

TIDEWATER INC  
Form 10-K  
May 30, 2006  
Table of Contents

Index to Financial Statements

---

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

**Washington, D.C. 20549**

---

**FORM 10-K**

x **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**  
For the Fiscal Year Ended March 31, 2006

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, including zip code)

**(504) 568-1010**

(Registrant's telephone number, including area code)

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

Title of each class	Name of each exchange on which registered
Common Stock, par value \$0.10	New York Stock Exchange, Pacific Stock Exchange

## Edgar Filing: TIDEWATER INC - Form 10-K

Preferred Stock Purchase Rights

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

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes  No

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

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

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

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

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

**Table of Contents**

**Index to Financial Statements**

The aggregate market value of the voting common stock held by non-affiliates of the registrant as of September 30, 2005, was approximately \$2,774,962,198 based upon the last sales price reported for such date. Excluded from the calculation of market value are 3,031,240 shares held by the Registrant's grantor stock ownership trust.

58,161,207 shares of Tidewater Inc. common stock \$0.10 par value per share were outstanding on April 7, 2006. Excluded from the calculation of shares outstanding at April 7, 2006 are 2,148,957 shares held by the Registrant's grantor stock ownership trust. Registrant has no other class of common stock outstanding.

**DOCUMENTS INCORPORATED BY REFERENCE**

Portions of the Proxy Statement for Registrant's 2006 Annual Meeting of Stockholders are incorporated into Part III of this report.

**TABLE OF CONTENTS**

**Part I**

<b>Item Number</b>	<b>Page</b>
1. <u>Business</u>	3
1A. <u>Risk Factors</u>	10
1B. <u>Unresolved Staff Comments</u>	11
2. <u>Properties</u>	12
3. <u>Legal Proceedings</u>	12
4. <u>Submission of Matters to a Vote of Security Holders</u>	12

**Part II**

5. <u>Market for the Registrant's Common Stock and Related Stockholder Matters</u>	13
6. <u>Selected Financial Data</u>	14
7. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	15
7A. <u>Quantitative and Qualitative Disclosures About Market Risk</u>	36
8. <u>Financial Statements and Supplementary Data</u>	37
9. <u>Changes in and Disagreements with Accountants on Accounting and Financial Disclosure</u>	37
9A. <u>Controls and Procedures</u>	38
9B. <u>Other Information</u>	38

**Part III**

10. <u>Directors and Executive Officers of the Registrant</u>	39
11. <u>Executive Compensation</u>	39
12. <u>Security Ownership of Certain Beneficial Owners and Management</u>	40
13. <u>Certain Relationships and Related Transactions</u>	40
14. <u>Principal Accounting Fees and Services</u>	40

**Part IV**

15. <u>Exhibits, Financial Statement Schedules and Reports on Form 8-K</u>	41
<b><u>SIGNATURES</u></b>	<b>45</b>

---

**Table of Contents**

**Index to Financial Statements**

***Forward-looking Information and Cautionary Statement***

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

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

**PART I**

**ITEM 1. BUSINESS**

**General**

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

With a fleet of over 520 vessels at March 31, 2006, including 67 stacked vessels, 66 vessels withdrawn from service and 22 vessels operated pursuant to joint venture or other agreements, the company operates and has a strong presence in most of the world's significant oil and gas exploration and production markets and provides services supporting all phases of offshore exploration, development and production, including: towing of and anchor handling of mobile drilling rigs and equipment; transporting supplies and personnel necessary to sustain drilling, workover and production activities; assisting in offshore construction activities; and a variety of specialized services including pipe laying, cable laying and 3-D seismic work.

**Website Access to Company Reports**

The company's Internet website address is <http://www.tdw.com>. The company makes available free of charge, on or through its website, its annual reports on Form 10-K, quarterly reports on Form 10-Q and current reports on Form 8-K and any amendments to those reports, as soon as reasonably practicable after they are electronically filed with the Securities and Exchange Commission. The public may read and copy any materials the company has filed with the SEC at the SEC's Public Reference Room at 450 Fifth Street,

---

**Table of Contents**

**Index to Financial Statements**

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

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

**Business Highlights**

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

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

In July 2005, the company's Board of Directors authorized the company to spend up to \$120.0 million to repurchase shares of its common stock. Repurchases are made through open market or privately-negotiated transactions. The company intends to use its available cash and, when considered advantageous, borrowings under its revolving credit facility to fund the share repurchases. The Board of Directors' authorization for this repurchase program will expire when all authorized funds have been expended or on June 30, 2006, unless extended by the Board of Directors. As of March 31, 2006, the company spent \$20.8 million for the repurchase and cancellation of 455,000 common shares, or an average price paid per common share of \$45.64. At March 31, 2006, approximately \$99.2 million was available to repurchase shares of the company's common stock pursuant to the stock repurchase program.

The provisions of the American Jobs Creation Act of 2004 (the Act), were effective for the company as of April 1, 2005, and allowed the company to omit recording deferred tax assets or liabilities on future undistributed earnings of most non-U.S. subsidiaries and business ventures that it considers indefinitely reinvested abroad. At March 31, 2005, the company reversed all previously recorded deferred tax assets and liabilities related to timing differences, foreign tax credits, or prior undistributed earnings of these entities whose future and prior earnings are now anticipated to be indefinitely reinvested abroad. This resulted in an approximate \$31.8 million reduction of income tax expense in the fourth quarter of fiscal 2005.

---

**Table of Contents**

**Index to Financial Statements**

In late March 2004, the company concluded based on mounting extrinsic evidence that low drilling activity levels in the Gulf of Mexico due to a prolonged weakness in the domestic market could possibly persist for a period of time. In March 2004, the company's management performed a review of the recoverability of the values of its Gulf of Mexico operating assets and recorded a non-cash asset impairment charge of \$26.5 million (\$17.2 million after tax, or \$0.30 per share) relating to 83 older Gulf of Mexico supply vessels that had been stacked for as long as several years and were viewed as unlikely to return to active service. The impairment charge was taken to adjust the carrying value of these assets to fair value at March 31, 2004. A full discussion of the impairment of long-lived assets is disclosed in Impairment of Long-lived Assets section of Item 7 and Note 3 of Notes to Consolidated Financial Statements. In the fourth quarter of fiscal 2005, the company reviewed, for impairment purposes, all stacked vessels and vessels withdrawn from service and recorded a non-cash impairment charge of \$1.7 million (\$1.1 million after tax, or \$0.02 per share) to reduce the carrying amount of 10 stacked vessels as to which an impairment charge had not been taken in fiscal 2004 but which were subsequently identified as being unlikely to return to active service. An impairment review during fiscal 2006 resulted in a non-cash impairment charge of approximately \$3.1 million (\$2.0 million after tax, or \$0.03 per share) on eight additional vessels that are withdrawn from service as to which an impairment charge had not been taken previously.

Six years have passed since the company embarked on its aggressive new-build vessel construction and acquisition program which facilitated the company's entrance into the deepwater markets of the world and allowed the company to begin to replace its core fleet with fewer, larger, more efficient vessels. During this time the company purchased and/or constructed 28 anchor handling towing supply vessels for approximately \$539.9 million, of which 11 are deepwater vessels. The company also added 38 platform supply vessels during this time for approximately \$607.6 million, of which 23 are deepwater platform supply vessels, 14 are U.S. built replacement vessels (vessels intended to replace the company's core fleet) and one is an international built replacement vessel. The company also expanded its crewboat fleet by 43 vessels and increased its other type of vessels by four vessels in the past six years for an approximate cost of \$154.1 million. Twenty-five of the crewboats and other type of vessels were built in the U.S. while 22 were built by international shipyards.

The vessel construction and acquisition program and the expansion program were initiated with the intent of strengthening the company's strong presence in all major oil and gas producing regions of the world through the replacement of the company's core fleet. In order to avoid potential overcapacity in our markets that could be created through the addition of the vessels discussed above, the company sold, primarily to buyers who operate outside of our industry, and/or scrapped 219 vessels between April 2000 and March 2006.

To date, the company has funded all of its vessel commitment programs from current cash balances, operating cash flow, and funds provided by its \$300 million senior unsecured notes and its revolving credit facility. At March 31, 2006, the company had 13 vessels under construction for a total capital commitment of \$175.3 million, of which the company has already expended \$61.0 million. A full discussion of each event including capital commitments and scheduled delivery dates is disclosed in the Vessel Construction Programs and Acquisitions and Vessel Dispositions section of Item 7 and Note 10 of Notes to Consolidated Financial Statements.

**Areas of Operation**

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

**Table of Contents****Index to Financial Statements**

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

(In thousands)	2006	2005	2004
<b>Revenues:</b>			
Vessel operations:			
United States	\$ 180,374	118,288	125,344
International	666,608	537,238	500,604
Other marine operations	30,635	36,624	26,682
	\$ 877,617	692,150	652,630
<b>Operating profit (loss):</b>			
Vessel operations:			
United States	\$ 61,227	2,022	(17,715)
International	186,044	95,383	96,316
Impairment of long-lived assets	(3,050)	(1,733)	(26,456)
Gain on sales of assets	86,337	11,977	7,075
Other marine operations	6,511	6,623	4,623
	\$ 337,069	114,272	63,843
<b>Total marine assets:</b>			
United States	\$ 566,707	532,097	569,841
International	1,490,083	1,542,996	1,389,541
Total marine assets	\$ 2,056,790	2,075,093	1,959,382

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

**Marine Vessel Fleet**

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

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

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

## Edgar Filing: TIDEWATER INC - Form 10-K

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

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

-6-



**Table of Contents****Index to Financial Statements**

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

**Revenue Contribution of Main Classes of Vessels**

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

	Year Ended March 31,		
	2006	2005	2004
Deepwater vessels	22.4%	22.3%	20.5%
Towing-supply/supply	58.5%	57.7%	57.6%
Crew/utility	10.9%	10.7%	9.8%
Offshore tugs	7.8%	8.8%	11.3%
Other	0.4%	0.5%	0.8%

**Shipyard Operations**

Quality Shipyards, LLC, a wholly-owned subsidiary of the company, operates two shipyards in Houma, Louisiana, which construct, modify and repair vessels. The shipyard performs work for outside customers, as well as the construction, repair and modification of the company's own vessels. During the last three fiscal years, Quality Shipyards, LLC constructed and delivered four 220-foot platform supply vessels and is currently constructing two additional 220-foot platform supply vessels for the company. Three of the supply vessels were delivered during fiscal 2004 while the fourth vessel was delivered during fourth quarter of fiscal 2006. The two remaining 220-foot platform supply vessels currently under construction are expected to be delivered in fiscal 2007.

**International Operations**

A significant portion of the company's operations are conducted internationally. Revenues from international operations as a percentage of the company's total revenues were 77%, 80% and 78% during fiscal 2006, 2005 and 2004, respectively. The company's international marine vessel operations are vulnerable to the usual risks inherent in doing business in countries other than the United States. Such risks include political and economic instability, possible vessel seizures or nationalization of assets and other governmental actions, the ability to recruit and retain management for overseas operations, currency fluctuations and revaluations, and import/export restrictions; all of which are beyond the control of the company.

**Safety and Risk Management**

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

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

---

**Table of Contents**

**Index to Financial Statements**

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

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

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

**Industry Conditions, Competition and Customers**

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

The principal competitive factors for the offshore vessel service industry are suitability and availability of equipment, price and quality of service. The company has numerous competitors in virtually all areas in which it operates, and competition is intense. During the prolonged downturn in the Gulf of Mexico market, which began during calendar year 2001, the company made a strategic decision to attempt to maintain high day rates at the expense of lower utilization. During that time, the majority of the company's competitors in the Gulf of Mexico elected to charge lower day rates and maintain higher utilization for their vessels. Lower utilization of the company's Gulf of Mexico supply vessel fleet resulted in the company stacking 89, or 70%, of its 127 supply vessels in the Gulf of Mexico. Of these 89 stacked domestic supply vessels, 72 vessels along with 11 additional vessels that had not been stacked were included in a non-cash asset impairment charge of \$26.5 million (\$17.2 million after tax, or \$0.30 per share) recorded in March 2004. The 17 vessels that were not considered impaired, with an aggregate carrying amount at March 31, 2004 of approximately \$10.4 million, had physical and operational characteristics different from the group of impaired vessels which would allow them to be more readily returned to service as market conditions warranted. In the fourth quarter of fiscal 2005, the company reviewed, for impairment purposes, all stacked vessels and vessels withdrawn from service and recorded a non-cash impairment charge of \$1.7 million (\$1.1 million after tax, or \$0.02 per share) to reduce the carrying amount of 10 stacked vessels as to which an impairment charge had not been taken in fiscal 2004 but which were subsequently identified as being unlikely to return to active service. An impairment review during fiscal 2006 resulted in a non-cash asset impairment charge of approximately \$3.1 million (\$2.0 million after tax, or \$0.03 per share) on eight additional vessels that are withdrawn from service as to which an impairment charge had not been taken previously. A full discussion of the impairment of long-lived assets is disclosed in "Impairment of Long-lived Assets" section of Item 7 and Note 3 of Notes to Consolidated Financial Statements.

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

---

**Table of Contents**

**Index to Financial Statements**

The company's principal customers are major oil and natural gas exploration, development and production companies, foreign government-owned or controlled organizations and companies that explore and produce oil and natural gas, and companies that provide other services to the offshore energy industry. Over the last several years, consolidation of exploration, development and production companies has occurred which has, and will continue to have, an impact on the company's global operations. Although Chevron Corporation (including its worldwide subsidiaries and affiliates) accounted for 15% of revenues during the year ended March 31, 2006, the five largest customers accounted for approximately 41% of the company's revenues. The company does not consider its operations dependent on any single customer.

**Regulatory Matters**

The company is subject to various statutes and regulations governing the operation and maintenance of its vessels. Under the citizenship provisions of the Merchant Marine Act of 1920 and the Shipping Act, 1916, the company would not be permitted to engage in U.S. coastwise trade if more than 25% of the company's outstanding stock were owned by non-U.S. citizens. The company has a dual stock certificate system to protect against non-U.S. citizens owning more than 25% of its common stock. In addition, the company's charter provides the company with certain remedies with respect to any transfer or purported transfer of shares of the company's common stock that would result in the ownership by non-U.S. citizens of more than 24% of its common stock. Based on information supplied to the company by its transfer agent, approximately 6.68% of the company's outstanding common stock was owned by non-U.S. citizens as of March 31, 2006.

The company's vessels are subject to various statutes and regulations governing their operation. The laws of the United States require that vessels engaged in U.S. coastwise trade must be built in the U.S. In addition, once a U.S.-built vessel is registered under a non-U.S. flag, it cannot thereafter engage in U.S. coastwise trade. Therefore, the company's non-U.S. flag vessels must be operated abroad; and if the company is not able to secure adequate numbers of charters abroad for such vessels, even if work would otherwise have been available for such vessels in the United States, the company's financial performance could be adversely affected. Of the total 523 vessels owned or operated by the company at March 31, 2006, 331 were registered under flags other than the United States and 192 were registered under the U.S. flag.

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

**Seasonality**

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

**Environmental Compliance**

During the ordinary course of business the company's operations are subject to a wide variety of environmental laws and regulations. The company attempts to comply in all material respects with these laws and regulations in order to avoid costly accidents and related environmental damage. Compliance with existing governmental regulations that have been enacted or adopted regulating the discharge of materials into the environment, or otherwise relating to the protection of the environment, has not had, nor is expected to have, a material effect on the company. The company is proactive in establishing policies and operating procedures for safeguarding the environment against any environmentally hazardous material aboard its vessels and at shore base locations. Whenever possible, hazardous materials are maintained or transferred in confined areas to ensure containment if accidents occur. In addition, the company has established operating policies that are intended to increase awareness of actions that may harm the environment.

---

**Table of Contents**

**Index to Financial Statements**

**Employees**

As of March 31, 2006, the company had approximately 7,500 employees worldwide. The company considers relations with its employees to be satisfactory. The company is not a party to any union contract in the United States but through several subsidiaries is a party to union agreements covering local nationals in several countries other than the United States. For the past few years, the company has been a target of a union organizing campaign for the U.S. Gulf of Mexico employees by maritime labor unions. These union organizing efforts have recently abated, although the threat has not been completely eliminated. If the Gulf employees were to unionize, the company's flexibility in managing industry changes in the domestic market could be adversely affected.

**ITEM 1A. RISK FACTORS**

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

**Oil and Gas Prices Are Highly Volatile**

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

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

**Changes in the Level of Capital Spending by Our Customers**

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

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

**The Offshore Marine Service Industry is Highly Competitive**

The company operates in a highly competitive environment. Competitive factors include price and quality of service by vessel operators and the quality and availability of vessels. Decreases in the level of offshore drilling and development activity by the energy industry generally negatively affect the demand for the

---

**Table of Contents**

**Index to Financial Statements**

company's vessels thereby exerting downward pressure on day rates. Extended periods of low vessel demand and/or low day rates will reduce the company's revenues.

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

**Failure to Attract and Retain Key Management and Technical Personnel**

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

**Risks Associated with Operating Internationally**

For the fiscal years ended March 31, 2006, 2005 and 2004, 77%, 80%, and 78%, respectively, of the company's total revenues were generated by international operations. The company's international marine vessel operations are vulnerable to the usual risks inherent in doing business in countries other than the United States. Such risks include political and economic instability, possible vessel seizures or nationalization of assets and other governmental actions, the ability to recruit and retain management of overseas operations, currency fluctuations and revaluations, and import/export restrictions; all of which are beyond the control of the company.

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

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

**Operational Risks Inherent to the Offshore Marine Industry**

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

**ITEM 1B. UNRESOLVED STAFF COMMENTS**

The company has previously disclosed that it is the subject of an informal inquiry by the Securities and Exchange Commission (SEC) related to the \$26.5 million impairment charge that it recorded in its fiscal year ended March 31, 2004 that was related to 83 vessels that had been used in the Gulf of Mexico. The

**Table of Contents**

**Index to Financial Statements**

company is in discussions with the SEC in an effort to resolve the matters raised by the inquiry. At this time, the company is unable to predict the timing or ultimate outcome of these discussions.

**ITEM 2. PROPERTIES**

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

**ITEM 3. LEGAL PROCEEDINGS**

The company is not a party to any litigation that, in the opinion of management, is likely to have a material adverse effect on the company's financial position or results of operations.

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

There were no matters submitted to a vote of security holders during the fourth quarter of fiscal 2006.

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

The company's common stock is traded on the New York Stock Exchange and the Pacific Stock Exchange under the symbol TDW. At March 31, 2006, there were approximately 1,369 record holders of the company's common stock, based upon the record holder list maintained by the company's stock transfer agent. The following table sets forth the high and low closing sale prices of the company's common stock as reported on the New York Stock Exchange Composite Tape and the amount of cash dividends per share declared on Tidewater common stock for the periods indicated.

<b>Fiscal Year</b>	<b>Quarter</b>	<b>High</b>	<b>Low</b>	<b>Dividend</b>
2006	First	\$ 40.23	\$ 31.85	\$ .15
	Second	49.77	37.09	.15
	Third	49.24	41.00	.15
	Fourth	59.17	44.90	.15
2005	First	\$ 30.05	\$ 25.74	\$ .15
	Second	33.50	26.90	.15
	Third	36.45	29.61	.15
	Fourth	42.84	33.39	.15

**Issuer Repurchases of Equity Securities**

In July 2005, the company's Board of Directors authorized the company to spend up to \$120.0 million to repurchase shares of its common stock. Repurchases are made through open market or privately-negotiated transactions. The company intends to use its available cash and, when considered advantageous, borrowings under its revolving credit facility to fund the share repurchases. The Board of Directors' authorization for this repurchase program will expire when all authorized funds have been expended or on June 30, 2006, unless extended by the Board of Directors. As of March 31, 2006, the company spent \$20.8 million for the repurchase and cancellation of 455,000 common shares, or an average price paid per common share of \$45.64. At March 31, 2006, approximately \$99.2 million was available to repurchase shares of the company's common stock pursuant to the stock repurchase program. The following table summarizes the stock repurchase activity for the three months ending March 31, 2006 and the approximate dollar value of shares that may yet be purchased pursuant to the stock repurchase program:

	<b>Total Number of Shares Purchased</b>	<b>Average Price Paid Per Share</b>	<b>Total Number of Shares Purchased as Part of Publicly Announced Program</b>	<b>Approximate Dollar Value of Shares that May Yet Be Purchased Under the Program</b>
January 1, 2006 - January 31, 2006		\$		\$ 111,308,581
February 1, 2006 - February 28, 2006	90,000	52.55	90,000	106,578,738
March 1, 2006 - March 31, 2006	145,000	50.64	145,000	99,235,700
Total	235,000	\$ 51.37	235,000	

**Table of Contents****Index to Financial Statements****Securities Authorized for Issuance under Equity Compensation Plans**

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

**ITEM 6. SELECTED FINANCIAL DATA**

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

**Years Ended March 31**

(In thousands, except ratio and per share amounts)	2006 (B)	2005 (C)	2004 (D)	2003	2002
<b>Statement of Earnings Data :</b>					
Revenues:					
Vessel revenues	\$ 846,982	655,526	625,948	624,555	715,361
Other marine revenues	30,635	36,624	26,682	11,268	13,668
	\$ 877,617	692,150	652,630	635,823	729,029
Net earnings	\$ 235,756	101,339	41,662	88,630	136,159
Earnings per common share (A)	\$ 4.07	1.78	.73	1.57	2.41
Cash dividends declared per common share	\$ .60	.60	.60	.60	.60
<b>Balance Sheet Data (at end of period):</b>					
Cash and cash equivalents	\$ 246,109	15,376	17,636	17,767	11,882
Total assets	\$ 2,364,540	2,213,173	2,081,790	1,849,578	1,669,370
Long-term debt	\$ 300,000	380,000	325,000	139,000	54,000
Stockholders' equity	\$ 1,659,121	1,442,702	1,366,110	1,351,395	1,285,818
Working capital	\$ 413,289	133,643	152,585	141,225	152,891
Current ratio	4.57	2.42	3.12	2.95	3.07
<b>Cash Flow Data:</b>					
Net cash provided by operating activities	\$ 283,578	160,062	129,049	202,000	194,390
Net cash provided by (used in) investing activities	\$ 53,208	(189,125)	(285,429)	(255,931)	(300,216)
Net cash (used in) provided by financing activities	\$ (106,053)	26,803	156,249	59,816	22,555



## Edgar Filing: TIDEWATER INC - Form 10-K

- (A) All per share amounts were computed on a diluted basis.
- (B) In July 2005, the company sold six KMAR 404 class of anchor handling towing supply vessels for a cash price of \$188.0 million resulting in a \$65.9 million pre-tax financial gain or approximately \$42.8 million after tax, or \$0.74 per diluted common share.
- (C) In March 2005, the company recorded a tax benefit of \$31.8 million (\$0.56 per share) to reverse previously recorded deferred tax assets and liabilities no longer required as a result of the American Jobs Creation Act of 2004 (for a full discussion see note 4 of Notes to Consolidated Financial Statements).
- (D) In March 2004, the company recorded a non-cash asset impairment charge of \$26.5 million (\$17.2 million after tax, or \$0.30 per share) on 83 older Gulf of Mexico supply vessels. A full discussion of the impairment of long-lived assets is disclosed in Impairment of Long-lived Assets section of Item 7 and Note 3 of Notes to Consolidated Financial Statements.

---

**Table of Contents**

**Index to Financial Statements**

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

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

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

**Executive Summary and Overview**

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

Fiscal 2006 domestic results of operations improved significantly as compared to fiscal 2005. The company's domestic-based revenues and operating profit increased approximately \$62.1 million and \$59.2 million, respectively, during the current fiscal year due to favorable commodity prices and an improved operating environment which resulted in increased demand for the company's vessels which in turn resulted in an escalation of vessel dayrates. A significant portion of the company's increase in domestic-based revenues went directly to operating profit because operating costs and depreciation did not change proportionally when revenue changed. Hurricanes Katrina and Rita caused extensive damage to the energy industry infrastructure in the Gulf of Mexico and along the U.S. Gulf Coast resulting in an interruption in oil and gas production in the Gulf of Mexico. Given the damage sustained to the offshore oil and gas infrastructure, management anticipates its vessels to be in high demand in the Gulf of Mexico for the near term while repairs are made to offshore pipelines and platforms. Fiscal 2006's domestic-based operating costs increased a modest 4% as compared to fiscal 2005. The number of available drilling rigs in the U.S. market will be the primary driver of the company's future profitability in the domestic market. The strength of the international drilling market has attracted offshore rigs from the U.S. market over the past few years. Over the longer term, the company's domestic-based fleet utilization will be influenced more by the active offshore rig count than by any other single outside influence, although the number of available units of competitor companies will also have a significant effect.

