------------|----|-----|-----|-----|-------|
| Average price paid per common share | \$ | --- | --- | --- | 41.06 |
|-------------------------------------|----|-----|-----|-----|-------|

## TIDEWATER INC.

## NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

**Dividends**

The Board of Directors declared the following dividends for the quarters and six-month periods ended September 30, 2011 and 2010, respectively. The declaration of dividends is at the discretion of the company's Board of Directors.

| (In thousands, except dividend per share) | Quarter Ended<br>September 30, |        | Six Months Ended<br>September 30, |        |
|---|--------------------------------|--------|-----------------------------------|--------|
|   | 2011                           | 2010   | 2011                              | 2010   |
| Dividends declared                        | \$ 12,975                      | 12,849 | 25,944                            | 25,792 |
| Dividend per share                        | 0.25                           | 0.25   | 0.50                              | 0.50   |

**Comprehensive Income (Loss)**

Comprehensive income (loss) includes all changes in equity during a period. The components of comprehensive income (loss), net of related tax, are as follows:

| (In thousands)  | Quarter Ended<br>September 30, |         | Six Months Ended<br>September 30, |         |
|---|--------------------------------|---------|-----------------------------------|---------|
|   | 2011                           | 2010    | 2011                              | 2010    |
| Net income (loss)                                       | \$ (4,876)                     | 19,403  | 19,682                            | 59,234  |
| Other comprehensive income (loss):                      |                                |         |                                   |         |
| Unrealized (loss) gain on available-for-sale securities | (980)                          | (138)   | (1,001)                           | (218)   |
| Qualifying derivatives                                  | ---                            | (3,974) | ---                               | (3,974) |
| Amortization of loss on derivative contract             | 117                            | ---     | 233                               | ---     |
| Comprehensive income (loss)                             | \$ (5,739)                     | 15,291  | 18,914                            | 55,042  |

**(3) INCOME TAXES**

Income tax expense for interim periods is based on estimates of the effective tax rate for the entire fiscal year. The effective tax rate applicable to pre-tax earnings, for the quarter and the six-month periods ended September 30, 2011 and 2010, are as follows:

| Effective tax rate applicable to pre-tax earnings | Quarter Ended<br>September 30, |       | Six Months Ended<br>September 30, |       |
|---|--------------------------------|-------|-----------------------------------|-------|
|   | 2011                           | 2010  | 2011                              | 2010  |
|   | 11.7%                          | 34.4% | 28.5%                             | 24.5% |

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The effective tax rate was higher during the six months ended September 30, 2011, as compared to the six months ended September 30, 2010, primarily because of the current expected mix of pre-tax earnings between the company's U.S. and international businesses and an expectation for lower estimated operating margin in certain jurisdictions that tax on the basis of deemed profits.

The company's balance sheet at September 30, 2011 reflects the following in accordance with Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 740, *Income Taxes*:

| (In thousands)                              | September 30,<br>2011 |
|---|-----------------------|
| Tax liabilities for uncertain tax positions | \$ 20,626             |
| Income tax payable                          | 16,807                |

The tax liabilities for uncertain tax positions are attributable to a permanent establishment issue related to a foreign joint venture and a tax audit of a foreign subsidiary. Penalties and interest related to income tax liabilities are included in income tax expense. Income tax payable is included in other current liabilities.

## TIDEWATER INC.

## NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Unrecognized tax benefits at September 30, 2011, which would lower the effective tax rate if realized, are as follows:

| (In thousands)  | September 30,<br>2011 |
|---|-----------------------|
| Unrecognized tax benefit related to state tax issues                        | \$ 8,591              |
| Interest receivable on unrecognized tax benefit related to state tax issues | 31                    |

With limited exceptions, the company is no longer subject to tax audits by United States (U.S.) federal, state, local or foreign taxing authorities for years prior to 2004. The company has ongoing examinations by various U.S. federal, state and foreign tax authorities and does not believe that the results of these examinations will have a material adverse effect on the company's financial position or results of operations.

**(4) EMPLOYEE BENEFIT PLANS****U.S. Defined Benefit Pension Plan**

The company has a defined benefit pension plan that covers certain U.S. citizen employees and employees who are permanent residents of the United States. Benefits are based on years of service and employee compensation. In December 2009, the Board of Directors amended the pension plan to discontinue the accrual of benefits once the plan was frozen on December 31, 2010. On that date, previously accrued pension benefits under the pension plan were frozen for the approximately 60 active employees who participated in the plan. This change did not affect benefits earned by participants prior to January 1, 2011. The active employees who participated in the pension plan have become participants in the company's defined contribution retirement plan effective January 1, 2011. These changes are providing the company more predictable retirement plan costs and cash flows. By changing to a defined contribution plan and freezing the benefits accrued under the predecessor defined benefit plan, the company's future benefit obligations and requirements for cash contributions for the frozen pension plan are reduced. Losses associated with the curtailment of the pension plan were immaterial. The company did not contribute to the defined benefit pension plan during the quarter and six-month periods ended September 30, 2011 and 2010, and does not expect to contribute to the plan during the remaining quarters of fiscal 2012.

**Supplemental Executive Retirement Plan**

The company offers a supplemental retirement plan (supplemental plan) that provides pension benefits to certain employees in excess of those allowed under the company's tax-qualified pension plan. Assets of this non-contributory defined benefit plan are held in a Rabbi Trust, invested in a variety of marketable securities, none of which is Tidewater stock. The Rabbi Trust assets, which are included in other assets in the company's consolidated balance sheet, are recorded at fair value with unrealized gains or losses included in other comprehensive income. Effective March 4, 2010, the supplemental plan was closed to new participation. The company did not contribute to the supplemental plan during the quarters and six-month periods ended September 30, 2011 and 2010, and does not expect to contribute to the plan during the remaining quarters of fiscal 2012. The supplemental plan is a non-qualified plan and, as such, the company is not required to make contributions to the supplemental plan.

Investments held in a Rabbi Trust for the benefit of participants in the supplemental plan are included in other assets. The following table summarizes the carrying value of the trust assets, including unrealized gains or losses at September 30, 2011 and March 31, 2011:

| (In thousands) | September 30,<br>2011 | March 31,<br>2011 |
|----------------|-----------------------|-------------------|
|----------------|-----------------------|-------------------|

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|  |    |        |        |
|--|----|--------|--------|
| Investments held in Rabbi Trust  | \$ | 16,758 | 18,043 |
| Unrealized (losses) gains in carrying value of trust assets                                  |    | (479)  | 523    |
| Unrealized (losses) gains in carrying value of trust assets are net of income tax expense of |    | (257)  | 281    |
| Obligations under the supplemental plan  |    | 27,542 | 26,197 |

## TIDEWATER INC.

## NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

The unrealized gains or losses in the carrying value of the trust assets, net of income tax expense, are included in accumulated other comprehensive income (other stockholders' equity). To the extent that trust assets are liquidated to fund benefit payments, gains or losses, if any, will be recognized at that time. The company's obligations under the supplemental plan are included in accrued expenses and other liabilities and deferred credits on the consolidated balance sheet.

**Postretirement Benefit Plan**

Qualified retired employees currently are covered by a program which provides limited health care and life insurance benefits. Costs of the program are based on actuarially determined amounts and are accrued over the period from the date of hire to the full eligibility date of employees who are expected to qualify for these benefits. This plan is funded through company payments as benefits are paid out.

**Net Periodic Benefit Costs**

The net periodic benefit cost for the company's U.S. defined benefit pension plan and the supplemental plan (referred to collectively as Pension Benefits) and the postretirement health care and life insurance plan (referred to collectively as Other Benefits) is comprised of the following components:

| (In thousands)                     | Quarter Ended         |       | Six Months Ended      |         |
|------------------------------------|-----------------------|-------|-----------------------|---------|
|                                    | September 30,<br>2011 | 2010  | September 30,<br>2011 | 2010    |
| <b><u>Pension Benefits:</u></b>    |                       |       |                       |         |
| Service cost                       | \$ 219                | 230   | 438                   | 460     |
| Interest cost                      | 1,103                 | 1,115 | 2,206                 | 2,230   |
| Expected return on plan assets     | (644)                 | (620) | (1,288)               | (1,240) |
| Amortization of prior service cost | 12                    | 4     | 24                    | 8       |
| Recognized actuarial loss          | 440                   | 425   | 880                   | 850     |
| Net periodic benefit cost          | \$ 1,130              | 1,154 | 2,260                 | 2,308   |
| <b><u>Other Benefits:</u></b>      |                       |       |                       |         |
| Service cost                       | \$ 139                | 145   | 278                   | 290     |
| Interest cost                      | 345                   | 365   | 690                   | 730     |
| Amortization of prior service cost | (508)                 | (508) | (1,016)               | (1,016) |
| Recognized actuarial (gain) loss   | (1)                   | (5)   | (2)                   | (10)    |
| Net periodic benefit cost          | \$ (25)               | (3)   | (50)                  | (6)     |

**(5) INDEBTEDNESS****Revolving Credit and Term Loan Agreement**

Borrowings under the company's \$575.0 million amended and restated revolving credit facility (credit facility), which includes a \$125.0 million term loan (term loan) and a \$450.0 million revolving line of credit (revolver) bear interest at the company's option at the greater of (i) prime or the federal funds rate plus 0.50 to 1.25%, or (ii) Eurodollar rates plus margins ranging from 1.50 to 2.25%, based on the company's consolidated

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funded debt to total capitalization ratio. Commitment fees on the unused portion of the facilities range from 0.15 to 0.35% based on the company's funded debt to total capitalization ratio. The facilities provide for a maximum ratio of consolidated debt to consolidated total capitalization of 55% and a minimum consolidated interest coverage ratio (essentially consolidated earnings before interest, taxes, depreciation and amortization, or EBITDA, for the four prior fiscal quarters to consolidated interest charges for such period) of 3.0. All other terms, including the financial and negative covenants, are customary for facilities of its type and consistent with the prior agreement in all material respects. The company's amended and restated revolving credit facility matures in January 2016.

In July 2011, the credit facility was amended to allow 365 days (originally 180 days) from the closing date ( delayed draw period ) to make multiple draws under the term loan. Principal repayments of any term loan borrowings are payable in quarterly installments beginning in the quarter ending September 30, 2013 in amounts equal to 1.25% of the total outstanding borrowings as of July 26, 2013.



## TIDEWATER INC.

## NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

There were no borrowings outstanding under available credit facilities at September 30, 2011, and the full \$575.0 million of such credit facilities was available at September 30, 2011 for future financing needs.

**Senior Debt Notes****August 2011 Senior Notes**

On August 15, 2011, the company issued \$165.0 million of senior unsecured notes to a group of institutional investors. A summary of the aggregate amount of senior unsecured notes outstanding at September 30, 2011 that were issued to a group of institutional investors in August 2011 are as follows:

| (In thousands, except weighted average data)      | September 30,<br>2011 |
|---|-----------------------|
| Aggregate debt outstanding                        | \$ 165,000            |
| Weighted average remaining life in years          | 9.1                   |
| Weighted average coupon rate on notes outstanding | 4.42%                 |
| Fair value of debt outstanding                    | 173,272               |

The multiple series of notes were originally issued with maturities ranging from approximately eight to 10 years. The notes may be retired before their respective scheduled maturity dates subject only to a customary make-whole provision. The terms of the notes require that the company maintain a minimum ratio of debt to consolidated total capitalization that does not exceed 55%.

**September 2010 Senior Notes**

On October 15, 2010, the company completed the sale of \$310.0 million of senior unsecured notes, and the sale of an additional \$115.0 million of the notes was completed on December 30, 2010. A summary of the aggregate amount of senior unsecured notes outstanding at September 30, 2011 and March 31, 2011 that were issued to a group of institutional investors in September 2010 are as follows:

| (In thousands, except weighted average data)      | September 30,<br>2011 | March 31,<br>2011 |
|---|-----------------------|-------------------|
| Aggregate debt outstanding                        | \$ 425,000            | 425,000           |
| Weighted average remaining life in years          | 8.1                   | 8.6               |
| Weighted average coupon rate on notes outstanding | 4.25%                 | 4.25%             |
| Fair value of debt outstanding                    | 445,828               | 404,352           |

The multiple series of these notes were originally issued with maturities ranging from five to 12 years. The notes may be retired before their respective scheduled maturity dates subject only to a customary make-whole provision. The terms of the notes require that the company maintain a minimum ratio of debt to consolidated total capitalization that does not exceed 55%.

Included in accumulated other comprehensive income at September 30, 2011 and March 31, 2011, is an after-tax loss of \$3.5 million (\$5.5 million pre-tax), and \$3.8 million (\$5.8 million pre-tax), respectively, relating to the purchase of interest rate hedges, which are cash flow hedges, in July 2010 in connection with the September 2010 senior notes offering. The interest rate hedges settled in August 2010 concurrent with the pricing of the senior unsecured notes. The hedges met the effectiveness criteria and their acquisition costs are being amortized over the term of the individual notes matching the term of the hedges to interest expense.



## TIDEWATER INC.

## NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

*July 2003 Senior Notes*

In July 2003, the company completed the sale of \$300.0 million of senior unsecured notes. A summary of the aggregate amount of remaining senior unsecured notes outstanding at September 30, 2011 and March 31, 2011 that were issued in July 2003 are as follows:

| (In thousands, except weighted average data)      | September 30,<br>2011 | March 31,<br>2011 |
|---|-----------------------|-------------------|
| Aggregate debt outstanding                        | \$ 235,000            | 275,000           |
| Weighted average remaining life in years          | 1.9                   | 2.1               |
| Weighted average coupon rate on notes outstanding | 4.43%                 | 4.39%             |
| Fair value of debt outstanding                    | 244,104               | 285,478           |

The multiple series of notes were originally issued with maturities ranging from seven to 12 years. These notes can be retired in whole or in part prior to maturity for a redemption price equal to the principal amount of the notes redeemed plus a customary make-whole premium. The terms of the notes provide for a maximum ratio of consolidated debt to total capitalization of 55%.

Notes totaling \$40.0 million matured in July 2011 but were not classified as current maturities of long-term debt because the company had the ability to fund this maturity with its credit facility. Notes totaling \$60.0 million will mature in July 2012 but are not classified as current maturities of long-term debt because the company has the ability, if necessary, to fund this maturity with its credit facility.

**Debt Costs**

The company capitalizes a portion of its interest costs incurred on borrowed funds used to construct vessels. Interest and debt costs incurred, net of interest capitalized, for the quarter and the six-month periods ended September 30, 2011 and 2010 are as follows:

| (In thousands)  | Quarter Ended<br>September 30, |       | Six Months Ended<br>September 30, |       |
|---|--------------------------------|-------|-----------------------------------|-------|
|   | 2011                           | 2010  | 2011                              | 2010  |
| Interest and debt costs incurred, net of interest capitalized | \$ 4,766                       | 1,686 | 8,827                             | 2,759 |
| Interest costs capitalized                                    | 4,188                          | 3,316 | 8,598                             | 6,958 |
| Total interest and debt costs                                 | \$ 8,954                       | 5,002 | 17,425                            | 9,717 |

**(6) COMMITMENTS AND CONTINGENCIES****Vessel Commitments**

The table below summarizes the company's various vessel commitments to acquire and construct new vessels, by vessel type, as of September 30, 2011:

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| (In thousands, except vessel count)     | Number<br>of<br>Vessels | Total<br>Cost     | Invested<br>Through<br>9/30/11 | Remaining<br>Balance<br>09/30/11 |
|---|-------------------------|-------------------|--------------------------------|----------------------------------|
| <b>Vessels under construction:</b>      |                         |                   |                                |                                  |
| Anchor handling towing supply           | 6                       | \$ 107,323        | 86,808                         | 20,515                           |
| Platform supply vessels                 | 17                      | 530,913           | 207,662                        | 323,251                          |
| Crewboats                               | 5                       | 22,128            | 10,776                         | 11,352                           |
| <b>Total vessels under construction</b> | <b>28</b>               | <b>660,364</b>    | <b>305,246</b>                 | <b>355,118</b>                   |
| <b>Vessels to be purchased:</b>         |                         |                   |                                |                                  |
| Anchor handling towing supply           | 10                      | 136,625           | 19,565                         | 117,060                          |
| Platform supply vessels                 | 2                       | 38,035            | 7,501                          | 30,534                           |
| <b>Total vessels to be purchased</b>    | <b>12</b>               | <b>174,660</b>    | <b>27,066</b>                  | <b>147,594</b>                   |
| <b>Total vessel commitments</b>         | <b>40</b>               | <b>\$ 835,024</b> | <b>332,312</b>                 | <b>502,712</b>                   |

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**NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

The total cost of the various vessel new-build commitments includes contract costs and other incidental costs. The company has vessels under construction 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.). The anchor handling towing supply vessels under construction range between 5,150 and 8,200 brake horsepower (BHP), while the platform supply vessels under construction range between 1,900 and 6,360 deadweight tons of cargo capacity. Scheduled delivery for the new-build vessels began in October 2011, with delivery of the final new-build vessel expected in July 2013.

Regarding the vessels to be purchased, the company took possession of two of the 10 anchor handling towing supply vessels in October 2011 for a total cost of \$23.7 million. The two acquired vessels are 5,150 BHP anchor handling towing supply vessels. The company will acquire the remaining eight anchor handling towing supply vessels (six of which have 5,150 BHP and two of which have 9,000 BHP), for a total aggregate cost of \$113.0 million at various times during the remaining months of fiscal 2012. The company plans to take possession of the two platform supply vessels, which have 3,500 deadweight tons of cargo capacity, in February and April of 2012 for a total aggregate cost of \$38.0 million.

The company's vessel construction program has been designed to replace over time the company's older fleet of vessels with fewer, larger and more efficient vessels, while also opportunistically revamping the size and capabilities of the company's fleet. The company anticipates using future operating cash flows, existing borrowing capacity and new borrowings or lease arrangements to fund current and future commitments in connection with the fleet renewal and modernization program. The company continues to evaluate its fleet renewal program, whether through new construction or acquisitions, relative to other investment opportunities and uses of cash, including the current share repurchase authorization, and in the context of current conditions in the credit and capital markets.

Currently the company is experiencing substantial delay with one fast, crew/supply boat under construction in Brazil that was originally scheduled to be delivered in September of 2009. On April 5, 2011, pursuant to the vessel construction contract, the company sent the subject shipyard a letter initiating arbitration in order to resolve disputes of such matters as the shipyard's failure to achieve payment milestones, its failure to follow the construction schedule, and its failure to timely deliver the vessel. The company continues to pursue that arbitration.

The company generally requires shipyards to provide third party credit support in the event that vessels are not completed and delivered in accordance with the terms of the shipbuilding contracts. That third party credit support typically guarantees the return of amounts paid by the company, and generally takes the form of refundment guarantees or standby letters of credit issued by major financial institutions located in the country of the shipyard. While the company seeks to minimize its shipyard credit risk by requiring these instruments, the ultimate return of amounts paid by the company in the event of shipyard default is still subject to the creditworthiness of the shipyard and the provider of the credit support, as well as the company's ability to successfully pursue legal action to compel payment of these instruments. When third party credit support is not available or cost effective, the company endeavors to limit its credit risk through cash deposits and other contract terms with the shipyard and other counterparties.

**Completion of Internal Investigation and Settlements with United States and Nigerian Agencies**

The company has previously reported that special counsel engaged by the company's Audit Committee had completed its internal investigation into certain Foreign Corrupt Practices Act (FCPA) matters and reported its findings to the Audit Committee. The substantive areas of the internal investigation have been reported publicly by the company in prior filings.

Special counsel reported to the Department of Justice (DOJ) and to the SEC the results of the investigation, and the company entered into separate agreements with the two agencies to resolve the matters reported by special counsel. Both of these agreements were approved by a federal district court judge in fiscal 2011 and the principal terms and conditions of the agreements with these two agencies are described in the company's 10-K for the fiscal year ended March 31, 2011.

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**TIDEWATER INC.**

**NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

The company also announced on March 3, 2011 that it had reached an agreement with the Federal Government of Nigeria (FGN) to settle and resolve the previously disclosed investigation by the FGN relating to allegations that a third party customs broker had made improper payments to government officials in Nigeria on behalf of the company's foreign subsidiaries. The FGN's investigation in this regard focused on facts and circumstances associated with the company's Nigerian operations in 2007 and prior years that were among the matters covered by the company's previous settlements with the DOJ and SEC. Pursuant to the settlement agreement, the FGN terminated its investigation and agreed not to bring any criminal charges or civil claims against the company or any associated persons arising from these allegations. The other terms and conditions of the agreement between the company and the FGN are described in the company's Form 10-K for the fiscal year ended March 31, 2011.

**Merchant Navy Officers Pension Fund**

A current subsidiary of the company is a participating employer in an industry-wide multi-employer retirement fund in the United Kingdom, known as the Merchant Navy Officers Pension Fund (MNOFP). The company has been informed by the Trustee of the MNOFP that the Fund has a deficit that will require contributions from the participating employers. The amount and timing of the company's share of the fund's deficit depends on a number of factors, including updated calculations of the total fund deficit, theories of contribution imposed as determined by and within the scope of the Trustee's authority, the number of then participating solvent employers, and the final formula adopted to allocate the required contribution among such participating employers. The amount payable to MNOFP based on assessments was \$7.5 million at September 30, 2011 and \$9.6 million at March 31, 2011, all of which has been accrued. Payments totaling \$2.0 million were made into the fund during the quarter ended September 30, 2011. During the quarter ended September 30, 2010, the company recorded an additional liability of \$6.0 million and made payments totaling \$0.9 million into the fund. In the future, the fund's trustee may claim that the company owes additional amounts for various reasons, including negative fund investment returns as reflected in a preliminary future actuarial valuation, or the inability of other assessed participating employers to contribute their share of respective allocations, failing which, the company and other solvent participating employers will be asked for additional contributions. In October 2010, the Trustee advised the company of its intention to accelerate previously agreed installment payments for the company and other participating employers in the scheme. This means that the company is either required to pay the outstanding deficit contribution of approximately \$7.5 million at September 30, 2011 immediately or to provide security in a form to be agreed by the Trustee. In discussions with the Trustee, the company was advised that pursuant to the Trustee's broad discretion, it was reviewing the installment option for all participating employers and that any agreement for payments to be made by installments must be supported by security. The company has objected to that decision. In the interim, the company continues its historical practice to pay the installments as and when they fall due.

**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, since that date, agreed several times to extend out the expiration date of the joint venture agreement. The joint venture has never had an interruption in its operations or service. The most recent extension extends the expiration date to December 31, 2011. Tidewater views its continuing ability to obtain contract extensions, the most recent of which is for five months, as a promising indicator that the parties are making progress in the negotiation of a 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

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more revenue is derived from our operations in Angola than in or from any of Tidewater's other countries of operation.

As was the case in prior contract extensions, Sonangol and Tidewater have agreed to continue the Sonatide joint venture past its extended expiration date, on a charter by charter basis, to the extent required to fulfill several new or renewed charterparty agreements with customers in Angola that extend well beyond December 31, 2011. These charterparty agreements cover a substantial portion of our vessels in Angola. Over the course of the last few months, a number of new or renewed charters have been entered into on this basis.

