TIDEWATER INC
Form 10-Q
November 04, 2011

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

601 Poydras St., Suite 1900

New Orleans, Louisiana 70130

(Address of principal executive offices) (zip code)

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

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 x No ¨

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

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

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

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

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, 2011	March 31, 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
Total current assets		658,043	579,147
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
Total assets	$	3,896,207	3,748,116
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
Total current liabilities		211,862	183,589
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

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)
Total stockholders equity		2,512,560	2,513,944
Total liabilities and stockholders equity	$	3,896,207	3,748,116

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 September 30,		Six Months Ended September 30,	
	2011	2010	2011	2010
Revenues:				
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
Costs and expenses:				
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
Other income (expenses):				
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 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

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 September 30, 2011	2010	Six Months Ended September 30, 2011	2010
Value of common stock repurchased	$ ---	---	---	20,000
Shares of common stock repurchased	---	---	---	486,800

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.

		Quarter Ended September 30,		Six Months Ended September 30,	
(In thousands, except dividend per share)		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:

		Quarter Ended September 30,		Six Months Ended September 30,	
(In thousands)		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:

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

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, 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, 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, 2011	March 31, 2011

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:

		Quarter Ended September 30,		Six Months Ended September 30,	
(In thousands)		2011	2010	2011	2010
Pension Benefits:					
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
Other Benefits:					
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 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, 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, 2011	March 31, 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, 2011	March 31, 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:

		Quarter Ended September 30,		Six Months Ended September 30,	
(In thousands)		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:

(In thousands, except vessel count)	Number of Vessels		Total Cost	Invested Through 9/30/11	Remaining Balance 09/30/11
Vessels under construction:					
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
Total vessels under construction	28		660,364	305,246	355,118
Vessels to be purchased:					
Anchor handling towing supply	10		136,625	19,565	117,060
Platform supply vessels	2		38,035	7,501	30,534
Total vessels to be purchased	12		174,660	27,066	147,594
Total vessel commitments	40	$	835,024	332,312	502,712

TIDEWATER INC.

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.

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 (MNOPF). The company has been informed by the Trustee of the MNOPF 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 MNOPF 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

TIDEWATER INC.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

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 active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Equity securities:				
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	---	---
Debt securities:				
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	---
Total	$ 17,012	14,338	2,674	---
Other pending transactions	(254)	(254)	---	---
Total fair value of plan assets	$ 16,758	14,084	2,674	---

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 active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Equity securities:				
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	---	---
Debt securities:				
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	---
Total	$ 18,334	15,930	2,404	---
Other pending transactions	(291)	(291)	---	---
Total fair value of plan assets	$ 18,043	15,639	2,404	---

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)

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.

	Quarter Ended September 30,		Six Months Ended September 30,	
(In thousands, except number of assets)	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, 2011	March 31, 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