---

**Table of Contents**

**Index to Financial Statements**

The company's international results of operations are primarily dependent on the demand and supply relationship for crude oil. During fiscal 2006 international-based revenues and operating profit increased approximately \$129.3 million and \$90.7 million, respectively, as compared to fiscal 2005 due to strong demand for natural resources, and an improved operating environment which in turn resulted in an escalation of vessel dayrates. In addition, fiscal 2006 international-based vessel revenues were slightly offset by higher operating costs and depreciation expense resulting from an increased number of vessels operating in the international market during fiscal 2006 due to new vessel deliveries throughout the current fiscal year. Fiscal 2006's international-based operating costs increased approximately 8% from fiscal 2005 levels.

During the second quarter of fiscal 2006, the company completed the sale of six of its KMAR 404 class of Anchor Handling Towing Supply vessels to Deep Sea Supply ASA for a total cash price of \$188.0 million. The transaction resulted in a \$65.9 million pre-tax financial gain, or approximately \$42.8 million after tax, or \$0.74 per diluted common share. The transaction resulted in an approximate \$112.0 million taxable gain, but no cash taxes are due because of the availability of net operating loss carryforwards. The company used a portion of the proceeds of the sale to repay \$95.0 million of then outstanding borrowings under the company's revolving credit agreement. The company also sold and/or scrapped an additional 45 vessels which resulted in additional gains on sales of assets of approximately \$19.9 million during fiscal 2006.

Fiscal 2006 witnessed the delivery of 18 newly-constructed vessels, which consisted of 10 anchor handling towing supply vessels, one platform supply vessel and seven crewboats. Three of the newly constructed anchor handlers are deepwater class vessels. The remaining newly-built anchor handlers and the platform supply vessels expanded the company's core vessel fleet. To date, the company has funded all of its vessel commitment programs from current cash balances, operating cash flow, and funds provided by its \$300 million senior unsecured notes and its revolving credit facility.

The provisions of the American Jobs Creation Act of 2004 (the Act), were effective for the company as of April 1, 2005, and allowed the company to omit recording deferred tax assets or liabilities on future undistributed earnings of most non-U.S. subsidiaries and business ventures that it considers indefinitely reinvested abroad. At March 31, 2005, the company reversed all previously recorded deferred tax assets and liabilities related to timing differences, foreign tax credits, or prior undistributed earnings of these entities whose future and prior earnings are now anticipated to be indefinitely reinvested abroad. This resulted in an approximate \$31.8 million reduction of income tax expense in the fourth quarter of fiscal 2005.

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

**Key Focus for Fiscal 2006 and Outlook**

During fiscal 2006, the company focused on strengthening its balance sheet, improving its domestic profitability, growing its international markets, and regenerating its vessel fleet in order to generate future earnings capacity. The company strengthened its balance sheet by selling its KMAR 404 class of vessels for \$188 million in cash that resulted in a \$65.9 million pre-tax financial gain. The company used these funds to maintain its financial strength by eliminating an existing \$95.0 million outstanding debt under the company's revolving credit agreement, initiating a stock repurchase program and to continue to reinvest in new equipment. In the company's operating business, management focused on improving dayrates and utilization, maintaining disciplined cost control in the sourcing of critical supplies and services, and obtained favorable tax incentives. Fiscal 2006 was a year of strong financial performance with solid improvements in revenue, operating profit and earnings per share, all building the foundation for long-term growth.

**Table of Contents****Index to Financial Statements**

Given the progress the company has made in executing its strategies, the company is poised to continue to grow organically and, given the right opportunity, to grow through targeted and disciplined acquisitions. The company will continue to pursue its long-term growth strategies on a disciplined basis. The company has targeted two additional dimensions within its growth initiatives to include (1) assessing opportunities for its older fleet; and (2) targeted acquisitions. In each case, the company will carefully consider whether proposed transactions have the appropriate risk/reward profile. These areas of opportunity have a common theme which is to leverage the company's existing strengths and capitalize on favorable market conditions to improve operating profit, earnings per share and cash flows.

**Vessel Construction Programs and Acquisitions****Current Commitments**

The company is constructing five anchor handling towing supply vessels varying in size from 5,000 brake horsepower (BHP) to 10,000 BHP. One international shipyard is constructing two vessels while a different international shipyard is constructing three vessels. Scheduled delivery for the five vessels will begin in July 2006, with the last vessel scheduled for delivery in December 2007. As of March 31, 2006, \$32.9 million has been expended on the vessels of the total \$80.8 million commitment cost.

The company is also committed to the construction of two 220-foot and three 250-foot supply vessels for approximately \$78.7 million. The company's shipyard, Quality Shipyard, LLC, is constructing the two 220-foot vessels while a different U.S. shipyard is constructing the 250-foot vessels. Scheduled delivery of the two 220-foot vessels is expected in August 2006 and July of 2007 while the three 250-foot vessels are expected to be delivered in March 2007, June 2007 and September 2007. As of March 31, 2006, \$23.5 million has been expended on these five vessels.

The company is also committed to the construction of one 175-foot, state-of-the-art, fast, crew/supply boat, one water jet crewboat and one tugboat for an approximate total cost of \$15.7 million. A U.S. shipyard is constructing the 175-foot crewboat, while one international shipyard is constructing the water jet crewboat and a different international shipyard is constructing the tugboat. Scheduled delivery of the 175-foot crewboat is expected in July 2006. The water jet crewboat was delivered in April 2006 while the tugboat is expected to be delivered in February of 2007. As of March 31, 2006, \$4.6 million has been expended on these three vessels.

The company has also contracted for the construction of a new corporate aircraft for a total approximate cost of \$27.0 million. As of March 31, 2006, \$3.7 million has been spent. The airplane is expected to be available for use in May of 2007.

**Current Vessel Commitments Summary**

The table below summarizes the various vessel commitments by vessel class and type as of March 31, 2006:

Vessel class and type	U. S. Built Total			International Built Total		
	Number of Vessels	Cost Commitment (In thousands)	Expended Through 3/31/06 (In thousands)	Number of Vessels	Cost Commitment (In thousands)	Expended Through 3/31/06 (In thousands)
Deepwater vessels:						
Platform supply vessels	3	\$ 51,923	\$ 15,094			
Replacement fleet:						
Anchor handling towing supply				5	\$ 80,841	\$ 32,900
Platform supply vessels	2	\$ 26,832	\$ 8,421			
Crewboats and offshore tugs:						
Crewboats 175-foot	1	\$ 7,229	\$ 474			
Crewboats water jet				1	\$ 1,086	\$ 895
Offshore tugs				1	\$ 7,401	\$ 3,187
Totals	6	\$ 85,984	\$ 23,989	7	\$ 89,328	\$ 36,982



---

**Table of Contents**

**Index to Financial Statements**

While the company does not have any other commitments for new-build vessel contracts other than what is discussed above, the company anticipates that over the next several years, it will continue to build, acquire or lease newer vessels in order to replace its aging vessels. The majority of the company's supply and towing supply vessels were constructed between 1976 and 1983. As such, most of this vessel class exceeds 22 years of age and will need to be replaced within the next several years. In addition to age, market conditions also help determine when a vessel is no longer economically viable. The company anticipates using future operating cash flows, existing borrowing capacities or new borrowings or lease arrangements to fund over the next few years the continuing replacement of the company's mature fleet of vessels. These vessels would replace the company's core international fleet with fewer, larger and more efficient vessels. The company believes that adequate capital resources will be available to continue its fleet replacement.

**Fiscal 2006 Vessel Deliveries and Acquisitions**

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

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

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

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

**Fiscal 2005 Vessel Deliveries and Acquisitions**

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

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

**Fiscal 2004 Vessel Deliveries and Acquisitions**

On April 1, 2003, the company paid \$79.0 million in cash to ENSCO International Incorporated to purchase its 27-vessel Gulf of Mexico-based marine fleet. The mix of vessels the company acquired consisted of five anchor handling towing supply vessels, six stretched 220-foot platform supply vessels and 16 supply

**Table of Contents****Index to Financial Statements**

vessels. In conjunction with the acquisition of the vessels, it was agreed that, for a two year period and subject to satisfactory performance, the company would provide to ENSCO all of its discretionary vessel requirements in the Gulf of Mexico. The day rates charged under the arrangement were based upon predetermined pricing criteria. The original agreement expired on March 31, 2005 and a one year extension under similar terms was agreed to which expired on March 31, 2006. A second one year extension has been agreed to which will expire on March 31, 2007.

During fiscal 2004, the company took delivery of two large, platform supply vessels (one constructed by a Brazilian shipyard and the other by a shipyard in the Far East). The company also took delivery of nine next generation supply vessels, ranging in size from 205-foot to 220-foot, for approximately \$133.2 million. The company's shipyard, Quality Shipyard, LLC, constructed three of the next generation supply vessels and two other U.S. shipyards constructed the remaining six vessels. Although the nine vessels are intermediate in size and are technically capable of working in certain deepwater markets, they were constructed to replace older supply vessels. Also during fiscal 2004, the company purchased two 5,500 BHP anchor handling towing supply vessel for approximately \$24.4 million, purchased one offshore tug for approximately \$4.3 million and took delivery of three water jet crewboats that were constructed in Holland for approximately \$2.7 million.

During fiscal 2004, the company constructed and delivered to the market, for an approximate total cost of \$10.6 million, two crewboats whose construction contracts the company assumed from Crewboats, Inc., a privately held, independent provider of crewboat services in the Gulf of Mexico during fiscal 2002.

The company also delivered to the market during fiscal 2004, for an approximate total cost of \$19.7 million, three 175-foot, state-of-the-art, fast, crew/supply boats that blend the speed of a crewboat with the capabilities of a supply vessel. All three vessels were constructed at a U.S. shipyard that is currently constructing one additional 175-foot, fast, crew/supply boats as discussed above.

**Vessel Deliveries and Acquisitions Summary**

The table below summarizes the number of vessels that have been added to the company's fleet, excluding 27 vessels purchased from ENSCO on April 1, 2003, during fiscal 2006, 2005 and 2004 by vessel class and vessel type:

Vessel class and type	Number of vessels added		
	2006	2005	2004
Deepwater vessels:			
Anchor handling towing supply	3	2	
Platform supply vessels			2
Replacement fleet:			
Anchor handling towing supply	7	8	2
Platform supply vessels	1	2	9
Crew/utility:			
Crewboats	7	4	8
Offshore tugs			1
Total number of vessels added to the fleet	18	16	22

**Impairment of Long-lived Assets**

During fiscal 2004, numerous marine drilling rigs exited the U.S. Gulf of Mexico despite attractive domestic oil and gas commodity pricing for an extended period of time. These departures, combined with the low activity levels of traditional Gulf of Mexico operators, left the active offshore rig count at its lowest level in ten years. By late fiscal 2004, the company concluded, based on mounting extrinsic evidence that low activity levels in the Gulf of Mexico could possibly persist for an extended period of time. Management reviewed the recoverability of the values of its Gulf of Mexico operating assets and recorded in March 2004 a non-cash asset impairment charge of \$26.5 million (\$17.2 million after tax, or \$0.30 per share) relating to 83 older Gulf of Mexico supply vessels. As a result of the prolonged weakness in the Gulf of Mexico drilling market, a majority of the vessels were stacked for as long as several years and were viewed as unlikely to return to service. Due to the average age of the vessels (23.5 years), outdated specifications (low horsepower and cargo capacities) relative to competing equipment, significant costs to repair and return the vessels to service (average approximately \$500,000 per vessel) and an anticipation of low customer

demand for the vessels in the future, the company concluded it was unlikely that these vessels would return to active



---

**Table of Contents**

**Index to Financial Statements**

service. Based on such factors, and in accordance with Statement of Financial Accounting Standards (SFAS) No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets, the asset impairment charge noted above was taken to adjust the carrying value of the assets to fair value at March 31, 2004. The fair value of the vessels was determined based upon management's estimate of liquidation values that could be realized in sales to unrelated purchasers and included an assumption that a significant number of the vessels (as much as 50%) may have to be scrapped. Disposal of the assets may take an extended period of time due to the vessels' outdated specifications. Two vessels from this group of impaired vessels were sold during fiscal 2005 and an additional 22 impaired vessels were sold and/or scrapped during fiscal 2006.

The company has previously disclosed that it is the subject of an informal inquiry by the Securities and Exchange Commission (SEC) related to the \$26.5 million impairment charge that it recorded in its fiscal year ended March 31, 2004 that was related to 83 stacked vessels that had been used in the Gulf of Mexico. The company is in discussions with the SEC in an effort to resolve the matters raised by the inquiry. At this time, the company is unable to predict the timing or ultimate outcome of these discussions.

In the fourth quarter of fiscal 2005, the company reviewed, for impairment purposes, all stacked vessels and vessels withdrawn from service and recorded a non-cash impairment charge of \$1.7 million (\$1.1 million after tax, or \$0.02 per share) to reduce the carrying amount of 10 stacked vessels as to which an impairment charge had not been taken in fiscal 2004 but which were subsequently identified as being unlikely to return to active service. An impairment review during fiscal 2006 resulted in a non-cash impairment charge of approximately \$3.1 million (\$2.0 million after tax, or \$0.03 per share) on eight additional vessels that are withdrawn from service as to which an impairment charge had not been taken previously.

**General Market Conditions and Results of Operations**

Offshore service vessels provide a diverse range of services and equipment to the energy industry. Fleet size, utilization and vessel day rates primarily determine the amount of revenues and operating profit because operating costs and depreciation do not change proportionally when revenue changes. Operating costs primarily consist of crew costs; repair and maintenance; insurance; fuel, lube oil and supplies. Fleet size and utilization are the major factors that affect crew costs. The timing and amount of repair and maintenance costs are influenced by customer demands, vessel age and scheduled drydockings to satisfy safety and inspection requirements mandated by regulatory agencies. Whenever possible, vessel drydockings are scheduled in order to minimize any impact on vessel operations and are only done if economically justified, given the vessel's age and physical condition. The following table compares revenues and operating expenses (excluding general and administrative expenses and depreciation expense) for the company's vessel fleet for the years ended March 31. Vessel revenues and operating costs relate to vessels owned and operated by the company, while other marine services relate to third-

**Table of Contents****Index to Financial Statements**

party activities of the company's shipyards, brokered vessels and other miscellaneous marine-related activities.

<b>(In thousands)</b>	<b>2006</b>	<b>2005</b>	<b>2004</b>
<b>Revenues (A):</b>			
Vessel revenues:			
United States	\$ 180,374	118,288	125,344
International	666,608	537,238	500,604
	846,982	655,526	625,948
Other marine revenues	30,635	36,624	26,682
<b>Total revenues</b>	<b>\$ 877,617</b>	<b>692,150</b>	<b>652,630</b>
<b>Operating costs:</b>			
Vessel operating costs:			
Crew costs	\$ 243,584	226,653	213,687
Repair and maintenance	76,058	70,519	76,975
Insurance	15,820	18,568	20,638
Fuel, lube and supplies	39,617	40,329	38,309
Other	56,402	45,802	45,090
	431,481	401,871	394,699
Costs of other marine revenues	23,836	29,453	21,502
<b>Total operating costs</b>	<b>\$ 455,317</b>	<b>431,324</b>	<b>416,201</b>

(A) For fiscal 2006, 2005 and 2004, Chevron Corporation (including its worldwide subsidiaries and affiliates) accounted for 15%, 13.2% and 12.0%, respectively, of revenues while Petroleo Brasileiro SA accounted for 10.2% of revenue during fiscal 2005.

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

<b>(In thousands)</b>	<b>2006</b>	<b>2005</b>	<b>2004</b>
<b>Vessel activity:</b>			
United States	\$ 61,227	2,022	(17,715)
International	186,044	95,383	96,316
	247,271	97,405	78,601
Impairment of long-lived assets	(3,050)	(1,733)	(26,456)
Gain on sales of assets	86,337	11,977	7,075
Other marine services	6,511	6,623	4,623
<b>Operating profit</b>	<b>337,069</b>	<b>114,272</b>	<b>63,843</b>
Other income	16,797	7,589	7,634
Corporate expenses	(21,280)	(15,179)	(13,291)
Interest and other debt costs	(9,074)	(6,887)	(3,683)

## Edgar Filing: TIDEWATER INC - Form 10-K

Earnings before income taxes	\$ 323,512	99,795	54,503
------------------------------	------------	--------	--------

As a result of the uncertainty of a certain customer to make payment of vessel charter hire, the company has deferred the recognition of approximately \$6.1 million of billings as of March 31, 2006, \$1.6 million of billings as of March 31, 2005 and \$3.1 million of billings as of March 31, 2004 which would otherwise have been recognized as revenue. The company will recognize the amounts as revenue as cash is collected or at such time as the uncertainty has been resolved.

### **Comparison of Fiscal 2006 to Fiscal 2005**

Fiscal 2006 domestic results of operations benefited from strong industry fundamentals which translated into higher utilization and average day rates for the company's domestic-based vessel fleet. Prospects for growth in the offshore market in the Gulf of Mexico have shown significant improvement during the past year. However, Hurricanes Katrina and Rita have caused extensive damage to the energy industry infrastructure in the Gulf of Mexico and along the U.S. Gulf Coast resulting in an interruption in oil and gas production in the Gulf of Mexico. The U.S. Minerals Management Service (MMS) statistical report on production shut-ins due to Hurricanes Katrina and Rita dated March 22, 2006 reported that total shut-in oil production, for the period of September 26, 2005 to March 22, 2006, totaled approximately 25% of the yearly U.S. Gulf oil production. During this same period of time, natural gas shut-in totaled approximately 19% of the yearly U.S. Gulf gas production as reported by MMS. Pre-storm offshore rig demand improved greatly and drilling activity was forecast to remain at improved levels well into 2006. The exploration and production (E&P) companies have contracted offshore drilling rigs for longer durations than in past periods due to concerns over rig availability in the domestic market. The market for offshore support vessels

---

**Table of Contents**

**Index to Financial Statements**

tightened as drilling operators discovered that offshore vessels currently in service are in short supply. The Gulf of Mexico supply boat market still has a significant number of vessels stacked that could resume active status, but only after expenditures to drydock to re-certify the vessels. The company did not experience any injuries to its personnel or damage or interruption of service to its fleet of vessels serving the offshore oil and gas industry in the Gulf of Mexico due to Hurricanes Katrina and Rita. The aftermath of the storms did not have any material impact on the company's ability to respond to customer needs or its ability to fulfill contract commitments. Demand for the company's available domestic-based vessels prior to the two storms was strong and business has been brisk since the storms, with charter rates exceeding levels that were achieved in prior industry upturns in 1997 and 2001.

Domestic results of operations are primarily driven by natural gas exploration and production and, given the damage sustained to the offshore oil and gas infrastructure, management anticipates its vessels to be in high demand in the Gulf of Mexico for the near term while repairs are made to offshore pipelines and platforms. While the repair work in the Gulf of Mexico is expected to keep domestic-based vessel demand high for the near term, the offshore rig count in the Gulf of Mexico remains relatively depressed as compared to past up cycles. The uptick in domestic-based business during the second half of fiscal 2006 is related to the repair work resulting from damage caused by Hurricanes Katrina and Rita. Upon completion of the needed repair work in the U.S. Gulf of Mexico, and assuming no significant damage from any hurricanes during 2006, the number of available drilling rigs in the U.S. market will be the primary driver of the company's future profitability in the domestic market. The strength of the international drilling market has attracted offshore rigs from the U.S. market over the past few years. This capacity constraint is forcing some E&P companies to delay drilling programs. Over the longer term, the company's domestic-based fleet will be influenced more by the active offshore rig count than by any other single outside influence. Recent analysts' reports indicate that over the next 4 years offshore drilling rig count will increase as the newbuild order books for jackup rigs currently stand at approximately 62 rigs. Nine of these rigs are scheduled to be delivered in calendar 2006 while calendar years 2007, 2008 and 2009 expect to have 21, 26 and 6 rig deliveries, respectively.

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

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

---

**Table of Contents**

**Index to Financial Statements**

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

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

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

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

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

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

Due to an improved safety record and lower claim costs and loss reserves, the company's insurance and loss reserve costs decreased approximately 15% during fiscal 2006 as compared to fiscal 2005.

Other marine services operating profit which consist of operating profit on the company's shipyard operations, brokered vessel and other marine services lines of business were comparable to fiscal 2005 levels.

Fiscal 2006 gain on sales of assets increased significantly as compared to fiscal 2005 due primarily to the July 26, 2005 sale of six KMAR 404 class of Anchor Handling Towing Supply vessels to Deep Sea Supply ASA for a total cash price of \$188.0 million. The transaction resulted in a \$65.9 million pre-tax financial gain,

---

**Table of Contents**

**Index to Financial Statements**

or approximately \$42.8 million after tax, or \$0.74 per diluted common share. The company also sold and/or scrapped an additional 45 vessels which resulted in additional gains on sales of assets of approximately \$19.9 million during fiscal 2006.

**Comparison of Fiscal 2005 to Fiscal 2004**

Persistent weakness in the natural gas drilling market in the U.S. Gulf of Mexico continued to negatively impact the company's domestic results of operations during fiscal 2005; however, prospects for growth in the offshore drilling market in the Gulf of Mexico did show promise because of several positive developments that occurred during fiscal 2005. In August 2004, the Western Gulf of Mexico lease sale received solid bids. Bids for shallow water tracts were up and high bids for deepwater tracts increased from the previous year's sale. The Texas State Lease Sale, which was held in January 2005, reported to have had its best showing in six years and the independent exploration and production (E&P) companies were dominant bidders at the Central Gulf of Mexico lease sales held in March 2005. Analysts forecast that worldwide E&P expenditures would increase in calendar year 2005 due to continuing strong demand for natural resources despite historically high crude oil prices and lofty natural gas prices. Sizeable portions of the increase in capital spending was expected to be spent in North America. Industry analysts reported that many companies planned on increasing their calendar year 2005 E&P budgets on deepwater activities in the Gulf of Mexico. Offshore rig demand was showing signs of strengthening and drilling activity was likely to improve. The E&P companies began to contract offshore drilling rigs for longer durations than in past periods due to concerns over rig availability in the domestic market. The market for offshore support vessels tightened during fiscal 2005 as drilling operators discovered that offshore vessels then in service were in short supply. During fiscal 2005, the Gulf of Mexico supply boat market still had a significant number of vessels stacked that could have resumed active status, but only after significant expenditures to drydock and re-certify the vessels.

Natural gas pricing is a critical factor in E&P companies' development of capital spending budgets. Weather was a major driver of natural gas pricing during calendar year 2004. The latter half of calendar 2004 witnessed natural gas inventories exceed five-year inventory averages due to mild summer and winter weather. Disappointing storage withdrawals due to the mild weather applied downward pressure on natural gas commodity prices. The downward pricing trend appeared to reverse during the first quarter of calendar year 2005 as inventories for natural gas began decreasing. Management was pleased by the strength that developed in the offshore drilling market during fiscal 2005 despite the challenge presented in predicting how domestic-based vessel demand would be affected in the upcoming quarters.

The company's international results of operations for fiscal 2005 benefited from higher utilization and average day rates and an increase in the number of vessels operating internationally. Industry analysts forecast that demand for crude oil would remain strong throughout calendar year 2005 and beyond and expected future crude oil prices to remain at attractive levels due to high consumer demand, a tightening of crude inventory supplies and concerns over possible supply interruptions caused by geopolitical risk in certain members of the Organization of Petroleum Exporting Countries (OPEC) countries. During fiscal 2005, analysts estimated that profitable international offshore markets would receive notable increases in exploration and production spending in 2005 due to strong demand for crude oil and higher commodity prices for the resource. Management anticipated international vessel demand to improve along with the market conditions.