**Brazilian Customs**

In April 2011, two Brazilian subsidiaries of Tidewater were notified by the Customs Office in Macae, Brazil that they were jointly and severally being assessed fines amounting to approximately \$98.7 million. The assessment of these fines is for the alleged failure of these subsidiaries to obtain import licenses with respect to 17 Tidewater vessels that provided Brazilian offshore vessel services to Petrobras, the Brazilian national oil company, over a three-year period ended December 2009. Tidewater and its Brazilian subsidiaries believe that vessels that provide services under contract to the Brazilian offshore oil and gas industry are deemed, under applicable law and regulations, to be temporarily imported into Brazil, and thus exempt from the import license requirement. The Macae Customs Office has now, without a change in the underlying law, taken the position that the temporary importation exemption is only available to new, and not used, goods imported into Brazil and therefore it was improper for the company to deem its vessels as being temporarily imported. The fines have been assessed based on this new interpretation of Brazilian customs law taken by the Macae Office. The company believes that the assessment is without legal justification and that the Macae Customs Office has misinterpreted applicable Brazilian law on duties and customs. The company is vigorously contesting these fines (which it has not paid nor accrued for) and, based on the advice of its Brazilian counsel, believes that it has a high probability of success with respect to the overturn of the entire amount of the fines, either at the administrative appeal level or, if necessary, in Brazilian courts. The company believes that the ultimate resolution will not have a material effect on the consolidated financial statements.

**Potential for Future Brazilian State Tax Assessment**

The company is aware that a Brazilian state in which the company has operations has notified two of the company's competitors that they are liable for unpaid taxes (and penalties and interest thereon) for failure to pay state import taxes with respect to vessels that such competitors operate within the coastal waters of such state pursuant to charter agreements. The import tax being asserted is equal to a percentage (which could be as high as 16% for vessels entering that state's waters prior to December 31, 2010 and 3% thereafter) of the affected vessels' declared values. The company understands that the two companies involved are contesting the assessment through administrative proceedings before the taxing authority.

To date, the company's two Brazilian subsidiaries, as well as vessels for all other competitors (more than a hundred competitors) have not been similarly notified by the Brazilian state that it has an import tax liability related to its vessel activities imported through that state. Although the company has been advised by its Brazilian tax counsel that substantial defenses would be available if a similar tax claim was asserted against the company, if an import tax claim were to be asserted, it could be for a substantial amount given that the company has had substantial and continuing operations through the state (although the amount could fluctuate significantly depending on the administrative determination of the taxing authority as to the rate to apply, the vessels subject to the levy and the time periods covered). In addition, under certain circumstances, the company might be required to post a bond or other adequate security in the amount of the assessment (plus any interest and penalties) if it became necessary to challenge the assessment in a Brazilian court. The statute of limitations for the Brazilian state to levy an assessment of the import tax is five years from the date of a vessel's entry into Brazil. The company has not yet determined the potential tax assessment and according to the Brazilian tax counsel chances of defeating a possible claim/notification from the State authorities in court are probable. To obtain legal certainty and predictability for future charter agreements and because the company was importing a vessel to start a new charter in Brazil, the company filed a suit on

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**TIDEWATER INC.**

**NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

August 22, 2011 against the Brazilian state and judicially deposited the respective state tax for this newly imported vessel. As of September 30, 2011, no accrual has been recorded for any liability associated with any potential future assessment for previous periods based on management's assessment, after consultation with Brazilian counsel, that a liability for such taxes was not probable.

**Venezuelan Operations**

The company has previously reported that in May 2009 the Venezuelan National Assembly enacted a law (the Reserve Law) whereby the Bolivarian Republic of Venezuela (Venezuela) reserved to itself assets and services related to maritime activities on Lake Maracaibo. The company also previously reported that in May 2009, Petróleos de Venezuela, S.A. (PDVSA), the Venezuelan national oil company, invoking the Reserve Law, took possession of (a) 11 of the company's vessels that were then supporting PDVSA operations in the Lake Maracaibo region, (b) the company's shore-based facility adjacent to Lake Maracaibo and (c) certain other related assets. The company has also previously reported that in July 2009, Petrosucre, S.A. (Petrosucre), a subsidiary of PDVSA, took control of four additional company vessels. As a consequence of these measures, the company (i) no longer has possession or control of those assets, (ii) no longer operates them or provides support for their operations, and (iii) no longer has any other vessels or operations in Venezuela.

The company has previously reported the balance sheet and income statement effect of the Venezuela asset seizure in fiscal 2010. As previously reported by the company, the company has filed with the International Centre for Settlement of Investment Disputes (ICSID) a Request for Arbitration against the Republic of Venezuela seeking compensation for the expropriation of the company's Venezuelan investments. On January 24, 2011, the arbitration tribunal, appointed under the ICSID Convention to resolve the investment dispute, held its first session on procedural issues in Washington, D.C. The arbitration tribunal established an initial briefing and hearing schedule related to jurisdictional issues that extends through the spring of 2012. The company continues diligently to prosecute its claim in the arbitration (including the filing of pleadings in accordance with the briefing schedule). While the company believes, after consultation with its advisors, that it is entitled to full reparation for the losses suffered as a result of the actions taken by the Republic, there can be no assurances that the company will prevail in the arbitration.

**Legal Proceedings**

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.

**(7) FAIR VALUE MEASUREMENTS**

The company follows the provisions of ASC 820, *Fair Value Measurements and Disclosures*, for financial assets and liabilities that are measured and reported at fair value on a recurring basis. ASC 820 establishes a hierarchy for inputs used in measuring fair value. Fair value is calculated based on assumptions that market participants would use in pricing assets and liabilities and not on assumptions specific to the entity. The statement requires that each asset and liability carried at fair value be classified into one of the following categories:

Level 1: Quoted market prices in active markets for identical assets or liabilities

Level 2: Observable market based inputs or unobservable inputs that are corroborated by market data

Level 3: Unobservable inputs that are not corroborated by market data



## TIDEWATER INC.

## NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

## Assets and Liabilities Measured at Fair Value on a Recurring Basis

The company measures on a recurring basis and records at fair value investments held by participants in a supplemental executive retirement plan. The following table provides the fair value hierarchy for the plan assets measured at fair value as of September 30, 2011:

| (In thousands)                         | Total            | Quoted prices in<br>active markets<br>(Level 1) | Significant<br>observable<br>inputs<br>(Level 2) | Significant<br>unobservable<br>inputs<br>(Level 3) |
|--|------------------|---|--|--|
| <b>Equity securities:</b>              |                  |   |  |  |
| Common stock                           | \$ 7,499         | 7,499   | ---  | ---  |
| Preferred stock                        | 12               | 12  | ---  | ---  |
| Foreign stock                          | 443              | 443   | ---  | ---  |
| American depository receipts           | 2,101            | 2,071   | 30   | ---  |
| Real estate investment trusts          | 130              | 130   | ---  | ---  |
| <b>Debt securities:</b>                |                  |   |  |  |
| Government debt securities             | 3,065            | 1,306   | 1,759  | ---  |
| Open ended mutual funds                | 2,729            | 2,729   | ---  | ---  |
| Cash and cash equivalents              | 1,033            | 148   | 885  | ---  |
| <b>Total</b>                           | <b>\$ 17,012</b> | <b>14,338</b>                                   | <b>2,674</b>                                     | <b>---</b>   |
| Other pending transactions             | (254)            | (254)   | ---  | ---  |
| <b>Total fair value of plan assets</b> | <b>\$ 16,758</b> | <b>14,084</b>                                   | <b>2,674</b>                                     | <b>---</b>   |

The following table provides the fair value hierarchy for the plan assets measured at fair value as of March 31, 2011:

| (In thousands)                         | Total            | Quoted prices in<br>active markets<br>(Level 1) | Significant<br>observable<br>inputs<br>(Level 2) | Significant<br>unobservable<br>inputs<br>(Level 3) |
|--|------------------|---|--|--|
| <b>Equity securities:</b>              |                  |   |  |  |
| Common stock                           | \$ 8,785         | 8,785   | ---  | ---  |
| Preferred stock                        | 12               | 12  | ---  | ---  |
| Foreign stock                          | 355              | 355   | ---  | ---  |
| American depository receipts           | 2,401            | 2,384   | 17   | ---  |
| Real estate investment trusts          | 111              | 111   | ---  | ---  |
| <b>Debt securities:</b>                |                  |   |  |  |
| Government debt securities             | 2,571            | 1,270   | 1,301  | ---  |
| Open ended mutual funds                | 2,651            | 2,651   | ---  | ---  |
| Cash and cash equivalents              | 1,448            | 362   | 1,086  | ---  |
| <b>Total</b>                           | <b>\$ 18,334</b> | <b>15,930</b>                                   | <b>2,404</b>                                     | <b>---</b>   |
| Other pending transactions             | (291)            | (291)   | ---  | ---  |
| <b>Total fair value of plan assets</b> | <b>\$ 18,043</b> | <b>15,639</b>                                   | <b>2,404</b>                                     | <b>---</b>   |

***Other Financial Instruments***

The company's primary financial instruments consist of cash and cash equivalents, trade receivables and trade payables with book values that are considered to be representative of their respective fair values. The company periodically utilizes derivative financial instruments to hedge against foreign currency denominated assets and liabilities, currency commitments, or to lock in desired interest rates. These transactions are generally spot or forward currency contracts or interest rate swaps that are entered into with major financial institutions. Derivative financial instruments are intended to reduce the company's exposure to foreign currency exchange risk and interest rate risk. The company enters into derivative instruments only to the extent considered necessary to address its risk management objectives and does not use derivative contracts for speculative purposes. The derivative instruments are recorded at fair value using quoted prices and quotes obtainable from the counterparties to the derivative instruments.

**Cash Equivalents.** The company's cash equivalents, which are securities with maturities less than 90 days, are held in money market funds or time deposit accounts with highly rated financial institutions. The carrying

## TIDEWATER INC.

## NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

value for cash equivalents is considered to be representative of its fair value due to the short duration and conservative nature of the cash equivalent investment portfolio.

**Spot Derivatives.** Spot derivative financial instruments are short-term in nature and generally settle within two business days. The fair value of spot derivatives approximates the carrying value due to the short-term nature of this instrument, and as a result, no gains or losses are recognized.

The company had two foreign exchange spot contracts outstanding at September 30, 2011, which totaled an aggregate notional value of \$1.5 million. The two spot contracts settled by October 3, 2011. The company had nine foreign exchange spot contracts outstanding at March 31, 2011, which totaled an aggregate notional value of \$3.6 million. All nine spot contracts settled by April 4, 2011.

**Forward Derivatives.** Forward derivative financial instruments are generally longer-term in nature but generally do not exceed one year. The accounting for gains or losses on forward contracts is dependent on the nature of the risk being hedged and the effectiveness of the hedge.

At September 30, 2011, the company had two British pound forward contracts outstanding, which are generally intended to hedge the company's foreign exchange exposure relating to its MNOPF liability as disclosed in Note (6) and elsewhere in this document. The forward contracts have expiration dates between March 2012 and June 2012. The combined change in fair value of the forward contracts was approximately \$0.1 million, which was recorded as a foreign exchange gain during the six months ended September 30, 2011, because the forward contracts did not qualify as hedge instruments. All changes in fair value of the forward contracts were recorded in earnings.

At March 31, 2011, the company had three British pound forward contracts outstanding, related to the company's foreign exchange exposure on its MNOPF liability. The combined change in fair value of these forward contracts at March 31, 2011 was approximately \$0.3 million, all of which was recorded as a foreign exchange gain during the fiscal year ended March 31, 2011, because the forward contracts did not qualify as hedge instruments.

The following table provides the fair value hierarchy for the company's other financial instruments measured as of September 30, 2011:

| (In thousands)                                       | Total      | Quoted prices in active markets (Level 1) | Significant observable inputs (Level 2) | Significant unobservable inputs (Level 3) |
|--|------------|---|---|---|
| Money market cash equivalents                        | \$ 255,217 | 255,217                                   | ---                                     | ---                                       |
| Long-term British pound forward derivative contracts | 7,674      | ---                                       | 7,674                                   | ---                                       |
| Total fair value of assets                           | \$ 262,891 | 255,217                                   | 7,674                                   | ---                                       |

The following table provides the fair value hierarchy for the company's other financial instruments measured as of March 31, 2011:

| (In thousands) | Total | Quoted prices in active markets (Level 1) | Significant observable inputs (Level 2) | Significant unobservable inputs (Level 3) |
|----------------|-------|---|---|---|
|----------------|-------|---|---|---|

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|  |    |         |         |       |     |
|--|----|---------|---------|-------|-----|
| Money market cash equivalents                        | \$ | 222,673 | 222,673 | ---   | --- |
| Long-term British pound forward derivative contracts |    | 8,179   | ---     | 8,179 | --- |
| Total fair value of assets                           | \$ | 230,852 | 230,852 | 8,179 | --- |

**Assets and Liabilities Measured at Fair Value on a Nonrecurring Basis**

***Asset Impairments***

The company accounts for long-lived assets in accordance with ASC 360-10-35, *Impairment or Disposal of Long-Lived Assets*, and reviews long-lived assets for impairment whenever events occur or changes in

## TIDEWATER INC.

## NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

circumstances indicate that the carrying amount of assets may not be recoverable. In such evaluation the estimated future undiscounted cash flows generated by an asset group are compared with the carrying amount of the asset group to determine if a write-down may be required. The company estimates cash flows based upon historical data adjusted for the company's best estimate of future market performance that is based on industry trends. The company uses the discounted cash flow method to determine the estimated fair value of each asset group and compares such estimated fair value, considered Level 3, to the carrying value of each asset group in order to determine if impairment exists. If impairment exists, the carrying value of the asset group is reduced to its estimated fair value. Vessels with similar operating and marketing characteristics are grouped for asset impairment testing.

The below table summarizes the combined fair value of the assets that incurred impairments during the quarters and the six-month periods ended September 30, 2011 and 2010, along with the amount of impairment. The impairment charges were recorded in gain on asset dispositions, net.

| (In thousands, except number of assets)            | Quarter Ended<br>September 30, |       | Six Months Ended<br>September 30, |       |
|--|--------------------------------|-------|-----------------------------------|-------|
|  | 2011                           | 2010  | 2011                              | 2010  |
| Amount of impairment incurred                      | \$ 256                         | 1,785 | 2,570                             | 3,093 |
| Combined fair value of assets incurring impairment | ---                            | 1,800 | 3,913                             | 6,295 |

**(8) OTHER ASSETS, ACCRUED EXPENSES, OTHER CURRENT LIABILITIES AND OTHER LIABILITIES AND DEFERRED CREDITS**

A summary of other assets at September 30, 2011 and March 31, 2011 are as follows:

| (In thousands)                      | September 30,<br>2011 | March 31,<br>2011 |
|-------------------------------------|-----------------------|-------------------|
| Recoverable insurance losses        | \$ 6,732              | 5,327             |
| Deferred income tax assets          | 57,951                | 42,444            |
| Deferred finance charges            | 7,625                 | 8,232             |
| Savings plans and supplemental plan | 28,952                | 31,263            |
| Noncurrent tax receivable           | 7,743                 | 7,737             |
| Other                               | 4,116                 | 4,388             |
|                                     | \$ 113,119            | 99,391            |

A summary of accrued expenses at September 30, 2011 and March 31, 2011 are as follows:

| (In thousands)               | September 30,<br>2011 | March 31,<br>2011 |
|------------------------------|-----------------------|-------------------|
| Payroll and related payables | \$ 35,707             | 37,239            |
| Commissions payable          | 15,510                | 15,639            |
| Accrued vessel expenses      | 69,328                | 55,920            |
| Accrued interest payable     | 6,239                 | 9,393             |
| Other accrued expenses       | 4,283                 | 2,678             |

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A summary of other current liabilities at September 30, 2011 and March 31, 2011 are as follows:

| (In thousands)             | September 30,<br>2011 | March 31,<br>2011 |
|----------------------------|-----------------------|-------------------|
| Income tax payables        | \$ 17,575             | 11,187            |
| Deferred credits - current | 4,034                 | 2,463             |
| Dividend payable           | 102                   | 47                |
|                            | \$ 21,711             | 13,697            |

## TIDEWATER INC.

## NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

A summary of other liabilities and deferred credits at September 30, 2011 and March 31, 2011 are as follows:

| (In thousands)                    | September 30,<br>2011 | March 31,<br>2011 |
|-----------------------------------|-----------------------|-------------------|
| Postretirement benefits liability | \$ 26,829             | 27,032            |
| Pension liability                 | 39,829                | 39,085            |
| Deferred gain on vessel sales     | 39,568                | 39,568            |
| Income taxes                      | 5,779                 | 5,295             |
| Other                             | 16,625                | 17,541            |
|                                   | \$ 128,630            | 128,521           |

**(9) ACCOUNTING PRONOUNCEMENTS**

From time to time, new accounting pronouncements are issued by the FASB that are adopted by the company as of the specified effective date. Unless otherwise discussed, management believes that the impact of recently issued standards, which are not yet effective, will not have a material impact on the company's consolidated financial statements upon adoption.

In January 2010, the Financial Accounting Standards Board (FASB) issued ASU No. 2010-06, which amends ASC Topic 820, *Fair Value Measurements and Disclosures*, to add new disclosure requirements about recurring and nonrecurring fair value measurements including significant transfers into and out of Level 1 and Level 2 fair value measurements and information on purchases, sales, issuances, and settlements on a gross basis in the reconciliation of Level 3 fair value measurements. It also clarifies existing fair value disclosures about the level of disaggregation and about inputs and valuation techniques used to measure fair value. This guidance was effective for reporting periods beginning after December 15, 2009, except for the Level 3 reconciliation disclosures which were effective for reporting periods beginning after December 15, 2010. The guidance became effective for us on April 1, 2011. The adoption of this guidance did not have a material impact on our consolidated financial position, results of operations, or cash flows.

In December 2010, the FASB issued an update to ASC 805, *Business Combinations*, which requires a public entity to disclose pro forma information for business combinations that occurred in the current reporting period. The disclosures include pro forma revenue and earnings of the combined entity for the current reporting period as though the acquisition date for all business combinations that occurred during the year had been as of the beginning of the annual reporting period. If comparative financial statements are presented, the pro forma revenue and earnings of the combined entity for the comparable prior reporting period should be reported as though the acquisition date for all business combinations that occurred during the current year had been as of the beginning of the comparable prior annual reporting period. The guidance is effective for annual reporting periods beginning on or after December 15, 2010. The guidance became effective for us on April 1, 2011. The adoption of this guidance did not have a material impact on our consolidated financial position, results of operations, or cash flows.

**(10) SEGMENT AND GEOGRAPHIC DISTRIBUTION OF OPERATIONS**

The company follows the disclosure requirements of ASC 280, *Segment Reporting*. Operating business segments are defined as a component of an enterprise for which separate financial information is available and is evaluated by the chief operating decision maker in deciding how to allocate resources and in assessing performance.

During the quarter ended September 30, 2011, our International and United States segments were reorganized to form four new operating segments. We now manage and measure our business performance in four distinct operating segments: Americas, Asia/Pacific, Middle

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East/North Africa, and Sub-Saharan Africa/Europe. The new segments are reflective of how the company's Chief Operating Decision Maker (CODM) reviews operating results for the purposes of allocating resources and assessing performance. The company's CODM is its Chief Executive Officer. Moreover, management decided to reorganize its reporting segments because the company's Sub-Saharan Africa/Europe and Latin American business regions gained greater significance as a percentage of consolidated revenues and operating profit, while our former United



## TIDEWATER INC.

## NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

States segment decreased in its significance to consolidated revenues and operating profit. Prior period disclosures have been adjusted to reflect the change in reportable segments.

The following table provides a comparison of revenues, vessel operating profit, depreciation and amortization, and additions to properties and equipment for the quarters and the six-month periods ended September 30, 2011 and 2010. Vessel revenues and operating costs relate to vessels owned and operated by the company while other operating revenues relate to the activities of the company's shipyards, brokered vessels and other miscellaneous marine-related businesses.

| (In thousands)                                     | Quarter Ended<br>September 30, |          | Six Months Ended<br>September 30, |          |
|--|--------------------------------|----------|-----------------------------------|----------|
|  | 2011                           | 2010     | 2011                              | 2010     |
| <b>Revenues:</b>                                   |                                |          |                                   |          |
| <b>Vessel revenues:</b>                            |                                |          |                                   |          |
| Americas   | \$ 81,892                      | 95,033   | 162,569                           | 189,132  |
| Asia/Pacific                                       | 29,127                         | 42,665   | 64,626                            | 85,292   |
| Middle East/N. Africa                              | 24,810                         | 22,943   | 50,867                            | 44,094   |
| Sub-Saharan Africa/Europe                          | 112,583                        | 106,229  | 223,665                           | 210,348  |
|  | 248,412                        | 266,870  | 501,727                           | 528,866  |
| Other operating revenues                           | 2,482                          | 230      | 3,774                             | 759      |
|  | \$ 250,894                     | 267,100  | 505,501                           | 529,625  |
| <b>Vessel operating profit:</b>                    |                                |          |                                   |          |
| Americas   | \$ 9,530                       | 13,050   | 21,384                            | 24,670   |
| Asia/Pacific                                       | (4,776)                        | (627)    | 494                               | 6,854    |
| Middle East/N. Africa                              | (996)                          | 5,257    | (968)                             | 9,806    |
| Sub-Saharan Africa/Europe                          | 21,631                         | 18,596   | 43,855                            | 43,535   |
|  | 25,389                         | 36,276   | 64,765                            | 84,865   |
| Corporate expenses                                 | (9,111)                        | (12,864) | (18,632)                          | (21,627) |
| Goodwill impairment                                | (30,932)                       |          | (30,932)                          |          |
| Gain on asset dispositions, net                    | 9,208                          | 3,638    | 10,925                            | 9,196    |
| Other operating expense                            | (35)                           | (158)    | (146)                             | (275)    |
| Operating income (loss)                            | \$ (5,481)                     | 26,892   | 25,980                            | 72,159   |
| Foreign exchange gain (loss)                       | 1,659                          | (436)    | 2,473                             | 1,174    |
| Equity in net earnings of unconsolidated companies | 3,456                          | 2,785    | 5,945                             | 5,475    |
| Interest income and other, net                     | 766                            | 2,029    | 1,956                             | 2,407    |
| Interest and other debt costs                      | (4,766)                        | (1,686)  | (8,827)                           | (2,759)  |
| Earnings (loss) before income taxes                | \$ (4,366)                     | 29,584   | 27,527                            | 78,456   |
| <b>Depreciation and amortization:</b>              |                                |          |                                   |          |
| Americas   | \$ 9,800                       | 11,783   | 19,294                            | 24,033   |
| Asia/Pacific                                       | 5,039                          | 6,832    | 10,153                            | 12,960   |
| Middle East/N. Africa                              | 4,138                          | 3,316    | 8,740                             | 6,682    |
| Sub-Saharan Africa/Europe                          | 13,849                         | 13,246   | 27,595                            | 25,907   |
| Corporate  | 981                            | 655      | 1,774                             | 1,213    |

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\$ 33,807 35,832 67,556 70,795

| Additions to properties and equipment: |           |         |         |         |
|--|-----------|---------|---------|---------|
| Americas                               | \$ 2,072  | 2,793   | 4,318   | 6,815   |
| Asia/Pacific                           | 277       | 1,305   | 857     | 1,831   |
| Middle East/N. Africa                  | 705       | 219     | 1,153   | 280     |
| Sub-Saharan Africa/Europe              | 2,540     | 328     | 6,822   | 1,932   |
| Corporate (A)                          | 91,645    | 234,696 | 153,741 | 380,605 |
|  | \$ 97,239 | 239,341 | 166,891 | 391,463 |

Note A: Included in Corporate are additions to properties and equipment relating to vessels currently under construction which have not yet been assigned to a non-corporate reporting segment as of the dates presented.