Domestic-based vessel revenues decreased approximately 6%, or \$7.1 million, as compared to fiscal 2004 due to a decrease in the number of vessels operating in the domestic market resulting from the redeployment of vessels to international growth areas, an increase in vessel sales (specifically crewboats and offshore tugs) and lower utilization and average day rates on the company's offshore tugs. Revenues generated by the towing supply/supply vessel class, the company's major income producing vessel class in the domestic market, increased approximately 5% compared to fiscal 2004 due to a 26.6% increase in utilization and a 5% increase in average day rates.

International-based vessel revenues for fiscal 2005 increased approximately 7%, or \$36.6 million, as compared to fiscal 2004 due to an increase in the number of vessels operating in international markets and due to higher utilization and average day rates on the company's deepwater class of vessels, which contributed 56% of the increase in revenue growth for fiscal 2005 as compared to fiscal 2004. The

**Table of Contents****Index to Financial Statements**

company's towing supply/supply vessels operating in the international markets contributed 42% to fiscal 2005's international revenue growth as compared to the previous fiscal year.

Other marine service revenues which consist of revenues earned on the company's shipyard operations, brokered vessel and other marine services lines of business increased approximately 37%, or \$9.9 million as compared to fiscal 2004. The company's shipyard, Quality Shipyards, LLC generated 86% of the increase, or approximately \$8.5 million as they performed more third party vessel construction, repair and refurbishments during fiscal 2005 than in fiscal 2004.

Fiscal 2005's U.S.-based operating profit increased approximately \$19.7 million as compared to fiscal 2004 due to a decrease in vessel operating costs, specifically crew costs and fuel, lube and supplies, and a reduction in depreciation expense primarily related to 83 older domestic-based towing supply/supply vessels that were determined impaired at March 31, 2004. Depreciation expense ceased on these 83 vessels when the carrying values of the vessels were written down to estimated current fair market value. The 83 vessels were determined impaired as a result of the prolonged weakness in the Gulf of Mexico drilling market and due to the vessels' average age (23.5 years), their outdated specifications (low horsepower and cargo capacities) relative to competing equipment, the significant costs to repair and return these vessels to service (average approximately \$500,000 per vessel), the anticipation of lower customer demand for the vessels in the future, and management's conclusion that it was unlikely that the vessels would return to active service. Based on this determination, and in accordance with SFAS No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*, an asset impairment charge of \$26.5 million was recorded to write down the carrying value of these assets to fair value at March 31, 2004. An impairment charge of \$1.7 million was recorded in fiscal 2005 to reduce the carrying amount of 10 stacked vessels that are unlikely to return to active service.

International-based vessel operating profit was comparable to fiscal 2004 despite higher revenues due to increases in international vessel operating costs, specifically crew costs, fuel, lube and supplies, and depreciation expense resulting from an increase in the number of vessels (including vessels moved by the company from the Gulf of Mexico) operating in the international market.

Due to the level of vessel activity experienced and to a positive safety performance on a year to date basis, marine results of operations for fiscal 2005 includes \$6.7 million of net insurance premium rebates as provided for in our insurance program. The company has an opportunity to obtain additional insurance premium rebates in the future should the positive safety performance continue. The company recorded \$10.5 million of premium rebates during fiscal 2004.

Fiscal 2005's gain on sales of assets increased approximately 69% compared to fiscal 2004 due to an increase in the number of vessels sold.

**Vessel Class Statistics**

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

Effective April 1, 2004, the company excluded from its utilization statistics the domestic-based towing supply/supply vessels determined impaired in March 2004 as disclosed in the *Impairment of Long-lived Assets* section of Item 7 and Note 3 of Notes to Consolidated Financial Statements. Had the impaired vessels been removed from the company's utilization statistics for the quarter periods ended June 30, 2003, September 30, 2003, December 31, 2003, and March 31, 2004, domestic-based towing supply/supply utilization would have been 52.6%, 48.2%, 52.2% and 46.2%, respectively. The company's towing supply/supply vessels utilization for the year ended March 31, 2004 would have been 49.8%. The following

**Table of Contents****Index to Financial Statements**

tables compare day-based utilization percentages and average day rates by vessel class and in total for each of the quarters in the years ended March 31:

**UTILIZATION:**

	First	Second	Third	Fourth	Year
<b>Fiscal Year 2006</b>					
Domestic-based fleet:					
Deepwater vessels	100.0%	97.9	99.3	99.7	99.2
Towing-supply/supply	62.4	60.6	62.2	62.0	61.8
Crew/utility	80.6	86.6	88.0	86.6	85.5
Offshore tugs	26.2	26.4	32.7	30.8	28.9
Total	61.5%	61.9	65.0	64.5	63.2
International-based fleet:					
Deepwater vessels	85.5%	82.7	89.4	89.9	86.8
Towing-supply/supply	71.5	72.1	75.8	76.8	74.1
Crew/utility	75.2	74.1	79.9	76.2	76.4
Offshore tugs	57.5	46.4	63.0	63.3	57.5
Other	34.6	35.7	44.3	28.8	35.9
Total	70.9%	69.6	75.5	75.2	72.8
Worldwide fleet:					
Deepwater vessels	87.4%	85.2	91.1	91.7	88.8
Towing-supply/supply	69.7	69.9	73.2	74.0	71.7
Crew/utility	76.5	76.9	81.7	78.5	78.5
Offshore tugs	48.4	40.3	54.2	53.7	49.0
Other	34.6	35.7	44.3	28.8	35.9
Total	69.0%	68.0	73.3	72.9	70.8
<b>Fiscal Year 2005</b>					
Domestic-based fleet:					
Deepwater vessels	74.9%	94.1	91.7	91.6	87.2
Towing-supply/supply	50.7	54.6	57.6	57.1	55.0
Crew/utility	68.1	80.3	77.1	80.0	76.0
Offshore tugs	28.6	29.3	24.6	25.1	27.1
Total	51.2%	57.4	57.2	58.0	55.8
International-based fleet:					
Deepwater vessels	72.6%	87.9	91.8	84.8	84.5
Towing-supply/supply	68.7	68.5	72.2	70.9	70.1
Crew/utility	75.1	74.0	77.0	75.7	75.5
Offshore tugs	64.1	68.3	62.2	61.6	64.0
Other	55.5	49.4	45.4	47.3	49.4
Total	69.2%	70.6	72.8	71.2	71.0
Worldwide fleet:					
Deepwater vessels	73.1%	89.0	91.8	85.7	84.9
Towing-supply/supply	65.0	65.7	69.3	68.3	67.1
Crew/utility	73.2	75.6	77.0	76.7	75.6
Offshore tugs	50.2	55.6	50.8	51.3	52.0
Other	55.5	49.4	45.4	47.3	49.4
Total	64.9%	67.7	69.5	68.5	67.7
<b>Fiscal Year 2004</b>					
Domestic-based fleet:					
Deepwater vessels	68.0%	84.3	89.1	81.6	80.8
Towing-supply/supply	24.1	20.6	21.9	19.2	21.5



Edgar Filing: TIDEWATER INC - Form 10-K

Crew/utility	71.5	76.2	71.8	57.8	69.6
Offshore tugs	31.2	39.7	43.7	34.8	37.4
Total	34.2%	34.0	34.9	29.1	33.1
International-based fleet:					
Deepwater vessels	80.8%	78.2	82.3	72.5	78.4
Towing-supply/supply	73.2	69.3	69.3	64.8	69.1
Crew/utility	78.1	69.9	74.3	73.4	73.9
Offshore tugs	66.6	63.7	69.8	59.6	64.9
Other	48.6	40.1	42.3	42.7	43.5
Total	72.5%	67.8	70.0	65.5	68.9
Worldwide fleet:					
Deepwater vessels	78.3%	79.3	83.6	74.2	78.9
Towing-supply/supply	53.4	49.6	50.6	46.7	50.1
Crew/utility	75.9	71.9	73.5	68.9	72.5
Offshore tugs	53.3	54.7	59.9	50.3	54.6
Other	48.6	40.1	42.3	42.7	43.5
Total	58.7%	55.8	57.8	52.8	56.3

**Table of Contents****Index to Financial Statements****AVERAGE DAY RATES:**

<b>Fiscal Year 2006</b>	<b>First</b>	<b>Second</b>	<b>Third</b>	<b>Fourth</b>	<b>Year</b>
<b>Domestic-based fleet:</b>					
Deepwater vessels	\$ 15,041	17,456	20,306	20,006	18,401
Towing-supply/supply	7,169	7,569	9,474	10,545	8,706
Crew/utility	3,843	4,238	5,080	5,455	4,673
Offshore tugs	9,191	11,110	10,146	9,707	10,060
<b>Total</b>	<b>\$ 7,104</b>	<b>7,814</b>	<b>9,318</b>	<b>10,049</b>	<b>8,606</b>
<b>International-based fleet:</b>					
Deepwater vessels	\$ 13,850	15,592	17,014	17,823	16,012
Towing-supply/supply	6,728	7,121	7,318	7,682	7,224
Crew/utility	3,292	3,306	3,444	3,541	3,399
Offshore tugs	4,960	5,847	6,129	5,735	5,669
Other	2,939	3,536	3,064	4,597	3,442
<b>Total</b>	<b>\$ 6,648</b>	<b>7,046</b>	<b>7,284</b>	<b>7,635</b>	<b>7,162</b>
<b>Worldwide fleet:</b>					
Deepwater vessels	\$ 14,029	15,933	17,640	18,272	16,448
Towing-supply/supply	6,803	7,194	7,667	8,140	7,467
Crew/utility	3,426	3,547	3,845	4,018	3,716
Offshore tugs	5,632	6,914	6,841	6,407	6,440
Other	2,939	3,536	3,064	4,597	3,442
<b>Total</b>	<b>\$ 6,730</b>	<b>7,191</b>	<b>7,655</b>	<b>8,078</b>	<b>7,428</b>
<b>Fiscal Year 2005</b>	<b>First</b>	<b>Second</b>	<b>Third</b>	<b>Fourth</b>	<b>Year</b>
<b>Domestic-based fleet:</b>					
Deepwater vessels	\$ 12,678	12,577	13,289	14,009	13,087
Towing-supply/supply	5,569	5,794	6,194	6,741	6,080
Crew/utility	3,035	3,357	3,477	3,689	3,382
Offshore tugs	7,385	7,566	7,388	9,648	7,874
<b>Total</b>	<b>\$ 5,736</b>	<b>5,909</b>	<b>6,136</b>	<b>6,735</b>	<b>6,117</b>
<b>International-based fleet:</b>					
Deepwater vessels	\$ 12,680	11,847	12,553	13,165	12,552
Towing-supply/supply	6,050	6,202	6,288	6,561	6,279
Crew/utility	2,838	2,742	2,950	3,184	2,930
Offshore tugs	4,371	4,559	4,347	5,057	4,585
Other	1,579	1,262	1,201	1,418	1,375
<b>Total</b>	<b>\$ 5,723</b>	<b>5,874</b>	<b>6,064</b>	<b>6,372</b>	<b>6,013</b>
<b>Worldwide fleet:</b>					
Deepwater vessels	\$ 12,680	11,959	12,648	13,279	12,636
Towing-supply/supply	5,972	6,134	6,273	6,591	6,246
Crew/utility	2,889	2,904	3,073	3,303	3,042
Offshore tugs	5,045	5,074	4,793	5,691	5,145
Other	1,579	1,262	1,201	1,418	1,375
<b>Total</b>	<b>\$ 5,726</b>	<b>5,881</b>	<b>6,076</b>	<b>6,433</b>	<b>6,032</b>
<b>Fiscal Year 2004</b>	<b>First</b>	<b>Second</b>	<b>Third</b>	<b>Fourth</b>	<b>Year</b>
<b>Domestic-based fleet:</b>					
Deepwater vessels	\$ 13,303	12,652	12,328	13,505	12,918
Towing-supply/supply	5,469	6,124	5,763	5,901	5,800
Crew/utility	2,827	2,879	2,897	3,108	2,914
Offshore tugs	7,015	7,306	6,089	5,791	6,539
<b>Total</b>	<b>\$ 5,354</b>	<b>5,786</b>	<b>5,553</b>	<b>5,913</b>	<b>5,640</b>

Edgar Filing: TIDEWATER INC - Form 10-K

International-based fleet:					
Deepwater vessels	\$ 11,578	11,825	12,481	12,434	12,082
Towing-supply/supply	6,544	6,448	6,286	6,134	6,358
Crew/utility	2,945	3,135	3,040	2,927	3,010
Offshore tugs	4,318	4,737	4,590	4,326	4,496
Other	1,361	1,746	1,820	1,416	1,578
Total	\$ 5,904	6,011	5,937	5,750	5,902
Worldwide fleet:					
Deepwater vessels	\$ 11,871	12,001	12,454	12,662	12,247
Towing-supply/supply	6,349	6,394	6,196	6,096	6,262
Crew/utility	2,907	3,048	2,999	2,971	2,981
Offshore tugs	4,911	5,432	5,003	4,707	5,022
Other	1,361	1,746	1,820	1,416	1,578
Total	\$ 5,790	5,962	5,856	5,782	5,848

-27-

**Table of Contents****Index to Financial Statements**

The average age of the company's 435 owned or chartered vessel fleet at March 31, 2006 is approximately 20 years. The average age of the 116 vessels that the company acquired or constructed in the last six years, some of which were discussed in the Vessel Construction Programs and Acquisition section, is seven years. The remaining 319 vessels have an average age of 25 years. The following table compares the average number of vessels by class and geographic distribution during the years ended March 31 and the actual March 31, 2006 vessel count:

	Actual Vessel Count at March 31, 2006	Average Number of Vessels During Year Ended March 31,		
		2006	2005	2004
<b>Domestic-based fleet:</b>				
Deepwater vessels	7	6	6	7
Towing-supply/supply	50	48	49	58
Crew/utility	14	20	21	28
Offshore tugs	13	17	19	23
<b>Total</b>	<b>84</b>	<b>91</b>	<b>95</b>	<b>116</b>
<b>International-based fleet:</b>				
Deepwater vessels	28	30	32	29
Towing-supply/supply	207	205	198	188
Crew/utility	69	67	63	62
Offshore tugs	39	40	40	38
Other	8	8	12	19
<b>Total</b>	<b>351</b>	<b>350</b>	<b>345</b>	<b>336</b>
Owned or chartered vessels included in marine revenues	435	441	440	452
Vessels withdrawn from service	66	82	97	93
Joint-venture and other	22	27	31	31
<b>Total</b>	<b>523</b>	<b>550</b>	<b>568</b>	<b>576</b>

Included in total owned or chartered vessels are vessels that were stacked by the company. The company considers a vessel to be stacked if its crew is removed from the vessel and limited maintenance is being performed on the vessel. This action is taken to reduce operating costs when management does not foresee adequate marketing possibilities in the near future. Vessels are added to this list when market conditions warrant and they are removed from this list when sold or otherwise disposed of or when returned to active service. As economically practical marketing opportunities arise, the stacked vessels can be returned to service by performing any necessary maintenance on the vessel and 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 67, 74 and 71 stacked vessels at March 31, 2006, 2005 and 2004, respectively.

Vessels withdrawn from service represent those vessels that management has determined are unlikely to return to active service and are currently marketed for sale. Vessels withdrawn from service are not included in the company's utilization statistics.

During fiscal 2006, the company took delivery of 10 anchor handling towing supply vessels, one platform supply vessel and seven crewboats and sold to third party operators or to scrap dealers 22 anchor handling towing supply vessels, 11 platform supply vessels, one utility vessel, seven crewboats, six offshore tugs and four other type vessels. Included in the sold anchor handling towing supply vessel count are six KMAR 404 class of vessels that were sold to Deep Sea Supply ASA in July 2005. Also, during the third quarter of fiscal 2006, the company disposed of its interest in a Nigerian joint venture which resulted in the disposition of nine crewboats from the joint venture and other vessel count.

## Edgar Filing: TIDEWATER INC - Form 10-K

During fiscal 2005, the company purchased three anchor handling towing supply vessels and one platform supply vessel. The company also took delivery of 11 newly-constructed vessels which included six anchor handling towing supply vessels, one platform supply vessel and four crewboats. Also during fiscal 2005, the company sold seven anchor handling towing supply vessels, one platform supply vessel, three offshore tugs, 10 crewboats and two other type vessel.

During fiscal 2004, the company purchased from ENSCO International Incorporated its 27-vessel Gulf of Mexico-based marine fleet. The mix of ENSCO vessels acquired consists of one deepwater anchor

-28-

**Table of Contents****Index to Financial Statements**

handling/towing supply vessel and 26 towing-supply/supply vessels. Also during fiscal 2004, the company took delivery of two large deepwater platform supply vessels, nine platform supply vessels, two anchor handling towing supply vessels, eight crewboats and one offshore tug. The company sold and/or scrapped seven towing-supply/supply vessels, two crewboats, three offshore tugs and seven other type vessels during fiscal 2004. Also during fiscal 2004, the company sold three crewboats to one of its 49%-owned unconsolidated international joint ventures.

**General and Administrative Expenses**

Consolidated general and administrative expenses for the years ended March 31 consists of the following components:

(In thousands)	2006	2005	2004
Personnel	\$ 52,165	42,392	39,126
Office and property	12,636	12,840	12,562
Sales and marketing	5,662	4,731	4,374
Professional service	9,295	7,378	5,545
Other	6,731	6,083	5,907
	\$ 86,490	73,424	67,514

General and administrative expenses for fiscal 2006 were higher compared to fiscal 2005 and 2004 due primarily to the amortization of restricted stock granted in March 2005 and 2004; costs associated with the Sarbanes-Oxley Act of 2002; an improved business environment; and increased employee bonus plan costs resulting from increased earnings of the company. Fiscal 2006 general and administrative expenses were also higher as compared to fiscal 2005 and 2004 due to costs associated with Hurricanes Katrina and Rita (approximately \$1.8 million), including a Board of Director-approved employee assistance program for personal uninsured losses related to the hurricanes.

**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 directly related to fleet activity and vessel day rates. Fleet activity and vessel day rates are ultimately determined by 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 from operations, in combination with the company's senior unsecured debt and available line of credit, provide the company, in management's opinion, with adequate resources to satisfy its current financing requirements. At March 31, 2006, the entire amount of the company's \$300 million revolving line of credit was available for future financing needs. Continued payment of dividends, currently at \$0.15 per quarter per common share, is subject to declaration by the Board of Directors.

On May 18, 2005, the company amended its \$295 million revolving line of credit agreement, which expires on May 18, 2010, increasing the face amount of the facility from \$295 million to \$300 million and providing a mechanism for increasing the amount of the facility up to \$400 million. Borrowings bear interest at the company's option, at the greater of prime or Federal Funds rates plus .5% or LIBOR rates plus margins from .50 to 1.125% based on the company's funded debt to total capitalization ratio. The amended agreement reduced the annual fee on the unused portion of the facility to a range between .10 to .25% and modified certain financial covenants, which would allow more flexibility in utilizing the facility.

In July 2005, the company's Board of Directors authorized the company to spend up to \$120.0 million to repurchase shares of its common stock. Repurchases are made through open market or privately-negotiated transactions. The company intends to use its available cash and, when considered advantageous, borrowings under its revolving credit facility to fund the share repurchases. The Board of Directors' authorization for this repurchase program will expire when all authorized funds have been expended or on June 30, 2006, unless extended by the Board of Directors. As of March 31, 2006, the company spent \$20.8 million for the repurchase and cancellation of 455,000 common shares, or an average price paid per common share of \$45.64. At March 31, 2006, approximately \$99.2 million was available to repurchase shares of the company's common stock pursuant to the stock repurchase program.

---

**Table of Contents**

**Index to Financial Statements**

On July 8, 2003, the company issued \$300 million of senior unsecured notes. The multiple series of notes with maturities ranging from 7 years to 12 years have an average outstanding life to maturity of 9.5 years and can be retired before maturity without penalty. The weighted average interest rate on the notes sold to private institutional investors is 4.35%. The note proceeds were used to refinance a then-existing \$245.0 million debt outstanding, with the balance of the proceeds used to fund capital expenditures.

**Operating Activities**

Net cash provided by operating activities for any fiscal year will fluctuate according to the level of business activity for the applicable year. Fiscal 2006 net cash from operating activities increased to \$283.6 million from \$160.1 million in fiscal 2005 due to higher net earnings, partially offset by increases in accounts receivables.

Fiscal year 2005 net cash provided by operating activities increased to \$160.1 million from \$129.0 million in fiscal 2004 as a result of higher earnings due to a better business environment than the previous fiscal year.

**Investing Activities**

Investing activities for fiscal 2006 provided \$53.2 million of cash, which is primarily attributed to the \$225.6 million of proceeds from the sale of assets offset by approximately \$172.4 million of additions to properties and equipment. Additions to properties and equipment were comprised of approximately \$26.8 million in capitalized major repair costs, \$0.8 million for vessel enhancements, \$138.2 million for the construction of offshore marine vessels, \$3.7 million for the construction of an aircraft and \$2.9 million of other properties and equipment purchases.

Investing activities for fiscal 2005 used \$189.1 million of cash, which is net of \$18.3 million of proceeds from the sale of assets. Additions to properties and equipment was comprised of approximately \$29.6 million in capitalized major repair costs, \$2.4 million for vessel enhancements, \$120.8 million for the construction of offshore marine vessels and \$54.6 million for the acquisition of four vessels. Additions to properties and equipment were lower in fiscal 2005 as compared to fiscal 2004 due to fewer vessels purchased.

Investing activities for fiscal 2004 used \$285.4 million of cash, which is net of \$11.5 million from proceeds from the sale of assets. Additions to properties and equipment was comprised of approximately \$24.6 million in capitalized major repair costs, \$0.3 million in vessel enhancements, \$2.0 million in other properties and equipment purchases, \$192.2 million for the construction and purchase of offshore marine vessels and \$77.8 million for the purchase of 27 ENSCO vessels on April 1, 2003. Additions to properties and equipment in fiscal 2004 includes the purchase of 27 vessels from ENSCO and higher capital spending on vessels under construction during fiscal 2004 as disclosed in the Vessel Construction Programs and Acquisitions section of Item 7.

**Financing Activities**

Fiscal 2006 financing activities used \$106.1 million of cash, which included debt repayments of \$110.0 million, repurchase of common stock of \$20.8 million and \$34.6 million of cash used for quarterly payment of common stock dividends of \$0.15 per share. This was offset primarily by \$30.0 million of credit facility borrowings and \$29.6 million from the issuance of common stock as a result of stock option exercises.

Fiscal 2005 financing activities provided \$26.8 million of cash, which included \$113.0 million of credit facility borrowings and \$7.5 million from the issuance of common stock. This was offset primarily by repayments of debt of \$58.0 million. The company also used \$34.3 million of cash for the payment of common stock dividends of \$.60 per share. Net borrowings were used to help finance the company's various vessel construction programs and vessel acquisitions.

Fiscal 2004 financing activities provided \$156.2 million of cash, which included \$300 million of privately placed senior unsecured borrowings, a \$100 million term loan placed with a group of banks primarily to finance the purchase of the ENSCO vessels, \$36.0 million of borrowings from the company's original revolving and term loan agreement and \$35.0 million of borrowings from the company's new \$295 million

---

**Table of Contents**

**Index to Financial Statements**

revolving credit agreement. Borrowings were offset primarily by repayments of debt of \$285.0 million, which consists of the July 2003 payoff of the \$100 million term loan used to purchase the ENSCO vessels, the July 2003 payoff of \$175.0 million of outstanding debt under the company's original revolving and term loan agreement, and a \$10.0 million repayment on the company's new \$295 million revolving credit agreement. The company also used \$34.0 million of cash for the payment of common stock dividends of \$.60 per share. Net borrowings were used to help finance the company's various vessel construction programs and vessel acquisitions.

**Interest and Debt Costs**

Interest and debt costs incurred, net of interest capitalized, for fiscal 2006, 2005 and 2004 was approximately \$9.1 million, \$6.9 million, and \$3.7 million, respectively. Interest costs capitalized during fiscal 2006, 2005 and 2004 was approximately \$6.3 million, \$10.0 million, and \$8.5 million, respectively. Total interest and debt costs incurred in fiscal 2006 were considerably higher than the previous two fiscal years because the relative-portion of interest cost capitalized during fiscal 2006 was less than in fiscal years 2005 and 2004 due to the reduced level of investments in the company's new construction program during the current fiscal year.