## TIDEWATER INC.

## NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

The following table provides a comparison of total assets at September 30, 2011 and March 31, 2011:

| (In thousands)  | September 30,<br>2011 | March 31,<br>2011 |
|---|-----------------------|-------------------|
| <b>Total assets:</b>  |                       |                   |
| Americas  | \$ 1,033,968          | 975,269           |
| Asia/Pacific  | 589,092               | 583,569           |
| Middle East/N. Africa   | 388,826               | 369,122           |
| Sub-Saharan Africa/Europe   | 1,334,111             | 1,286,554         |
|   | 3,345,997             | 3,214,514         |
| Investments in, at equity, and advances to unconsolidated companies | 38,415                | 39,044            |
|   | 3,384,412             | 3,253,558         |
| Corporate (A)   | 511,795               | 494,558           |
|   | \$ 3,896,207          | 3,748,116         |

Note A: Included in Corporate are vessels currently under construction which have not yet been assigned to a non-corporate reporting segment. The vessel construction costs will be reported in Corporate until the earlier of the vessels being assigned to a non-corporate reporting segment or the vessels' delivery. At September 30, 2011 and March 31, 2011, \$324.4 million and \$355.3 million, respectively, of vessel construction costs are included in Corporate.

The following table discloses the amount of revenue by segment, and in total for the worldwide fleet, along with the respective percentage of total vessel revenue for the quarters and the six-month periods ended September 30, 2011 and 2010:

| Revenue by vessel class<br>(In thousands) | Quarter Ended |     |               |     | Six Months Ended |     |               |     |
|---|---------------|-----|---------------|-----|------------------|-----|---------------|-----|
|   | September 30, |     | September 30, |     | September 30,    |     | September 30, |     |
|   | 2011          | %   | 2010          | %   | 2011             | %   | 2010          | %   |
| <b>Americas fleet:</b>                    |               |     |               |     |                  |     |               |     |
| Deepwater vessels                         | \$ 36,639     | 15% | 49,635        | 19% | 73,044           | 15% | 100,937       | 19% |
| Towing-supply/supply                      | 36,648        | 15% | 37,631        | 14% | 72,334           | 14% | 72,689        | 14% |
| Crew/utility                              | 8,044         | 3%  | 7,166         | 3%  | 16,054           | 3%  | 14,322        | 3%  |
| Offshore tugs                             | 561           | <1% | 601           | <1% | 1,137            | <1% | 1,184         | <1% |
| Total                                     | \$ 81,892     | 33% | 95,033        | 36% | 162,569          | 32% | 189,132       | 36% |
| <b>Asia/Pacific fleet:</b>                |               |     |               |     |                  |     |               |     |
| Deepwater vessels                         | \$ 12,264     | 5%  | 17,957        | 7%  | 28,193           | 6%  | 37,073        | 7%  |
| Towing-supply/supply                      | 15,870        | 6%  | 23,595        | 9%  | 34,314           | 7%  | 46,005        | 9%  |
| Crew/utility                              | 144           | <1% | 246           | <1% | 387              | <1% | 489           | <1% |
| Offshore tugs                             | 850           | <1% | 867           | <1% | 1,733            | <1% | 1,725         | <1% |
| Total                                     | \$ 29,127     | 12% | 42,665        | 16% | 64,626           | 13% | 85,292        | 16% |
| <b>Middle East/N. Africa fleet:</b>       |               |     |               |     |                  |     |               |     |
| Deepwater vessels                         | \$ 11,782     | 5%  | 6,035         | 2%  | 22,533           | 4%  | 13,589        | 3%  |
| Towing-supply/supply                      | 11,616        | 5%  | 15,165        | 6%  | 25,090           | 5%  | 27,068        | 5%  |
| Offshore tugs                             | 1,411         | 1%  | 1,743         | 1%  | 3,243            | 1%  | 3,437         | 1%  |
| Total                                     | \$ 24,810     | 10% | 22,943        | 9%  | 50,867           | 10% | 44,094        | 8%  |

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| <u>Sub-Saharan Africa/Europe fleet:</u> |    |         |      |         |      |         |      |         |      |
|---|----|---------|------|---------|------|---------|------|---------|------|
| Deepwater vessels                       | \$ | 45,605  | 18%  | 31,238  | 12%  | 84,111  | 17%  | 59,909  | 11%  |
| Towing-supply/supply                    |    | 49,338  | 20%  | 56,596  | 21%  | 102,641 | 20%  | 113,693 | 21%  |
| Crew/utility                            |    | 12,734  | 5%   | 12,829  | 5%   | 26,747  | 5%   | 24,972  | 5%   |
| Offshore tugs                           |    | 4,906   | 2%   | 5,566   | 2%   | 10,166  | 2%   | 11,774  | 2%   |
| Total                                   | \$ | 112,583 | 45%  | 106,229 | 40%  | 223,665 | 45%  | 210,348 | 40%  |
| <u>Worldwide fleet:</u>                 |    |         |      |         |      |         |      |         |      |
| Deepwater vessels                       | \$ | 106,290 | 43%  | 104,865 | 39%  | 207,881 | 41%  | 211,508 | 40%  |
| Towing-supply/supply                    |    | 113,472 | 46%  | 132,987 | 50%  | 234,379 | 47%  | 259,455 | 49%  |
| Crew/utility                            |    | 20,922  | 8%   | 20,241  | 8%   | 43,188  | 9%   | 39,783  | 8%   |
| Offshore tugs                           |    | 7,728   | 3%   | 8,777   | 3%   | 16,279  | 3%   | 18,120  | 3%   |
| Total                                   | \$ | 248,412 | 100% | 266,870 | 100% | 501,727 | 100% | 528,866 | 100% |

## TIDEWATER INC.

## NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

**(11) GOODWILL**

The company tests goodwill for impairment annually at the reporting unit level using carrying amounts as of December 31 or more frequently if events and circumstances indicate that goodwill might be impaired. The company uses the two-step method for evaluating goodwill for impairment as prescribed in ASC 350, *Intangibles-Goodwill and Other* (ASC 350). Step one involves comparing the fair value of the reporting unit to its carrying amount. If the fair value of the reporting unit is greater than its carrying amount, there is no impairment. If the reporting unit's carrying amount is greater than the fair value, the second step must be completed to measure the amount of impairment, if any. Step two involves calculating the implied fair value of goodwill by deducting the fair value of all tangible and intangible assets, excluding goodwill, of the reporting unit from the fair value of the reporting unit as determined in step one. The implied fair value of goodwill determined in this step is compared to the carrying value of goodwill. If the implied fair value of goodwill is less than the carrying value of goodwill, an impairment loss is recognized equal to the difference. The company performed its annual impairment test as of December 31, 2010 on its then existing International and United States reporting units, and the test determined there was no goodwill impairment.

As discussed in Note (10), the company changed its reportable segments during the quarter ended September 30, 2011 from International and United States to Americas, Asia/Pacific, Middle East/North Africa, and Sub-Saharan Africa/Europe. The company performed an interim goodwill impairment assessment prior to changing its reportable segments and determined there was no goodwill impairment.

Goodwill of approximately \$49.4 million historically assigned to the United States segment has been assigned to the Americas segment. Goodwill of approximately \$279.4 million historically assigned to the International segment has been allocated among the new reportable segments based on their relative fair values.

The company also performed an interim goodwill impairment assessment on the new reporting units using September 30, 2011 carrying values and determined on the basis of the step one impairment test that the carrying value of its Middle East/North Africa unit exceeded its fair value thus triggering the second step of the analysis as prescribed by ASC 350. Although the company has not completed step two of the impairment assessment, an estimated goodwill impairment of \$30.9 million was recorded during the quarter ended September 30, 2011. Step two of the assessment will be completed in the quarter ending December 31, 2011 and goodwill will be adjusted if necessary.

Following the impairment discussed above, goodwill at September 30, 2011 consists of the following:

|                           | September 30, |
|---------------------------|---------------|
| (In thousands)            | 2011          |
| Americas                  | \$ 114,237    |
| Asia/Pacific              | 56,283        |
| Middle East/N. Africa     |               |
| Sub-Saharan Africa/Europe | 127,302       |
|                           | \$ 297,822    |

**(12) SUBSEQUENT EVENTS**

During October 2011, the company took delivery of two anchor handling towing supply vessels and acquired two anchor handling towing supply vessels. Please refer to Note (6) Commitment and Contingencies for a more complete discussion on the company's vessel commitment program.

During October 2011, the company entered into an agreement to purchase two and construct one deepwater, platform supply vessels for an aggregate cost of approximately \$84.0 million. One of the platform supply vessels will be constructed by the company's wholly-owned shipyard Quality Shipyards, L.L.C. The vessels are expected to be delivered during the quarters ended March and June of 2012 and August of 2013.



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**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

To the Board of Directors and Stockholders of Tidewater Inc.

New Orleans, Louisiana

We have reviewed the accompanying condensed consolidated balance sheet of Tidewater Inc. and subsidiaries (the Company) as of September 30, 2011, and the related condensed consolidated statements of earnings for the three-month and six-month periods ended September 30, 2011 and 2010, and of cash flows for the six-month periods ended September 30, 2011 and 2010. These interim financial statements are the responsibility of the Company's management.

We conducted our reviews in accordance with the standards of the Public Company Accounting Oversight Board (United States). A review of interim financial information consists principally of applying analytical procedures and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with the standards of the Public Company Accounting Oversight Board (United States), the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our reviews, we are not aware of any material modifications that should be made to such condensed consolidated interim financial statements for them to be in conformity with accounting principles generally accepted in the United States of America.

We have previously audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheet of Tidewater Inc. and subsidiaries as of March 31, 2011, and the related consolidated statements of earnings, stockholders' equity and other comprehensive income, and cash flows for the year then ended (not presented herein); and in our report dated May 19, 2011, we expressed an unqualified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying condensed consolidated balance sheet as of March 31, 2011 is fairly stated, in all material respects, in relation to the consolidated balance sheet from which it has been derived.

/s/ DELOITTE & TOUCHE LLP

New Orleans, Louisiana

November 4, 2011

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**ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS**

**FORWARD-LOOKING STATEMENT**

In accordance with the safe harbor provisions of the Private Securities Litigation Reform Act of 1995, the company notes that this Quarterly Report on Form 10-Q 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 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, forecast, believe, think, could, continue, intend, seek, plan, and similar expressions contained in this report, are predictions and not guarantees of performance or events. Any forward-looking statements are based on 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 Items 1, 1A, 2 and 7 included in the company's Annual Report on Form 10-K for the year ended March 31, 2011, filed with the Securities and Exchange Commission (SEC) on May 19, 2011, and elsewhere in the Form 10-Q. 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.

The following information contained in this Form 10-Q should be read in conjunction with the unaudited condensed consolidated financial statements and notes thereto included in Item 1 of this Quarterly Report and related disclosures and the company's Annual Report on Form 10-K for the year ended March 31, 2011, filed with the SEC on May 19, 2011.

**Our Business**

The company 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. Tidewater manages and measures its business performance in four distinct operating segments: Americas, Asia/Pacific, Middle East/North Africa, and Sub-Saharan Africa/Europe, and has one of the broadest global operating footprints in the offshore energy industry. Operations are conducted in most of the world's significant offshore 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 having operated in many countries throughout the world



over the last six decades. At September 30, 2011, the company had 350 vessels (including joint-venture vessels and vessels withdrawn from service) servicing the global energy industry. The size and composition of the 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 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.

### **Principal Factors That Drive Our Revenues**

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. In addition, since the Deepwater Horizon incident in April 2010, the level of drilling activity off the continental shelf of the United States (U.S.) Gulf Of Mexico (GOM) diminished while the U.S. 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. Because a sizeable portion of the company's operating costs and its depreciation does not change proportionally with changes in revenue, the company's operating profit is largely dependent on revenue levels.

During the quarter ended September 30, 2011, our International and United States segments were reorganized to form four new operating segments. We now manage and measure our business performance in four distinct operating segments: Americas, Asia/Pacific, Middle East/North Africa, and Sub-Saharan Africa/Europe. The company's revenues in all its segments are driven primarily by the company's fleet size, vessel utilization and day rates.

### **Principal Factors That Drive Our Operating Costs**

Operating costs consist primarily of crew costs, repair and maintenance, insurance and loss reserves, fuel, lube oil and supplies and vessel operating lease expense.

Fleet size, fleet composition, geographic areas of operation, supply and demand for marine personnel, and local labor requirements are the major factors which affect overall crew costs in all segments. In addition, the company's newer, more technologically sophisticated anchor handling towing supply vessels and platform supply vessels generally require a greater number of specially trained fleet personnel than the company's older, smaller and less sophisticated vessels. The company believes that competition for skilled crew personnel may again intensify, particularly in non-United States markets, as new-build support vessels currently under construction increase the number of offshore vessels operating worldwide. If competition for personnel intensifies, the company's crew costs will likely increase.

The timing and amount of repair and maintenance costs are influenced by customer demand, vessel age and drydockings mandated by regulatory agencies. A certain number of periodic drydockings are required to meet regulatory requirements. Drydocking costs are incurred only if the company believes a drydocking can be justified economically, taking into consideration the vessel's age, physical condition, contractual obligations, current customer requirements and future marketability. When the company elects to forego a required drydocking, the vessel is stacked and occasionally sold, because the vessel is not permitted to work without valid regulatory certifications. When the company drydocks a productive vessel, the company not only foregoes vessel revenues and incurs drydocking costs, but also continues to incur vessel operating and depreciation costs. In any given period, downtime associated with drydockings and major repairs and maintenance can have a significant effect on the company's revenues and operating costs.

At times, vessel drydockings take on an increased significance to the company and its financial performance. Older vessels typically require more frequent and more expensive repairs and drydockings. Newer vessels (generally those built after 2000), which now account for a majority of the company's revenues and vessel margin (vessel revenues less vessel operating costs), can also require expensive drydockings, even in the

early years of a vessel's useful life, due to the larger relative size and greater relative complexity of these vessels. Conversely, when the company stacks vessels, the number of drydockings in any period could decline. The combination of these factors can affect drydock costs, which are primarily included in repair and maintenance expense, and incrementally increase the volatility of the company's revenues and operating income, thus making period-to-period comparisons more difficult.

Although the company attempts to efficiently manage its fleet drydocking schedule, changes in the demand for (and supply of) shipyard services can result in heavy workloads at shipyards and inflationary pressure on shipyard pricing. In recent years, increases in drydocking costs and days off hire (due to vessels being drydocked) have contributed to volatility in repair and maintenance costs and revenue. In addition, some of the more recently constructed vessels are now experiencing their first or second required regulatory drydockings.

Insurance and loss reserves costs are dependent on a variety of factors, including the company's safety record and pricing in the insurance markets, and can fluctuate from time to time. The company's vessels are generally insured for up to their estimated fair market value in order to cover damage or loss resulting from marine casualties, adverse weather conditions, mechanical failure, collisions, and property losses to the vessel. The company also purchases coverage for potential liabilities stemming from third-party losses with limits that it believes are reasonable for its operations. Insurance limits are reviewed annually and third-party coverage is purchased based on the expected scope of on-going operations and the cost of third-party coverage.

Fuel and lube costs can also fluctuate in any given period depending on the number and distance of vessel mobilizations, the number of active vessels off charter, drydockings, and changes in fuel prices.

The company also incurs vessel operating costs that are aggregated as other vessel operating costs. These costs consist of brokers' commissions, training costs and other miscellaneous costs. Brokers' commissions are incurred primarily in the company's non-United States operations where brokers sometimes assist in obtaining work for the company's vessels. Brokers generally are paid a percentage of day rates and, accordingly, commissions paid to brokers generally fluctuate in accordance with vessel revenue. Other costs include, but are not limited to, satellite communication fees, agent fees, port fees, canal transit fees, vessel certification fees, temporary vessel importation fees and any fines or penalties.

#### **Challenges We Confront as a Global 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 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, 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 dispersal 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.

#### ***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, since that date, agreed several times to extend out the expiration date of the joint venture agreement. The joint venture has never had an interruption in its operations or service. The most recent extension extends the expiration date to December 31, 2011. Tidewater views its continuing ability to obtain contract extensions, the most recent of which is for five months, as a promising indicator that the parties are making progress in the negotiation of a 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.

As was the case in prior contract extensions, Sonangol and Tidewater have agreed to continue the Sonatide joint venture past its extended expiration date, on a charter by charter basis, to the extent required to fulfill several new or renewed charterparty agreements with customers in Angola that extend well beyond December 31, 2011. These charterparty agreements cover a substantial portion of our vessels 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 16 countries, namely, Antigua and Barbuda, the Bahamas, Benin, Bosnia and Herzegovina, Bulgaria, Canada, Croatia, Liberia, Luxembourg, Marshall Islands, Norway, Panama, St. Vincent and the Grenadines, Singapore, Spain and Switzerland. Instruments of ratification and registrations are pending for three additional countries: Denmark, Gabon and Latvia. The foregoing 19 countries represent more than 50% of the world's vessel tonnage. If 30 Member States ratify the Convention, then, within 12 months thereof, the Convention will become law. 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.

#### **Macroeconomic Environment and Outlook**

The primary driver of our business, and therefore revenues, is the level of our customers' capital and operating expenditures for oil and natural gas exploration, field development and production. These expenditures, in turn, generally reflect our customers' expectations for future oil and natural gas prices, economic growth, hydrocarbon demand and estimates of current and future oil and natural gas production. The prices of crude oil and natural gas are critical factors in exploration and production (E&P) companies' decisions to contract drilling rigs and offshore service vessels in the various international markets or the U.S. GOM, with the various international markets being largely driven by supply and demand for crude oil, and the U.S. GOM being influenced both by the supply and demand for natural gas (primarily in regards to shallow water activity) and the supply and demand for crude oil (primarily in regards to deepwater activity).

During the quarter ended September 30, 2011, crude oil prices continued to be volatile because of concerns that the demand for crude oil will likely decrease if the global economic recovery continues to lose momentum due to a prolonged level of high unemployment and lackluster consumer spending in the U.S., and fiscal and financial uncertainty in the U.S. and certain European countries. In addition, the perception that crude oil demand will ease in the near-term comes at a time when additional crude oil will be supplied to the global market as Libya revives crude oil production that was significantly curtailed due to political tensions and civil war. Analysts anticipate that the Organization of Petroleum Exporting Companies (OPEC) ministers will likely

decide at their next meeting, which is scheduled in December 2011, to reduce current production targets, in order to support strong crude oil prices. The company anticipates that its longer-term utilization and day rate trends for its vessels will be correlated with the price of crude oil, which in mid-October 2011, was trading around \$87 per barrel for West Texas Intermediate crude and around \$111 per barrel for Intercontinental Exchange (ICE) Brent crude. High crude oil prices generally bode well for increases in drilling and exploration activity, which would support increases in demand for the company's vessels, both in the various global markets and the deepwater sectors of the U.S. GOM (assuming the pace of permits increases).

Prices for natural gas continue to be weak due to the rise in production of unconventional gas resources in North America (in part due to increases in onshore shale production resulting from technological advancements in horizontal drilling and hydraulic fracturing) and the commissioning of a number of new, large Liquefied Natural Gas (LNG) exporting facilities around the world, which have contributed to an over-supplied natural gas market. While production of natural gas from unconventional sources is still a relatively small portion of the worldwide natural gas production, it is increasing because improved drilling efficiencies are lowering the costs of extraction. The price of natural gas trended lower during the quarter ended September 30, 2011 and as of mid-October 2011, natural gas was trading in the \$3.40 to \$3.55 per Mcf range down from the \$4.20 to \$4.33 range at the start of the quarter. The price for natural gas trended lower as inventories for the resource trended higher. Natural gas inventories in the U.S. continue to be well over-supplied. This dynamic exerts downward pricing pressures on natural gas prices. Prolonged increases in the supply of natural gas, whether the supply comes from conventional or unconventional production, will likely restrain prices for natural gas. Increases in onshore gas production along with a very slow offshore drilling and exploration permitting process in the U.S. GOM and prolonged downturn in natural gas prices can negatively impact the offshore exploration and development plans of E&P companies, which in turn, would result in a decrease in demand for offshore support vessel services, primarily in the Americas segment (specifically our U.S. operations), where natural gas is a more predominant exploitable hydrocarbon resource.

Deepwater activity has been a growing part of the global offshore crude oil and natural gas markets, and it is also a source of growth for the company. Deepwater activity in non-U.S. markets did not experience significant negative effects from the 2008-2009 global economic recession, largely because deepwater oil and gas development typically involves significant capital investment and multi-year development plans. Such projects are generally underwritten by the participating exploration, field development and production companies using relatively conservative assumptions relating to crude oil and natural gas prices. These projects are therefore considered less susceptible to short-term fluctuations in the price of crude oil and natural gas. During the past few years, worldwide rig construction increased as rig owners capitalized on the high worldwide demand for drilling and low shipyard and financing costs. Reports published during the most recently completed quarter suggest that over the next five and a half years, the worldwide movable drilling rig count (currently estimated at approximately 847 movable offshore rigs worldwide, approximately 40% of which are designed to operate in deeper waters) will increase as approximately 153 new-build offshore rigs that are currently on order and under construction are delivered. Of the estimated 847 movable offshore rigs worldwide, approximately 596 are currently working. It is further estimated that approximately 50% of the new build rigs are being built to operate in deeper waters, suggesting that the number of rigs designed to operate in deeper waters could grow in the coming years by approximately one-third. Investment is also being made in the floating production market, with approximately 62 new floating production units currently under construction and are expected to be delivered over the next six and a half years to supplement the current approximately 428 floating production units worldwide. To the extent the rigs are built and delivered, it is believed that the new build rigs will largely target international regions rather than the U.S. GOM due to longer contract durations, generally lower operating costs (including insurance costs) and higher drilling day rates available in the international markets. Additional and future regulatory oversight and control with respect to offshore drilling in the U.S. GOM following the explosion of the Deepwater Horizon may also increase the relative appeal of international markets.