**Other Liquidity Matters**

While the company does not have any other commitments for new-build vessel contracts other than what is discussed in the Vessel Construction and Acquisitions section of Item 7, the company anticipates that over the next several years, it will continue to build, acquire or lease newer vessels in order to replace its aging vessels. The majority of the company's supply and towing supply vessels were constructed between 1976 and 1983. As such, most of this vessel class exceeds 22 years of age and will need to be replaced within the next several years. In addition to age, market conditions also help determine when a vessel is no longer economically viable. The company anticipates using future operating cash flows, existing borrowing capacities or new borrowings or lease arrangements to fund over the next few years the continuing replacement of the company's mature fleet of vessels, with emphasis on the international anchor handling towing supply vessels. These vessels would replace the company's core international fleet with fewer, larger and more efficient vessels. The company believes that adequate capital resources will be available to continue its fleet replacement.

At the conclusion of its examination of the company's income tax returns covering fiscal years 2001 and 2002, the Internal Revenue Service (IRS) proposed changes to taxable income which, if sustained, would result in additional income tax of \$12.8 million. The proposed increase in taxable income results primarily from the IRS disallowance of all claimed deductions from taxable income related to the company's foreign sales corporation (FSC) as well as all deductions claimed under the Extraterritorial Income Exclusion (ETI). The company has filed a formal protest with the IRS seeking a reconsideration of their position taken. The company has also received a final assessment of additional income tax of \$1.75 million resulting from the IRS's earlier examination of the company's income tax returns for fiscal years 1999 and 2000. Such assessment is also due to the IRS disallowance of essentially all deductions related to FSC activity during that period. The company has paid the 1999 and 2000 assessment and has begun the process of seeking a refund of the taxes paid through the initiation of legal proceedings. The IRS has begun an examination of the company's 2003 and 2004 federal income tax returns. The company also has additional ongoing examinations by various state and foreign tax authorities. The company 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.

Certain current and former subsidiaries of the company are, or have been, participating employers in an industry-wide multi-employer retirement fund in the United Kingdom, the Merchant Navy Officers Pension Fund (MNOFP.) The company has been informed of an estimated 234 million sterling, or approximately \$433 million, total fund deficit as estimated by the MNOFP actuary, that will require contributions from the participating employers. Substantially all of the fund's deficit allocable to the company relates to current operating subsidiaries as the company does not believe, on the advice of counsel, that it is liable for any additional portion of the fund's deficit that relates to subsidiaries that have either been sold or dissolved in prior years. The amount of the company's share of the fund's deficit will depend ultimately on a number of



**Table of Contents****Index to Financial Statements**

factors including an updated calculation of the total fund deficit, the number of participating employers, and the final method used in allocating the required contribution among participating employers.

In August 2005, the company received an invoice from the fund in the amount of \$3.8 million for what the trustees calculated to be the company's current share of the fund deficit. Accordingly, the company recorded this amount in full as crew cost expense during the second quarter of fiscal 2006. As allowed by the terms of the assessment, approximately \$0.7 million of the invoiced amount was paid during fiscal 2006 with the remainder, including interest charges, to be paid in annual installments over nine years. The first installment totaling approximately \$0.4 million was paid in March 2006.

It is possible that the fund's trustee may issue additional invoices to the company for additional amounts in the future for various reasons, including the results of future fund valuation reports and whether other assessed parties have the financial capability to contribute their respective allocations.

**Contractual Obligations**

The following table summarizes the company's consolidated contractual obligations as of March 31, 2006 and the effect such obligations, inclusive of interest costs, are expected to have on the company's liquidity and cash flows in future periods.

(In thousands)	Total	Payments Due by Period			
		Less than One Year	2-3 Years	4-5 Years	More Than 5 Years
Contractual Obligation					
Long-Term Debt	\$ 390,132	13,057	26,114	50,462	300,499
Operating Leases	\$ 61,110	4,277	15,299	15,476	26,058
Purchase Obligations	\$ 4	4			
Vessel Construction Obligations	\$ 72,960	38,485	34,475		
<b>Total</b>	<b>\$ 524,206</b>	<b>55,823</b>	<b>75,888</b>	<b>65,938</b>	<b>326,557</b>

**Off-Balance Sheet Arrangements**

On March 24, 2006, the company sold one of its newly-built vessels, delivered to the market in March 2006, to Banc of America Leasing & Capital LLC (BOAL&C), an unrelated third party, for \$12.0 million and simultaneously entered into a bareboat charter arrangement with BOAL&C. The company is accounting for the transaction as a sale/leaseback transaction with operating lease treatment. Accordingly, the company will not record the asset on its books and the company will expense periodic lease payments. The agreement to acquire and charter with BOAL&C also calls for the company to sell and simultaneously bareboat charter four additional vessels, which are currently under construction, upon the vessels' delivery to the market. BOAL&C agreed to pay actual invoice cost of the respective vessels being acquired, or \$63.5 million. The vessels currently under construction are expected to be delivered to the market beginning July 2006 with final delivery of the last vessel in September 2007. The initial charter hire operating lease term expires in 2014. The company has the option to extend the charter hire operating lease three times, each for a period of 12 months, which would provide the company the opportunity to extend the operating lease through 2017. See Note 9 to Notes to Consolidated Financial Statements included in Item 8 of this Form 10-K for a more complete discussion of this transaction.

**Critical Accounting Policies and Estimates**

The preparation of financial statements in accordance with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect both the recorded values of assets and liabilities at the date of the financial statements and the revenues recognized and expenses incurred during the reporting period. The company's estimates and assumptions affect its recognition of deferred expenses, bad debts, income taxes, the carrying value of its long-lived assets and goodwill, and its provision for certain contingencies. The company evaluates the reasonableness of these estimates and assumptions continually based on a combination of historical information and other



---

**Table of Contents**

**Index to Financial Statements**

information that comes to its attention that may vary its outlook for the future. Actual results may differ from these estimates under different assumptions.

Management suggests that the company's Summary of Significant Accounting Policies, as described in Note 1 of Notes to Consolidated Financial Statements, be read in conjunction with this Management's Discussion and Analysis of Financial Condition and Results of Operations. The company believes the critical accounting policies that most impact the company's consolidated financial statements are described below.

**Revenue Recognition.** The company's primary source of revenue is derived from time charter contracts of its vessels on a rate per day of service basis. These time charter contracts are generally either on a term basis (average three months to two years) or on a spot basis. The base rate of hire for a term contract is generally a fixed rate, provided, however, that term contracts at times include escalation clauses to recover increases in specific costs. A spot contract is a short-term agreement to provide offshore marine services to a customer for a specific short-term job. Spot contract terms generally range from one day to one week. Marine vessel revenues are recognized on a daily basis throughout the contract period.

**Receivables.** In the normal course of business, the company extends credit to its customers on a short-term basis. The company's principal customers are major oil and natural gas exploration, development and production companies. Although credit risks associated with our customers are considered minimal, the company routinely reviews its accounts receivable balances and makes adequate provisions for doubtful accounts.

**Goodwill.** The company tests goodwill impairment annually at a reporting unit level, as required, using carrying amounts as of December 31. The company considers its reporting units to be its domestic and international operations. The estimated fair value of the reporting unit is determined by discounting the projected future operating cash flows for the remaining average useful life of the assets within the reporting units by the company's related weighted average cost of capital. Impairment is deemed to exist if the implied fair value of the reporting unit goodwill is less than the respective book value of the reporting unit goodwill, and in such case, an impairment loss would be recognized equal to the difference. There are many assumptions and estimates underlying the determination of the fair value of each reporting unit, such as, future expected utilization and average day rates for the vessels, vessel additions and attrition, operating expenses and tax rates. Although the company believes its assumptions and estimates are reasonable, deviations from the assumptions and estimates could produce a materially different result.

The company performed its annual impairment test as of December 31, 2005, and the test determined there was no goodwill impairment. At March 31, 2006, the company's goodwill balance represented 14% of total assets and 20% of stockholders' equity. Interim testing will be performed if events occur or circumstances indicate that the carrying amount of goodwill may be impaired. Examples of events or circumstances that might give rise to interim goodwill impairment testing include significant adverse industry or economic changes, significant business interruption due to political unrest or terrorism, unanticipated competition that has the potential to dramatically reduce the company's earning potential, legal issues, or the loss of key personnel.

**Impairment of Long-Lived Assets.** The company reviews long-lived assets for impairment whenever events occur or changes in circumstances indicate that the carrying amount of an asset group 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. 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.

---

**Table of Contents**

**Index to Financial Statements**

Although the company believes its assumptions and estimates are reasonable, deviations from the assumptions and estimates could produce a materially different result. Management estimates may vary considerably from actual outcomes due to future adverse market conditions or poor operating results that could result in the inability to recover the current carrying value of an asset group, thereby possibly requiring an impairment charge in the future. As the company's fleet continues to age, management closely monitors the estimates and assumptions used in the impairment analysis to properly identify evolving trends and changes in market conditions that could impact the results of the impairment evaluation. During fiscal 2005, the company refined its asset groupings to increase the number of asset groups and better reflect the composition of its fleet and the markets within which it currently operates.

In addition to the periodic review of long-lived assets for impairment when circumstances warrant, the company also performs a review of its stacked vessels and vessels withdrawn from service every six months. This review considers items such as the vessel's age, length of time stacked and likelihood of a return to active service, among others. The company records an impairment charge when the carrying value of a vessel withdrawn from service or stacked vessel that is unlikely to return to service exceeds its estimated fair value.

**Income Taxes.** The company determines its effective tax rate by estimating its permanent differences resulting from differing treatment of items for tax and accounting purposes. The company is periodically audited by taxing authorities in the United States and by the respective tax agencies in the countries in which we operate internationally. The tax audits generally include questions regarding the calculation of taxable income. Audit adjustments affecting permanent differences could have an impact on the company's effective tax rate.

The carrying value of the company's net deferred tax assets is based on the company's present belief that it is more likely than not that it will be able to generate sufficient future taxable income in certain tax jurisdictions to utilize such deferred tax assets, based on estimates and assumptions. If these estimates and related assumptions change in the future, the company may be required to record or adjust valuation allowances against its deferred tax assets resulting in additional income tax expense in the company's consolidated statement of operations. Management evaluates the realizability of the deferred tax assets quarterly and assesses the need for changes to valuation allowances quarterly. While the company has considered future taxable income and ongoing prudent and feasible tax planning strategies in assessing the present need for a valuation allowance, in the event the company were to determine that it would be able to realize its deferred tax assets in the future in excess of its net recorded amount, an adjustment to the valuation allowance would increase income in the period such determination was made. Should the company determine that it would not be able to realize all or part of its net deferred tax asset in the future, an adjustment to the deferred tax asset would be charged to income in the period such determination was made.

**Drydocking Costs.** The company expenses maintenance and repair costs as incurred during the asset's original estimated useful life (its original depreciable life). Major repair costs incurred after the original depreciable life that also has the effect of extending the useful life of the asset are capitalized and amortized over 30 months. Major vessel modifications are capitalized and amortized over the remaining life of the equipment. Vessel modifications that are performed for a specific customer contract are capitalized and amortized over the firm contract term. The majority of the company's vessels require a drydocking inspection twice in each five year period and the company schedules these drydockings when it is anticipated that the work can be performed. The company's net earnings can fluctuate quarter to quarter due to the timing of scheduled drydockings.

**Accrued Property and Liability Losses.** The company self-insures potential hull damage and personal injury claims that may arise in the normal course of business. The company is exposed to insurance risks related to the company's reinsurance contracts with various insurance entities. The reinsurance recoverable amount can vary depending on the size of a loss. The exact amount of the reinsurance recoverable is not known until all losses are settled. The company estimates the reinsurance recoverable amount it expects to receive and also estimates losses for claims that have occurred but have not been reported or not fully developed. The company also monitors its reinsurance recoverable balances regularly for possible reinsurance exposure and makes adequate provisions for doubtful reinsurance receivables. It is the

---

**Table of Contents**

**Index to Financial Statements**

company's opinion that its accounts and reinsurance receivables have no impairment other than that for which provisions have been made.

***Pension and Other Postretirement Benefits.*** The company sponsors a defined benefit pension plan and a supplemental executive retirement plan covering eligible employees of Tidewater Inc. and participating subsidiaries. The company also sponsors a defined contribution retirement plan that covers eligible U.S. fleet personnel and eligible employees of the company hired after December 31, 1995 and a post retirement plan for qualified retired employees. Net periodic pension costs and accumulated benefit obligations are determined in accordance with SFAS Accounting Standard No. 87, *Employers' Accounting for Pensions*, using a number of assumptions including the discount rate, the rate of compensation increases, retirement ages, mortality rates and expected long-term return on plan assets. These assumptions have a significant impact on the amounts reported. The company's pension cost consists of service costs, interest costs, amortization of prior service costs or benefits, expected returns on plan assets and, in part, on a market-related valuation of assets. The Company considers a number of factors in developing its pension assumptions, including an evaluation of relevant discount rates, expected long-term returns on plan assets, plan asset allocations, expected changes in wages and retirement benefits, analyses of current market conditions and input from actuaries and other consultants.

The company also provides postretirement benefits to qualified retired employees. The postretirement program 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 not funded.

**New Accounting Pronouncements**

In December 2004, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 123 (Revised 2004), *Share-Based Payment* (SFAS 123R). This standard requires expensing of stock options and other share-based payments and supersedes SFAS No. 123, *Accounting for Stock-Based Compensation* and Accounting Principles Board (APB) Opinion No. 25, *Accounting for Stock Issued to Employees*, and its related implementation guidance that had allowed companies to choose between expensing stock options or showing proforma disclosure only. This standard, together with a new rule adopted by the Securities and Exchange Commission in April 2005, is effective for the company as of April 1, 2006 and will apply to all awards granted, modified, cancelled or repurchased after that date. The ultimate amount of increased compensation expense will be dependent on the number of option shares granted, their timing and vesting period and the method used to calculate the fair value of the awards, among other factors. Based on stock options outstanding as of March 31, 2006, the adoption of SFAS No. 123R is expected to result in the recognition of \$6.0 million of future compensation expense, of which \$3.2 million is expected to be recorded during fiscal 2007.

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.

**Effects of Inflation**

Day-to-day operating costs are generally affected by inflation. However, 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, development and production spending by energy exploration and production companies. As the 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.

Due to the increase in business activity resulting from strong global oil and gas fundamentals, the competitive market for experienced crew personnel has exerted upward pressure on wages in the labor markets which increased the company's operating expenses.

---

**Table of Contents**

**Index to Financial Statements**

Also, the commodity price of steel has increased dramatically due to increased worldwide demand for the metal. Although prices have moderated some in calendar year 2005, the price of steel remains high by historical standards. If the price of steel continues to rise, the cost of new vessels will result in higher capital expenditures and depreciation expenses which will reduce the company's future operating profits.

**Environmental Matters**

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

**ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES 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.

***Interest Rate Risk.*** 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.

At March 31, 2006, the company had \$300 million of debt outstanding which represents senior unsecured notes that were issued on July 8, 2003. The multiple series of notes with maturities ranging from 7 years to 12 years have an average outstanding life to maturity of 9.5 years and can be retired prior to maturity without penalty. The weighted average interest rate on the notes is 4.35%. The fair value of this debt at March 31, 2006 is estimated to be \$279.8 million.

On May 18, 2005, the company amended its \$295 million revolving line of credit agreement, which expires on May 18, 2010, increasing the face amount of the facility from \$295 million to \$300 million and providing a mechanism for increasing the amount of the facility up to \$400 million. Borrowings bear interest at the company's option, at the greater of prime or Federal Funds rates plus .5% or LIBOR rates plus margins from .50 to 1.125% based on the company's funded debt to total capitalization ratio. The amended agreement reduced the annual fee on the unused portion of the facility to a range between .10 to .25% and modified certain financial covenants, which would allow for more flexibility in utilizing the facility.

The company is exposed to possible interest rate fluctuations related to its commitment to the sale/leaseback of four of its vessels to BOAL&C. On March 24, 2006, the company entered into four interest rate swap transactions to effectively fix the amount of the lease payments on four vessels currently under construction that the company agreed to sell and leaseback from BOAL&C. The lease payments for each respective vessel will be based on the five year swap rate at the time of the lease which will coincide with the delivery of each vessel. Any amounts received from the bank or paid to the bank will be recorded on the company's balance sheet as either an other asset or other liability and amortized over the term of the respective leases. The company is accounting for the interest rate swap as a cash flow hedge under SFAS No. 133, as amended. The derivative instrument is carried at fair value on the consolidated balance sheet in other assets or other liabilities depending on the fair value at the balance sheet date. Changes in the fair value of the derivative instrument, to the extent the hedge is effective, are recognized in other comprehensive income (a component of stockholders' equity). Amounts representing hedge ineffectiveness,

---

**Table of Contents**

**Index to Financial Statements**

if any, are recorded in earnings. At March 31, 2006, the four interest rate swaps had a combined fair value of \$0.3 million which is included in other assets in the consolidated balance sheet.

***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 and currency commitments.

Spot derivative financial instruments are short-term in nature and settle within two business days. The fair value 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. 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.

The company had one currency spot contract outstanding at March 31, 2006 totaling approximately \$1.5 million that settled on April 3, 2006. The company had three currency spot contracts outstanding at March 31, 2005 totaling approximately \$1.0 million that settled on April 1, 2005. The company had no spot contracts outstanding at March 31, 2004.

The company is exposed to possible currency fluctuations related to its commitment to construct two of its anchor handling towing supply vessels at an Indonesian shipyard. The company is required, per the construction agreements, to make all payments in Singapore dollars and is currently exposed to possible currency fluctuations on the remaining commitment which totals a current U.S. dollar equivalent of approximately \$22.6 million. At March 31, 2006 the company had seven forward contracts outstanding totaling \$13.8 million that hedged the company's foreign exchange exposure relating to the Indonesian shipyard commitments. The company is accounting for the forward contract as a cash flow hedge under SFAS No. 133, as amended. The derivative instrument is carried at fair value on the consolidated balance sheet in other assets or other liabilities depending on the fair value at the balance sheet date. Changes in the fair value of the derivative instrument, to the extent the hedge is effective, are recognized in other comprehensive income (a component of stockholders' equity). Amounts representing hedge ineffectiveness, if any, are recorded in earnings. At March 31, 2006, the forward contracts combined fair value of \$0.6 million is included in other assets in the consolidated balance sheet. A portion of the forward contract was ineffective and accordingly the ineffective portion of the hedge totaling approximately \$88,500 was recorded as an increase to earnings during the fourth quarter of fiscal 2006.

The company had no derivative financial instruments outstanding at March 31, 2005 and 2004 that qualified as a hedge instrument. For full disclosure on the company's derivative financial instruments see Note 11 of Notes to Consolidated Financial Statements.

Because of its significant international operations, the company is exposed to currency fluctuations and exchange risk on all charter hire contracts denominated in foreign currencies. The company does not hedge against any foreign currency rate fluctuations associated with foreign currency contracts that arise in the normal course of business. To minimize the financial impact of these items the company attempts to contract a significant majority of its services in United States dollars. The company continually monitors the currency exchange risks associated with all contracts not denominated in U.S. dollars.

**ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA**

The information required by this Item is included in Part IV of this report.

**ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE**

None.

---

**Table of Contents**

**Index to Financial Statements**

**ITEM 9A. CONTROLS AND PROCEDURES**

**CEO and CFO Certificates**

Included as exhibits to this Annual Report on Form 10-K 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 Form 10-K 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 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. 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 Securities Exchange Act of 1934, as amended (the Exchange Act )) 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.

**Management's Annual Report on Internal Control Over Financial Reporting**

Management's assessment of the effectiveness of the company's internal control over financial reporting is discussed in Management's Report on Internal Control Over Financial Reporting which is included in Item 15. Exhibits and Financial Statement Schedules to this Annual Report on Form 10-K and appears on page F-2.

**Audit Report of Deloitte & Touche LLP**

Our independent registered public accounting firm has issued an audit report on management's assessment of the effectiveness of the company's internal control over financial reporting and on the effectiveness of the company's internal control over financial reporting. This report is also included in Item 15. Exhibits and Financial Statement Schedules to this Annual Report on Form 10-K and appears on page F-3.

**Changes in Internal Control Over Financial Reporting**

There have been no other changes in the company's internal controls over financial reporting during the fourth quarter of fiscal 2006 that have materially affected or are reasonably likely to materially affect, the company's internal control over financial reporting.

**ITEM 9B. OTHER INFORMATION**

All matters required to be disclosed on Form 8-K during the company's fiscal 2006 fourth quarter have been previously disclosed on Form 8-K filed with the Securities and Exchange Commission.



**Table of Contents**

**Index to Financial Statements**

**PART III**

**ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT**

Information concerning directors of the company is incorporated by reference to the section entitled Election of Directors of the company's definitive proxy statement that will be filed no later than 120 days after March 31, 2006.

Information regarding Section 16(a) compliance is incorporated by reference to the section entitled Section 16(a) Beneficial Ownership Reporting Compliance from the proxy statement.

**Executive Officers of the Registrant**

<b>Name</b>	<b>Age</b>	<b>Position</b>
Dean E. Taylor	57	Chairman of the Board of Directors since 2003. Chief Executive Officer since March 2002. President since October 2001. Executive Vice President from 2000 to 2001. Senior Vice President from 1998 to 2000.
Cliffe F. Laborde	54	Executive Vice President since 2000. Senior Vice President from 1992 to 2000. General Counsel since 1992.
Stephen W. Dick	56	Executive Vice President since December 2001. Senior Vice President from 1999 to 2001. Vice President from 1990 to 1999.
J. Keith Lousteau	59	Chief Financial Officer since 2000. Executive Vice President since 2003. Senior Vice President from 2000 to 2003. Vice President from 1987 to 2000. Treasurer since 1987.

There are no family relationships between the directors or executive officers of the company. The company's officers are elected annually by the Board of Directors and serve for one-year terms or until their successors are elected.

**Audit Committee Financial Expert**

Information regarding the company's Audit Committee and identification of the Audit Committee Financial Expert is incorporated by reference to the section entitled Corporate Governance from the proxy statement.

**Code of Ethics**

Information regarding the company's Code of Business Conduct for its directors and executive officers of the company is set forth in Item 1 of this report.

**ITEM 11. EXECUTIVE COMPENSATION**

Information concerning executive compensation is incorporated by reference to the section entitled Executive Compensation from the proxy statement described in Item 10 of this report.

**Table of Contents****Index to Financial Statements****ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT**

Information concerning security ownership of certain beneficial owners and management is incorporated by reference from the proxy statement described in Item 10 of this report.

**Equity Compensation Plan Information**

The following table provides information as of March 31, 2006 about equity compensation plans of the company under which shares of common stock of the company are authorized for issuance:

Plan category	Number of securities to be issued upon exercise of outstanding options, warrants and rights  (A)	Weighted-average exercise price of outstanding options, warrants and rights  (B)	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (A)  (C)
Equity compensation plans approved by shareholders	3,662,875	\$ 38.57	494,219(1)
Equity compensation plans not approved by shareholders			67(2)
Balance at March 31, 2006	3,662,875(3)	\$ 38.57	494,286

- (1) Includes 39 shares available for grant under the company's 1997 Stock Incentive Plan that could be issued as restricted stock and up to 115,650 shares that could be issued as restricted stock or other non-option award under the company's 2001 Stock Incentive Plan.
- (2) All of such shares are issuable as restricted stock under the company's Employee Restricted Stock Plan. See the description of the employee Restricted Stock Plan included in Note 8 of Notes to Consolidated Financial Statements.
- (3) If the exercise of these outstanding options and issuance of additional common shares had occurred as of March 31, 2006, these shares would represent 5.9% of the then total outstanding common shares of the company.

**ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS**

Information concerning certain relationships and related transactions is incorporated by reference from the proxy statement described in Item 10 of this report.

**ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES**

The information required by this Item is incorporated by reference to the section entitled "Audit Committee Report" in the proxy statement described in Item 10 of this report.



**Table of Contents**

**Index to Financial Statements**

**PART IV**

**ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES, AND REPORTS ON FORM 8-K**

**A. Financial Statements and Schedules**

The Consolidated Financial Statements and Schedule of the company listed on the accompanying Index to Financial Statements and Schedule (see page F-1) are filed as part of this report.

**B. Reports on Form 8-K**

1. The company's report on Form 8-K dated January 10, 2006 reported that the company issued a press release reporting that the company expected its fiscal 2006 third quarter financial results to exceed earnings expectations and also reported the date, time and telephone number to the company's earnings conference call.
2. The company's report on Form 8-K dated January 24, 2006 reported that the company issued an earnings release reporting the company's results of operations for the quarter and nine-month period ended December 31, 2005.
3. The company's report on Form 8-K dated January 24, 2006 reported that the company provided a transcript from the company's January 24, 2006 analyst conference call discussing its financial results for the quarter and nine-month period ended December 31, 2005.
4. The company's report on Form 8-K dated February 2, 2006 reported that the company filed a slide presentation which was provided to investors at the Credit Suisse First Boston 2005 Energy Summit in Vail, Colorado. The Form 8-K also includes a transcript to the presentation at the Credit Suisse First Boston 2005 Energy Summit in Vail, Colorado.
5. The company's report on Form 8-K dated March 15, 2006 reported that the company filed a slide presentation which was provided to investors at the Citigroup Small and Mid-Cap Conference in Las Vegas, Nevada. The Form 8-K also includes a transcript to the presentation at the Citigroup Small and Mid-Cap Conference in Las Vegas, Nevada.
6. The company's report on Form 8-K dated March 29, 2006 reported that the company's Compensation Committee of the Board of Directors approved the fiscal 2007 year annual base salaries and long term compensation awards of the executive officers of the company. The Form 8-K dated March 29, 2005 also reported outside director compensation fees and fiscal 2006 annual bonuses.

**C. Exhibits**

The index below describes each exhibit filed as a part of this report. Exhibits not incorporated by reference to a prior filing are designated by an asterisk; all exhibits not so designated are incorporated herein by reference to a prior filing as indicated.

**Articles of Incorporation and Bylaws**

## Edgar Filing: TIDEWATER INC - Form 10-K

- 3.1 Restated Certificate of Incorporation of Tidewater Inc. (filed with the Commission as Exhibit 3(a) to the company's quarterly report on Form 10-Q for the quarter ended September 30, 1993, File No. 1-6311).
- 3.2 Tidewater Inc. Bylaws (filed with the Commission as Exhibit 3.2 on Form 8-K dated June 1, 2005, File No. 1-6311).

-41-

---

**Table of Contents**

**Index to Financial Statements**

**Instruments Defining Rights of Security Holders**

- 4.1 Restated Rights Agreement dated as of September 19, 1996 between Tidewater Inc. and The First National Bank of Boston (filed with the Commission as Exhibit 1 to Form 8-A on September 30, 1996).

**Financing Agreements**

- 10.1A First Amendment dated May 18, 2005 to Amended and Restated Revolving Credit Agreement (filed with the Commission on Form 8-K on May 20, 2005, File No. 1-6311).
- 10.2 \$295,000,000 Amended and Restated Revolving Credit Agreement dated as of August 15, 2003 (filed with the Commission as Exhibit 4 to the company's quarterly report on Form 10-Q for the quarter ended September 30, 2003, File No. 1-6311).

**Stock Plans**

- 10.3+ Tidewater Inc. Amended and Restated Tidewater Inc. 1992 Stock Option and Restricted Stock Plan (Effective November 29, 2001) (filed with the Commission as Exhibit 10.3 to the company's annual report on Form 10-K for the fiscal year ended March 31, 2005, File No. 1-6311).
- 10.4+ Amended and Restated Tidewater Inc. 1997 Stock Incentive Plan dated November 21, 2002 (filed with the Commission as Exhibit 10(a) to the company's quarterly report on Form 10-Q for the quarter ended December 31, 2002, File No. 1-6311).
- 10.5+ Tidewater Inc. 2001 Stock Incentive Plan dated November 21, 2002 (filed with the Commission as Exhibit 10.5 to the company's annual report on Form 10-K for the fiscal year ended March 31, 2005, File No. 1-6311).
- 10.6+ Tidewater Inc. Employee Restricted Stock Plan (filed with the Commission as Exhibit 10.2 to the company's quarterly report on Form 10-Q for the quarter ended December 31, 2004, File No. 1-6311).
- 10.7+ Form of Stock Option and Restricted Stock Agreement Under the Amended and Restated 1992 Stock Option and Restricted Stock Plan (filed with the Commission as Exhibit 10.7 to the company's annual report on Form 10-K for the fiscal year ended March 31, 2005, File No. 1-6311).
- 10.8+ Form of Restricted Stock Agreement Under the Tidewater Inc. Employee Restricted Stock Plan (filed with the Commission as Exhibit 10.3 to the company's quarterly report on Form 10-Q for the quarter ended December 31, 2004, File No. 1-6311).
- 10.9+ Form of Stock Option and Restricted Stock Agreement for the Grant of Incentive Stock Options and Non-Qualified Stock Options Under the Tidewater Inc. 2001 Stock Incentive Plan, and the Grant of Restricted Stock Under the Tidewater Inc. 1997 Stock Incentive Plan (filed with the Commission as Exhibit 10.4 to the company's quarterly report on Form 10-Q for the quarter ended December 31, 2004, File no. 1-6311).
- 10.10+ Form of Stock Option and Restricted Stock Agreement for the Grant of Incentive Stock Options and Non-Qualified Stock Options Under the Tidewater Inc. 2001 Stock Incentive Plan and the Grant of Restricted Stock Under the Tidewater Inc. 1997 Stock Incentive Plan (filed with the Commission as Exhibit 10.10 to the company's annual report on Form 10-K for the fiscal year ended March 31, 2005, File No. 1-6311).
- 10.11+ Form of Stock Option and Restricted Stock Agreement for the Grant of Incentive Stock Options, Non-Qualified Stock Options and Restricted Stock Under the Tidewater Inc. 2001 Stock

**Table of Contents**

**Index to Financial Statements**

- Incentive Plan (filed with the Commission as Exhibit 10.11 to the company's annual report on Form 10-K for the fiscal year ended March 31, 2005, File No. 1-6311).
- 10.12+ Form of Stock Option and Restricted Stock Agreement for the Grant of Incentive Stock Options and Non-Qualified Stock Options Under the Tidewater Inc. 2001 Stock Incentive Plan and the Grant of Restricted Stock Under the Tidewater Inc. Employee Restricted Stock Plan (filed with the Commission as Exhibit 10.12 to the company's annual report on Form 10-K for the fiscal year ended March 31, 2005, File No. 1-6311).
- 10.13+ Form of Restricted Stock Agreement for the Grant of Restricted Stock Under the Tidewater Inc. Employee Restricted Stock Plan (filed with the Commission as Exhibit 10.13 to the company's annual report on Form 10-K for the fiscal year ended March 31, 2005, File No. 1-6311).
- 10.14\*+ Form of Stock Option and Restricted Stock Agreement for the Grant of Incentive Stock Options, Non-Qualified Stock Options and Restricted Stock Under the Tidewater Inc. 2001 Stock Incentive Plan.
- 10.15\*+ Form of Stock Option and Restricted Stock Agreement for the Grant of Incentive Stock Options and Non-Qualified Stock Options Under the Tidewater Inc. 2001 Stock Incentive Plan and the Grant of Restricted Stock Under the Tidewater Inc. 1997 Stock Incentive Plan.
- 10.16\*+ Form of Restricted Stock Agreement for the Grant of Restricted Stock Under the Tidewater Inc. Employee Restricted Stock Plan (performance vesting).
- 10.17\*+ Form of Restricted Stock Agreement for the Grant of Restricted Stock Under the Tidewater Inc. Employee Restricted Stock Plan (time vesting).

**Other Incentive Plans**

- 10.18+ Tidewater Inc. Second Amended and Restated Supplemental Executive Retirement Plan dated March 1, 2003 (filed with the Commission as Exhibit 10.14 to the company's annual report on Form 10-K for the fiscal year ended March 31, 2005, File No. 1-6311).
- 10.19+ Tidewater International Supplemental Executive Retirement Plan effective November 1, 2003 (filed with the Commission as Exhibit 10.14A to the company's annual report on Form 10-K for the fiscal year ended March 31, 2005, File No. 1-6311).
- 10.20+ Second Amended and Restated Employees' Supplemental Savings Plan of Tidewater Inc. dated October 1, 1999 (filed with the Commission as Exhibit 10(d) to the company's quarterly report on Form 10-Q for the quarter ended December 31, 1999, File No. 1-6311).
- 10.21+ Tidewater Inc. Executive Medical Benefit Plan dated January 1, 2000 (filed with the Commission as Exhibit 10.16 to the company's annual report on Form 10-K for the fiscal year ended March 31, 2005, File No. 1-6311).
- 10.22\*+ Amended and Restated Deferred Compensation Plan for Outside Directors of Tidewater Inc., effective November 17, 2005.
- 10.23\*+ Amended and Restated Non-Qualified Pension Plan for Outside Directors of Tidewater Inc. effective March 31, 2005.
- 10.24 Tidewater Inc. Management Annual Incentive Plan for Fiscal 2006 (filed with the Commission as Exhibit 10.2 on Form 8-K dated June 1, 2005, File No. 1-6311).
- 10.25+ Tidewater Inc. Executive Officer Annual Incentive Plan for Fiscal 2006 (filed with the Commission as Exhibit 10.1 on Form 8-K dated June 1, 2005, File No. 1-6311).

---

**Table of Contents**

**Index to Financial Statements**

- 10.26+ Restated Non-Qualified Deferred Compensation Plan and Trust Agreement as Restated October 1, 1999 between Tidewater Inc. and Merrill Lynch Trust Company of America (filed with the Commission as Exhibit 10(e) to the company's quarterly report on Form 10-Q for the quarter ended December 31, 1999, File No. 1-6311).
- 10.27+ Second Restated Executives Supplemental Retirement Trust as Restated October 1, 1999 between Tidewater Inc. and Hibernia National Bank (filed with the Commission as Exhibit 10(j) to the company's quarterly report on Form 10-Q for the quarter ended December 31, 1999, File No. 1-6311).

**Other Compensation Arrangements**

- 10.28+ Summary of Compensation Arrangements with Directors (filed with the Commission as Exhibit 10.23 to the company's annual report on Form 10-K for the fiscal year ended March 31, 2005, File No. 1-6311).
- 10.29+ Summary of 2006 Executive Officers Base Salaries (filed with the Commission on Form 8-K on March 29, 2006, File No. 1-6311).
- 10.30+ Summary of Bonuses paid to three Executive Officers of the Company under the Tidewater Inc. 2006 Management Annual Incentive Plan, and of Bonus paid to the Company's Chief Executive Officer under the Tidewater Inc. Executive Officer Annual Incentive Plan for fiscal year 2006 (filed with the Commission on Form 8-K on March 29, 2006, File No. 1-6311).

**Change of Control Agreements**

- 10.31+ Form of Amended and Restated Change of Control Agreement dated October 1, 1999 with four executive officers of Tidewater Inc. (filed with the Commission as Exhibit 10(c) to the company's quarterly report on Form 10-Q for the quarter ended December 31, 1999, File No. 1-6311).

**Other Exhibits**

- 21\* Subsidiaries of the company.
- 23.1\* Consent of Independent Registered Accounting Firm Deloitte & Touche LLP.
- 23.2\* Consent of Independent Registered Accounting Firm Ernst & Young LLP.

**Certifications**

- 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 of Chief Executive Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 32.2\* Certification of Chief Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

\* Filed herewith.

+ Indicates a management contract or compensatory plan or arrangement.



**Table of Contents**

**Index to Financial Statements**

**SIGNATURES OF REGISTRANT**

Pursuant to the requirements of Section 13 of the Securities Exchange Act of 1933, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized on May 26, 2006.

**TIDEWATER INC.**  
(Registrant)

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

By: /s/ J. Keith Lousteau  
J. Keith Lousteau  
Executive Vice President and Chief Financial  
Officer

By: /s/ Joseph M. Bennett  
Joseph M. Bennett  
Senior Vice President, Principal Accounting Officer  
  
and Chief Investor Relations Officer

**SIGNATURES OF DIRECTORS**

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities indicated on May 26, 2006.

/s/ Dean E. Taylor  
Dean E. Taylor

/s/ William C. O Malley  
William C. O Malley

/s/ Arthur R. Carlson  
Arthur R. Carlson

/s/ Paul W. Murrill  
Paul W. Murrill

/s/ Richard T. du Moulin  
Richard T. du Moulin

/s/ Richard A. Pattarozzi  
Richard A. Pattarozzi

/s/ J. Wayne Leonard  
J. Wayne Leonard

/s/ Jack E. Thompson  
Jack E. Thompson

/s/ Jon C. Madonna  
Jon C. Madonna



---

**Table of Contents**

**Index to Financial Statements**

**TIDEWATER INC.**

**Annual Report on Form 10-K**

**Items 8, 15(a), and 15(c)**

**Index to Financial Statements and Schedule**

	<b>Page</b>
<b>Financial Statements</b>	
<u>Management's Report on Internal Control Over Financial Reporting</u>	F-2
<u>Report of Independent Registered Public Accounting Firm - Deloitte &amp; Touche LLP</u>	F-3
<u>Report of Independent Registered Public Accounting Firm - Deloitte &amp; Touche LLP</u>	F-5
<u>Report of Independent Registered Public Accounting Firm - Ernst &amp; Young LLP</u>	F-6
<u>Consolidated Balance Sheets, March 31, 2006 and 2005</u>	F-7
<u>Consolidated Statements of Earnings, three years ended March 31, 2006</u>	F-8
<u>Consolidated Statements of Stockholders' Equity and Comprehensive Income, three years ended March 31, 2006</u>	F-9
<u>Consolidated Statements of Cash Flows, three years ended March 31, 2006</u>	F-10
<u>Notes to Consolidated Financial Statements</u>	F-11
<b>Financial Statement Schedule</b>	
<u>II. Tidewater Inc. and Subsidiaries Valuation and Qualifying Accounts</u>	F-32
All other schedules are omitted as the required information is inapplicable or the information is presented in the financial statements or the related notes.	

**Table of Contents**

**Index to Financial Statements**

**MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING**

The company's management is responsible for establishing and maintaining adequate internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f)). The company's internal control system was designed to provide reasonable assurance to the company's management and Board of Directors regarding the preparation and fair presentation of published financial statements. All internal control systems, no matter how well designed, have inherent limitations. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation.

The company's management assessed the effectiveness of the company's internal control over financial reporting as of March 31, 2006. In making this assessment, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in *Internal Control - Integrated Framework*. Based on our assessment we believe that, as of March 31, 2006, the company's internal control over financial reporting is effective based on those criteria.

Deloitte & Touche LLP, the company's registered public accounting firm that audited the company's financial statements included in this Annual Report on Form 10-K, has issued an attestation report on management's assessment and on the effectiveness of the company's internal control over financial reporting. The attestation report of Deloitte & Touche LLP appears on page F-3.

---

**Table of Contents**

**Index to Financial Statements**

**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

To the Board of Directors and Stockholders of Tidewater Inc.

New Orleans, Louisiana

We have audited management's assessment, included in the accompanying Management's Report on Internal Control Over Financial Reporting, that Tidewater Inc. (the Company) maintained effective internal control over financial reporting as of March 31, 2006, based on criteria established in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express an opinion on management's assessment and an opinion on the effectiveness of the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, evaluating management's assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed by, or under the supervision of, the company's principal executive and principal financial officers, or persons performing similar functions, and effected by the company's board of directors, management, and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, management's assessment that the Company maintained effective internal control over financial reporting as of March 31, 2006, is fairly stated, in all material respects, based on the criteria established in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of March 31, 2006, based on the criteria established in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated financial statements and financial statement schedule as of and

**Table of Contents**

**Index to Financial Statements**

for the year ended March 31, 2006 of the Company and our report dated May 25, 2006 expressed an unqualified opinion on those financial statements and financial statement schedule.

/s/ DELOITTE & TOUCHE LLP

New Orleans, Louisiana  
May 25, 2006

F-4

**Table of Contents**

**Index to Financial Statements**

**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

To the Board of Directors and Stockholders of Tidewater Inc.

New Orleans, Louisiana

We have audited the accompanying consolidated balance sheets of Tidewater Inc. and subsidiaries (the Company) as of March 31, 2006 and 2005 and the related consolidated statements of earnings, stockholders' equity and other comprehensive income, and cash flows for the years then ended. Our audits also included the financial statement schedule listed in the Index at Item 15. These financial statements and financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and financial statement schedule based on our audits. The financial statements of the Company for the year ended March 31, 2004 were audited by other auditors whose report, dated April 19, 2004, expressed an unqualified opinion on those statements.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of the Company as of March 31, 2006 and 2005, and the results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, such financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of the Company's internal control over financial reporting as of March 31, 2006, based on the criteria established in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated May 25, 2006 expressed an unqualified opinion on management's assessment of the effectiveness of the Company's internal control over financial reporting and an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

/s/ DELOITTE & TOUCHE LLP

New Orleans, Louisiana  
May 25, 2006

F-5

**Table of Contents**

**Index to Financial Statements**

**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

The Board of Directors and Shareholders

Tidewater Inc.

We have audited the accompanying consolidated statements of earnings, stockholders' equity and comprehensive income, and cash flows of Tidewater Inc. for the year ended March 31, 2004. Our audit also included the financial statement schedule listed in the accompanying Index to Financial Statements and Schedule. These financial statements and schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedule based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated results of operations and cash flows of Tidewater Inc. for the year ended March 31, 2004, in conformity with accounting principles generally accepted in the United States. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

/s/ Ernst & Young LLP

New Orleans, Louisiana

April 19, 2004



**Table of Contents****Index to Financial Statements****TIDEWATER INC.****CONSOLIDATED BALANCE SHEETS**

March 31, 2006 and 2005

<b>(In thousands)</b>	<b>2006</b>	<b>2005</b>
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 246,109	15,376
Trade and other receivables, less allowance for doubtful accounts of \$6,265 in 2006 and \$7,138 in 2005	237,428	169,784
Marine operating supplies	41,181	38,959
Other current assets	4,325	3,837
<b>Total current assets</b>	<b>529,043</b>	<b>227,956</b>
Investments in, at equity, and advances to unconsolidated companies	34,308	32,074
Properties and equipment:		
Vessels and related equipment	2,457,947	2,483,970
Other properties and equipment	50,205	48,512
	2,508,152	2,532,482
Less accumulated depreciation and amortization	1,134,425	1,080,296
Net properties and equipment	1,373,727	1,452,186
Goodwill	328,754	328,754
Other assets	98,708	172,203
<b>Total assets</b>	<b>\$ 2,364,540</b>	<b>2,213,173</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable and accrued expenses	97,265	82,261
Accrued property and liability losses	7,223	9,286
Other current liabilities	11,266	2,766
<b>Total current liabilities</b>	<b>115,754</b>	<b>94,313</b>
Long-term debt	300,000	380,000
Deferred income taxes	175,267	184,410
Accrued property and liability losses	21,732	34,778
Other liabilities and deferred credits	92,666	76,970
Stockholders' equity:		
Common stock of \$0.10 par value, 125,000,000 shares authorized, issued 60,310,164 shares at March 31, 2006 and 60,718,231 shares at March 31, 2005	6,031	6,072
Other stockholders' equity	1,653,090	1,436,630
<b>Total stockholders' equity</b>	<b>1,659,121</b>	<b>1,442,702</b>
<b>Total liabilities and stockholders' equity</b>	<b>\$ 2,364,540</b>	<b>2,213,173</b>

See accompanying Notes to Consolidated Financial Statements.

F-7

**Table of Contents****Index to Financial Statements****TIDEWATER INC.****CONSOLIDATED STATEMENTS OF EARNINGS**

Years Ended March 31, 2006, 2005, and 2004

(In thousands, except share and per share data)	2006	2005	2004
<b>Revenues:</b>			
Vessel revenues	\$ 846,982	655,526	625,948
Other marine revenues	30,635	36,624	26,682
	877,617	692,150	652,630
<b>Costs and expenses:</b>			
Vessel operating costs	431,481	401,871	394,699
Costs of other marine revenues	23,836	29,453	21,502
Depreciation and amortization	107,526	99,613	98,510
General and administrative	86,490	73,424	67,514
Impairment of long-lived assets	3,050	1,733	26,456
Gain on sales of assets	(86,337)	(11,979)	(7,075)
	566,046	594,115	601,606
	311,571	98,035	51,024
<b>Other income (expenses):</b>			
Foreign exchange gain (loss)	1,035	(327)	(1,782)
Equity in net earnings of unconsolidated companies	10,035	6,299	6,252
Minority interests	(16)	(59)	(204)
Interest and miscellaneous income	9,961	2,734	2,896
Interest and other debt costs	(9,074)	(6,887)	(3,683)
	11,941	1,760	3,479
<b>Earnings before income taxes</b>	<b>323,512</b>	<b>99,795</b>	<b>54,503</b>
Income tax expense (benefit)	87,756	(1,544)	12,841
<b>Net earnings</b>	<b>\$ 235,756</b>	<b>101,339</b>	<b>41,662</b>
<b>Basic earnings per common share</b>	<b>\$ 4.11</b>	<b>1.78</b>	<b>.74</b>
<b>Diluted earnings per common share</b>	<b>\$ 4.07</b>	<b>1.78</b>	<b>.73</b>
Weighted average common shares outstanding	57,372,815	56,854,282	56,563,328
Incremental common shares from stock options	593,856	213,992	125,062
Adjusted weighted average common shares	57,966,671	57,068,274	56,688,390
<b>Cash dividends declared per common share</b>	<b>\$ .60</b>	<b>.60</b>	<b>.60</b>

See accompanying Notes to Consolidated Financial Statements.



**Table of Contents****Index to Financial Statements****TIDEWATER INC.****CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY AND COMPREHENSIVE INCOME**

Years Ended March 31, 2006, 2005 and 2004

(In thousands)	Common stock	Additional paid-in capital	Retained earnings	Deferred compensation- restricted stock	Accumulated other comprehensive loss	Grantor Trust Stock Ownership Program (GSOP)	Total
Balance at March 31, 2003	\$ 6,058	301,540	1,141,923	(1,147)	(12,482)	(84,497)	1,351,395
Net earnings			41,662				41,662
Other Comprehensive Income:							
Unrealized gains/(losses) on available-for-sale securities					911		911
Changes in Supplemental Executive Retirement Plan minimum liability					(871)		(871)
Changes in Pension Plan minimum liability					(273)		(273)
<b>Total Comprehensive income</b>							<b>41,429</b>
Issuance of restricted stock	13	3,472		(3,675)		25	(165)
Exercise of stock options	(1)	724				4,730	5,453
Cash dividends declared			(34,008)				(34,008)
Issuance of common shares		407				1,134	1,541
Other				465			465
Balance at March 31, 2004	\$ 6,070	306,143	1,149,577	(4,357)	(12,715)	(78,608)	1,366,110
Net earnings			101,339				101,339
Other Comprehensive Income:							
Unrealized gain/(losses) on available-for-sale securities					11		11
Changes in Supplemental Executive Retirement Plan minimum liability					(975)		(975)
Changes in Pension Plan minimum liability					(1,016)		(1,016)
<b>Total Comprehensive income</b>							<b>99,359</b>
Issuance of restricted stock	2	2,911		(5,987)		2,972	(102)
Exercise of stock options		2,334				6,107	8,441
Cash dividends declared			(34,286)				(34,286)
Issuance of common shares		435				900	1,335
Other				1,845			1,845
Balance at March 31, 2005	\$ 6,072	311,823	1,216,630	(8,499)	(14,695)	(68,629)	1,442,702
Net earnings			235,756				235,756
Other Comprehensive Income:							
Unrealized gains/(losses) on available-for- sale securities					105		105

Edgar Filing: TIDEWATER INC - Form 10-K

Changes in Supplemental Executive Retirement Plan minimum liability				(518)			(518)
Changes in Pension Plan minimum liability				(2,038)			(2,038)
Changes in fair value of derivative instruments				505			505
Total Comprehensive income							233,810
Issuance of restricted stock	7	8,855		(13,037)		3,084	(1,091)
Exercise of stock options	(2)	16,242				18,620	34,860
Cash dividends declared				(34,575)			(34,575)
Issuance of common shares		462				470	932
Retirement of common stock	(46)	(20,719)					(20,765)
Other				3,248			3,248
Balance at March 31, 2006	\$ 6,031	316,663	1,417,811	(18,288)	(16,641)	(46,455)	1,659,121

See accompanying Notes to Consolidated Financial Statements.