According to ODS-Petrodata, the global offshore supply vessel market at September 30, 2011 has approximately 455 new-build offshore support vessels (platform supply vessels and anchor handlers only), under construction that are expected to be delivered to the worldwide offshore vessel market primarily over the next five and a half years. The current worldwide fleet of these classes of vessels is estimated at approximately 2,670 vessels, of which we estimate 10% or more of these vessels 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 725 vessels, or approximately 27% of the worldwide offshore fleet, that are at least 25 years old and 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 determined with absolute certainty, 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.

### **Fiscal 2012 Business Highlights**

At September 30, 2011, the company had 338 owned or chartered vessels (excluding joint-venture vessels and vessels withdrawn from service) in its fleet with an average age of 14.7 years. The average age of 201 newer vessels that have been acquired or constructed since calendar year 2000 as part of the company's new build and acquisition program is 5.2 years. The remaining 137 vessels have an average age of 28.7 years. During the first half of fiscal 2012 and 2011, the company's newer vessels generated \$422.1 million and \$414.3 million, respectively, of revenue and accounted for 91%, or \$171.5 million, and 87%, or \$181.1 million, respectively, of total vessel margin (vessel revenues less vessel operating costs). Vessel operating costs exclude depreciation on the company's new vessels of \$53.0 million and \$47.0 million, respectively, during the same comparative periods.

During the first half of fiscal 2012, the company continued its focus on maintaining its competitive advantages and its market share in international markets where it operates, and continued to modernize its vessel fleet to increase future earnings capacity while removing from active service certain older, more traditional vessels that currently have fewer market opportunities. Key elements of the company's strategy continue to be the preservation of its strong financial position and the maintenance of adequate liquidity to fund the expansion of its fleet of newer vessels. Operating management focused on safe operations, minimizing unscheduled downtime, and maintaining disciplined cost control.

The company's consolidated net earnings for the first half of fiscal 2012 decreased 67%, or \$39.6 million, as compared to the same period in fiscal 2011, due to an approximate 5% decrease in total revenues and because a \$30.9 million non-cash goodwill impairment (\$22.1 million after-tax, or \$0.43 per share) was recorded during the quarter ended September 30, 2011 on the company's Middle East/North Africa segment as disclosed in Note (11) of Notes to Unaudited Condensed Consolidated Financial Statements included in Part I, Item 1 of this report. The company recorded \$505.5 million in revenues during the first half of fiscal 2012, which is a decrease of approximately \$24.1 million over the revenue earned during the same period of fiscal 2011. The company's consolidated revenues during the first half of fiscal 2012 include day rate increases with an effective date of January 1, 2011 on certain vessel charter agreements. As the negotiations related to such rate increases were completed in the quarter ended June 30, 2011, approximately \$2.0 million of vessel revenue recognized in the first half of fiscal 2012 relate to services provided in the quarter ended March 31, 2011. Partially offsetting revenue declines and goodwill impairment was an approximate 3%, or \$10.9 million reduction in consolidated vessel operating costs.

Vessel revenues generated by the company's Americas segment decreased approximately 14%, or \$26.6 million, during the first half of fiscal 2012 as compared to the revenues earned during the first half of fiscal 2011, primarily due to an eight percentage point decrease in utilization rates and an approximate 8% decrease in average day rates on the deepwater vessels operating in this segment. Vessel operating costs for the Americas segment decreased approximately 17%, or \$19.9 million, during the same comparative periods.

Vessel revenues generated by the company's Asia/Pacific segment decreased approximately 24%, or \$20.7 million, during the first half of fiscal 2012 as compared to the revenues earned during the first half of fiscal 2011, primarily due to a nine percentage point decrease in utilization rates and an approximate 2% and 11% decrease in average day rates on the towing supply/supply and deepwater class of vessels operating in this segment, respectively. Vessel operating costs for the Asia/Pacific segment decreased approximately 22%, or \$13.0 million, during the first half of fiscal 2012 as compared to the same period in fiscal 2011.

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Vessel revenues generated by the company's Middle East/North Africa segment increased approximately 15%, or \$6.8 million, during the first half of fiscal 2012 as compared to the revenues earned during the first half of fiscal 2011, primarily due to an approximate 7% increase in average day rates on the deepwater vessels operating in this segment. Vessel operating costs for the Middle East/North Africa segment increased approximately 59%, or \$14.1 million, during the first half of fiscal 2012 as compared to the same period in fiscal 2011.

Vessel revenues generated by the company's Sub-Saharan Africa/Europe segment increased approximately 6%, or \$13.3 million, during the first half of fiscal 2012 as compared to the revenues earned during the first half of fiscal 2011, primarily due to an increase in the number of deepwater vessels operating in the segment resulting from new vessel additions, vessels mobilizing to this segment, and because of an approximate 6% increase in average day rates on the deepwater vessels. Vessel operating costs for the Sub-Saharan Africa/Europe segment increased approximately 7%, or \$7.9 million, during the same comparative periods.

Other operating revenues increased approximately \$3.0 million, during the same comparative periods, while costs of other operating revenues increased approximately \$2.6 million during the same comparative periods.

A more complete discussion of each of the above segment highlights is included in the Results Of Operations section below.

### Results of Operations

During the quarter ended September 30, 2011, our International and United States segments were reorganized to form four new operating segments. We now manage and measure our business performance in four distinct operating segments: Americas, Asia/Pacific, Middle East/North Africa, and Sub-Saharan Africa/Europe. The following table compares revenues and operating costs (excluding general and administrative expense, depreciation expense, and gain on asset dispositions, net) for the company's vessel fleet and the related percentage of total revenue for the quarters and the six-month periods ended September 30, 2011 and 2010 and for the quarter ended June 30, 2011. Vessel revenues and operating costs relate to vessels owned and operated by the company, while other operating revenues relate to third-party activities of the company's shipyards, brokered vessels and other miscellaneous marine-related activities.

| (In thousands)                 | Quarter Ended<br>September 30, |      |         |      | Six Months Ended<br>September 30, |      |         |      | Quarter<br>Ended<br>June 30, |      |
|--------------------------------|--------------------------------|------|---------|------|-----------------------------------|------|---------|------|------------------------------|------|
|                                | 2011                           | %    | 2010    | %    | 2011                              | %    | 2010    | %    | 2011                         | %    |
| <b>Revenues:</b>               |                                |      |         |      |                                   |      |         |      |                              |      |
| <b>Vessel revenues:</b>        |                                |      |         |      |                                   |      |         |      |                              |      |
| Americas                       | \$ 81,892                      | 33%  | 95,033  | 36%  | 162,569                           | 32%  | 189,132 | 36%  | 80,677                       | 32%  |
| Asia/Pacific                   | 29,127                         | 12%  | 42,665  | 16%  | 64,626                            | 13%  | 85,292  | 16%  | 35,499                       | 14%  |
| Middle East/N. Africa          | 24,810                         | 10%  | 22,943  | 9%   | 50,867                            | 10%  | 44,094  | 8%   | 26,057                       | 10%  |
| Sub-Saharan Africa/Europe      | 112,583                        | 45%  | 106,229 | 40%  | 223,665                           | 44%  | 210,348 | 40%  | 111,082                      | 44%  |
|                                | 248,412                        | 99%  | 266,870 | 100% | 501,727                           | 99%  | 528,866 | 100% | 253,315                      | 99%  |
| Other operating revenues       | 2,482                          | 1%   | 230     | <1%  | 3,774                             | <1%  | 759     | <1%  | 1,292                        | 1%   |
|                                | \$ 250,894                     | 100% | 267,100 | 100% | 505,501                           | 100% | 529,625 | 100% | 254,607                      | 100% |
| <b>Operating costs:</b>        |                                |      |         |      |                                   |      |         |      |                              |      |
| <b>Vessel operating costs:</b> |                                |      |         |      |                                   |      |         |      |                              |      |
| Crew costs                     | \$ 78,364                      | 31%  | 89,941  | 34%  | 159,488                           | 32%  | 170,633 | 32%  | 81,124                       | 32%  |
| Repair and maintenance         | 27,149                         | 11%  | 31,791  | 12%  | 49,209                            | 10%  | 58,884  | 11%  | 22,060                       | 9%   |
| Insurance and loss reserves    | 5,374                          | 2%   | 4,513   | 2%   | 10,671                            | 2%   | 8,923   | 2%   | 5,297                        | 2%   |
| Fuel, lube and supplies        | 21,394                         | 9%   | 16,437  | 6%   | 37,761                            | 7%   | 31,358  | 6%   | 16,367                       | 6%   |
| Vessel operating leases        | 4,491                          | 2%   | 4,490   | 2%   | 8,983                             | 2%   | 8,980   | 2%   | 4,492                        | 2%   |
| Other                          | 24,518                         | 10%  | 22,720  | 9%   | 47,480                            | 9%   | 45,697  | 9%   | 22,962                       | 9%   |
|                                | 161,290                        | 64%  | 169,892 | 64%  | 313,592                           | 62%  | 324,475 | 61%  | 152,302                      | 60%  |
| Costs of other marine revenues | 2,031                          | 1%   | 203     | <1%  | 3,262                             | 1%   | 698     | <1%  | 1,231                        | <1%  |
|                                | \$ 163,321                     | 65%  | 170,095 | 64%  | 316,854                           | 63%  | 325,173 | 61%  | 153,533                      | 60%  |



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The following table subdivides vessel operating costs presented above by the company's segments and its related percentage of total revenue for the quarters and the six-month periods ended September 30, 2011 and 2010 and for the quarter ended June 30, 2011.

| (In thousands)                    | Quarter Ended<br>September 30, |            |                |            | Six Months Ended<br>September 30, |            |                |            | Quarter<br>Ended<br>June 30, |            |
|-----------------------------------|--------------------------------|------------|----------------|------------|-----------------------------------|------------|----------------|------------|------------------------------|------------|
|                                   | 2011                           | %          | 2010           | %          | 2011                              | %          | 2010           | %          | 2011                         | %          |
| <b>Vessel operating costs:</b>    |                                |            |                |            |                                   |            |                |            |                              |            |
| <b>Americas:</b>                  |                                |            |                |            |                                   |            |                |            |                              |            |
| Crew costs                        | \$ 28,766                      | 11%        | 33,774         | 13%        | 58,616                            | 12%        | 66,379         | 13%        | 29,850                       | 12%        |
| Repair and maintenance            | 9,069                          | 4%         | 13,751         | 5%         | 17,337                            | 3%         | 27,389         | 5%         | 8,268                        | 3%         |
| Insurance and loss reserves       | 2,042                          | 1%         | 1,836          | 1%         | 3,320                             | 1%         | 3,575          | 1%         | 1,278                        | 1%         |
| Fuel, lube and supplies           | 5,388                          | 2%         | 4,097          | 2%         | 9,174                             | 2%         | 7,613          | 1%         | 3,786                        | 1%         |
| Vessel operating leases           | 910                            | <1%        | 1,048          | <1%        | 1,821                             | <1%        | 2,096          | <1%        | 911                          | <1%        |
| Other                             | 5,925                          | 2%         | 5,781          | 2%         | 10,574                            | 2%         | 13,706         | 3%         | 4,649                        | 2%         |
|                                   | 52,100                         | 21%        | 60,287         | 23%        | 100,842                           | 20%        | 120,758        | 23%        | 48,742                       | 19%        |
| <b>Asia/Pacific:</b>              |                                |            |                |            |                                   |            |                |            |                              |            |
| Crew costs                        | \$ 12,502                      | 5%         | 18,434         | 7%         | 26,320                            | 5%         | 33,669         | 6%         | 13,818                       | 5%         |
| Repair and maintenance            | 4,150                          | 2%         | 6,664          | 2%         | 6,079                             | 1%         | 11,411         | 2%         | 1,929                        | 1%         |
| Insurance and loss reserves       | 609                            | <1%        | 684            | <1%        | 1,229                             | <1%        | 1,362          | <1%        | 620                          | <1%        |
| Fuel, lube and supplies           | 4,844                          | 2%         | 4,935          | 2%         | 7,588                             | 2%         | 8,366          | 2%         | 2,744                        | 1%         |
| Other                             | 2,432                          | 1%         | 2,170          | 1%         | 4,668                             | 1%         | 4,047          | 1%         | 2,236                        | 1%         |
|                                   | 24,537                         | 10%        | 32,887         | 12%        | 45,884                            | 9%         | 58,855         | 11%        | 21,347                       | 8%         |
| <b>Middle East/N. Africa:</b>     |                                |            |                |            |                                   |            |                |            |                              |            |
| Crew costs                        | \$ 8,024                       | 3%         | 6,963          | 3%         | 16,179                            | 3%         | 12,162         | 2%         | 8,155                        | 3%         |
| Repair and maintenance            | 4,657                          | 2%         | 2,167          | 1%         | 7,196                             | 1%         | 4,049          | 1%         | 2,539                        | 1%         |
| Insurance and loss reserves       | 725                            | <1%        | 342            | <1%        | 2,034                             | <1%        | 661            | <1%        | 1,309                        | 1%         |
| Fuel, lube and supplies           | 2,925                          | 1%         | 1,258          | <1%        | 7,208                             | 1%         | 3,684          | 1%         | 4,283                        | 2%         |
| Vessel operating leases           | 506                            | <1%        |                | <1%        | 872                               | <1%        |                | <1%        | 366                          | <1%        |
| Other                             | 2,182                          | 1%         | 1,768          | 1%         | 4,396                             | 1%         | 3,230          | 1%         | 2,214                        | 1%         |
|                                   | 19,019                         | 8%         | 12,498         | 5%         | 37,885                            | 7%         | 23,786         | 4%         | 18,866                       | 7%         |
| <b>Sub-Saharan Africa/Europe:</b> |                                |            |                |            |                                   |            |                |            |                              |            |
| Crew costs                        | \$ 29,072                      | 12%        | 30,770         | 12%        | 58,373                            | 12%        | 58,423         | 11%        | 29,301                       | 12%        |
| Repair and maintenance            | 9,273                          | 4%         | 9,209          | 3%         | 18,597                            | 4%         | 16,035         | 3%         | 9,324                        | 4%         |
| Insurance and loss reserves       | 1,998                          | 1%         | 1,651          | 1%         | 4,088                             | 1%         | 3,325          | 1%         | 2,090                        | 1%         |
| Fuel, lube and supplies           | 8,237                          | 3%         | 6,147          | 2%         | 13,791                            | 3%         | 11,695         | 2%         | 5,554                        | 2%         |
| Vessel operating leases           | 3,075                          | 1%         | 3,442          | 1%         | 6,290                             | 1%         | 6,884          | 1%         | 3,215                        | 1%         |
| Other                             | 13,979                         | 6%         | 13,001         | 5%         | 27,842                            | 6%         | 24,714         | 5%         | 13,863                       | 5%         |
|                                   | 65,634                         | 26%        | 64,220         | 24%        | 128,981                           | 26%        | 121,076        | 23%        | 63,347                       | 25%        |
| <b>Total operating costs</b>      | <b>\$ 161,290</b>              | <b>64%</b> | <b>169,892</b> | <b>64%</b> | <b>313,592</b>                    | <b>62%</b> | <b>324,475</b> | <b>61%</b> | <b>152,302</b>               | <b>60%</b> |

The following table compares operating income and other components of earnings before income taxes and its related percentage of total revenue for the quarters and the six-month periods ended September 30, 2011 and 2010 and for the quarter ended June 30, 2011.

| (In thousands)                  | Quarter Ended<br>September 30, |    |        |    | Six Months Ended<br>September 30, |    |        |    | Quarter<br>Ended<br>June 30, |    |
|---------------------------------|--------------------------------|----|--------|----|-----------------------------------|----|--------|----|------------------------------|----|
|                                 | 2011                           | %  | 2010   | %  | 2011                              | %  | 2010   | %  | 2011                         | %  |
| <b>Vessel operating profit:</b> |                                |    |        |    |                                   |    |        |    |                              |    |
| Americas                        | \$ 9,530                       | 4% | 13,050 | 5% | 21,384                            | 4% | 24,670 | 5% | 11,854                       | 5% |



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|  |            |       |          |       |          |       |          |       |         |       |
|--|------------|-------|----------|-------|----------|-------|----------|-------|---------|-------|
| Asia/Pacific                                       | (4,776)    | (2%)  | (627)    | (<1%) | 494      | <1%   | 6,854    | 1%    | 5,270   | 2%    |
| Middle East/N. Africa                              | (996)      | (<1%) | 5,257    | 2%    | (968)    | (<1%) | 9,806    | 2%    | 28      | <1%   |
| Sub-Saharan Africa/Europe                          | 21,631     | 9%    | 18,596   | 7%    | 43,855   | 9%    | 43,535   | 8%    | 22,224  | 9%    |
|  | 25,389     | 10%   | 36,276   | 14%   | 64,765   | 13%   | 84,865   | 16%   | 39,376  | 15%   |
| Corporate expenses                                 | (9,111)    | (4%)  | (12,864) | (5%)  | (18,632) | (4%)  | (21,627) | (4%)  | (9,521) | (4%)  |
| Goodwill impairment                                | (30,932)   | (12%) |          |       | (30,932) | (6%)  |          |       |         |       |
| Gain on asset dispositions, net                    | 9,208      | 4%    | 3,638    | 1%    | 10,925   | 2%    | 9,196    | 2%    | 1,717   | 1%    |
| Other operating expenses                           | (35)       | (<1%) | (158)    | (<1%) | (146)    | (<1%) | (275)    | (<1%) | (111)   | (<1%) |
| Operating income (loss)                            | (5,481)    | (2%)  | 26,892   | 10%   | 25,980   | 5%    | 72,159   | 14%   | 31,461  | 12%   |
| Foreign exchange gain (loss)                       | 1,659      | 1%    | (436)    | (<1%) | 2,473    | <1%   | 1,174    | <1%   | 814     | <1%   |
| Equity in net earnings of unconsolidated companies | 3,456      | 1%    | 2,785    | 1%    | 5,945    | 1%    | 5,475    | 1%    | 2,489   | 1%    |
| Interest income and other, net                     | 766        | <1%   | 2,029    | 1%    | 1,956    | <1%   | 2,407    | <1%   | 1,190   | <1%   |
| Interest and other debt costs                      | (4,766)    | (2%)  | (1,686)  | (1%)  | (8,827)  | (2%)  | (2,759)  | (1%)  | (4,061) | (2%)  |
| Earnings (loss) before income taxes                | \$ (4,366) | (2%)  | 29,584   | 11%   | 27,527   | 5%    | 78,456   | 15%   | 31,893  | 13%   |

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*Americas Segment Operations*

Americas-based vessel revenues decreased approximately 14%, or \$13.1 million and \$26.6 million, respectively, during the quarter and the six-month periods ended September 30, 2011, respectively, as compared to the same periods in fiscal 2011, primarily due to a respective six and eight percentage point decrease in utilization rates and an approximate 9% and 8% decrease in average day rates, respectively, on the deepwater vessels operating in the Americas because of fewer vessels operating in the segment resulting from the transfer of deepwater vessels to other segments.

Total utilization rates for the Americas-based vessels increased six percentage points, during the quarter and the six-month periods ended September 30, 2011, respectively, as compared to the same periods in fiscal 2011; however, the increase is primarily a result of the sale of 26 older, stacked vessels from the Americas fleet during the comparative periods. Vessel utilization rates are calculated by dividing the number of days a vessel works by the number of days the vessel is available to work. As such, stacked vessels depressed utilization rates during the comparative periods because stacked vessels are considered available to work, and as such, are included in the calculation of utilization rates. The company continues to stack and remove vessels that could not find attractive charter contracts from its Americas-based active fleet. At the beginning of fiscal 2012, the company had 39 Americas-based stacked vessels. During the first half of fiscal 2012, the company stacked four additional vessels and sold 14 vessels from the previously stacked vessel fleet, resulting in a total of 29 stacked Americas-based vessels as of September 30, 2011.

Vessel operating profit for the Americas-based vessels decreased approximately 27% and 13%, or \$3.5 million and \$3.3 million, respectively, during the quarter and the six-month periods ended September 30, 2011, respectively, as compared to the same periods during fiscal 2011, primarily due to lower revenues and higher general and administrative expenses. Declines in revenues were partially offset by 14% and 17%, or \$8.2 million and \$19.9 million, respectively, decrease in vessel operating costs (primarily crew costs and repair and maintenance costs) and a decrease in depreciation expense during the same comparative periods.

Depreciation expense decreased approximately 17% and 20%, or \$2.0 million and \$4.7 million, respectively, during the quarter and the six-month periods ended September 30, 2011, as compared to the same periods during fiscal 2011, because of the transfer of vessels to other segments and because of vessel sales. Crew costs decreased approximately 15% and 12%, or \$5.0 million and \$7.8 million, respectively, during the comparative periods, due to reductions in crew personnel at our U.S. GOM operations as a result of fewer vessels operating in the U.S. GOM market due to the continued aftereffects of the drilling moratorium and because the prior year included an allocated \$2.1 million charge associated with the company's participation in the Merchant Navy Officers Pension Fund (MNOFF) as disclosed in Note (6) of Notes to Unaudited Condensed Consolidated Financial Statements. Repair and maintenance costs decreased approximately 34% and 37%, or \$4.7 million and \$10.1 million, respectively, during the same comparative periods, due to a fewer number of drydockings being performed during the comparative periods. General and administrative costs increased 6% and 7%, or \$0.5 million and \$1.4 million, respectively, during the same comparative periods, due to pay raises for the administrative personnel, higher professional services costs related to the Brazilian Customs and Brazilian State Tax Assessment claims as disclosed in Note (6) of Notes to Unaudited Condensed Consolidated Financial Statements, and an increase in costs associated with foreign assigned administrative employees (specifically foreign income taxes paid by the company on behalf of expatriate employees).

Americas-based vessel revenues increased approximately 2%, or \$1.2 million, during the quarter ended September 30, 2011 as compared to the quarter ended June 30, 2011, due to the transfer of two deepwater vessels to the segment in mid-June 2011 and to an approximate 5% increase in average day rates on our towing supply/supply class of vessels due to stronger demand for this class of vessels in the Americas segment.

Vessel operating profit for the Americas-based vessels decreased approximately 20%, or \$2.3 million, during the quarter ended September 30, 2011 as compared to the quarter ended June 30, 2011, primarily due to an approximately 7%, or \$3.4 million, increase in vessel operating costs (primarily repair and maintenance costs, insurance and loss reserves, fuel, lube and supplies costs and other vessel costs) and approximately 3%, or \$0.3 million, higher depreciation expense.

Depreciation expense increased due to an increase in the number of vessels operating in the Americas, during the quarter ended September 30, 2011 as compared to the quarter ended June 30, 2011, due to vessel transfers. Repair and maintenance costs increased approximately 10%, or \$0.8 million, during the same comparative periods, due to a greater number of drydockings being performed during the current quarter as compared to the prior quarter. Fuel, lube and supply costs were higher by approximately 42%, or \$1.6 million, during the comparative periods, due to vessels being mobilized to/within the Americas and an increase in the number of vessels operating in the Americas. Other vessel costs increased approximately 27%, or \$1.3 million, during the comparative periods, primarily due to customs and taxation fees for the importation of equipment and penalties associated with the late deliveries of vessels to customers.