F-9

**Table of Contents****Index to Financial Statements****TIDEWATER INC.****CONSOLIDATED STATEMENTS OF CASH FLOWS**

Years Ended March 31, 2006, 2005 and 2004

(In thousands)	2006	2005	2004
<b>Operating activities:</b>			
Net earnings	\$ 235,756	101,339	41,662
Adjustments to reconcile net earnings to net cash provided by operating activities:			
Depreciation and amortization	107,526	99,613	98,510
Provision for deferred income taxes	55,560	(33,867)	(16,634)
Impairment of long-lived assets	3,050	1,733	26,456
Gain on sales of assets	(86,337)	(11,979)	(7,075)
Equity in earnings of unconsolidated companies, less dividends	(2,233)	1,663	4,473
Minority interests, less dividends	(68)	(86)	(13)
Compensation expense - restricted stock	3,248	1,845	465
Tax benefit on stock compensation	4,124	823	673
Changes in assets and liabilities, net:			
Trade and other receivables	(64,521)	(5,691)	(4,953)
Marine operating supplies	297	(1,040)	(6,642)
Other current assets	(488)	(517)	355
Accounts payable and accrued expenses	17,431	6,655	(145)
Accrued property and liability losses	(2,344)	169	(559)
Other, net	12,577	(598)	(7,524)
<b>Net cash provided by operating activities</b>	<b>283,578</b>	<b>160,062</b>	<b>129,049</b>
<b>Investing activities:</b>			
Proceeds from sales of assets	225,616	18,296	11,451
Additions to properties and equipment	(172,408)	(207,391)	(297,515)
Other		(30)	635
<b>Net cash provided by (used in) investing activities</b>	<b>53,208</b>	<b>(189,125)</b>	<b>(285,429)</b>
<b>Financing activities:</b>			
Principal payments on debt	(110,000)	(58,000)	(285,000)
Debt borrowings	30,000	113,000	471,000
Proceeds from issuance of common stock	29,645	7,474	4,590
Cash dividends	(34,575)	(34,286)	(34,008)
Stock repurchases	(20,765)		
Other	(358)	(1,385)	(333)
<b>Net cash (used in) provided by financing activities</b>	<b>(106,053)</b>	<b>26,803</b>	<b>156,249</b>
<b>Net change in cash and cash equivalents</b>	<b>230,733</b>	<b>(2,260)</b>	<b>(131)</b>
Cash and cash equivalents at beginning of year	15,376	17,636	17,767
<b>Cash and cash equivalents at end of year</b>	<b>\$ 246,109</b>	<b>15,376</b>	<b>17,636</b>

Supplemental disclosure of cash flow information:

Edgar Filing: TIDEWATER INC - Form 10-K

Cash paid during the year for:

Interest	\$ 14,993	16,387	10,006
Income taxes	\$ 30,525	33,699	26,384

See accompanying Notes to Consolidated Financial Statements.

F-10



**Table of Contents**

**Index to Financial Statements**

**TIDEWATER INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

March 31, 2006, 2005, and 2004

**(1) Summary of Significant Accounting Policies**

**Nature of Operations**

The company provides services and equipment to the offshore energy industry through the operation of the world's largest fleet of offshore service vessels. Revenues, net earnings and cash flows from operations are dependent upon the activity level for the vessel fleet, which is ultimately dependent upon crude oil and natural gas prices that, in turn, are determined by the supply/demand relationship for crude oil and natural gas.

**Use of Estimates**

The preparation of financial statements in accordance with accounting standards generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. The company evaluates its estimates and assumptions on an ongoing basis based on a combination of historical information and various other assumptions that are considered reasonable under the particular circumstances. Actual results may differ from these estimates under different assumptions.

**Principles of Consolidation**

The Consolidated Financial Statements include the accounts of Tidewater Inc. and its subsidiaries. Significant intercompany balances and transactions are eliminated in consolidation.

**Cash Equivalents**

The company considers all highly liquid investments with maturities of three months or less when purchased to be cash equivalents.

**Inventories**

Inventories, which consist primarily of operating parts and supplies for the company's vessels, are stated at the lower of weighted-average cost or market.

**Properties and Equipment**

Properties and equipment are stated at cost. Depreciation for financial reporting purposes is computed primarily on the straight-line basis beginning with the date of construction, with salvage values of 5%-10% for marine equipment, using estimated useful lives of 15 - 25 years for marine equipment (from date of construction) and 3 - 30 years for other properties and equipment. Depreciation is provided for all vessels unless a vessel meets the criteria to be classified as held for sale in accordance with Statement of Financial Accounting Standard (SFAS) No. 144,

*Accounting for the Impairment or Disposal of Long-Lived Assets*. Estimated remaining useful lives are reviewed when there has been a change in circumstances that indicate the original estimated useful life may no longer be appropriate.

Used equipment is depreciated in accordance with the above policy; however, no life less than six years is used for marine equipment regardless of the date constructed.

Maintenance and repairs are charged to operations as incurred during the asset's original estimated useful life (its original depreciable life). Major repair costs incurred after the original estimated depreciable



**Table of Contents****Index to Financial Statements**

life that also have the effect of extending the useful life of the asset are capitalized and amortized over 30 months. Vessel modifications that are performed for a specific customer contract are capitalized and amortized over the firm contract term. Major modifications to equipment are capitalized and amortized over the remaining life of the equipment. The majority of the company's vessels require drydocking inspection twice in each five year period and the company schedules vessel drydockings when it is anticipated that the work can be performed.

The following is a summary of net properties and equipment at March 31, 2006 and 2005:

	2006		2005	
	Number Of Vessels	Carrying Value (In thousands)	Number Of Vessels	Carrying Value (In thousands)
Vessels in active service	368	\$ 1,214,195	364	\$ 1,195,721
Stacked vessels	67	20,170	74	27,623
Vessels withdrawn from service	66	10,163	94	17,076
Marine equipment under construction		112,261		194,714
Other property and equipment		16,938		17,052
Totals	501	\$ 1,373,727	532	\$ 1,452,186

The company considers a vessel to be stacked if its crew is removed from the vessel and limited maintenance is being performed on the vessel. This action is taken to reduce operating costs when management does not foresee adequate marketing possibilities in the near future. Vessels are added to this list when market conditions warrant and they are removed from this list when sold or otherwise disposed of or when returned to active service. As economically practical marketing opportunities arise, the stacked vessels can be returned to service by performing any necessary maintenance on the vessel and 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. Stacked vessels at March 31, 2006 and 2005 have an average age of 25.2 and 24.8 years, respectively.

Vessels withdrawn from service represent those vessels that management has determined are unlikely to return to active service and are currently marketed for sale. Vessels withdrawn from service are not included in the company's utilization statistics. Vessels withdrawn from service at March 31, 2006, with an average age of 26.2 years, include 20 vessels carried at an aggregate estimated liquidation value of \$4.2 million and 33 vessels carried at an aggregate estimated scrap value of \$1.3 million. Vessels withdrawn from service at March 31, 2005, with an average age of 24.9 years, include 38 vessels carried at an aggregate estimated liquidation value of \$7.4 million and 42 vessels are carried at an aggregate estimated scrap value of \$1.2 million.

All vessels are classified in the company's consolidated balance sheets in Properties and Equipment. No vessels are classified as held for sale because no vessel meets the criteria of SFAS No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets. Stacked vessels and vessels withdrawn from service are reviewed for impairment semiannually.

**Goodwill**

The company follows SFAS No. 142, *Goodwill and Other Intangible Assets*, which requires goodwill to be tested annually for impairment using a fair value-based approach and does not permit amortization of goodwill as previously required by Accounting Principles Board (APB) Opinion No. 17, *Intangible Assets*. An impairment loss would be recorded if the recorded goodwill exceeds its implied fair value. Goodwill primarily relates to the fiscal 1998 acquisition of O.I.L. Ltd., a British company. At March 31, 2006, the company's goodwill represented 14% of total assets and 20% of stockholders' equity.

---

**Table of Contents**

**Index to Financial Statements**

**Impairment of Long-Lived Assets**

The company accounts for long-lived assets in accordance with SFAS No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets* and reviews long-lived assets for impairment whenever events occur or changes in 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. 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.

Although the company believes its assumptions and estimates are reasonable, deviations from the assumptions and estimates could produce a materially different result. Management estimates may vary considerably from actual outcomes due to future adverse market conditions or poor operating results that could result in the inability to recover the current carrying value of an asset group, thereby possibly requiring an impairment charge in the future. As the company's fleet continues to age, management closely monitors the estimates and assumptions used in the impairment analysis to properly identify evolving trends and changes in market conditions that could impact the results of the impairment evaluation.

The company refined its asset groupings for impairment testing under SFAS No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*, during fiscal 2005, and increased the number of asset groupings to better reflect the composition and varying capabilities of the company's vessels and the markets within which such vessels operate. Also during the fourth quarter of fiscal 2005, the company formalized procedures for a periodic impairment review of its stacked vessels and vessels withdrawn from service. This review is undertaken every six months, or more often if considered necessary, and considers items such as the vessel's age, length of time stacked and likelihood of a return to service, among others. The company records an impairment charge when the carrying value of a vessel withdrawn from service or a stacked vessel that is unlikely to return to service exceeds its estimated fair value.

**Accrued Property and Liability Losses**

The company's insurance subsidiary establishes case based reserves for estimates of reported losses on direct business written, estimates received from ceding reinsurers, and reserves based on past experience of unreported losses. Such losses principally relate to the company's marine operations and are included as a component of costs of marine operations in the consolidated statements of earnings. The liability for such losses and the related reimbursement receivable from reinsurance companies are classified in the consolidated balance sheets into current and noncurrent amounts based upon estimates of when the liabilities will be settled and when the receivables will be collected.

**Pension and Other Postretirement Benefits**

Pension costs are accounted for in accordance with the provisions of SFAS No. 87, *Employers' Accounting for Pensions* and are funded to at least meet the minimum funding requirements as required by law. Prior service costs are amortized on the straight-line basis over the average remaining service period of employees expected to receive pension benefits. Postretirement benefits other than pensions are accounted for in accordance with SFAS No. 106, *Employers' Accounting for Postretirement Benefits Other Than Pensions*. The estimated cost of postretirement benefits other than pensions are accrued during the employees' active service period.

The company follows the disclosure provisions of SFAS No. 132R, *Employers' Disclosures about Pensions and Other Postretirement Benefits* an amendment of FASB Statements No. 87, 88, and 106, as revised, which standardizes the disclosures for pensions and other postretirement benefit plans.

---

**Table of Contents**

**Index to Financial Statements**

**Income Taxes**

Income taxes are accounted for in accordance with the provisions of SFAS No. 109, *Accounting for Income Taxes*. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. Deferred taxes are not provided on undistributed earnings of certain non-U.S. subsidiaries and business ventures because the company considers those earnings to be permanently invested abroad.

**Revenue Recognition**

The company's primary source of revenue is derived from time charter contracts of its vessels on a rate per day of service basis; therefore, marine vessel revenues are recognized on a daily basis throughout the contract period. These time charter contracts are generally either on a term basis (average three months to two years) or on a spot basis. The base rate of hire for a term contract is generally a fixed rate, provided, however, that term contracts at times include escalation clauses to recover specific additional costs. A spot contract is a short-term agreement to provide offshore marine services to a customer for a specific short-term job. Spot contract terms generally range from one day to one week. Marine vessel revenues are recognized on a daily basis throughout the contract period.

**Operating Costs**

Vessel operating costs are incurred on a daily basis and consist primarily of costs such as crew wages, repair and maintenance, insurance, fuel, lube oil and supplies, and other vessel expenses such as brokers commissions and crew personnel training costs. Repair and maintenance costs include both routine costs and major drydocking repair costs. Vessel operating costs are recognized as incurred on a daily basis.

**Foreign Currency Translation**

The U.S. dollar is the functional currency for all of the company's existing international operations, as transactions in these operations are predominately denominated in U.S. dollars. Foreign currency exchange gains and losses are included in the consolidated statements of earnings.

**Earnings Per Share**

Earnings per share are computed in accordance with SFAS No. 128, *Earnings Per Share*, which requires the reporting of both earnings per share and diluted earnings per share. The calculation of earnings per share is based on the weighted average number of shares outstanding and therefore excludes any dilutive effect of stock options, while diluted earnings per share includes the dilutive effect of stock options. Per share amounts disclosed in these Notes to Consolidated Financial Statements, unless otherwise indicated, are on a diluted basis.

**Concentrations of Credit Risk**

Financial instruments that potentially subject the company to concentrations of credit risk consist principally of trade and other receivables. These receivables are with a variety of domestic, international and national energy companies and also include reinsurance companies for recoverable insurance losses. The company manages its exposure to risk through ongoing credit evaluations of its customers and generally does not require collateral. The company maintains an allowance for doubtful accounts for potential losses and does not believe it is generally exposed to concentrations of credit risk that are likely

**Table of Contents****Index to Financial Statements**

to have a material adverse impact on the company's financial position, results of operations, or cash flows.

**Stock-Based Compensation**

The company measures compensation expense for its stock-based compensation plan using the intrinsic value recognition and measurement principles prescribed by APB Opinion No. 25, *Accounting for Stock Issued to Employees* and related interpretations. The plan is described in Note 8 of Notes to Consolidated Financial Statements. The company uses the disclosure provision of SFAS No. 148, *Accounting for Stock-Based Compensation Transition and Disclosure*, which amended the disclosure provision of SFAS No. 123. The following table illustrates the effect on net earnings and earnings per share had the company determined compensation cost based on the fair value at the grant date for its stock options under SFAS No. 123, *Accounting for Stock-Based Compensation*.

(In thousands)	2006	2005	2004
Net earnings as reported	\$ 235,756	101,339	41,662
Add stock-based employee compensation expense included in reported net earnings, net of related tax effect	2,324	1,185	252
Less total stock-based employee compensation expense, under fair value method for all awards, net of tax	(6,085)	(6,760)	(6,418)
Pro forma net earnings	\$ 231,995	95,764	35,496
Basic earnings per common share:			
As reported	\$ 4.11	1.78	.74
Pro forma	\$ 4.04	1.68	.63
Diluted earnings per common share:			
As reported	\$ 4.07	1.78	.73
Pro forma	\$ 4.00	1.68	.63

**Comprehensive Income**

The Company uses SFAS No. 130, *Reporting Comprehensive Income*, which requires the reporting and display of total comprehensive income and its components in the financial statements. Total comprehensive income represents the net change in stockholders' equity during a period from sources other than transactions with stockholders and, as such, includes net earnings. For the company, accumulated other comprehensive income is comprised of the net after-tax effect of accumulated foreign currency translation adjustments, unrealized gains and losses on available-for-sale securities and derivative financial instruments, and any minimum pension liability for the company's U.S. Defined Benefits Pension Plan and Supplemental Executive Retirement Plan.

**Derivative Instruments and Hedging Activities**

The company uses SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities*, (SFAS No. 133) as amended. The company periodically utilizes derivative financial instruments to hedge against foreign currency denominated assets and liabilities and currency commitments. These transactions are 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 related to the company's commitment to sell and simultaneously leaseback four of its vessels to Bank of America Leasing & Capital LLC. The company accounts for changes in the fair value of a derivative instrument depending on the intended use of the derivative and the resulting designation, which is established at the inception of a derivative. SFAS No. 133 requires that a company formally document, at the inception of a hedge, the hedging relationship and the entity's risk management objective and strategy for undertaking the hedge, including identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged, the method used to assess effectiveness and the method that will be used to measure hedge ineffectiveness of derivative instruments that receive hedge accounting treatment. For derivative instruments designated as foreign currency or interest rate hedges, changes in fair value, to the extent the hedge is effective, are recognized in other comprehensive income until the hedged item is recognized in earnings. Amounts

**Table of Contents****Index to Financial Statements**

representing hedge ineffectiveness are recorded in earnings. Hedge effectiveness is assessed quarterly based on the total change in the derivative's fair value.

**Reclassifications**

Certain previously reported amounts have been reclassified to conform to the 2006 presentation.

**New Accounting Pronouncements**

In December 2004, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 123 (Revised 2004), *Share-Based Payment* (SFAS 123R). This standard requires expensing of stock options and other share-based payments and supersedes SFAS No. 123, *Accounting for Stock-Based Compensation* and Accounting Principles Board (APB) Opinion No. 25, *Accounting for Stock Issued to Employees*, and its related implementation guidance that had allowed companies to choose between expensing stock options or showing proforma disclosure only. This standard, together with a new rule adopted by the Securities and Exchange Commission in April 2005, is effective for the company as of April 1, 2006 and will apply to all awards granted, modified, cancelled or repurchased after that date. The ultimate amount of increased compensation expense will be dependent on the number of option shares granted, their timing and vesting period and the method used to calculate the fair value of the awards, among other factors. Based on stock options outstanding as of March 31, 2006, the adoption of SFAS No. 123R is expected to result in the recognition of \$6.0 million of future compensation expense, of which \$3.2 million is expected to be recorded during fiscal 2007.

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.

**(2) Investment in Unconsolidated Companies**

Investments in unconsolidated affiliates, generally 50% or less owned partnerships and corporations, are accounted for by the equity method. Under the equity method, the assets and liabilities of the unconsolidated joint venture companies are not consolidated in the company's consolidated balance sheet.

Investments in, at equity, and advances to unconsolidated marine joint-venture companies at March 31 were as follows:

	Percentage ownership	(In thousands)	
		2006	2005
Sonatide Marine Ltd. (Luanda, Angola)	49%	\$ 32,912	30,475
Others	20%-50%	1,396	1,599
		\$ 34,308	32,074

During fiscal 2004, the company sold three crewboats to Sonatide Marine Ltd. for \$11.8 million. The company financed the sale of all three crewboats. Under the terms of the repayment agreement, the loan is payable in 36 equal installments plus interest at 90 day LIBOR plus 1.5% adjusted quarterly.

The company restructured its financing agreements with Sonatide Marine Ltd. during the first quarter of fiscal 2005. Under the terms of the new financing arrangement, the loan is payable in 60 equal installments (beginning in June 2004 and ending in May 2009), plus interest at 90 day LIBOR plus 1.5% adjusted quarterly.

As of March 31, 2006, 2005 and 2004, \$10.3 million, \$13.5 million, and \$17.5 million, respectively, was owed the company related to these financings.





**Table of Contents****Index to Financial Statements****(3) Impairment of Long-lived Assets**

During fiscal 2004, numerous marine drilling rigs exited the U.S. Gulf of Mexico despite attractive domestic oil and gas commodity pricing for an extended period of time. These departures, combined with the low activity levels of traditional Gulf of Mexico operators, left the active offshore rig count at its lowest level in ten years. By late fiscal 2004, the company concluded based on mounting extrinsic evidence that low activity levels in the Gulf of Mexico could possibly persist for an extended period of time. Management reviewed the recoverability of the values of its Gulf of Mexico operating assets and recorded in March 2004 a non-cash asset impairment charge of \$26.5 million (\$17.2 million after tax, or \$0.30 per share) relating to 83 older Gulf of Mexico supply vessels. As a result of the prolonged weakness in the Gulf of Mexico drilling market, the vessels were stacked for as long as several years and were viewed as unlikely to return to service. Due to the average age of the vessels (23.5 years), outdated specifications (low horsepower and cargo capacities) relative to competing equipment, significant costs to repair and return the vessels to service (average approximately \$500,000 per vessel) and an anticipation of low customer demand for the vessels in the future, the company concluded it was unlikely that these vessels would return to active service. Based on such factors, and in accordance with Statement of Financial Accounting Standards No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*, the asset impairment charge noted above was taken to adjust the carrying value of the assets to fair value at March 31, 2004. The fair value of the vessels was determined based upon management's estimate of liquidation values that could be realized in sales to unrelated purchasers and included an assumption that a significant number of the vessels (as much as 50%) may have to be scrapped. Disposal of the assets may take an extended period of time due to the vessels' outdated specifications. Two vessels from this group of impaired vessels were sold during fiscal 2005 and an additional 22 vessels were sold and/or scrapped during fiscal 2006.

In the fourth quarter of fiscal 2005, the company reviewed, for impairment purposes, all stacked vessels and vessels withdrawn from service and recorded a non-cash impairment charge of \$1.7 million (\$1.1 million after tax, or \$0.02 per share) to reduce the carrying amount of 10 stacked vessels as to which an impairment charge had not been taken in fiscal 2004 but which were subsequently identical as being unlikely to return to active service. An impairment review during fiscal 2006 resulted in a non-cash impairment charge of approximately \$3.1 million (\$2.0 million after tax, or \$.03 per share) on eight additional vessels that are withdrawn from service as to which an impairment charge had not been taken previously.

**(4) Income Taxes**

Earnings before income taxes derived from United States and international operations for the years ended March 31 are as follows:

<b>(In thousands)</b>	<b>2006</b>	<b>2005</b>	<b>2004</b>
United States	\$ 126,533	(4,505)	(52,590)
International	196,979	104,301	107,093
	\$ 323,512	99,795	54,503

**Table of Contents****Index to Financial Statements**

Income tax expense for the years ended March 31 consists of the following:

(In thousands)	U.S.			Total
	Federal	State	International	
<b>2006</b>				
Current	\$ 4,153	(340)	28,383	32,196
Deferred	56,916		(1,356)	55,560
	\$ 61,069	(340)	27,027	87,756
<b>2005</b>				
Current	\$ (3,339)	57	35,605	32,323
Deferred	(32,066)		(1,801)	(33,867)
	\$ (35,405)	57	33,804	(1,544)
<b>2004</b>				
Current	\$ 346	504	28,625	29,475
Deferred	(14,671)		(1,963)	(16,634)
	\$ (14,325)	504	26,662	12,841

The actual income tax expense for the years ended March 31, 2006, 2005, and 2004 differs from the amounts computed by applying the U.S. federal statutory tax rate of 35% to pre-tax earnings as a result of the following:

(In thousands)	2006	2005	2004
Computed expected tax expense	\$ 113,229	34,928	19,076
Increase (reduction) resulting from:			
Foreign income taxed at different rates	(19,158)		
Foreign tax credits not previously recognized	(1,356)	(1,801)	(1,963)
Overaccrual of prior year taxes on certain foreign earnings		(579)	(2,500)
Utilization of net operating loss carryforwards		(4)	(1)
Current foreign earnings not subject to taxation	(879)	(1,810)	(2,100)
Expenses which are not deductible for tax purposes	97	124	118
State taxes	(221)	37	328
Effect of reversal of previously recorded deferred taxes on timing differences of non-U.S. subsidiaries		(31,772)	
Other, net	(3,956)	(667)	(117)
	\$ 87,756	(1,544)	12,841

The company's fiscal 2006, 2005 and 2004 effective annual tax rate was 27.1%, (1.6%) and 23.6%, respectively.

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and deferred tax liabilities at March 31, 2006 and 2005 are as follows:

(In thousand)	2006	2005
---------------	------	------

Edgar Filing: TIDEWATER INC - Form 10-K

Deferred tax assets:		
Financial provisions not deducted for tax purposes	\$ 21,972	19,145
Domestic net operating loss carryforwards		46,601
Tax credit carryforwards	13,117	31,811
Other	381	667
Gross deferred tax assets	35,470	98,224
Less valuation allowance		
Net deferred tax assets	35,470	98,224
Deferred tax liabilities:		
Depreciation and amortization	(174,615)	(183,359)
Other	(652)	(1,051)
Gross deferred tax liabilities	(175,267)	(184,410)
Net deferred tax liabilities	\$ (139,797)	(86,186)

F-18

---

**Table of Contents****Index to Financial Statements**

The provisions of the American Jobs Creation Act of 2004 (the Act), were effective for the company as of April 1, 2005, and allowed the company to omit recording deferred tax assets or liabilities on future undistributed earnings of most non-U.S. subsidiaries and business ventures that it considers indefinitely reinvested abroad. At March 31, 2005, the company reversed all previously recorded deferred tax assets and liabilities related to timing differences, foreign tax credits, or prior undistributed earnings of these entities whose future and prior earnings are now anticipated to be indefinitely reinvested abroad. This resulted in an approximate \$31.8 million reduction of income tax expense in the fourth quarter of fiscal 2005.