#### *Asia/Pacific Segment Operations*

Asia/Pacific-based vessel revenues decreased approximately 32% and 24%, or \$13.5 million and \$20.7 million, respectively, during the quarter and the six-month periods ended September 30, 2011, respectively, as compared to the same periods in fiscal 2011, due to a respective 10 and nine percentage point decrease in utilization rates and an approximate 7% and 2% decrease in average day rates, respectively, on the towing supply/supply class of vessels operating in this segment as a result of weaker demand for this class of vessel in this segment. Revenues also declined during the same comparative periods due to a respective two and nine percentage point decrease in utilization rates and an approximate 17% and 11% decrease in average day rates on the deepwater vessels operating in this segment.

The company also continues to stack and remove vessels that could not find attractive charter contracts from its Asia/Pacific-based active fleet. At the beginning of fiscal 2012, the company had 19 Asia/Pacific-based stacked vessels. During the first half of fiscal 2012, the company stacked two additional vessels and sold two vessels from the previously stacked vessel fleet, resulting in a total of 19 stacked Asia/Pacific-based vessels as of September 30, 2011.

Asia/Pacific-based vessel operating profit decreased approximately \$4.1 million and \$6.4 million, during the quarter and the six-month periods ended September 30, 2011, respectively, as compared to the same periods in fiscal 2011, primarily due to lower revenues and higher G&A costs. Declines in revenues were partially offset by an approximate 25% and 22%, or \$8.4 million and \$13.0 million, respectively, decrease in vessel operating costs (primarily crew costs and repair and maintenance costs) and also to a decrease in depreciation expense during the same comparative periods.

Crew costs decreased approximately 32% and 22%, or \$5.9 million and \$7.3 million, respectively, during the quarter and the six-month periods ended September 30, 2011, as compared to the same periods during fiscal 2011, due to reductions in crew personnel related to the transfer of deepwater vessels to other segments and because the prior year included an allocated \$1.0 million charge associated with the company's participation in the Merchant Navy Officers Pension Fund (MNOFF) as disclosed in Note (6) of Notes to Unaudited Condensed Consolidated Financial Statements. Repair and maintenance costs decreased approximately 38% and 47%, or \$2.5 million and \$5.3 million, respectively, during the same comparative periods, due to a fewer number of drydockings being performed during the comparative periods. Depreciation expense decreased approximately 26% and 22%, or \$1.8 million and \$2.8 million, respectively, during the same comparative periods, primarily because of the transfer of deepwater vessels to other segments and because of vessel sales. General and administrative expenses increased approximately 21% and 22%, or \$0.8 million and \$1.5 million, respectively, due to pay raises for the administrative personnel, an increase in office and property costs, and an increase in costs associated with foreign assigned administrative employees (specifically foreign income taxes paid by the company on behalf of expatriate employees).

Asia/Pacific-based vessel revenues decreased approximately 18%, or \$6.4 million, during the quarter ended September 30, 2011 as compared to the quarter ended June 30, 2011, due to a 12 percentage point decrease in utilization rates and an approximate 4% decrease in average day rates on our deepwater vessels which together resulted in a \$3.7 million decline in revenue, and a six percentage point decrease in utilization and an approximate 4% decrease in average day rates on the towing supply/supply class of vessels which together resulted in a \$2.6 million decrease in revenue. Utilization and average day rates on the deepwater vessels decreased, during the comparative periods, because on a net basis, one deepwater vessel transferred out of the segment, while utilization and average day rates on the towing supply/supply class of vessels decreased due to a weaker demand for this class of vessels.

Vessel operating profit for the Asia/Pacific-based vessels decreased approximately \$10.0 million, or 191%, during the quarter ended September 30, 2011 as compared to the quarter ended June 30, 2011, due to lower revenues, approximately 15%, or \$3.2 million, higher vessel operating costs (primarily repair and maintenance costs, and fuel, lube and supplies costs) and approximately 15%, or \$0.6 million, higher general and administrative expenses.

Repair and maintenance costs increased approximately 115%, or \$2.2 million, during the quarter ended September 30, 2011 as compared to the quarter ended June 30, 2011, due to a greater number of drydockings being performed during the current quarter as compared to the prior quarter. Fuel, lube and supply costs were higher by approximately 77%, or \$2.1 million, during the same comparative periods, due to vessel mobilizations. General and administrative expenses were higher, during the same comparative periods, due to an increase in professional service related costs and an increase in costs associated with foreign assigned administrative employees (specifically foreign income taxes paid by the company on behalf of expatriate employees).

#### *Middle East/North Africa Segment Operations*

Middle East/North Africa-based vessel revenues increased approximately 8% and 15%, or \$1.9 million and \$6.8 million, respectively, during the quarter and the six-month periods ended September 30, 2011, respectively, as compared to the same periods in fiscal 2011, primarily due to an approximate 8% and 7% increase in average day rates, respectively, on the deepwater vessels operating in this segment, which resulted in a \$5.7 million and \$8.9 million increase in deepwater vessel revenues, because two deepwater vessels were transferred in to the region from other segments during the comparative periods. Revenues on the towing supply/supply class of vessels decreased approximately \$3.5 million and \$2.0 million, during the same comparative periods, respectively, primarily due to a respective 22 and 15 point decrease in utilization rates resulting from delays with the acceptance of some vessels that are part of a package committed to charter hire contracts with Saudi Aramco.

The company also continues to stack and remove vessels that could not find attractive charter contracts from its Middle East/North Africa-based active fleet. At the beginning of fiscal 2012, the company had six Middle East/North Africa-based stacked vessels. During the first half of fiscal 2012, the company stacked two additional vessels and sold five vessels from the previously stacked vessel fleet, resulting in a total of three stacked Middle East/North Africa-based vessels as of September 30, 2011.

Middle East/North Africa-based vessel operating profit decreased approximately \$6.3 million and \$10.8 million, or 119% and 110% respectively, during the quarter and the six-month periods ended September 30, 2011, respectively, as compared to the same periods in fiscal 2011, primarily due to an approximate 52% and 59%, or \$6.5 million and \$14.1 million, respectively, increase in vessel operating costs (primarily crew costs, repair and maintenance costs, fuel, lube and supplies costs, and vessel operating leases); an approximate 25% and 31%, or \$0.8 million and \$2.1 million, respectively, increase in depreciation expense; and an approximate 42% and 36%, or \$0.8 million and \$1.4 million, respectively, increase in general and administrative expenses.

Depreciation expense increased, during the quarter and the six-month periods ended September 30, 2011, as compared to the same periods during fiscal 2011, primarily because of the additional vessels transferred to the segment related to a nine vessel package committed to charter hire contracts with Saudi Aramco. Crew costs increased approximately 15% and 33%, or \$1.1 million and \$4.0 million, respectively, during the same comparative periods, due to an increase in crew personnel related to the addition of vessels to the segment. Repair and maintenance costs increased approximately \$2.5 million and \$3.1 million, or 115% and 78%, respectively, during the same comparative periods, due to an increase in the number of drydockings being performed. Fuel, lube and supply costs increased approximately \$1.7 million and \$3.5 million, or 133% and 96%, respectively, during the same comparative periods, due to an increase in the number of vessels operating in the segment and to vessel mobilizations. Vessel operating leases increased approximately \$0.5 million and \$0.8 million, during the same comparative periods, respectively, because one vessel operating under a lease arrangement transferred to the segment. General and administrative expenses increased, during the same comparative periods, due to an increase in administrative personnel, an increase in office and property costs, and an increase in costs associated with foreign assigned administrative employees.

Middle East/North Africa-based vessel revenues decreased approximately 5%, or \$1.2 million, during the quarter ended September 30, 2011 as compared to the quarter ended June 30, 2011, primarily due to an eight percentage point decrease in the utilization rates on our towing supply/supply vessels, which resulted in a \$1.9 million decline in revenue during the comparative periods. Increases in revenues earned by the deepwater vessels partially offset the revenue declines incurred by the towing supply/supply vessels during the same comparative periods. Revenues on the Middle East/North Africa-based deepwater vessels increased approximately 10%, or \$1.0 million, during the same comparative periods, due to a 15 percentage point increase in utilization rates, despite an approximate 4% decrease in average day rates for this class of vessel which resulted from the transfer of one deepwater vessel in mid-June 2011 to a different segment.

Vessel operating profit for the Middle East/North Africa-based vessels decreased approximately \$1.0 million, during the quarter ended September 30, 2011 as compared to the quarter ended June 30, 2011, primarily because of lower revenues.

#### *Sub-Saharan Africa/Europe Segment Operations*

Sub-Saharan Africa/Europe-based vessel revenues increased approximately 6%, or \$6.4 million and \$13.3 million, respectively, during the quarter and the six-month periods ended September 30, 2011, respectively, as compared to the same periods in fiscal 2011, primarily due to an increase in the number of deepwater vessels operating in the segment resulting from new vessel additions and vessels mobilizing into this segment. Deepwater vessel revenue also increased, during the same comparative periods, because of an approximate 7% and 6% increase in average day rates, respectively. Revenue increases generated by the deepwater vessels were partially offset by a decline in revenue experienced by the towing supply/supply class of vessels. Vessel revenue on the towing supply/supply vessels decreased approximately 13% and 10%, or \$7.3 million and \$11.1 million, respectively, during the same comparative periods, respectively, due to a seven and six percentage point decrease in utilization rates, respectively.

The company also continues to stack and remove vessels that could not find attractive charter contracts from its Sub-Saharan Africa/Europe-based active fleet. At the beginning of fiscal 2012, the company had 26 Sub-Saharan Africa/Europe-based stacked vessels. During the first half of fiscal 2012, the company stacked five additional vessels and sold four vessels from the previously stacked vessel fleet, resulting in a total of 27 stacked Sub-Saharan Africa/Europe-based vessels as of September 30, 2011.

Sub-Saharan Africa/Europe-based vessel operating profit increased approximately 16% and 1%, or \$3.0 million and \$0.3 million, respectively, during the quarter and the six-month periods ended September 30, 2011, respectively, as compared to the same periods in fiscal 2011, primarily due to higher revenues, which were partially offset by an approximate 2% and 7%, or \$1.4 million and \$7.9 million, respectively, increase in vessel operating costs (primarily repair and maintenance costs, fuel, lube and supplies costs and other vessel costs); an increase in depreciation expense; and an increase in general and administrative expenses during the same comparative periods.

Repair and maintenance costs, during the quarter ended September 30, 2011, were comparable to the costs incurred during the same period in fiscal 2011. Repair and maintenance costs increased approximately 16%, or \$2.6 million, during the six-month period ended September 30, 2011, as compared to the same period in fiscal 2011, due to an increase in the number of drydockings being performed during the current period. Fuel, lube and supply costs were higher by approximately 34% and 18%, or \$2.1 million during each period, respectively, during the same comparative periods, due to vessel mobilizations. Crew costs decreased approximately 6%, or \$1.7 million, during the quarter ended September 30, 2011, as compared to the same period in fiscal 2011, because the prior year included an allocated \$2.4 million charge associated with the company's participation in the Merchant Navy Officers Pension Fund (MNOF) as disclosed in Note (6) of Notes to Unaudited Condensed Consolidated Financial Statements. Crew costs during the six months ended September 30, 2011 were comparable to the costs incurred during the same period in fiscal 2011.

Depreciation expense increased approximately 5% and 7%, or \$0.6 million and \$1.7 million, respectively, during the quarter and the six-month periods ended September 30, 2011, as compared to the same periods during fiscal 2011, primarily because of new vessel additions and vessels mobilizing into the segment during the comparative periods. General and administrative expenses increased 13% and 17%, or \$1.3 million and \$3.4 million, respectively, during the same comparative periods, due to pay raises for the administrative

personnel, an increase in office and property costs (primarily office rent and information technology cost), an increase in travel costs, and an increase in costs associated with foreign assigned administrative employees.

Sub-Saharan Africa/Europe-based vessel revenues increased a modest 1%, or \$1.5 million, during the quarter ended September 30, 2011 as compared to the quarter ended June 30, 2011, primarily due to a seven percentage point increase in the utilization rates on the deepwater vessels and to an increase in the number of deepwater vessels operating in this segment. Revenue increases generated by the deepwater vessels were partially offset by declines in revenue experienced by the towing supply/supply and crewboat class of vessels. Revenue on the towing supply/supply class of vessels decreased approximately 7%, or \$4.0 million, during the same comparative periods, due to a two percentage point decrease in utilization rates, an approximate 1% decrease in average day rates and because of fewer towing supply/supply vessels operating in the segment due to vessel transfers and sales. Revenues generated by crewboats decreased approximately 9%, or \$1.3 million, during the same comparative periods, due to a six percentage point decrease in utilization rates and an approximate 5% decrease in average day rates.

Vessel operating profit for the Sub-Saharan Africa/Europe-based vessels decreased approximately 3%, or \$0.6 million, during the quarter ended September 30, 2011 as compared to the quarter ended June 30, 2011, primarily due to an approximate 4%, or \$2.3 million, increase in vessel operating costs (primarily fuel, lube and supplies costs). Fuel, lube and supply costs increased approximately 48%, or \$2.7 million, during the same comparative periods, due to vessel mobilizations resulting from the addition of new vessels to the segment.

#### **Other Items**

Insurance and loss reserves expense increased approximately \$1.7 million, or 20%, during the first half of fiscal 2012 as compared to the same period in fiscal 2011, due to lower premiums and favorable adjustments to loss reserves during fiscal 2011 resulting from good safety results and loss management efforts.

Gain on asset dispositions, net for the first half of fiscal 2012 increased approximately \$2.0 million, or 22%, as compared to the same period in fiscal 2011, due to more vessel sales and lower impairment expense charged during the first half of fiscal 2012. Gain on asset dispositions, net was approximately \$7.5 million, higher during the second quarter of fiscal 2012 as compared to the first quarter of fiscal 2012, due to a higher number of vessel sales and because the quarter ended September 30, 2011 incurred only \$0.3 million in impairment charges as compared to \$2.3 million during the quarter ended June 30, 2011. Dispositions of vessels can vary from quarter to quarter; therefore, gains on sales of assets may fluctuate significantly from period to period. The below table summarizes the combined fair value of the assets that incurred impairments during the quarters and the six-month periods ended September 30, 2011 and 2010, along with the amount of impairment. The impairment charges were recorded in gain on asset dispositions, net.

|  | Quarter Ended         |                       | Six Months Ended      |                       |
|--|-----------------------|-----------------------|-----------------------|-----------------------|
|  | September 30,<br>2011 | September 30,<br>2010 | September 30,<br>2011 | September 30,<br>2010 |
| (In thousands, except number of assets)            |                       |                       |                       |                       |
| Amount of impairment incurred                      | \$ 256                | 1,785                 | 2,570                 | 3,093                 |
| Combined fair value of assets incurring impairment | ---                   | 1,800                 | 3,913                 | 6,295                 |

#### **Vessel Class Revenue and Statistics by Segment**

Vessel utilization is determined primarily by market conditions and to a lesser extent by drydocking requirements. Vessel day rates are determined by the demand created largely through the level of offshore exploration, field development and production spending by energy companies relative to the supply of offshore service vessels. Suitability of equipment and the degree of service provided also influence vessel day rates. Vessel utilization rates are calculated by dividing the number of days a vessel works during a reporting period by the number of days the vessel is available to work in the reporting period. Average day rates are calculated by dividing the revenue a vessel earns during a reporting period by the number of days the vessel worked in the reporting period. Vessel utilization and average day rates are calculated only on vessels in service and, as such do not include vessels withdrawn from service (two vessels at September 30, 2011) or vessels owned by joint ventures (10 vessels at September 30, 2011). The following three tables compare revenues, day-based

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utilization percentages and average day rates by vessel class and in total for the quarters and the six-month periods ended September 30, 2011 and 2010 and the quarter ended June 30, 2011.

|   | Quarter Ended<br>September 30,<br>2011 |         | Six Months Ended<br>September 30,<br>2011 |         | Quarter<br>Ended<br>June 30,<br>2011 |
|---|--|---------|---|---------|--------------------------------------|
| <b>REVENUES BY VESSEL CLASS (In thousands):</b> |  |         |   |         |                                      |
| <b>Americas fleet:</b>                          |  |         |   |         |                                      |
| Deepwater vessels                               | \$ 36,639                              | 49,635  | 73,044                                    | 100,937 | 36,405                               |
| Towing-supply/supply                            | 36,648                                 | 37,631  | 72,334                                    | 72,689  | 35,686                               |
| Crew/utility                                    | 8,044                                  | 7,166   | 16,054                                    | 14,322  | 8,010                                |
| Offshore tugs                                   | 561                                    | 601     | 1,137                                     | 1,184   | 576                                  |
| Total   | \$ 81,892                              | 95,033  | 162,569                                   | 189,132 | 80,677                               |
| <b>Asia/Pacific fleet:</b>                      |  |         |   |         |                                      |
| Deepwater vessels                               | \$ 12,264                              | 17,957  | 28,193                                    | 37,073  | 15,929                               |
| Towing-supply/supply                            | 15,870                                 | 23,595  | 34,314                                    | 46,005  | 18,444                               |
| Crew/utility                                    | 144                                    | 246     | 387                                       | 489     | 243                                  |
| Offshore tugs                                   | 850                                    | 867     | 1,733                                     | 1,725   | 883                                  |
| Total   | \$ 29,127                              | 42,665  | 64,626                                    | 85,292  | 35,499                               |
| <b>Middle East/N. Africa fleet:</b>             |  |         |   |         |                                      |
| Deepwater vessels                               | \$ 11,782                              | 6,035   | 22,533                                    | 13,589  | 10,751                               |
| Towing-supply/supply                            | 11,616                                 | 15,165  | 25,090                                    | 27,068  | 13,474                               |
| Offshore tugs                                   | 1,411                                  | 1,743   | 3,243                                     | 3,437   | 1,832                                |
| Total   | \$ 24,810                              | 22,943  | 50,867                                    | 44,094  | 26,057                               |
| <b>Sub-Saharan Africa/Europe fleet:</b>         |  |         |   |         |                                      |
| Deepwater vessels                               | \$ 45,605                              | 31,238  | 84,111                                    | 59,909  | 38,506                               |
| Towing-supply/supply                            | 49,338                                 | 56,596  | 102,641                                   | 113,693 | 53,303                               |
| Crew/utility                                    | 12,734                                 | 12,829  | 26,747                                    | 24,972  | 14,013                               |
| Offshore tugs                                   | 4,906                                  | 5,566   | 10,166                                    | 11,774  | 5,260                                |
| Total   | \$ 112,583                             | 106,229 | 223,665                                   | 210,348 | 111,082                              |
| <b>Worldwide fleet:</b>                         |  |         |   |         |                                      |
| Deepwater vessels                               | \$ 106,290                             | 104,865 | 207,881                                   | 211,508 | 101,591                              |
| Towing-supply/supply                            | 113,472                                | 132,987 | 234,379                                   | 259,455 | 120,907                              |
| Crew/utility                                    | 20,922                                 | 20,241  | 43,188                                    | 39,783  | 22,266                               |
| Offshore tugs                                   | 7,728                                  | 8,777   | 16,279                                    | 18,120  | 8,551                                |
| Total   | \$ 248,412                             | 266,870 | 501,727                                   | 528,866 | 253,315                              |
| <b>UTILIZATION:</b>                             |  |         |   |         |                                      |
| <b>Americas fleet:</b>                          |  |         |   |         |                                      |
| Deepwater vessels                               | 73.5 %                                 | 79.2    | 72.2                                      | 79.8    | 70.8                                 |
| Towing-supply/supply                            | 46.9                                   | 42.7    | 45.0                                      | 40.9    | 43.3                                 |
| Crew/utility                                    | 80.2                                   | 53.5    | 82.7                                      | 50.8    | 85.3                                 |
| Offshore tugs                                   | 19.3                                   | 17.0    | 19.6                                      | 16.9    | 20.0                                 |
| Total   | 56.8 %                                 | 50.8    | 55.5                                      | 49.3    | 54.3                                 |
| <b>Asia/Pacific fleet:</b>                      |  |         |   |         |                                      |
| Deepwater vessels                               | 59.6 %                                 | 61.2    | 65.5                                      | 74.1    | 71.1                                 |
| Towing-supply/supply                            | 36.3                                   | 46.5    | 39.3                                      | 48.0    | 42.5                                 |
| Crew/utility                                    | 58.7                                   | 100.0   | 79.2                                      | 100.0   | 100.0                                |
| Offshore tugs                                   | 100.0                                  | 100.0   | 100.0                                     | 100.0   | 100.0                                |
| Total   | 42.8 %                                 | 51.6    | 46.8                                      | 55.4    | 51.1                                 |
| <b>Middle East/N. Africa fleet:</b>             |  |         |   |         |                                      |
| Deepwater vessels                               | 91.6 %                                 | 87.9    | 83.7                                      | 88.2    | 76.3                                 |
| Towing-supply/supply                            | 49.7                                   | 71.7    | 53.8                                      | 68.4    | 57.6                                 |
| Offshore tugs                                   | 50.0                                   | 60.0    | 56.6                                      | 59.8    | 63.2                                 |
| Total   | 57.4 %                                 | 71.8    | 59.6                                      | 69.7    | 61.6                                 |
| <b>Sub-Saharan Africa/Europe fleet:</b>         |  |         |   |         |                                      |
| Deepwater vessels                               | 88.1 %                                 | 87.4    | 85.0                                      | 86.7    | 81.6                                 |
| Towing-supply/supply                            | 55.8                                   | 62.6    | 56.9                                      | 62.9    | 57.9                                 |
| Crew/utility                                    | 85.6                                   | 85.9    | 88.3                                      | 83.6    | 91.1                                 |
| Offshore tugs                                   | 60.8                                   | 66.1    | 61.4                                      | 70.3    | 62.0                                 |

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|                         |        |      |      |      |      |
|-------------------------|--------|------|------|------|------|
| Total                   | 69.2 % | 71.9 | 69.6 | 71.8 | 70.1 |
| <u>Worldwide fleet:</u> |        |      |      |      |      |
| Deepwater vessels       | 79.3 % | 78.9 | 77.5 | 81.6 | 75.7 |
| Towing-supply/supply    | 48.6   | 54.6 | 49.7 | 53.8 | 50.7 |
| Crew/utility            | 83.4   | 73.9 | 86.4 | 71.2 | 89.5 |
| Offshore tugs           | 51.4   | 55.1 | 53.4 | 57.2 | 55.4 |
| Total                   | 60.2 % | 61.8 | 60.9 | 61.5 | 61.5 |