The company has not recognized a U.S. deferred tax liability associated with temporary differences related to investments in foreign subsidiaries that are essentially permanent in duration. The differences relate primarily to undistributed earnings and stock basis differences. Though the company does not anticipate repatriation of funds, a current U.S. tax liability would be recognized when the company receives those foreign funds in a taxable manner such as through receipt of dividends or sale of investments. As of March 31, 2006, the total amount for which U.S. deferred taxes have not been recognized is approximately \$265.3 million. A determination of the unrecognized deferred tax liability for temporary differences related to investments in foreign subsidiaries is not practicable due to uncertainty regarding the use of foreign tax credits which would become available as a result of a transaction. The American Jobs Creation Act of 2004 provides for a special one-time tax deduction of 85% of certain foreign earnings that are repatriated in either fiscal 2005 or 2006. The company has evaluated the repatriation provision, and consistent with its decision to reinvest all future earnings of its foreign subsidiaries, has concluded that the repatriation of unremitted foreign earnings provides no benefit to the company, and has no effect on income tax expense as reported.

As of March 31, 2006, the company has foreign tax credit carry-forwards approximating \$12.0 million that expire in 2014 through 2015.

The company receives a tax benefit that is generated by certain employee stock benefit plan transactions. This benefit is recorded directly to additional paid-in-capital and does not reduce the company's effective income tax rate. The tax benefit for the years ended March 31, 2006, 2005 and 2004 totaled approximately \$4.1 million, \$0.8 million and \$0.7 million, respectively.

**(5) Long-term Debt and Revolving Credit Agreement**

On May 18, 2005, the company amended its \$295 million revolving line of credit agreement, which expires on May 18, 2010, increasing the face amount of the facility from \$295 million to \$300 million and providing a mechanism for increasing the amount of the facility up to \$400 million. Borrowings bear interest at the company's option, at the greater of prime or Federal Funds rates plus .5% or LIBOR rates plus margins from .50 to 1.125% based on the company's funded debt to total capitalization ratio. The amended agreement reduced the annual fee on the unused portion of the facility to a range between .10 to .25% and modified certain financial covenants, which would allow more flexibility in utilizing the facility. There were no borrowings outstanding under the revolving credit agreement at March 31, 2006.

At March 31, 2005, the company had \$80.0 million outstanding borrowings from the revolving credit facility. The weighted average interest rate applicable to amounts outstanding under the revolving credit agreement at March 31, 2005 was 1.97%.

Prior to the amendment on May 18, 2005, borrowings under the company's \$295 million revolving credit agreement bore interest at the company's option, at prime or Federal Funds rates plus .5% or LIBOR rates plus margins from .75% to 1.25% based on the company's funded debt to total capitalization ratio. Any borrowings under the agreement were unsecured and the company paid an annual fee of .20 to .30% on the unused portion of the facility as determined by the company's funded debt to total capitalization ratio.

---

**Table of Contents****Index to Financial Statements**

At March 31, 2006, the company had \$300 million of debt outstanding which represents senior unsecured notes that were issued on July 8, 2003. The multiple series of notes with original maturities ranging from 7 years to 12 years have an average outstanding life to maturity of 9.5 years and can be retired prior to maturity without penalty. The average interest rate on the notes is 4.35%. The terms of the notes limit the amount of company debt, and the company's debt to total capitalization ratio cannot exceed 55%. The fair value of this debt at March 31, 2006 is estimated to be \$279.8 million.

Under the terms of the revolving credit agreement, the company has agreed to limitations on future levels of investments and aggregate indebtedness, maintenance of certain debt to capitalization ratios and debt to earnings ratios. The revolving credit agreement also limits the company's ability to encumber its assets for the benefit of others.

Interest and debt costs incurred, net of interest capitalized, for fiscal 2006, 2005 and 2004 was approximately \$9.1 million, \$6.9 million, and \$3.7 million, respectively. Interest costs capitalized during fiscal 2006, 2005 and 2004 was approximately \$6.3 million, \$10.0 million, and \$8.5 million, respectively.

**(6) Employee Benefit Plans**

Upon meeting various citizenship, age and service requirements, employees are eligible to participate in a defined contribution savings plan and can contribute from 2% to 75% of their base salary to an employee benefit trust. The company matches with company common stock 50% of the employee's contribution to the plan up to a maximum of 6% of the employee's base salary. The plan held 453,337 shares and 482,387 shares of the company's common stock at March 31, 2006 and 2005, respectively. Amounts charged to expense for the plan for 2006, 2005 and 2004 were \$1.1 million, \$1.4 million, and \$1.2 million, respectively.

A defined benefit pension plan 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. Approximately 75% of the pension plan assets are invested in fixed income securities with the balance invested in equity securities and cash and cash equivalents. The plan does not invest in Tidewater stock. The company's policy is to fund the plan based upon minimum funding requirements of the Employee Retirement Income Security Act of 1974. Certain benefits programs are maintained in several other countries that provide retirement income for covered employees.

The company also has 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, which consists of a variety of marketable securities, none of which is Tidewater stock. The 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. Trust assets at March 31, 2006 and 2005 were \$10.6 million and \$10.6 million, respectively, and the company's obligation under the supplemental plan, which is included in other liabilities and deferred credits on the consolidated balance sheet, amounted to \$16.2 million and \$14.5 million, respectively, at March 31, 2006 and 2005.

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 was amended during the year ended March 31, 2006 to eliminate prescription drug coverage for Medicare eligible participants and to provide an alternative high deductible plan design. This plan is not funded.

Changes in plan assets and obligations during the years ended March 31, 2006 and 2005 and the funded status of the U.S. defined benefit pension plan and the supplemental plan (referred to collectively

**Table of Contents****Index to Financial Statements**

as Pension Benefits ) and the postretirement health care and life insurance plan (referred to as Other Benefits ) at March 31, 2006 and 2005 were as follows:

(In thousands)	Pension Benefits		Other Benefits	
	2006	2005	2006	2005
<b>Change in benefit obligation</b>				
Benefit obligation at beginning of year	\$ 61,970	56,645	41,902	42,785
Service cost	760	696	2,011	1,758
Interest cost	3,527	3,354	2,365	2,347
Participant contributions			378	375
Plan amendments			(27,870)	
Benefits paid	(2,714)	(2,575)	(1,687)	(1,320)
Actuarial (gain) loss	4,458	3,850	16,537	(4,043)
<b>Benefit obligation at end of year</b>	<b>\$ 68,001</b>	<b>61,970</b>	<b>33,636</b>	<b>41,902</b>
<b>Change in plan assets</b>				
Fair value of plan assets at beginning of year	\$ 40,204	38,423		
Actual return	1,577	3,486		
Employer contributions	1,662	870	1,309	945
Participant contributions			378	375
Benefits paid	(2,714)	(2,575)	(1,687)	(1,320)
<b>Fair value of plan assets at end of year</b>	<b>\$ 40,729</b>	<b>40,204</b>		
<b>Reconciliation of funded status</b>				
Fair value of plan assets	\$ 40,729	40,204		
Benefit obligation	68,001	61,970	33,636	41,902
<b>Funded (unfunded) status</b>	<b>(27,272)</b>	<b>(21,766)</b>	<b>(33,636)</b>	<b>(41,902)</b>
Unrecognized actuarial loss	15,905	11,521	25,537	9,505
Unrecognized prior service cost (benefit)	165	254	(27,439)	417
<b>Net accrued benefit cost</b>	<b>\$ (11,202)</b>	<b>(9,991)</b>	<b>(35,538)</b>	<b>(31,980)</b>
<b>Net accrued benefit cost consists of:</b>				
Accrued benefit liability	\$ (23,213)	(18,531)	(35,538)	(31,980)
Intangible asset	593	1,055		
Accumulated other comprehensive loss	11,418	7,485		
<b>Net accrued benefit cost</b>	<b>\$ (11,202)</b>	<b>(9,991)</b>	<b>(35,538)</b>	<b>(31,980)</b>

The following table provides the projected benefit obligation and accumulated benefit obligation for the pension plans:

(In thousands)	2006	2005
Projected benefit obligation	\$ 68,001	61,970
Accumulated benefit obligation	63,941	58,735

The following table provides information for pension plans with an accumulated benefit obligation in excess of plan assets (includes both the U.S. defined benefit pension plan and supplemental plan):

Edgar Filing: TIDEWATER INC - Form 10-K

<b>(In thousands)</b>	<b>2006</b>	<b>2005</b>
Projected benefit obligation	\$ 68,001	61,970
Accumulated benefit obligation	63,941	58,735
Fair value of plan assets	40,729	40,204

F-21

**Table of Contents****Index to Financial Statements**

Net periodic pension cost for the U.S. defined benefit pension plan and the supplemental plan for 2006, 2005 and 2004 include the following components:

(In thousands)	2006	2005	2004
Service cost	\$ 760	696	650
Interest cost	3,527	3,354	3,346
Expected return on plan assets	(2,450)	(2,559)	(2,585)
Amortization of prior service cost	89	98	99
Recognized actuarial loss	948	842	639
Net periodic pension cost	\$ 2,874	2,431	2,149

Net periodic postretirement health care and life insurance costs for 2006, 2005 and 2004 include the following components:

(In thousands)	2006	2005	2004
Service cost	\$ 2,011	1,758	1,844
Interest cost	2,365	2,347	2,435
Other amortization and deferral	492	536	766
Net periodic postretirement benefit cost	\$ 4,868	4,641	5,045

The company is required to recognize a minimum liability if the U.S. defined benefits pension plan or supplemental plan has an accumulated benefit obligation in excess of plan assets. Adjustments to the minimum liability are included in other comprehensive income.

(In thousands)	2006	2005
Increase in minimum liability included in other comprehensive income	\$ 3,933	3,063

Assumptions used to determine net benefit obligations for the fiscal years ended March 31 were as follows:

	Pension Benefits		Other Benefits	
	2006	2005	2006	2005
Discount rate	5.5%	5.75%	5.5%	5.75%
Rates of annual increase in compensation levels	3.00%	3.00%	N/A	N/A

Assumptions used to determine net periodic benefit costs for the fiscal years ended March 31 were as follows:

	Pension Benefits			Other Benefits		
	2006	2005	2004	2006	2005	2004
Discount rate	5.75%	6.25%	6.75%	5.75%	6.25%	6.75%
Expected long-term rate of return on assets	6.25%	6.75%	7.25%	N/A	N/A	N/A
Rates of annual increase in compensation levels	3.00%	3.00%	4.00%	N/A	N/A	N/A

To develop the expected long-term rate of return on assets assumption, the company considered the current level of expected returns on various asset classes. The expected return for each asset class was then weighted based on the target asset allocation to develop the expected return on plan assets assumption for the portfolio.



## Edgar Filing: TIDEWATER INC - Form 10-K

The following table provides the target and actual asset allocations for the U.S. defined benefits pension plan:

	<b>Target</b>	<b>Actual as of 2006</b>	<b>Actual as of 2005</b>
Equity securities	15%	12%	9%
Debt securities	80%	73%	79%
Other, primarily cash	5%	15%	12%
Total	100%	100%	100%

F-22

**Table of Contents****Index to Financial Statements**

Based upon the assumptions used to measure the company's qualified pension and postretirement benefit obligation at March 31, 2006, including pension and postretirement benefits attributable to estimated future employee service, the company expects that benefits to be paid over the next ten years will be as follows:

<b>Year ending March 31,</b>	<b>(In thousands)</b>	
	<b>Pension</b>	<b>Other</b>
	<b>Benefits</b>	<b>Benefits</b>
2007	\$ 3,318	1,277
2008	3,536	1,465
2009	3,801	1,618
2010	4,115	1,855
2011	4,424	2,047
2012 - 2016	26,139	12,904
<b>Total estimated future benefit payments</b>	<b>\$ 45,332</b>	<b>21,166</b>

The assumed health care cost trend rate used in measuring the accumulated postretirement benefit obligation will be 10% in 2006, gradually declining to 5% in the year 2011 and thereafter. A 1% increase in the assumed health care cost trend rates for each year would increase the accumulated postretirement benefit obligation by approximately \$5.3 million at March 31, 2006 and increase the total of service and interest cost for the year ended March 31, 2006 by \$0.8 million. A 1% decrease in the assumed health care cost trend rates for each year would decrease the accumulated postretirement benefit obligation by approximately \$4.3 million at March 31, 2006 and decrease the total of service and interest cost for the year ended March 31, 2006 by \$0.6 million.

A defined contribution retirement plan covers all eligible U.S. fleet personnel, along with all new eligible employees of the company hired after December 31, 1995. This plan is noncontributory by the employee, but the company has contributed in cash 3% of an eligible employee's compensation to an employee benefit trust. The cost of the plan for fiscal 2006, 2005 and 2004 was \$1.9 million, \$1.6 million and \$1.7 million, respectively. Forfeitures totaling approximately \$0.1 million, \$0.2 million and \$0.3 million reduced the costs of the plan for fiscal 2006, 2005 and 2004, respectively.

**(7) Other Assets, Other Liabilities and Deferred Credits and Accumulated Other Comprehensive Income**

A summary of other assets at March 31 follows:

<b>(In thousands)</b>	<b>2006</b>	<b>2005</b>
Recoverable insurance losses	\$ 21,732	34,778
Deferred income tax assets	35,470	98,224
Other	41,506	39,201
	<b>\$ 98,708</b>	<b>172,203</b>

A summary of other liabilities and deferred credits at March 31 follows:

<b>(In thousands)</b>	<b>2006</b>	<b>2005</b>
Postretirement benefits liability	\$ 35,136	31,577
Pension liability	11,202	9,991

Edgar Filing: TIDEWATER INC - Form 10-K

Minority interests in net assets of subsidiaries	1,128	1,196
Deferred vessel revenues	2,033	
Income taxes	15,605	13,657
Other	27,562	20,549
	\$ 92,666	76,970

F-23

**Table of Contents****Index to Financial Statements**

A summary of accumulated other comprehensive income at March 31 follows:

(In thousands)	2006	2005
Currency translation adjustments	\$ 10,578	10,578
Derivatives marked-to-market, net of tax of \$272 in 2006 and \$0 in 2005	(505)	
Unrealized gains on available-for-sale securities, net of tax of \$57 in 2006 and \$6 in 2005	(853)	(748)
Benefit plans minimum liabilities, net of tax of \$1,376 in 2006 and \$1,072 in 2005	7,421	4,865
	\$ 16,641	14,695

**(8) Capital Stock**

The company has 125 million shares of \$.10 par value common stock authorized. At March 31, 2006 and 2005, 60,310,164 shares and 60,718,231 shares, respectively, were issued. At March 31, 2006 and 2005, 2,167,021 and 3,201,352 shares, respectively, were held by the Grantor Trust Stock Ownership Program, which are not included in common shares outstanding for earnings per share calculations. At March 31, 2006 and 2005, 3,000,000 shares of no par value preferred stock were authorized and unissued.

In July 2005, the company's Board of Directors authorized the company to spend up to \$120.0 million to repurchase shares of its common stock. Repurchases are made through open market or privately-negotiated transactions. The company intends to use its available cash and, when considered advantageous, borrowings under its revolving credit facility to fund the share repurchases. The Board of Directors' authorization for this repurchase program will expire when all authorized funds have been expended or on June 30, 2006, unless extended by the Board of Directors. As of March 31, 2006, the company spent \$20.8 million for the repurchase and cancellation of 455,000 common shares, or an average price paid per common share of \$45.64. At March 31, 2006, approximately \$99.2 million was available to repurchase shares of the company's common stock pursuant to the stock repurchase program.

Under the company's stock option and restricted stock plans, the Compensation Committee of the Board of Directors has authority to grant stock options and restricted shares of the company's stock to officers and other key employees. At March 31, 2006, 4,157,161 shares of common stock are reserved for issuance under the plans of which 494,286 shares are available for future grants. Stock options are granted with an exercise price equal to the stock's fair market value at the date of grant. All outstanding stock options have ten-year terms and most of the outstanding options vest and become exercisable in equal installments over a three-year period from the grant date.

The per share weighted-average fair values of stock options granted during fiscal years 2006, 2005 and 2004 were \$20.40, \$12.61, and \$9.40, respectively, on the dates of grant using the Black Scholes option-pricing model with the following weighted-average assumptions:

	2006	2005	2004
Risk-free interest rate	4.79%	4.15%	3.25%
Expected dividend yield	1.07%	1.50%	2.00%
Expected stock price volatility	35.00%	36.46%	40.68%
Expected stock option life	5.5 years	5 years	5 years

The company applies the intrinsic value recognition and measurement principles prescribed by APB Opinion No. 25 in accounting for its plans and, accordingly, no compensation cost has been recognized for its stock options in the consolidated financial statements. The effect on the company's net earnings had the company determined compensation cost based on the fair value at the grant date for its stock options under SFAS No. 123 is disclosed in Note 1 of Notes to Consolidated Financial Statements.

**Table of Contents****Index to Financial Statements**

Stock option activity during 2006, 2005 and 2004 was as follows:

	Weighted-average Exercise Price	Number of Shares
Balance at March 31, 2003	\$ 35.93	4,330,482
Granted	28.01	377,500
Exercised	22.45	(220,641)
Expired or cancelled	38.57	(139,668)
Balance at March 31, 2004	35.85	4,347,673
Granted	37.55	169,722
Exercised	26.74	(284,853)
Expired or cancelled	35.07	(93,001)
Balance at March 31, 2005	36.48	4,139,541
Granted	55.76	399,250
Exercised	37.00	(868,582)
Expired or cancelled	33.46	(7,334)
Balance at March 31, 2006	\$ 38.57	3,662,875

The 3,662,875 options outstanding at March 31, 2006 fall into three general exercise-price ranges as follows:

	Exercise Price Range		
	\$22.75 - \$29.44	\$32.25 - \$40.28	\$42.19 - \$59.00
Options outstanding at March 31, 2006	1,199,644	970,314	1,492,917
Weighted average exercise price	\$ 27.01	\$ 36.47	\$ 49.23
Weighted average remaining contractual life	6.2 years	5.7 years	4.8 years
Options exercisable at March 31, 2006	1,097,460	970,314	1,213,406
Weighted average exercise price of options exercisable at March 31, 2006	\$ 26.92	\$ 36.47	\$ 47.73

At March 31, 2006, 2005, and 2004, the number of options exercisable under the stock option plans was 3,281,180, 3,698,184, and 3,385,975, respectively; and the weighted average exercise price of those options was \$37.44, \$37.36, and \$37.41, respectively.

A total of 563,793 shares of restricted common stock of the company were granted to certain key employees during fiscal years 2002 through 2006 from the company's Employee Restricted Stock Plan and the 1997 and 2001 Stock Incentive Plans. These restricted shares vest and become freely transferable over a four-year period provided the employee remains employed by the company during the vesting period. During the restricted period, the restricted shares may not be transferred or encumbered, but the recipient has the right to vote and receive dividends on the restricted shares. The fair market value of the stock at the time of the grants totaled approximately \$24.3 million and was classified in stockholders' equity as deferred compensation restricted stock. The deferred amount is being amortized by equal monthly charges to earnings over the respective four-year vesting periods. The Employee Restricted Stock Plan is the only equity compensation plan that has not been approved by shareholders.

The company established a Grantor Trust Stock Ownership Program on January 29, 1999 in connection with which the company entered into a trust agreement with a bank providing for the establishment of the related trust (the trust). The trust is designed to acquire, hold and distribute shares of the common stock of the company to provide for the payment of benefits and compensation under the company's employee benefit plans, including its stock option plans and 401(k) plan. The trust will not increase or alter the amount of benefits or compensation that will be paid under these plans.

## Edgar Filing: TIDEWATER INC - Form 10-K

On January 29, 1999, the company sold at market value 5,000,000 shares (the acquired shares ) of common stock to the trust for \$107,187,500, or \$21.4375 per share. In payment for the acquired shares, the trust paid \$500,000 in cash and issued a promissory note payable to the company for the remaining balance. Acquired shares will be released to satisfy the company's obligations to pay benefits under company benefit plans as the promissory note is paid down or forgiven.

F-25

---

**Table of Contents**

**Index to Financial Statements**

For financial reporting purposes the trust is consolidated with the company. Any dividend transactions between the company and the trust are eliminated. Acquired shares held by the trust remain valued at the market price at the date of purchase and are shown as a reduction to stockholders' equity in the company's consolidated financial statements. The difference between the trust share value and the fair market value on the date shares are released from the trust is included in additional paid-in capital. Common stock held in the trust is not considered outstanding in the computation of earnings per share. The trust held 2,167,021 and 3,201,352 shares of common stock at March 31, 2006 and 2005, respectively. The trustee will vote or tender shares held by the trust in accordance with the confidential instructions of participants in the company's stock option plans and 401(k) plan.

Under a Shareholder Rights Plan, one preferred stock purchase right has been distributed as a dividend for each outstanding common share. Each right entitles the holder to purchase, under certain conditions, one one-hundredth of a share of Series A Participating Preferred Stock at an exercise price of \$160, subject to adjustment. The rights will not be exercisable unless a person (as defined in the plan) acquires beneficial ownership of 15% or more of the outstanding common shares, or a person commences a tender offer or exchange offer, which upon its consummation such person would beneficially own 15% or more of the outstanding common shares. The Board of Directors are authorized in certain circumstances to lower the beneficial ownership percentage to not less than 10%.

If after the rights become exercisable a person becomes the beneficial owner of 15% or more of the outstanding common shares (except pursuant to an offer for all shares approved by the Board of Directors), each holder (other than the acquirer) will be entitled to receive, upon exercise, common shares having a market value of twice the exercise price. In addition, if the company is involved in a merger (other than a merger which follows an offer for all shares approved by the Board of Directors), major sale of assets or other business combination after a person becomes the beneficial owner of 15% or more of the outstanding common shares, each holder of a right (other than the acquirer) will be entitled to receive, upon exercise, common stock of the acquiring company having a market value of twice the exercise price.

The rights may be redeemed for \$.01 per right at any time prior to ten days following the acquisition by a person of 15% or more of the outstanding common shares. The rights expire on November 1, 2006.

**(9) Sale/Leaseback Arrangements**

On March 24, 2006, the company sold one of its newly-built vessels, delivered to the market in March 2006, to Banc of America Leasing & Capital LLC (BOAL&C), an unrelated third party, for \$12.0 million and simultaneously entered into a bareboat charter arrangement with BOAL&C. The company is accounting for the transaction as a sale/leaseback transaction with operating lease treatment. Accordingly, the company will not record the asset on its books and the company will expense periodic lease payments. The agreement to acquire and charter with BOAL&C also calls for the company to sell and simultaneously bareboat charter four additional vessels, which are currently under construction, upon the vessels' delivery to the market. BOAL&C agreed to pay actual invoice cost of the respective vessels being acquired, or \$63.5 million. The vessels currently under construction are expected to begin delivery to the market beginning July 2006 with final delivery of the last vessel in September 2007.

The initial charter hire operating lease term expires in 2014. The company has the option to extend the charter hire operating lease three times, each for a period of 12 months, which would provide the

**Table of Contents****Index to Financial Statements**

company the opportunity to extend the operating lease through 2017. Future minimum lease payments as of March 31, 2006 under the operating lease are as follows:

Year ending March 31,	Amount (In Thousands)
2007	\$ 1,765
2008	5,581
2009	6,688
2010	6,688
2011	6,688
Thereafter	25,958
<b>Total future lease payments</b>	<b>\$ 53,368</b>

The company is exposed to possible interest rate fluctuation related to its commitment to the sale and simultaneous leaseback of four additional vessels it agreed to sell to Banc of America Leasing & Capital LLC. See Note 11 to the Consolidated Financial Statements for a more complete discussion of this transaction.