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|   | Quarter Ended |        | Six Months Ended |        | Quarter Ended |
|---|---------------|--------|------------------|--------|---------------|
|   | September 30, |        | September 30,    |        | June 30,      |
|   | 2011          | 2010   | 2011             | 2010   | 2011          |
| <b>AVERAGE VESSEL DAY RATES:</b>        |               |        |                  |        |               |
| <b>Americas fleet:</b>                  |               |        |                  |        |               |
| Deepwater vessels                       | \$ 24,863     | 27,238 | 25,587           | 27,652 | 26,360        |
| Towing-supply/supply                    | 14,786        | 13,603 | 14,404           | 13,308 | 14,031        |
| Crew/utility                            | 6,414         | 6,183  | 6,214            | 6,233  | 6,024         |
| Offshore tugs                           | 6,318         | 6,383  | 6,325            | 6,364  | 6,332         |
| Total                                   | \$ 15,466     | 16,268 | 15,279           | 16,310 | 15,094        |
| <b>Asia/Pacific fleet:</b>              |               |        |                  |        |               |
| Deepwater vessels                       | \$ 20,619     | 24,933 | 21,073           | 23,585 | 21,436        |
| Towing-supply/supply                    | 11,974        | 12,917 | 12,261           | 12,514 | 12,519        |
| Crew/utility                            | 2,671         | 2,670  | 2,670            | 2,670  | 2,670         |
| Offshore tugs                           | 9,236         | 9,426  | 9,471            | 9,426  | 9,709         |
| Total                                   | \$ 14,098     | 15,623 | 14,476           | 15,193 | 14,801        |
| <b>Middle East/N. Africa fleet:</b>     |               |        |                  |        |               |
| Deepwater vessels                       | \$ 17,466     | 16,232 | 17,784           | 16,639 | 18,147        |
| Towing-supply/supply                    | 8,513         | 7,522  | 8,079            | 7,468  | 7,738         |
| Offshore tugs                           | 5,117         | 5,262  | 5,220            | 5,234  | 5,302         |
| Total                                   | \$ 10,716     | 8,438  | 10,185           | 8,650  | 9,726         |
| <b>Sub-Saharan Africa/Europe fleet:</b> |               |        |                  |        |               |
| Deepwater vessels                       | \$ 20,375     | 19,044 | 20,386           | 19,161 | 20,399        |
| Towing-supply/supply                    | 12,665        | 11,784 | 12,741           | 12,041 | 12,812        |
| Crew/utility                            | 4,369         | 4,283  | 4,476            | 4,274  | 4,577         |
| Offshore tugs                           | 6,751         | 6,541  | 6,932            | 6,534  | 7,110         |
| Total                                   | \$ 11,518     | 10,324 | 11,397           | 10,406 | 11,278        |
| <b>Worldwide fleet:</b>                 |               |        |                  |        |               |
| Deepwater vessels                       | \$ 21,338     | 23,024 | 21,687           | 23,077 | 22,065        |
| Towing-supply/supply                    | 12,519        | 11,653 | 12,347           | 11,685 | 12,190        |
| Crew/utility                            | 4,955         | 4,767  | 4,962            | 4,779  | 4,968         |
| Offshore tugs                           | 6,531         | 6,415  | 6,643            | 6,408  | 6,748         |
| Total                                   | \$ 12,771     | 12,366 | 12,631           | 12,437 | 12,496        |

The following three tables compare vessel day-based utilization percentages, average day rates and the number of active vessels (excludes stacked vessels) for the company's new vessels (defined as vessels acquired or constructed since calendar year 2000 as part of its new build and acquisition program) and its older, more traditional vessels for the quarters and the six-month periods ended September 30, 2011 and 2010 and for the quarter ended June 30, 2011.

|   | Quarter Ended |      | Six Months Ended |      | Quarter Ended |
|---|---------------|------|------------------|------|---------------|
|   | September 30, |      | September 30,    |      | June 30,      |
|   | 2011          | 2010 | 2011             | 2010 | 2011          |
| <b>UTILIZATION:</b>                     |               |      |                  |      |               |
| <b>Americas fleet:</b>                  |               |      |                  |      |               |
| New vessels                             | 85.6 %        | 84.7 | 86.2             | 83.4 | 86.8          |
| Traditional vessels                     | 36.2          | 31.1 | 35.6             | 30.1 | 35.1          |
| Total                                   | 56.8 %        | 50.8 | 55.5             | 49.3 | 54.3          |
| <b>Asia/Pacific fleet:</b>              |               |      |                  |      |               |
| New vessels                             | 69.8 %        | 69.7 | 75.1             | 77.8 | 80.8          |
| Traditional vessels                     | 8.2           | 34.0 | 12.6             | 35.8 | 16.8          |
| Total                                   | 42.8 %        | 51.6 | 46.8             | 55.4 | 51.1          |
| <b>Middle East/N. Africa fleet:</b>     |               |      |                  |      |               |
| New vessels                             | 58.6 %        | 87.7 | 63.7             | 79.9 | 69.1          |
| Traditional vessels                     | 55.9          | 63.4 | 55.0             | 64.8 | 54.3          |
| Total                                   | 57.4 %        | 71.8 | 59.6             | 69.7 | 61.6          |
| <b>Sub-Saharan Africa/Europe fleet:</b> |               |      |                  |      |               |
| New vessels                             | 86.8 %        | 89.8 | 87.4             | 89.0 | 88.0          |
| Traditional vessels                     | 33.7          | 41.6 | 33.7             | 43.4 | 33.8          |
| Total                                   | 69.2 %        | 71.9 | 69.6             | 71.8 | 70.1          |

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Worldwide fleet:

|                     |        |      |      |      |      |
|---------------------|--------|------|------|------|------|
| New vessels         | 80.5 % | 85.3 | 82.4 | 85.3 | 84.4 |
| Traditional vessels | 33.5   | 39.2 | 34.2 | 39.7 | 34.8 |
| Total               | 60.2 % | 61.8 | 60.9 | 61.5 | 61.5 |

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|  | Quarter Ended      |        | Six Months Ended   |        | Quarter Ended |
|--|--------------------|--------|--------------------|--------|---------------|
|  | September 30, 2011 | 2010   | September 30, 2011 | 2010   | June 30, 2011 |
| <b><u>AVERAGE VESSEL DAY RATES:</u></b>        |                    |        |                    |        |               |
| <b><u>Americas fleet:</u></b>                  |                    |        |                    |        |               |
| New vessels                                    | \$ 19,469          | 20,073 | 19,166             | 20,159 | 18,849        |
| Traditional vessels                            | 8,650              | 10,246 | 9,142              | 10,331 | 9,958         |
| Total  | \$ 15,466          | 16,268 | 15,279             | 16,310 | 15,094        |
| <b><u>Asia/Pacific fleet:</u></b>              |                    |        |                    |        |               |
| New vessels                                    | \$ 15,028          | 20,235 | 15,902             | 19,866 | 16,716        |
| Traditional vessels                            | 3,953              | 6,361  | 4,143              | 6,339  | 4,232         |
| Total  | \$ 14,098          | 15,623 | 14,476             | 15,193 | 14,801        |
| <b><u>Middle East/N. Africa fleet:</u></b>     |                    |        |                    |        |               |
| New vessels                                    | \$ 13,562          | 10,983 | 13,002             | 11,975 | 12,496        |
| Traditional vessels                            | 6,759              | 6,591  | 6,483              | 6,716  | 6,259         |
| Total  | \$ 10,716          | 8,438  | 10,185             | 8,650  | 9,726         |
| <b><u>Sub-Saharan Africa/Europe fleet:</u></b> |                    |        |                    |        |               |
| New vessels                                    | \$ 12,134          | 11,164 | 12,020             | 11,329 | 11,907        |
| Traditional vessels                            | 8,313              | 7,268  | 8,141              | 7,295  | 7,970         |
| Total  | \$ 11,518          | 10,324 | 11,397             | 10,406 | 11,278        |
| <b><u>Worldwide fleet:</u></b>                 |                    |        |                    |        |               |
| New vessels                                    | \$ 14,291          | 14,463 | 14,190             | 14,694 | 14,091        |
| Traditional vessels                            | 7,970              | 7,964  | 7,979              | 7,998  | 7,987         |
| Total  | \$ 12,771          | 12,366 | 12,631             | 12,437 | 12,496        |

**AVERAGE VESSEL COUNT (EXCLUDING STACKED VESSELS):**

|  |     |     |     |     |     |
|--|-----|-----|-----|-----|-----|
| <b><u>Americas fleet:</u></b>                  |     |     |     |     |     |
| New vessels                                    | 41  | 45  | 40  | 45  | 39  |
| Traditional vessels                            | 26  | 33  | 29  | 37  | 30  |
| Total  | 67  | 78  | 69  | 82  | 69  |
| <b><u>Asia/Pacific fleet:</u></b>              |     |     |     |     |     |
| New vessels                                    | 30  | 29  | 29  | 26  | 27  |
| Traditional vessels                            | 3   | 14  | 3   | 15  | 4   |
| Total  | 33  | 43  | 32  | 41  | 31  |
| <b><u>Middle East/N. Africa fleet:</u></b>     |     |     |     |     |     |
| New vessels                                    | 25  | 15  | 24  | 13  | 24  |
| Traditional vessels                            | 13  | 22  | 16  | 23  | 17  |
| Total  | 38  | 37  | 40  | 36  | 41  |
| <b><u>Sub-Saharan Africa/Europe fleet:</u></b> |     |     |     |     |     |
| New vessels                                    | 102 | 97  | 103 | 96  | 104 |
| Traditional vessels                            | 23  | 32  | 24  | 34  | 23  |
| Total  | 125 | 129 | 127 | 130 | 127 |
| <b><u>Worldwide fleet:</u></b>                 |     |     |     |     |     |
| New vessels                                    | 198 | 186 | 196 | 180 | 194 |
| Traditional vessels                            | 65  | 101 | 72  | 109 | 74  |
| Total  | 263 | 287 | 268 | 289 | 268 |

**Vessel Count, Dispositions, Acquisitions and Construction Programs**

The following table compares the average number of vessels by class and geographic distribution for the quarters and the six-month periods ended September 30, 2011 and 2010 and for the quarter ended June 30, 2011.

|   | Quarter Ended      |                    | Six Months Ended   |                    | Quarter Ended |
|---|--------------------|--------------------|--------------------|--------------------|---------------|
|   | September 30, 2011 | September 30, 2010 | September 30, 2011 | September 30, 2010 | June 30, 2011 |
| <b>Americas fleet:</b>                  |                    |                    |                    |                    |               |
| Deepwater vessels                       | 22                 | 25                 | 22                 | 25                 | 21            |
| Towing-supply/supply                    | 57                 | 70                 | 61                 | 73                 | 65            |
| Crew/utility                            | 17                 | 23                 | 17                 | 25                 | 17            |
| Offshore tugs                           | 5                  | 6                  | 5                  | 6                  | 5             |
| Total                                   | 101                | 124                | 105                | 129                | 108           |
| Less stacked vessels                    | 34                 | 46                 | 36                 | 47                 | 39            |
| Active vessels                          | 67                 | 78                 | 69                 | 82                 | 69            |
| <b>Asia/Pacific fleet:</b>              |                    |                    |                    |                    |               |
| Deepwater vessels                       | 11                 | 13                 | 11                 | 11                 | 11            |
| Towing-supply/supply                    | 40                 | 43                 | 39                 | 42                 | 38            |
| Crew/utility                            | 1                  | 1                  | 1                  | 1                  | 1             |
| Offshore tugs                           | 1                  | 1                  | 1                  | 1                  | 1             |
| Total                                   | 53                 | 58                 | 52                 | 55                 | 51            |
| Less stacked vessels                    | 20                 | 15                 | 20                 | 14                 | 20            |
| Active vessels                          | 33                 | 43                 | 32                 | 41                 | 31            |
| <b>Middle East/N. Africa fleet:</b>     |                    |                    |                    |                    |               |
| Deepwater vessels                       | 8                  | 5                  | 8                  | 5                  | 9             |
| Towing-supply/supply                    | 30                 | 31                 | 32                 | 29                 | 33            |
| Offshore tugs                           | 6                  | 6                  | 6                  | 6                  | 6             |
| Total                                   | 44                 | 42                 | 46                 | 40                 | 48            |
| Less stacked vessels                    | 6                  | 5                  | 6                  | 4                  | 7             |
| Active vessels                          | 38                 | 37                 | 40                 | 36                 | 41            |
| <b>Sub-Saharan Africa/Europe fleet:</b> |                    |                    |                    |                    |               |
| Deepwater vessels                       | 27                 | 20                 | 27                 | 20                 | 26            |
| Towing-supply/supply                    | 76                 | 83                 | 77                 | 82                 | 79            |
| Crew/utility                            | 37                 | 38                 | 37                 | 38                 | 37            |
| Offshore tugs                           | 13                 | 14                 | 13                 | 14                 | 13            |
| Total                                   | 153                | 155                | 154                | 154                | 155           |
| Less stacked vessel                     | 28                 | 26                 | 27                 | 24                 | 28            |
| Active vessels                          | 125                | 129                | 127                | 130                | 127           |
| Active owned or chartered vessels       | 263                | 287                | 268                | 289                | 268           |
| Stacked vessels                         | 88                 | 92                 | 89                 | 89                 | 94            |
| Total owned or chartered vessels        | 351                | 379                | 357                | 378                | 362           |
| Vessels withdrawn from service          | 2                  | 6                  | 3                  | 6                  | 4             |
| Joint-venture and other                 | 10                 | 10                 | 10                 | 10                 | 10            |
| Total                                   | 363                | 395                | 370                | 394                | 376           |

Owned or chartered vessels include vessels that were stacked by the company. The company considers a vessel to be stacked if the vessel crew is disembarked and limited maintenance is being performed on the vessel. The company reduces operating costs by stacking vessels when management does not foresee opportunities to profitably or strategically operate the vessels in the near future. Vessels are stacked when market conditions warrant and they are no longer considered stacked when they are returned to active service, sold or otherwise disposed. When economically practical marketing opportunities arise, the stacked vessels can be returned to service by performing any necessary maintenance on the vessel and either rehiring or returning fleet personnel to operate the vessel. Although not currently fulfilling charters, stacked vessels are considered to be in service and are included in the calculation of the company's utilization statistics. The company had 78, 94 and 98 actual stacked vessels at September 30, 2011 and 2010 and at June 30, 2011, respectively.

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Vessels withdrawn from service represent those vessels that are not included in the company's utilization statistics.

The following is a summary of net properties and equipment at September 30, 2011 and March 31, 2011:

|  | September 30, 2011   |                                     | March 31, 2011       |                                     |
|--|----------------------|-------------------------------------|----------------------|-------------------------------------|
|  | Number<br>Of Vessels | Carrying<br>Value<br>(In thousands) | Number<br>Of Vessels | Carrying<br>Value<br>(In thousands) |
| Vessels in active service                            | 248                  | \$ 2,370,613                        | 262                  | \$ 2,265,042                        |
| Stacked vessels                                      | 78                   | 39,862                              | 90                   | 40,224                              |
| Vessels withdrawn from service                       | 2                    | 633                                 | 4                    | 673                                 |
| Marine equipment and other assets under construction |                      | 335,342                             |                      | 358,294                             |
| Other property and equipment                         |                      | 42,358                              |                      | 37,547                              |
| <b>Totals</b>  | <b>328</b>           | <b>\$ 2,788,808</b>                 | <b>356</b>           | <b>\$ 2,701,780</b>                 |

### ***Vessel Dispositions***

The company seeks opportunities to sell and/or scrap its older vessels when market conditions warrant and opportunities arise. The majority of the company's vessels are sold to buyers who do not compete with the company in the offshore energy industry.

During the first half of fiscal 2012, the company disposed of 36 vessels, including 28 anchor handling towing supply vessels, six platform supply vessels, one crewboat and one offshore tug. Fifteen of the 36 vessels were disposed from the Americas fleet, three vessels were disposed from the Asia/Pacific fleet, 11 vessels were disposed from the Middle East/North Africa fleet and five vessels were disposed from the Sub-Saharan Africa/Europe fleet. The remaining two vessels were disposed of from vessels previously withdrawn from service.

During fiscal 2011, the company disposed of 46 vessels, including 25 anchor handling towing supply vessels, six platform supply vessels, 12 crewboats, one offshore tug vessel and two utility vessels. Twenty-six of the 46 vessels disposed of were from the Americas vessel fleet, seven vessels were from the Asia/Pacific fleet, two vessels were from the Middle East/North Africa fleet and seven vessels were from the Sub-Saharan Africa/Europe fleet. The remaining four vessels were disposed of from vessels previously withdrawn from service.

### ***Vessel Deliveries and Acquisitions***

During the first half of fiscal 2012, the company took delivery of six newly-built vessels and acquired two vessels from a third party. Two of the newly-built vessels are towing supply/supply class anchor handling towing supply vessels and the other four are deepwater class platform supply vessels. The anchor handling towing supply vessels were constructed at two different international shipyards for approximately \$35.2 million and have between 5,150 and 8,200 brake horse power (BHP). One of the deepwater platform supply vessels measures 290-feet and was constructed at an international shipyard for approximately \$28.1 million. The other three deepwater, platform supply vessels measure 286-feet and were constructed at the same international shipyard for approximately \$85.1 million. The company also acquired a 250-foot deepwater, platform supply vessel for a total cost of \$22.3 million and a towing supply/supply class anchor handling towing supply vessel for a total cost of \$11.5 million.

During fiscal 2011, the company took delivery of seven newly-built vessels and acquired 22 vessels from third parties. Of the seven newly-built vessels added to the fleet, three were anchor handling towing supply vessels, three were platform supply vessels and one was a fast, crew/supply boat. The anchor handling towing supply vessels were constructed at two different international shipyards for a total aggregate cost of \$62.1 million and varied in size from 5,150 to 13,570 BHP. The three deepwater, platform supply vessels (one 230-foot and two 240-feet) were constructed for a total aggregate cost of \$58.0 million and were built by two different international shipyards. The remaining vessel was constructed at an international shipyard for a total cost of \$9.4 million and is a 175-foot fast supply boat. Of the 22 acquired vessels added to the fleet during fiscal 2011, 19 were anchor handling towing supply vessels (twelve 5,150 BHP, two 8,000 BHP and five 9,500 BHP)

and three deepwater, platform supply vessels (one 230-foot, one 240-foot and one 250-foot). The company acquired the 22 vessels for a total aggregate cost of \$365.6 million.

*Vessel Commitments at September 30, 2011*

At September 30, 2011, the company had six anchor handling towing supply vessels under construction, varying in size from 5,150 to 8,200 BHP, for a total aggregate investment of approximately \$107.3 million. Two different international shipyards are constructing the vessels. Scheduled deliveries for two of the six vessels began in October 2011. The remaining four vessels are expected to be delivered beginning in November 2011 with the last vessel scheduled for delivery in April 2012. As of September 30, 2011, the company had invested \$86.8 million for the construction of these six vessels.

The company is also committed to the construction of four 265-foot, one 266-foot, eight 286-foot and two 300-foot deepwater platform supply vessels and two 215-foot towing supply/supply class platform supply vessels for a total aggregate investment of approximately \$530.9 million. The company's shipyard, Quality Shipyards, L.L.C., is constructing the 266-foot deepwater class vessel. One international shipyard is constructing the two 215-foot vessels. A different international shipyard is constructing the four 265-foot deepwater vessels, and a third international shipyard is constructing the eight 286-foot deepwater vessels. One U.S. shipyard is constructing the two 300-foot deepwater platform supply vessels. The two 215-foot towing supply/supply class platform supply vessels are scheduled for delivery in April and June of 2013. The four 265-foot deepwater class vessels are expected to be delivered to the market beginning in January 2013, with final delivery of the fourth vessel in July 2013. The 266-foot deepwater class vessel is expected to be delivered in late October 2011. The eight 286-foot deepwater class vessels are expected to be delivered beginning in December 2011 with final delivery of the last 286-foot vessel scheduled for October of 2012. The two 300-foot deepwater class vessels are scheduled for delivery in October 2012 and April 2013. As of September 30, 2011, \$207.7 million was invested for the construction of these 17 vessels.

The company is also committed to the construction of one 175-foot, fast supply boat and four water jet crewboats for a cost of approximately \$22.1 million. Two separate international shipyards are constructing these vessels. The company is experiencing substantial delay with one fast supply boat under construction in Brazil that was originally scheduled to be delivered in September of 2009. On April 5, 2011, pursuant to the vessel construction contract, the company sent the subject shipyard a letter initiating arbitration in order to resolve disputes of such matters as the shipyard's failure to achieve payment milestones, its failure to follow the construction schedule, and its failure to timely deliver the vessel. The four water jet crewboats are expected to be delivered in December 2012 and February, April and June of 2013. As of September 30, 2011, the company expended \$10.8 million for the construction of these vessels.

At September 30, 2011, the company also had agreed to purchase 10 anchor handling towing supply vessels and two platform supply vessels. The aggregate approximate purchase price for these twelve vessels is \$174.7 million. The company took possession of two of the 10 anchor handling towing supply vessels in October 2011 for a total cost of \$23.7 million. These two acquired vessels are 5,150 BHP anchor handling towing supply vessels. The company will acquire the remaining eight anchor handling towing supply vessels (six of which have 5,150 BHP and two of which have 9,000 BHP), for a total aggregate cost of \$113.0 million at various times during the remaining months of fiscal 2012. The company plans to take possession of the two platform supply vessels, which have 3,500 deadweight tons of cargo capacity, in February and April of 2012 for a total aggregate cost of \$38.0 million. As of September 30, 2011, the company had invested \$27.1 million for the acquisition of these 12 vessels.

**Vessel Commitments Summary at September 30, 2011**

The table below summarizes the various vessel commitments by vessel class and type at September 30, 2011:

| Vessel class and type                   | Number of Vessels | Non-U.S. Built    |                           |                            | Number of Vessels | U.S. Built     |                           | Remaining Balance 09/30/11 |
|---|-------------------|-------------------|---------------------------|----------------------------|-------------------|----------------|---------------------------|----------------------------|
|   |                   | Total Cost        | Invested Through 09/30/11 | Remaining Balance 09/30/11 |                   | Total Cost     | Invested Through 09/30/11 |                            |
| In thousands, except number of vessels: |                   |                   |                           |                            |                   |                |                           |                            |
| Deepwater vessels:                      |                   |                   |                           |                            |                   |                |                           |                            |
| Anchor handling towing supply           | ---               | ---               | ---                       | ---                        | ---               | ---            | ---                       | ---                        |
| Platform supply vessels                 | 14                | \$ 382,359        | 151,574                   | 230,785                    | 3                 | 137,003        | 54,491                    | 82,512                     |
| Towing-supply/supply vessels:           |                   |                   |                           |                            |                   |                |                           |                            |
| Anchor handling towing supply           | 16                | 243,948           | 106,373                   | 137,575                    | ---               | ---            | ---                       | ---                        |
| Platform supply vessels                 | 2                 | 49,586            | 9,098                     | 40,488                     | ---               | ---            | ---                       | ---                        |
| Crewboats                               | 5                 | 22,128            | 10,776                    | 11,352                     | ---               | ---            | ---                       | ---                        |
| <b>Totals</b>                           | <b>37</b>         | <b>\$ 698,021</b> | <b>277,821</b>            | <b>420,200</b>             | <b>3</b>          | <b>137,003</b> | <b>54,491</b>             | <b>82,512</b>              |

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

| Vessel class and type          | Quarter Period Ended |          |          |          |          |            |
|--------------------------------|----------------------|----------|----------|----------|----------|------------|
|                                | 12/11                | 03/12    | 06/12    | 09/12    | 12/12    | Thereafter |
| Deepwater vessels:             |                      |          |          |          |          |            |
| Anchor handling towing supply  | ---                  | ---      | ---      | ---      | ---      | ---        |
| Platform supply vessels        | 3                    | 2        | 4        | 1        | 2        | 5          |
| Towing-supply/supply vessels:  |                      |          |          |          |          |            |
| Anchor handling towing supply  | 13                   | 2        | 1        | ---      | ---      | ---        |
| Platform supply vessels        | ---                  | ---      | ---      | ---      | ---      | 2          |
| Crewboats                      | ---                  | ---      | ---      | ---      | 2        | 3          |
| <b>Totals</b>                  | <b>16</b>            | <b>4</b> | <b>5</b> | <b>1</b> | <b>4</b> | <b>10</b>  |
| (In thousands)                 |                      |          |          |          |          |            |
| Expected quarterly cash outlay | \$ 210,782           | 95,426   | 75,867   | 23,180   | 51,284   | 46,173 (A) |

(A) The \$46,173 of Thereafter vessel construction obligations is expected to be paid out as follows: \$14,021 in the remaining quarter of fiscal 2013 and \$32,152 during fiscal 2014.

The company believes it has sufficient liquidity and financial capacity to support the continued investment in new vessels, assuming customer demand, acquisition and shipyard economics and other considerations justify such an investment. The company continues to evaluate its fleet renewal program, whether through new construction or acquisitions, relative to other investment opportunities and uses of cash, including the current share repurchase authorization, and in the context of its financial position and conditions in the credit and capital markets. In recent years, the company has funded vessel additions with available cash, operating cash flow, revolving credit facility borrowings, various leasing arrangements, and funds provided by the sale of senior unsecured notes. The company has approximately \$502.7 million of remaining capital commitments on the 28 vessels currently under construction and the 12 vessel purchase commitments at September 30, 2011.

**General and Administrative Expenses**

Consolidated general and administrative expenses and its related percentage of total revenue for the quarters and the six-month periods ended September 30, 2011 and 2010 and for the quarter ended June 30, 2011 are as follows:

| (In thousands)        | Quarter Ended |     |               |     | Six Months Ended |     |               |     | Quarter Ended |     |
|-----------------------|---------------|-----|---------------|-----|------------------|-----|---------------|-----|---------------|-----|
|                       | September 30, |     | September 30, |     | September 30,    |     | September 30, |     | June 30,      |     |
|                       | 2011          | %   | 2010          | %   | 2011             | %   | 2010          | %   | 2011          | %   |
| Personnel             | \$ 21,655     | 9%  | 20,256        | 8%  | 44,023           | 9%  | 39,392        | 7%  | 22,379        | 9%  |
| Office and property   | 5,818         | 2%  | 5,327         | 2%  | 11,565           | 2%  | 10,232        | 2%  | 5,735         | 2%  |
| Sales and marketing   | 2,243         | 1%  | 2,111         | 1%  | 4,401            | 1%  | 4,160         | 1%  | 2,158         | 1%  |
| Professional services | 5,653         | 2%  | 4,301         | 2%  | 10,596           | 2%  | 9,354         | 2%  | 4,944         | 2%  |
| Other                 | 2,404         | 1%  | 5,924         | 2%  | 4,769            | 1%  | 7,556         | 1%  | 2,365         | 1%  |
|                       | \$ 37,773     | 15% | 37,919        | 14% | 75,354           | 15% | 70,694        | 13% | 37,581        | 15% |

Although general and administrative expenses during the quarter ended September 30, 2011 were comparable to the expenses incurred during the same period in fiscal 2011, current period expenses include higher personnel costs due to pay raises for administrative personnel; higher accruals for incentive bonuses; an increase in costs associated with foreign assigned administrative employees (specifically foreign income taxes paid by the company on behalf of expatriate employees); higher legal fees associated with various legal matters as disclosed in Note (6) of Notes to Unaudited Condensed Consolidated Financial Statements and Other Liquidity Matters below; and higher office and property expenses (primarily office rent and information technology costs) than the same period during fiscal 2011. In addition, other general and administrative expenses, during the quarter ended September 30, 2011, were lower, than the same period during fiscal 2011, because the prior period included a \$4.4 million settlement with the Department of Justice, as previously disclosed.

General and administrative expenses were higher by approximately 7%, or \$4.7 million, during the six-month period ended September 30, 2011, as compared to the same period in fiscal 2011, primarily due to pay raises for administrative personnel; higher accruals for incentive bonuses; an increase in costs associated with foreign assigned administrative employees (specifically foreign income taxes paid by the company on behalf of expatriate employees); higher legal fees associated with various legal matters as disclosed in Note (6) of Notes to Unaudited Condensed Consolidated Financial Statements and Other Liquidity Matters below; and higher office and property expenses (primarily office rent and information technology costs). In addition, other general and administrative expenses, during the six-month period ended September 30, 2011, were lower, than the same period during fiscal 2011, because the prior period included a \$4.4 million settlement with the Department of Justice.

General and administrative expenses during the current quarter were comparable to the expenses incurred during the quarter ended June 30, 2011.

**Liquidity, Capital Resources and Other Matters**

The company's current ratio, level of working capital and amount of cash flows from operations for any year are primarily related to fleet activity, vessel day rates and the timing of collections and disbursements. Vessel activity levels and vessel day rates are, among other things, dependent upon oil and natural gas production and ultimately the supply/demand relationship for crude oil and natural gas. Variations from year-to-year in these items are primarily the result of market conditions. Cash and cash equivalents, future net cash provided by operating activities and the company's revolving credit facility provide the company, in management's opinion, with adequate resources to meet its current liquidity requirements, including required payments on vessel construction currently in progress and payments required to be made in connection with current vessel purchase commitments.

**Indebtedness**

**Revolving Credit and Term Loan Agreement.** Borrowings under the company's \$575.0 million amended and restated revolving credit facility (credit facility), which includes a \$125.0 million term loan (term loan) and a \$450.0 million revolving line of credit (revolver) bear interest at the company's option at the greater of (i) prime or the federal funds rate plus 0.50 to 1.25%, or (ii) Eurodollar rates plus margins ranging from 1.50



to

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2.25%, based on the company's consolidated funded debt to total capitalization ratio. Commitment fees on the unused portion of the facilities range from 0.15 to 0.35% based on the company's funded debt to total capitalization ratio. The facilities provide for a maximum ratio of consolidated debt to consolidated total capitalization of 55% and a minimum consolidated interest coverage ratio (essentially consolidated earnings before interest, taxes, depreciation and amortization, or EBITDA, for the four prior fiscal quarters to consolidated interest charges for such period) of 3.0. All other terms, including the financial and negative covenants, are customary for facilities of its type and consistent with the prior agreement in all material respects. The company's amended and restated revolving credit facility matures in January 2016.

In July 2011, the credit facility was amended to allow 365 days (originally 180 days) from the closing date (delayed draw period) to make multiple draws under the term loan. Principal repayments of any term loan borrowings are payable in quarterly installments beginning in the quarter ending September 30, 2013 in amounts equal to 1.25% of the total outstanding borrowings as of July 26, 2013.

There were no borrowings outstanding under available credit facilities at September 30, 2011, and the full \$575.0 million of such credit facilities was available at September 30, 2011 for future financing needs.

**August 2011 Senior Notes.** On August 15, 2011, the company issued \$165.0 million of senior unsecured notes to a group of institutional investors. A summary of the aggregate amount of senior unsecured notes outstanding at September 30, 2011, that were issued to a group of institutional investors in August 2011, are as follows:

|   | September 30, |         |
|---|---------------|---------|
|   | 2011          |         |
| (In thousands, except weighted average data)      |               |         |
| Aggregate debt outstanding                        | \$            | 165,000 |
| Weighted average remaining life in years          |               | 9.1     |
| Weighted average coupon rate on notes outstanding |               | 4.42%   |
| Fair value of debt outstanding                    |               | 173,272 |

The multiple series of notes were originally issued with maturities ranging from approximately eight to 10 years. The notes may be retired before their respective scheduled maturity dates subject only to a customary make-whole provision. The terms of the notes require that the company maintain a minimum ratio of debt to consolidated total capitalization that does not exceed 55%.

**September 2010 Senior Notes.** On October 15, 2010, the company completed the sale of \$310.0 million of senior unsecured notes, and the sale of an additional \$115.0 million of the notes was completed on December 30, 2010. A summary of the aggregate amount of senior unsecured notes outstanding at September 30, 2011 and March 31, 2011, that were issued to a group of institutional investors in September 2010, are as follows:

|   | September 30, |         | March 31, |
|---|---------------|---------|-----------|
|   | 2011          |         | 2011      |
| (In thousands, except weighted average data)      |               |         |           |
| Aggregate debt outstanding                        | \$            | 425,000 | 425,000   |
| Weighted average remaining life in years          |               | 8.1     | 8.6       |
| Weighted average coupon rate on notes outstanding |               | 4.25%   | 4.25%     |
| Fair value of debt outstanding                    |               | 445,828 | 404,352   |

The multiple series of these notes were originally issued with maturities ranging from five to 12 years. The notes may be retired before their respective scheduled maturity dates subject only to a customary make-whole provision. The terms of the notes require that the company maintain a minimum ratio of debt to consolidated total capitalization that does not exceed 55%.

Included in accumulated other comprehensive income at September 30, 2011 and March 31, 2011, is an after-tax loss of \$3.5 million (\$5.5 million pre-tax), and \$3.8 million (\$5.8 million pre-tax), respectively, relating to the purchase of interest rate hedges, which are cash flow hedges, in July 2010 in connection with the September 2010 senior notes offering. The interest rate hedges settled in August 2010 concurrent with the pricing of the senior unsecured notes. The hedges met the effectiveness criteria and their acquisition costs are being amortized over the term of the individual notes matching the term of the hedges to interest expense.



**July 2003 Senior Notes.** In July 2003, the company completed the sale of \$300.0 million of senior unsecured notes. A summary of the aggregate amount of remaining senior unsecured notes outstanding at September 30, 2011 and March 31, 2011 that were issued in July 2003 are as follows:

| (In thousands, except weighted average data)      | September 30,<br>2011 | March 31,<br>2011 |
|---|-----------------------|-------------------|
| Aggregate debt outstanding                        | \$ 235,000            | 275,000           |
| Weighted average remaining life in years          | 1.9                   | 2.1               |
| Weighted average coupon rate on notes outstanding | 4.43%                 | 4.39%             |
| Fair value of debt outstanding                    | 244,104               | 285,478           |

The multiple series of notes were originally issued with maturities ranging from seven to 12 years. These notes can be retired in whole or in part prior to maturity for a redemption price equal to the principal amount of the notes redeemed plus a customary make-whole premium. The terms of the notes provide for a maximum ratio of consolidated debt to total capitalization of 55%.

Notes totaling \$40.0 million matured in July 2011 but were not classified as current maturities of long-term debt because the company had the ability to fund this maturity with its credit facility. Notes totaling \$60.0 million will mature in July 2012 but are not classified as current maturities of long-term debt because the company has the ability, if necessary, to fund this maturity with its credit facility.

#### ***Interest and Debt Costs***

The company capitalizes a portion of its interest costs incurred on borrowed funds used to construct vessels. Interest and debt costs incurred, net of interest capitalized, for the quarter and the six-month periods ended September 30, 2011 and 2010 are as follows:

| (In thousands)  | Quarter Ended   |              | Six Months Ended |              |
|---|-----------------|--------------|------------------|--------------|
|   | September 30,   |              | September 30,    |              |
|   | 2011            | 2010         | 2011             | 2010         |
| Interest and debt costs incurred, net of interest capitalized | \$ 4,766        | 1,686        | 8,827            | 2,759        |
| Interest costs capitalized                                    | 4,188           | 3,316        | 8,598            | 6,958        |
| <b>Total interest and debt costs</b>                          | <b>\$ 8,954</b> | <b>5,002</b> | <b>17,425</b>    | <b>9,717</b> |

Total interest and debt costs incurred during the quarter and the six-month periods ended September 30, 2011 were higher than the same period in fiscal 2010 because of an increase in interest expense related to the issuance of \$165.0 million senior notes during the quarter ended September 30, 2011 and the issuance of \$425.0 million senior notes during the quarter ended December 31, 2010 as discussed above.

#### ***Share Repurchases***

In May 2011, the company's Board of Directors replaced its then existing July 2009 share repurchase program with a new \$200.0 million repurchase program that is in effect through June 30, 2012. The Board of Directors authorized the company to repurchase shares of its common stock in open-market or privately-negotiated transactions. The company uses its available cash and, when considered advantageous, borrowings under its revolving credit facility, or other borrowings, to fund any share repurchases. The company will evaluate share repurchase opportunities relative to other investment opportunities and in the context of current conditions in the credit and capital markets. At September 30, 2011, the entire \$200.0 million authorization remains available to repurchase shares under the May 2011 share repurchase program.

In July 2009, the Board of Directors had previously authorized the company to repurchase up to \$200.0 million in shares of its common stock in open-market or privately-negotiated transactions. The authorization of the July 2009 repurchase program ended in May 2011.



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The value of common stock repurchased, along with number of shares repurchased and average price paid per share are as follows:

| (In thousands, except share and per share data) | Quarter Ended<br>September 30, |      | Six Months Ended<br>September 30, |         |
|---|--------------------------------|------|-----------------------------------|---------|
|   | 2011                           | 2010 | 2011                              | 2010    |
| Value of common stock repurchased               | \$ ---                         | ---  | ---                               | 20,000  |
| Shares of common stock repurchased              | ---                            | ---  | ---                               | 486,800 |
| Average price paid per common share             | \$ ---                         | ---  | ---                               | 41.06   |

### *Dividends*

The Board of Directors declared the following dividends for the quarters and six-month periods ended September 30, 2011 and 2010, respectively. The declaration of dividends is at the discretion of the company's Board of Directors.

| (In thousands, except dividend per share) | Quarter Ended<br>September 30, |        | Six Months Ended<br>September 30, |        |
|---|--------------------------------|--------|-----------------------------------|--------|
|   | 2011                           | 2010   | 2011                              | 2010   |
| Dividends declared                        | \$ 12,975                      | 12,849 | 25,944                            | 25,792 |
| Dividend per share                        | 0.25                           | 0.25   | 0.50                              | 0.50   |

### *Operating Activities*

Net cash provided by operating activities for any period fluctuates according to the level of business activity for the applicable period. For the six months ended September 30, 2011, net cash from operating activities was \$87.2 million compared to \$153.4 million as of September 30, 2010. Significant components of cash provided by operating activities for the six months ended September 30, 2011, include net earnings of \$19.7 million, adjusted for non-cash items of \$71.9 million and changes in working capital balances of \$4.4 million.

Significant components of cash provided by operating activities for the six months ended September 30, 2010, include net earnings of \$59.2 million, adjusted for non-cash items of \$65.2 million and changes in working capital balances of \$29.0 million.

### *Investing Activities*

Investing activities for the six months ended September 30, 2011, used \$130.4 million of cash, which is attributed to \$155.0 million of additions to properties and equipment partially offset by \$24.6 million in proceeds from the sales of assets. Additions to properties and equipment were comprised of approximately \$13.9 million in capitalized major repair costs, \$138.9 million for the construction and purchase of offshore marine vessels, and \$2.2 million in other properties and equipment purchases.

Investing activities for the quarter ended September 30, 2010, used \$364.9 million of cash, which is attributed to \$391.4 million of additions to properties and equipment partially offset by \$18.4 million in proceeds from the sales of assets and \$8.1 million in proceeds from insurance settlements. Additions to properties and equipment were comprised of approximately \$7.2 million in capitalized major repair costs, \$380.6 million for the construction and purchase of offshore marine vessels, and \$3.6 million in other properties and equipment purchases.

### *Financing Activities*

Financing activities for the six months ended September 30, 2011, provided \$99.7 million of cash, which included \$165.0 million of privately placed unsecured debt borrowings, \$0.7 million of proceeds from the issuance of common stock resulting from stock option exercises, and \$0.1 million tax benefit on stock options exercised during the quarter. Proceeds were partially offset by \$40.0 million used to repay debt and \$25.9 million used for the quarterly payment of common stock dividends of \$0.25 per common share, and \$0.2 million of debt issuance costs.

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Financing activities for the six months ended September 30, 2010, provided \$40.2 million of cash, which included \$165.0 million of credit facility borrowings, \$2.0 million of proceeds from the issuance of common

stock from stock option exercises and \$0.2 million tax benefit on stock options exercised during the period. Proceeds were partially offset by \$75.0 million used to repay debt, \$25.8 million used for the quarterly payment of common stock dividends of \$0.25 per common share, \$20.0 million used to repurchase the company's common stock, and \$6.2 million of costs associated with the interest rate swap derivative issued in connection to the issuance of the company's September 2010 senior notes as disclosed above.

***Other Liquidity Matters***

**Vessel Construction.** The company's vessel construction program has been designed to replace over time the company's older fleet of vessels with fewer, larger and more efficient vessels, while also opportunistically revamping the size and capabilities of the company's fleet. The company anticipates using future operating cash flows, existing borrowing capacity and new borrowings or lease arrangements to fund current and future commitments in connection with the fleet renewal and modernization program. The company continues to evaluate its fleet renewal program, whether through new construction or acquisitions, relative to other investment opportunities and uses of cash, including the current share repurchase authorization, and in the context of current conditions in the credit and capital markets.

At September 30, 2011, the company had approximately \$302.2 million of cash and cash equivalents. In addition, there were no borrowings outstanding under available credit facilities at September 30, 2011, and the full \$575.0 million of such credit facilities were available at September 30, 2011 for future financing needs.

Currently the company is experiencing substantial delay with one fast, crew/supply boat under construction in Brazil that was originally scheduled to be delivered in September of 2009. On April 5, 2011, pursuant to the vessel construction contract, the company sent the subject shipyard a letter initiating arbitration in order to resolve disputes of such matters as the shipyard's failure to achieve payment milestones, its failure to follow the construction schedule, and its failure to timely deliver the vessel. The company continues to pursue that arbitration.

Certain of the company's vessels under construction are committed to work under customer contracts that provide for the payment of stipulated damages by the company or its subsidiaries in certain cases of late delivery or substantial reductions in rates for the inability to timely deliver a vessel that satisfies the technical specifications of the contract. Delays in the expected deliveries of any of these vessels could result in these penalties being imposed by our customers. In the opinion of management, the amount of ultimate liability, if any, with respect to these penalties will likely not have a material adverse effect on the company's financial position, results of operations, or cash flows.

The company generally requires shipyards to provide third party credit support in the event that vessels are not completed and delivered in accordance with the terms of the shipbuilding contracts. That third party credit support typically guarantees the return of amounts paid by the company, and generally takes the form of refundment guarantees or standby letters of credit issued by major financial institutions located in the country of the shipyard. While the company seeks to minimize its shipyard credit risk by requiring these instruments, the ultimate return of amounts paid by the company in the event of shipyard default is still subject to the creditworthiness of the shipyard and the provider of the credit support, as well as the company's ability to successfully pursue legal action to compel payment of these instruments. When third party credit support is not available or cost effective, the company endeavors to limit its credit risk through cash deposits and other contract terms with the shipyard and other counterparties.

**Merchant Navy Officers Pension Fund.** A current subsidiary of the company is a participating employer in an industry-wide multi-employer retirement fund in the United Kingdom, known as the Merchant Navy Officers Pension Fund (MNOF). The company has been informed by the Trustee of the MNOF that the Fund has a deficit that will require contributions from the participating employers. The amount and timing of the company's share of the fund's deficit depends on a number of factors, including updated calculations of the total fund deficit, theories of contribution imposed as determined by and within the scope of the Trustee's authority, the number of then participating solvent employers, and the final formula adopted to allocate the required contribution among such participating employers. The amount payable to MNOF based on assessments was \$7.5 million at September 30, 2011 and \$9.6 million at March 31, 2011, all of which has been accrued. Payments totaling \$2.0 million were made into the fund during the quarter ended September 30, 2011. During the quarter ended September 30, 2010, the company recorded an additional liability of \$6.0 million and made



payments totaling \$0.9 million into the fund. In the future, the fund's trustee may claim that the company owes additional amounts for various reasons, including negative fund investment returns as reflected in a preliminary future actuarial valuation, or the inability of other assessed participating employers to contribute their share of respective allocations, failing which, the company and other solvent participating employers will be asked for additional contributions. In October 2010, the Trustee advised the company of its intention to accelerate previously agreed installment payments for the company and other participating employers in the scheme. This means that the company is either required to pay the outstanding deficit contribution of approximately \$7.5 million at September 30, 2011 immediately or to provide security in a form to be agreed by the Trustee. In discussions with the Trustee, the company was advised that pursuant to the Trustee's broad discretion, it was reviewing the installment option for all participating employers and that any agreement for payments to be made by installments must be supported by security. The company has objected to that decision. In the interim, the company continues its historical practice to pay the installments as and when they fall due.

**Brazilian Customs.** In April 2011, two Brazilian subsidiaries of Tidewater were notified by the Customs Office in Macae, Brazil that they were jointly and severally being assessed fines amounting to approximately \$98.7 million. The assessment of these fines is for the alleged failure of these subsidiaries to obtain import licenses with respect to 17 Tidewater vessels that provided Brazilian offshore vessel services to Petrobras, the Brazilian national oil company, over a three-year period ended December 2009. Tidewater and its Brazilian subsidiaries believe that vessels that provide services under contract to the Brazilian offshore oil and gas industry are deemed, under applicable law and regulations, to be temporarily imported into Brazil, and thus exempt from the import license requirement. The Macae Customs Office has now, without a change in the underlying law, taken the position that the temporary importation exemption is only available to new, and not used, goods imported into Brazil and therefore it was improper for the company to deem its vessels as being temporarily imported. The fines have been assessed based on this new interpretation of Brazilian customs law taken by the Macae Office. The company believes that the assessment is without legal justification and that the Macae Customs Office has misinterpreted applicable Brazilian law on duties and customs. The company is vigorously contesting these fines (which it has not paid nor accrued for) and, based on the advice of its Brazilian counsel, believes that it has a high probability of success with respect to the overturn of the entire amount of the fines, either at the administrative appeal level or, if necessary, in Brazilian courts. The company believes that the ultimate resolution will not have a material effect on the consolidated financial statements.

**Potential for Future Brazilian State Tax Assessment.** The company is aware that a Brazilian state in which the company has operations has notified two of the company's competitors that they are liable for unpaid taxes (and penalties and interest thereon) for failure to pay state import taxes with respect to vessels that such competitors operate within the coastal waters of such state pursuant to charter agreements. The import tax being asserted is equal to a percentage (which could be as high as 16% for vessels entering that state's waters prior to December 31, 2010 and 3% thereafter) of the affected vessels' declared values. The company understands that the two companies involved are contesting the assessment through administrative proceedings before the taxing authority.