**(10) Commitments and Contingencies**

Compensation continuation agreements exist with all of the company's officers whereby each receives compensation and benefits in the event that their employment is terminated following certain events relating to a change in control of the company. The maximum amount of cash compensation that could be paid under the agreements, based on present salary levels, is approximately \$31.4 million.

As of March 31, 2006 the company has committed to the construction of 13 vessels at a total cost of approximately \$175.3 million, which includes shipyard commitments and other incidental costs. The company is committed to the construction of five anchor handling towing supply vessels averaging between 6,500 to 8,000 brake horsepower (BHP), five platform supply vessels, one 175-foot crewboat, one offshore tug and one water jet vessel. Scheduled delivery of the vessels is expected to begin in April 2006 with final delivery in December 2007. As of March 31, 2006, \$61.0 million has been expended on these vessels.

While the company does not have any other commitments for new-build vessel contracts other than what is discussed above, the company anticipates that over the next several years, it will continue to build, acquire or lease newer vessels in order to replace its aging vessels. The majority of the company's supply and towing supply vessels were constructed between 1976 and 1983. As such, most of this vessel class exceeds 22 years of age and will need to be replaced within the next several years. In addition to age, market conditions also help determine when a vessel is no longer economically viable. The company anticipates using future operating cash flows, existing borrowing capacities or new borrowings or lease arrangements to fund over the next few years the continuing replacement of the company's mature fleet of vessels. These vessels would replace the company's core international fleet with fewer, larger and more efficient vessels. The company believes that adequate capital resources will be available to continue its fleet replacement.

At the conclusion of its examination of the company's income tax returns covering fiscal years 2001 and 2002, the Internal Revenue Service (IRS) proposed changes to taxable income which, if sustained, would result in additional income tax of \$12.8 million. The proposed increase in taxable income results primarily from the IRS disallowance of all claimed deductions from taxable income related to the company's foreign sales corporation (FSC) as well as all deductions claimed under the Extraterritorial Income Exclusion (ETI). The company has filed a formal protest with the IRS seeking a reconsideration of their position taken. The company has also received a final assessment of additional income tax of \$1.75 million resulting from the IRS's earlier examination of the company's income tax returns for fiscal years 1999 and 2000. Such assessment is also due to the IRS disallowance of essentially all deductions related to FSC activity during that period. The company has paid the 1999 and 2000 assessment and has begun the process of seeking a refund of the taxes paid through the initiation of legal proceedings. The IRS has



---

**Table of Contents**

**Index to Financial Statements**

begun an examination of the company's 2003 and 2004 federal income tax returns. The company also has additional ongoing examinations by various state and foreign tax authorities. The company 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.

Certain current and former subsidiaries of the company are, or have been, participating employers in an industry-wide multi-employer retirement fund in the United Kingdom, the Merchant Navy Officers Pension Fund (MNOFP.) The company has been informed of an estimated 234 million sterling, or approximately \$433 million, total fund deficit as estimated by the MNOFP actuary, that will require contributions from the participating employers. Substantially all of the fund's deficit allocable to the company relates to current operating subsidiaries as the company does not believe, on the advice of counsel, that it is liable for any additional portion of the fund's deficit that relates to subsidiaries that have either been sold or dissolved in prior years. The amount of the company's share of the fund's deficit will depend ultimately on a number of factors including an updated calculation of the total fund deficit, the number of participating employers, and the final method used in allocating the required contribution among participating employers.

In August 2005, the company received an invoice from the fund in the amount of \$3.8 million for what the trustees calculated to be the company's current share of the fund deficit. Accordingly, the company recorded this amount in full as crew cost expense during the second quarter of fiscal 2006. As allowed by the terms of the assessment, approximately \$0.7 million of the invoiced amount was paid during fiscal 2006 with the remainder, including interest charges, to be paid in annual installments over nine years. The first installment totaling approximately \$0.4 million was paid in March 2006.

It is possible that the fund's trustee may issue additional invoices to the company for additional amounts in the future for various reasons, including the results of future fund valuation reports and whether other assessed parties have the financial capability to contribute their respective allocations.

The company has previously disclosed that it is the subject of an informal inquiry by the Securities and Exchange Commission (SEC) related to the \$26.5 million impairment charge that it recorded in its fiscal year ended March 31, 2004 that was related to 83 stacked vessels that had been used in the Gulf of Mexico. The company is in discussions with the SEC in an effort to resolve the matters raised by the inquiry. At this time, the company is unable to predict the timing or ultimate outcome of these discussions.

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.

**(11) Financial Instruments**

The company's financial instruments consist primarily of cash and cash equivalents, trade receivables, trade payables and long-term debt whose book values are considered to be representative of their respective fair values. The company also periodically enters into spot and forward currency derivative financial instruments as a hedge against foreign currency denominated assets and liabilities and currency commitments.

Spot contracts are short-term in nature and settle within two business days. The fair value 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. 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. 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.

The company had one currency spot contract outstanding at March 31, 2006 totaling approximately \$1.5 million that settled on April 3, 2006. The company had three currency spot contracts outstanding at

---

**Table of Contents****Index to Financial Statements**

March 31, 2005 totaling approximately \$1.0 million that settled on April 1, 2005. The company had no spot contracts outstanding at March 31, 2004.

The company is exposed to possible currency fluctuations related to its commitment to construct two of its anchor handling towing supply vessels at an Indonesian shipyard. The company is required, per the construction agreements, to make all payments in Singapore dollars and is currently exposed to possible currency fluctuations on the remaining commitment which totals a current U.S. dollar equivalent of approximately \$22.6 million. At March 31, 2006 the company had seven forward contracts outstanding totaling \$13.8 million that hedged the company's foreign exchange exposure relating to the Indonesian shipyard commitments. The company is accounting for the forward contract as a cash flow hedge under SFAS No. 133, as amended. The derivative instrument is carried at fair value on the consolidated balance sheet in other assets or other liabilities depending on the fair value at the balance sheet date. Changes in the fair value of the derivative instrument, to the extent the hedge is effective, are recognized in other comprehensive income (a component of stockholders' equity). Amounts representing hedge ineffectiveness, if any, are recorded in earnings. At March 31, 2006, the forward contracts combined fair value of \$0.6 million is included in other assets in the consolidated balance sheet. A portion of the forward contract was ineffective and accordingly the ineffective portion of the hedge totaling approximately \$88,500 was recorded as an increase to earnings during the fourth quarter of fiscal 2006.

The company is exposed to possible interest rate fluctuations related to its commitment to the sale/leaseback of four of its vessels to BOAL&C. On March 24, 2006, the company entered into four interest rate swap transactions to effectively fix the amount of the lease payments on four vessels currently under construction that the company agreed to sell and leaseback from BOAL&C. The lease payments for each respective vessel will be based on the five year swap rate at the time of the lease which will coincide with the delivery of each vessel. Any amounts received from the bank or paid to the bank will be recorded on the company's balance sheet as either an other asset or other liability and amortized over the term of the respective leases. The company is accounting for the interest rate swap as a cash flow hedge under SFAS No. 133, as amended. The derivative instrument is carried at fair value on the consolidated balance sheet in other assets or other liabilities depending on the fair value at the balance sheet date. Changes in the fair value of the derivative instrument, to the extent the hedge is effective, are recognized in other comprehensive income (a component of stockholders' equity). Amounts representing hedge ineffectiveness, if any, are recorded in earnings. At March 31, 2006, the four interest rate swaps had a combined fair value of \$0.3 million which is included in other assets in the consolidated balance sheet.

The company had no derivative financial instruments outstanding at March 31, 2005 that qualified as hedges.

**(12) Sale of KMAR 404 Class of Vessels**

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

**Table of Contents****Index to Financial Statements****(13) Segment and Geographic Distribution of Operations**

The company follows SFAS No. 131, *Disclosures about Segments of an Enterprise and Related Information* and operates in two business segments: United States and International. The following table provides a comparison of revenues, operating profit, total assets, and depreciation and amortization and additions to properties and equipment for the years ended March 31. Vessel revenues and operating costs relate to vessels owned and operated by the company while other marine services relate to the activities of the company's shipyards, brokered vessels and other miscellaneous marine-related businesses.

(In thousands)	2006	2005	2004
Marine revenues (A):			
Vessel revenues:			
United States	\$ 180,374	118,288	125,344
International (B)	666,608	537,238	500,604
	846,982	655,526	625,948
Other marine services	30,635	36,624	26,682
	\$ 877,617	692,150	652,630
Marine operating profit:			
Vessel activity:			
United States	\$ 61,227	2,022	(17,715)
International	186,044	95,383	96,316
	247,271	97,405	78,601
Impairment of long-lived assets	(3,050)	(1,733)	(26,456)
Gains on sales of assets	86,337	11,977	7,075
Other marine services	6,511	6,623	4,623
	337,069	114,272	63,843
Other income	16,797	7,589	7,634
Corporate expenses	(21,280)	(15,179)	(13,291)
Interest and other debt costs	(9,074)	(6,887)	(3,683)
Earnings before income taxes	\$ 323,512	99,795	54,503
Total assets:			
Marine:			
United States	\$ 566,706	532,096	569,840
International (B)	1,455,776	1,510,923	1,355,820
	2,022,482	2,043,019	1,925,660
Investments in and advances to unconsolidated Marine companies	34,308	32,074	33,722
	2,056,790	2,075,093	1,959,382
General corporate	307,750	138,080	122,408
	\$ 2,364,540	2,213,173	2,081,790
Depreciation and amortization:			
Marine equipment operations			
United States	\$ 22,070	21,825	32,447

Edgar Filing: TIDEWATER INC - Form 10-K

International	84,824	77,149	65,408
General corporate depreciation	632	639	655
	\$ 107,526	99,613	98,510
Additions to properties and equipment:			
Marine equipment operations			
United States	\$ 46,543	14,752	139,910
International	121,437	192,588	157,545
General corporate	4,428	51	60
	\$ 172,408	207,391	297,515

(A) For fiscal 2006, 2005 and 2004, Chevron Corporation (including its worldwide subsidiaries and affiliates) accounted for 15%, 13.2% and 12.0%, respectively, of revenues while Petroleo Brasileiro SA accounted for 10.2% of revenue during fiscal 2005.

(B) Marine support services are conducted worldwide with assets that are highly mobile. Revenues are principally derived from offshore service vessels, which regularly and routinely move from one operating area to another, often to and from offshore operating areas in different continents. Because of this asset mobility, revenues and long-lived assets attributable to the company's international marine operations in any one country are not material as that term is defined by SFAS No. 131. Equity in net assets of non-U.S. subsidiaries is \$1.3 billion, \$1.3 billion and \$930.1 million at March 31, 2006, 2005 and 2004, respectively. Other international identifiable assets include accounts receivable and other balances denominated in currencies other than the U.S. dollar, which aggregate approximately \$5.1 million, \$8.8 million and \$9.1 million at March 31, 2006, 2005, and 2004, respectively. These amounts are subject to the usual risks of fluctuating exchange rates and government-imposed exchange controls.

F-30

**Table of Contents****Index to Financial Statements****(14) Supplementary Information Quarterly Financial Data (Unaudited)**

Years Ended March 31, 2006 and 2005

(In thousands, except per share data)

<b>2006</b>	<b>First</b>	<b>Second</b>	<b>Third</b>	<b>Fourth</b>
Marine revenues	\$ 192,167	204,351	234,559	246,540
Marine operating profit	\$ 43,330	120,963	85,379	87,397
Net earnings	\$ 28,860	82,192	60,022	64,682
Basic earnings per share	\$ .50	1.44	1.05	1.12
Diluted earnings per share	\$ .50	1.42	1.04	1.11
<b>2005</b>	<b>First</b>	<b>Second</b>	<b>Third</b>	<b>Fourth</b>
Marine revenues	\$ 158,117	166,827	187,593	179,613
Marine operating profit	\$ 21,820	27,189	33,166	32,097
Net earnings	\$ 12,881	16,309	19,753	52,396
Basic earnings per share	\$ .23	.29	.35	.92
Diluted earnings per share	\$ .23	.29	.34	.91

Operating profit consists of revenues less operating costs and expenses, depreciation, general and administrative expenses and other income and expenses of the Marine division.

See Notes 1, 2, 3, 4 and 10 for detailed information regarding transactions that affect fiscal 2006 and 2005 quarterly amounts. A discussion of current market conditions appears in Item 7 Management's Discussion and Analysis of Financial Condition and Results of Operations.

**(15) Subsequent Events**

In April and May of 2006, the company committed to the construction of 14 additional vessels. The company is constructing eleven anchor handling towing supply vessels varying in size from 5,000 to 10,000 BHP at three different international shipyards for an approximate total cost of \$165.2 million. Scheduled delivery for these vessels is expected to begin in November 2006, with the last vessel scheduled for delivery in November 2008.

The company also committed to the construction of two additional 175-foot, state-of-the-art, fast, crew/supply boats for an approximate total cost of \$15.0 million and one internationally built tug for a total expected cost of \$3.5 million. Scheduled delivery of the two U.S. built crewboats is expected in October 2007 and the tug in April 2007.

During the period May 15, 2006 through May 25, 2006, pursuant to the company's stock repurchase plan discussed in Note 8, the company repurchased 385,000 shares of common stock for an aggregate purchase price of \$19.5 million, or an average price of \$50.60 per share.



Table of ContentsIndex to Financial Statements

## SCHEDULE II

## TIDEWATER INC. AND SUBSIDIARIES

## Valuation and Qualifying Accounts

Years Ended March 31, 2006, 2005 and 2004

(In thousands)

Column A Description	Column B Balance at Beginning of period	Column C Additions at Cost	Column D Deductions	Column E Balance at End of Period
2006				
Deducted in balance sheet from trade accounts receivables:				
Allowance for doubtful accounts	\$ 7,138	31	904	6,265
2005				
Deducted in balance sheet from trade accounts receivables:				
Allowance for doubtful accounts	\$ 7,304	28	194(A)	7,138
2004				
Deducted in balance sheet from trade accounts receivable:				
Allowance for doubtful accounts	\$ 7,304			7,304

(A) Accounts receivable amounts considered uncollectible and removed from accounts receivable by reducing allowance for doubtful accounts.

**Table of Contents**

**Index to Financial Statements**

**TIDEWATER INC.  
EXHIBITS FOR THE  
ANNUAL REPORT ON FORM 10-K  
FISCAL YEAR ENDED MARCH 31, 2006**



---

**Table of Contents**

**Index to Financial Statements**

**EXHIBIT INDEX**

The index below describes each exhibit filed as a part of this report. Exhibits not incorporated by reference to a prior filing are designated by an asterisk; all exhibits not so designated are incorporated herein by reference to a prior filing as indicated.

**Articles of Incorporation and Bylaws**

- 3.1 Restated Certificate of Incorporation of Tidewater Inc. (filed with the Commission as Exhibit 3(a) to the company's quarterly report on Form 10-Q for the quarter ended September 30, 1993, File No. 1-6311).
- 3.2 Tidewater Inc. Bylaws (filed with the Commission as Exhibit 3.2 on Form 8-K dated June 1, 2005, File No. 1-6311).

**Instruments Defining Rights of Security Holders**

- 4.1 Restated Rights Agreement dated as of September 19, 1996 between Tidewater Inc. and The First National Bank of Boston (filed with the Commission as Exhibit 1 to Form 8-A on September 30, 1996).

**Financing Agreements**

- 10.1A First Amendment dated May 18, 2005 to Amended and Restated Revolving Credit Agreement (filed with the Commission on Form 8-K on May 20, 2005, File No. 1-6311).
- 10.2 \$295,000,000 Amended and Restated Revolving Credit Agreement dated as of August 15, 2003 (filed with the Commission as Exhibit 4 to the company's quarterly report on Form 10-Q for the quarter ended September 30, 2003, File No. 1-6311).

**Stock Plans**

- 10.3+ Tidewater Inc. Amended and Restated Tidewater Inc. 1992 Stock Option and Restricted Stock Plan (Effective November 29, 2001) (filed with the Commission as Exhibit 10.3 to the company's annual report on Form 10-K for the fiscal year ended March 31, 2005, File No. 1-6311).
- 10.4+ Amended and Restated Tidewater Inc. 1997 Stock Incentive Plan dated November 21, 2002 (filed with the Commission as Exhibit 10(a) to the company's quarterly report on Form 10-Q for the quarter ended December 31, 2002, File No. 1-6311).
- 10.5+ Tidewater Inc. 2001 Stock Incentive Plan dated November 21, 2002 (filed with the Commission as Exhibit 10.5 to the company's annual report on Form 10-K for the fiscal year ended March 31, 2005, File No. 1-6311).
- 10.6+ Tidewater Inc. Employee Restricted Stock Plan (filed with the Commission as Exhibit 10.2 to the company's quarterly report on Form 10-Q for the quarter ended December 31, 2004, File No. 1-6311).
- 10.7+ Form of Stock Option and Restricted Stock Agreement Under the Amended and Restated 1992 Stock Option and Restricted Stock Plan (filed with the Commission as Exhibit 10.7 to the company's annual report on Form 10-K for the fiscal year ended March 31, 2005, File No. 1-6311).

**Table of Contents**

**Index to Financial Statements**

- 10.8+ Form of Restricted Stock Agreement Under the Tidewater Inc. Employee Restricted Stock Plan (filed with the Commission as Exhibit 10.3 to the company's quarterly report on Form 10-Q for the quarter ended December 31, 2004, File No. 1-6311).
- 10.9+ Form of Stock Option and Restricted Stock Agreement for the Grant of Incentive Stock Options and Non-Qualified Stock Options Under the Tidewater Inc. 2001 Stock Incentive Plan, and the Grant of Restricted Stock Under the Tidewater Inc. 1997 Stock Incentive Plan (filed with the Commission as Exhibit 10.4 to the company's quarterly report on Form 10-Q for the quarter ended December 31, 2004, File no. 1-6311).
- 10.10+ Form of Stock Option and Restricted Stock Agreement for the Grant of Incentive Stock Options and Non-Qualified Stock Options Under the Tidewater Inc. 2001 Stock Incentive Plan and the Grant of Restricted Stock Under the Tidewater Inc. 1997 Stock Incentive Plan (filed with the Commission as Exhibit 10.10 to the company's annual report on Form 10-K for the fiscal year ended March 31, 2005, File No. 1-6311).
- 10.11+ Form of Stock Option and Restricted Stock Agreement for the Grant of Incentive Stock Options, Non-Qualified Stock Options and Restricted Stock Under the Tidewater Inc. 2001 Stock Incentive Plan (filed with the Commission as Exhibit 10.11 to the company's annual report on Form 10-K for the fiscal year ended March 31, 2005, File No. 1-6311).
- 10.12+ Form of Stock Option and Restricted Stock Agreement for the Grant of Incentive Stock Options and Non-Qualified Stock Options Under the Tidewater Inc. 2001 Stock Incentive Plan and the Grant of Restricted Stock Under the Tidewater Inc. Employee Restricted Stock Plan (filed with the Commission as Exhibit 10.12 to the company's annual report on Form 10-K for the fiscal year ended March 31, 2005, File No. 1-6311).
- 10.13+ Form of Restricted Stock Agreement for the Grant of Restricted Stock Under the Tidewater Inc. Employee Restricted Stock Plan (filed with the Commission as Exhibit 10.13 to the company's annual report on Form 10-K for the fiscal year ended March 31, 2005, File No. 1-6311).
- 10.14\*+ Form of Stock Option and Restricted Stock Agreement for the Grant of Incentive Stock Options, Non-Qualified Stock Options and Restricted Stock Under the Tidewater Inc. 2001 Stock Incentive Plan.
- 10.15\*+ Form of Stock Option and Restricted Stock Agreement for the Grant of Incentive Stock Options and Non-Qualified Stock Options Under the Tidewater Inc. 2001 Stock Incentive Plan and the Grant of Restricted Stock Under the Tidewater Inc. 1997 Stock Incentive Plan.
- 10.16\*+ Form of Restricted Stock Agreement for the Grant of Restricted Stock Under the Tidewater Inc. Employee Restricted Stock Plan (performance vesting).
- 10.17\*+ Form of Restricted Stock Agreement for the Grant of Restricted Stock Under the Tidewater Inc. Employee Restricted Stock Plan (time vesting).

**Other Incentive Plans**

- 10.18+ Tidewater Inc. Second Amended and Restated Supplemental Executive Retirement Plan dated March 1, 2003 (filed with the Commission as Exhibit 10.14 to the company's annual report on Form 10-K for the fiscal year ended March 31, 2005, File No. 1-6311).
- 10.19+ Tidewater International Supplemental Executive Retirement Plan effective November 1, 2003 (filed with the Commission as Exhibit 10.14A to the company's annual report on Form 10-K for the fiscal year ended March 31, 2005, File No. 1-6311).

---

**Table of Contents**

**Index to Financial Statements**

- 10.20+ Second Amended and Restated Employees Supplemental Savings Plan of Tidewater Inc. dated October 1, 1999 (filed with the Commission as Exhibit 10(d) to the company's quarterly report on Form 10-Q for the quarter ended December 31, 1999, File No. 1-6311).
- 10.21+ Tidewater Inc. Executive Medical Benefit Plan dated January 1, 2000 (filed with the Commission as Exhibit 10.16 to the company's annual report on Form 10-K for the fiscal year ended March 31, 2005, File No. 1-6311).
- 10.22\*+ Amended and Restated Deferred Compensation Plan for Outside Directors of Tidewater Inc., effective November 17, 2005.
- 10.23\*+ Amended and Restated Non-Qualified Pension Plan for Outside Directors of Tidewater Inc. effective March 31, 2005.
- 10.24 Tidewater Inc. Management Annual Incentive Plan for Fiscal 2006 (filed with the Commission as Exhibit 10.2 on Form 8-K dated June 1, 2005, File No. 1-6311).
- 10.25+ Tidewater Inc. Executive Officer Annual Incentive Plan for Fiscal 2006 (filed with the Commission as Exhibit 10.1 on Form 8-K dated June 1, 2005, File No. 1-6311).
- 10.26+ Restated Non-Qualified Deferred Compensation Plan and Trust Agreement as Restated October 1, 1999 between Tidewater Inc. and Merrill Lynch Trust Company of America (filed with the Commission as Exhibit 10(e) to the company's quarterly report on Form 10-Q for the quarter ended December 31, 1999, File No. 1-6311).
- 10.27+ Second Restated Executives Supplemental Retirement Trust as Restated October 1, 1999 between Tidewater Inc. and Hibernia National Bank (filed with the Commission as Exhibit 10(j) to the company's quarterly report on Form 10-Q for the quarter ended December 31, 1999, File No. 1-6311).

**Other Compensation Arrangements**

- 10.28+ Summary of Compensation Arrangements with Directors (filed with the Commission as Exhibit 10.23 to the company's annual report on Form 10-K for the fiscal year ended March 31, 2005, File No. 1-6311).
- 10.29+ Summary of 2006 Executive Officers Base Salaries (filed with the Commission on Form 8-K on March 29, 2006, File No. 1-6311).
- 10.30+ Summary of Bonuses paid to three Executive Officers of the Company under the Tidewater Inc. 2006 Management Annual Incentive Plan, and of Bonus paid to the Company's Chief Executive Officer under the Tidewater Inc. Executive Officer Annual Incentive Plan for fiscal year 2006 (filed with the Commission on Form 8-K on March 29, 2006, File No. 1-6311).

**Change of Control Agreements**

- 10.31+ Form of Amended and Restated Change of Control Agreement dated October 1, 1999 with four executive officers of Tidewater Inc. (filed with the Commission as Exhibit 10(c) to the company's quarterly report on Form 10-Q for the quarter ended December 31, 1999, File No. 1-6311).

**Table of Contents**

**Index to Financial Statements**

**Other Exhibits**

- 21\* Subsidiaries of the company.
- 23.1\* Consent of Independent Registered Accounting Firm Deloitte & Touche LLP.
- 23.2\* Consent of Independent Registered Accounting Firm Ernst & Young LLP.

**Certifications**

- 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 of Chief Executive Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 32.2\* Certification of Chief Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

\* Filed herewith.

+ Indicates a management contract or compensatory plan or arrangement.