To date, the company's two Brazilian subsidiaries, as well as vessels for all other competitors (more than a hundred competitors) have not been similarly notified by the Brazilian state that it has an import tax liability related to its vessel activities imported through that state. Although the company has been advised by its Brazilian tax counsel that substantial defenses would be available if a similar tax claim was asserted against the company, if an import tax claim were to be asserted, it could be for a substantial amount given that the company has had substantial and continuing operations through the state (although the amount could fluctuate significantly depending on the administrative determination of the taxing authority as to the rate to apply, the vessels subject to the levy and the time periods covered). In addition, under certain circumstances, the company might be required to post a bond or other adequate security in the amount of the assessment (plus any interest and penalties) if it became necessary to challenge the assessment in a Brazilian court. The statute of limitations for the Brazilian state to levy an assessment of the import tax is five years from the date of a vessel's entry into Brazil. The company has not yet determined the potential tax assessment and according to the Brazilian tax counsel chances of defeating a possible claim/notification from the State authorities in court are probable. To obtain legal certainty and predictability for future charter agreements and because the company was importing a vessel to start a new charter in Brazil, the company filed a suit on August 22, 2011 against the Brazilian state and judicially deposited the respective state tax for this newly

imported vessel. As of September 30, 2011, no accrual has been recorded for any liability associated with any potential future assessment for previous periods based on management's assessment, after consultation with Brazilian counsel, that a liability for such taxes was not probable.

**Shareholder Derivative Suit.** In mid-February 2011, an individual claiming to be a Tidewater shareholder filed a shareholder derivative suit in the U.S. District Court for the Eastern District of Louisiana. The defendants in the suit are individual directors and certain officers of Tidewater Inc. Tidewater Inc. is also a nominal defendant in the lawsuit. The suit asserts various causes of action, including breach of fiduciary duty, against the individual defendants in connection with the facts and circumstances giving rise to the settlements with the DOJ and SEC and seeks a number of remedies against the individual defendants and the company as a result. While the company will incur costs in connection with the defense of this law suit, the suit does not seek monetary damages against the company. The individual defendants and the company have retained legal counsel. The lawsuit is still in an early stage.

**Legal Proceedings.** 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.

#### Completion of Internal Investigation and Settlements with United States and Nigerian Agencies

A full discussion on the company's internal investigation on its Nigerian operations is contained in Item 1 of this Form 10-Q.

#### Contractual Obligations and Other Commercial Commitments

The following table summarizes the company's consolidated contractual obligations as of September 30, 2011 for the remaining months of fiscal 2012, and the next four fiscal years and thereafter, and the effect such obligations, inclusive of interest costs, are expected to have on the company's liquidity and cash flows in future periods. The company did not have any other material changes in its contractual obligations and commercial commitments other than in the ordinary course of business since the end of fiscal 2011. Refer to the company's Annual Report on Form 10-K for additional information regarding the company's contractual obligations and commercial commitments.

| (In thousands)                       | Total        | Payments Due by Fiscal Year |         |         |        |         | More Than<br>5 Years |
|--------------------------------------|--------------|-----------------------------|---------|---------|--------|---------|----------------------|
|                                      |              | 2012                        | 2013    | 2014    | 2015   | 2016    |                      |
| August 2011 Senior Notes             | \$ 165,000   | ---                         | ---     | ---     | ---    | ---     | 165,000              |
| August 2011 Senior Notes Interest    | 64,587       | 3,650                       | 7,301   | 7,301   | 7,301  | 7,301   | 31,733               |
| September 2010 Senior Notes          | \$ 425,000   | ---                         | ---     | ---     | ---    | 42,500  | 382,500              |
| September 2010 Senior Notes Interest | 149,859      | 9,021                       | 18,041  | 18,041  | 18,042 | 17,693  | 69,021               |
| July 2003 Senior Notes               | 235,000      | ---                         | 60,000  | 140,000 | ---    | 35,000  | ---                  |
| July 2003 Senior Notes Interest      | 19,736       | 5,208                       | 8,692   | 3,685   | 1,613  | 538     | ---                  |
| Vessel purchase obligations          | 147,594      | 132,669                     | 14,925  | ---     | ---    | ---     | ---                  |
| Vessel construction obligations      | 355,118      | 173,539                     | 149,427 | 32,152  | ---    | ---     | ---                  |
| Total obligations                    | \$ 1,561,894 | 324,087                     | 258,386 | 201,179 | 26,956 | 103,032 | 648,254              |

A discussion regarding the company's vessel construction commitments is disclosed in the "Vessel Count, Dispositions, Acquisitions and Construction Programs" section above. The company did not have any other material changes in its contractual obligations and commercial commitments other than in the ordinary course of business since the end of fiscal 2011. Refer to the company's Annual Report on Form 10-K for additional information regarding the company's contractual obligations and commercial commitments.

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**Off-Balance Sheet Arrangements**

***Fiscal 2010 Sale/Leaseback***

In June 2009, the company sold five vessels to four unrelated third-party companies, and simultaneously entered into bareboat charter agreements for the vessels with the purchasers. In July 2009, the company sold an additional vessel to an unrelated third-party company, and simultaneously entered into a bareboat charter agreement with that purchaser.

The sale/leaseback transactions resulted in proceeds to the company of approximately \$101.8 million and a deferred gain of \$39.6 million. The aggregate carrying value of the six vessels was \$62.2 million at the dates of sale. The leases on the five vessels sold in June 2009 will expire June 30, 2014, and the lease on the vessel sold in July 2009 will expire July 30, 2014. The company is accounting for the transactions as sale/leaseback transactions with operating lease treatment and expenses lease payments over the five year charter hire operating lease terms.

Under the sale/leaseback agreements, the company has the right to either re-acquire the six vessels at 75% of the original sales price or cause the owners to sell the vessels to a third-party under an arrangement where the company guarantees approximately 84% of the original lease value to the third party purchaser. The company also has the right to re-acquire the vessels prior to the end of the charter term with penalties of up to 5% assessed if purchased in years one and two of the five year lease. The company will recognize the deferred gain as income if it does not exercise its option to purchase the six vessels at the end of the operating lease term. If the company exercises its option to purchase these vessels, the deferred gain will reduce the vessel's stated cost after exercising the purchase option.

***Fiscal 2006 Sale/Leaseback***

In March 2006, the company entered into agreements to sell five of its vessels that were under construction at the time to Banc of America Leasing & Capital LLC (BOAL&C), an unrelated third party, for \$76.5 million and simultaneously enter into bareboat charter agreements with BOAL&C upon the vessels' delivery to the market. Construction on these five vessels was completed at various times between March 2006 and March 2008, at which time the company sold the respective vessels and simultaneously entered into bareboat charter agreements.

The company accounted for all five transactions as sale/leaseback transactions with operating lease treatment. Accordingly, the company did not record the assets on its books and the company is expensing periodic lease payments.

The bareboat charter agreements on the first two vessels expire in calendar year 2014 unless extended. The company has the option to extend the respective bareboat charter agreements three times, each for a period of 12 months, which would provide the company the opportunity to extend the operating leases through calendar year 2017. The bareboat charter agreements on the third and fourth vessels expire in 2015 and the company has the option to extend the bareboat charter agreements three times, each for a period of 12 months, which would provide the company the opportunity to extend the operating leases through calendar year 2018. The bareboat charter agreement on the fifth vessel expires in 2016 and the company has the option to extend the bareboat charter agreements three times, each for a period of 12 months, which would provide the company the opportunity to extend the operating leases through calendar year 2019. At the end of the basic term (or extended option periods), the company has an option to purchase each of the vessels at its then fair market value or to redeliver the vessel to its owner. The company may also purchase each of the vessels at their fixed amortized values, as outlined in the bareboat charter agreements, at the end of the fifth year, and again at the end of the seventh year, from the commencement dates of the respective charter agreements.

**Future Minimum Lease Payments**

As of September 30, 2011, the future minimum lease payments for the vessels under the operating lease terms are as follows:

| Fiscal year ending (In thousands) | Fiscal 2010    |                               | Total  |
|-----------------------------------|----------------|-------------------------------|--------|
|                                   | Sale/Leaseback | Fiscal 2006<br>Sale/Leaseback |        |
| Remaining nine months of 2012     | \$ 5,351       | 3,462                         | 8,813  |
| 2013                              | 10,702         | 6,924                         | 17,626 |
| 2014                              | 10,703         | 6,906                         | 17,609 |
| 2015                              | 2,836          | 5,243                         | 8,079  |
| 2016                              | ---            | 2,304                         | 2,304  |
| Thereafter                        | ---            | ---                           | ---    |
| Total future lease payments       | \$ 29,592      | 24,839                        | 54,431 |

For the quarter and the six-month periods ended September 30, 2011 and 2010, the company expensed approximately \$4.5 million and \$9.0 million, respectively, on all of its bareboat charter arrangements.

**Goodwill**

For information regarding the \$30.9 million non-cash goodwill impairment recorded during the quarter ended September 30, 2011, please refer to Note (11) of Notes to Unaudited Condensed Consolidated Financial Statements included in Part I, Item 1 of this report.

**Application of Critical Accounting Policies and Estimates**

The company's Annual Report on Form 10-K for the year ended March 31, 2011, filed with the Securities and Exchange Commission on May 19, 2011, describes the accounting policies that are critical to reporting the company's financial position and operating results and that require management's most difficult, subjective or complex judgments. This Quarterly Report on Form 10-Q should be read in conjunction with the discussion contained in the company's Annual Report on Form 10-K for the year ended March 31, 2011, regarding these critical accounting policies.

**New Accounting Pronouncements**

For information regarding the effect of new accounting pronouncements, refer to Note (9) of Notes to Unaudited Condensed Consolidated Financial Statements included in Part I, Item 1 of this report.

**Effects of Inflation**

Day-to-day operating costs are generally affected by inflation. Because the energy services industry requires specialized goods and services, general economic inflationary trends may not affect the company's operating costs. The major impact on operating costs is the level of offshore exploration, field development and production spending by energy exploration and production companies. As spending increases, prices of goods and services used by the energy industry and the energy services industry will increase. Future increases in vessel day rates may shield the company from the inflationary effects on operating costs.

The company's newer technologically sophisticated anchor handling towing supply vessels and platform supply vessels generally require a greater number of specially trained fleet personnel than the company's older, smaller vessels. Competition for skilled crews may intensify, particularly in international markets, as new build vessels currently under construction enter the global fleet. If competition for personnel intensifies, the market for experienced crews could exert upward pressure on wages, which would likely increase the company's crew costs.

Strong fundamentals in the global energy industry experienced in the past few years have also increased the activity levels at shipyards worldwide and, until the calendar year 2008-2009 global recession, the price of steel had increased dramatically due to increased worldwide demand for the metal. The price of steel continues to be high by historical standards. Although prices eased with the reduced global demand for steel in recent years, availability of iron ore, the main component of steel, is tighter today than in 2005 when prices for iron ore increased dramatically. Steel consumption increased during calendar year 2010 and into the first



half of calendar 2011 but is expected to wane if the economic recovery loses momentum. If the price of steel declines, the cost of new vessels will result in lower capital expenditures and depreciation expenses which will increase the company's future operating profits, unless day rates decrease commensurately.

### **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 procedures for safeguarding the environment against any hazardous materials aboard its vessels and at shore-based 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.

### **ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK**

Market risk refers to the potential losses arising from changes in interest rates, foreign currency fluctuations and exchange rates, equity prices and commodity prices including the correlation among these factors and their volatility. The company is primarily exposed to interest rate risk and foreign currency fluctuations and exchange risk. The company enters into derivative instruments only to the extent considered necessary to meet its risk management objectives and does not use derivative contracts for speculative purposes.

#### **Interest Rate Risk and Indebtedness**

Changes in interest rates may result in changes in the fair market value of the company's financial instruments, interest income and interest expense. The company's financial instruments that are exposed to interest rate risk are its cash equivalents and long-term borrowings. Due to the short duration and conservative nature of the cash equivalent investment portfolio, the company does not expect any material loss with respect to its investments. The book value for cash equivalents is considered to be representative of its fair value.

#### ***Revolving Credit and Term Loan Agreement***

Please refer to the Liquidity, Capital Resources and Other Matters section of this report for a discussion on the company's revolving credit and term loan agreement.

***August 2011 Senior Notes***

On August 15, 2011, the company issued \$165.0 million of senior unsecured notes to a group of institutional investors. The multiple series of notes were originally issued with maturities ranging from approximately eight to 10 years, and have a weighted average life to maturity of approximately 9.1 years as of September 30, 2011. The notes may be retired before their respective scheduled maturity dates subject only to a customary make-whole provision. The weighted average coupon rate on the notes is 4.42%. The terms of the notes require that the company maintain a minimum ratio of debt to consolidated total capitalization that does not exceed 55%. The fair value of this debt at September 30, 2011 was estimated to be \$173.3 million.

Because the debt outstanding at September 30, 2011 bears interest at fixed rates, interest expense would not be impacted by changes in market interest rates. A 100 basis-point increase in market interest rates would result in a decrease in the estimated fair value of this debt at September 30, 2011 of approximately \$12.3 million. A 100 basis-point decrease in market interest rates would result in an increase in the estimated fair value of this debt at September 30, 2011 of approximately \$13.4 million.

***September 2010 Senior Notes***

At September 30, 2011, the company had \$425.0 million outstanding of senior unsecured notes that were issued to a group of institutional investors in September 2010. On October 15, 2010, the company completed the sale of \$310.0 million of these notes, and the sale of an additional \$115.0 million of the notes was completed on December 30, 2010. The multiple series of notes were originally issued with maturities ranging from five to 12 years, and have a weighted average life to maturity of approximately 8.1 years as of September 30, 2011. The notes may be retired before their respective scheduled maturity dates subject only to a customary make-whole provision. The weighted average coupon rate on the notes is 4.25%. The terms of the notes require that the company maintain a minimum ratio of debt to consolidated total capitalization that does not exceed 55%. The fair value of this debt at September 30, 2011 was estimated to be \$445.8 million.

Because the debt outstanding at September 30, 2011 bears interest at fixed rates, interest expense would not be impacted by changes in market interest rates. A 100 basis-point increase in market interest rates would result in a decrease in the estimated fair value of this debt at September 30, 2011 of approximately \$29.0 million. A 100 basis-point decrease in market interest rates would result in an increase in the estimated fair value of this debt at September 30, 2011 of approximately \$31.6 million.

***July 2003 Senior Notes***

At September 30, 2011, the company had \$235.0 million outstanding of senior unsecured notes that were issued in July 2003. The multiple series of notes were originally issued with maturities ranging from seven to 12 years, and had a weighted average remaining life of 1.9 years as of September 30, 2011. These notes can be retired in whole or in part prior to maturity for a redemption price equal to the principal amount of the notes redeemed plus a customary make-whole premium. The weighted average coupon rate on the notes outstanding is 4.43%. The terms of the notes provide for a maximum ratio of consolidated debt to total capitalization of 55%. The fair value of this debt at September 30, 2011 was estimated to be \$244.1 million.

Because the debt outstanding at September 30, 2011 bears interest at fixed rates, interest expense would not be impacted by changes in market interest rates. A 100 basis-point increase in market interest rates would result in a decrease in the estimated fair value of this debt at September 30, 2011 of approximately \$4.3 million. A 100 basis-point decrease in market interest rates would result in an increase in the estimated fair value of this debt at September 30, 2011 of approximately \$4.4 million.

**Foreign Exchange Risk**

The company's financial instruments that can be affected by foreign currency fluctuations and exchange risks consist primarily of cash and cash equivalents, trade receivables and trade payables denominated in currencies other than the U.S. dollar. The company periodically enters into spot and forward derivative financial instruments as a hedge against foreign currency denominated assets and liabilities, currency commitments, or to lock in desired interest rates. Spot derivative financial instruments are short-term in nature and settle within two business days. The fair value of spot derivatives approximates the carrying value due to

the short-term nature of this instrument, and as a result, no gains or losses are recognized. Forward derivative financial instruments are generally longer-term in nature but generally do not exceed one year. The accounting for gains or losses on forward contracts is dependent on the nature of the risk being hedged and the effectiveness of the hedge.

#### *Derivatives*

The company had two foreign exchange spot contracts outstanding at September 30, 2011, which totaled an aggregate notional value of \$1.5 million. The two spot contracts settled by October 3, 2011. The company had nine foreign exchange spot contracts outstanding at March 31, 2011, which totaled an aggregate notional value of \$3.6 million. All nine spot contracts settled by April 4, 2011.

At September 30, 2011, the company had two British pound forward contracts outstanding totaling \$7.7 million, which are generally intended to hedge the company's foreign exchange exposure relating to its MNOPF liability as disclosed in Note (6) to Notes to Unaudited Condensed Consolidated Financial Statements and elsewhere in this document. The forward contracts have expiration dates between March 2012 and June 2012. The combined change in fair value of the forward contracts was approximately \$0.1 million, which was recorded as a foreign exchange gain during the six months ended September 30, 2011, because the forward contracts did not qualify as hedge instruments. All changes in fair value of the forward contracts were recorded in earnings.

At March 31, 2011, the company had three British pound forward contracts outstanding, related to the company's foreign exchange exposure on its MNOPF liability. The three forward contracts totaled a U.S. dollar equivalent of approximately \$8.2 million. The combined change in fair value of these forward contracts at March 31, 2011 was approximately \$0.3 million, all of which was recorded as a foreign exchange gain during the fiscal year ended March 31, 2011, because the forward contracts did not qualify as hedge instruments.

#### *Other*

Due to the company's global operations, the company is exposed to foreign currency exchange rate fluctuations and exchange rate risks on all charter hire contracts denominated in foreign currencies. For some of our non-U.S. contracts, a portion of the revenue and local expenses are incurred in local currencies with the result that the company is at risk of changes in the exchange rates between the U.S. dollar and foreign currencies. We generally do not hedge against any foreign currency rate fluctuations associated with foreign currency contracts that arise in the normal course of business, which exposes us to the risk of exchange rate losses. To minimize the financial impact of these items, the company attempts to contract a significant majority of its services in U.S. dollars. In addition, the company attempts to minimize its financial impact of these risks, by matching the currency of the company's operating costs with the currency of the revenue streams when considered appropriate. The company continually monitors the currency exchange risks associated with all contracts not denominated in U.S. dollars.

### **ITEM 4. CONTROLS AND PROCEDURES**

#### **CEO and CFO Certificates**

Included as exhibits to this Quarterly Report on Form 10-Q are Certifications of the Chief Executive Officer and the Chief Financial Officer. The first form of certification is required in accordance with Section 302 of the Sarbanes-Oxley Act of 2002. This section of the Quarterly Report contains the information concerning the controls evaluation referred to in the Section 302 Certifications and this information should be read in conjunction with the Section 302 Certifications for a more complete understanding of the topics presented.

#### **Evaluation of Disclosure Controls and Procedures**

Disclosure controls and procedures are designed with the objective of ensuring that all information required to be disclosed in our reports filed under the Securities Exchange Act of 1934 ( Exchange Act ), such as this report, is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by an issuer in the reports that it files or submits under the Exchange Act is accumulated and communicated to the issuer's management, including its chief executive and chief financial officers, or person performing similar functions,



as appropriate to allow timely decisions regarding required disclosure. However, any control system, no matter how well conceived and followed, can provide only reasonable, and not absolute, assurance that the objectives of the control system are met.

The company evaluated, under the supervision and with the participation of the company's management, including the company's Chairman of the Board, President and Chief Executive Officer and Chief Financial Officer, the effectiveness of the design and operation of the company's disclosure controls and procedures (as defined in Rule 13a-15(e) and 15d-15(e) under the Exchange Act, as amended), as of the end of the period covered by this report. Based on that evaluation, the company's Chairman of the Board, President and Chief Executive Officer along with the company's Chief Financial Officer concluded that the company's disclosure controls and procedures are effective in timely alerting them to material information relating to the company (including its consolidated subsidiaries) required to be disclosed in the reports the company files and submits under the Exchange Act.

#### **Changes in Internal Control Over Financial Reporting**

There was no change in the company's internal control over financial reporting that occurred during the quarter ended September 30, 2011, that has materially affected, or is reasonably likely to materially affect, the company's internal control over financial reporting.

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**PART II. OTHER INFORMATION**

**ITEM 1. LEGAL PROCEEDINGS**

**Shareholder Derivative Suit**

In mid-February 2011, an individual claiming to be a Tidewater shareholder filed a shareholder derivative suit in the U.S. District Court for the Eastern District of Louisiana. The defendants in the suit are individual directors and certain officers of Tidewater Inc. Tidewater Inc. is also a nominal defendant in the lawsuit. The suit asserts various causes of action, including breach of fiduciary duty, against the individual defendants in connection with the facts and circumstances giving rise to the settlements with the DOJ and SEC and seeks a number of remedies against the individual defendants and the company as a result. While the company will incur costs in connection with the defense of this law suit, the suit does not seek monetary damages against the company. The individual defendants and the company have retained legal counsel. The lawsuit is still in an early stage.

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 1A. RISK FACTORS**

There have been no material changes to the risk factors as previously disclosed in Item 1A in the company's Annual Report on Form 10-K for the year ended March 31, 2011, filed with the Securities and Exchange Commission on May 19, 2011.

**ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS**

**Common Stock Repurchase Program**

In May 2011, the company's Board of Directors replaced its then existing July 2009 share repurchase program with a new \$200.0 million repurchase program that is effective through June 30, 2012. The Board of Directors authorized the company to repurchase shares of its common stock in open-market or privately-negotiated transactions. The company uses its available cash and, when considered advantageous, borrowings under its revolving credit facility, or other borrowings, to fund any share repurchases. The company will evaluate share repurchase opportunities relative to other investment opportunities and in the context of current conditions in the credit and capital markets.

No amounts were expended from inception of the May 2011 authorized program through September 30, 2011, and the \$200.0 million authorization remains available to repurchase shares under the May 2011 share repurchase program at September 30, 2011.

**ITEM 3. DEFAULTS UPON SENIOR SECURITIES**

None.

**ITEM 4. RESERVED**

None.

**ITEM 5. OTHER INFORMATION**

None.

**ITEM 6. EXHIBITS**

The information required by this Item 6 is set forth in the Index to Exhibits accompanying this quarterly report on Form 10-Q.

**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, Registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

TIDEWATER INC.  
(Registrant)

Date: November 4, 2011

/s/ Dean E. Taylor  
Dean E. Taylor  
Chairman of the Board, President and  
Chief Executive Officer

Date: November 4, 2011

/s/ Quinn P. Fanning  
Quinn P. Fanning  
Executive Vice President and Chief Financial Officer

Date: November 4, 2011

/s/ Craig J. Demarest  
Craig J. Demarest  
Vice President, Principal Accounting Officer and Controller

**EXHIBIT INDEX**

| Exhibit<br>Number | Description   |
|-------------------|---|
| 15*               | Letter re Unaudited Interim Financial Information   |
| 31.1*             | Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002                      |
| 31.2*             | Certification of Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.                     |
| 32.1*             | Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |
| 101*              | Interactive Data File.  |
| * Filed herewith  |   |

+ Indicates a management contract or compensatory plan or arrangement.