

TIDEWATER INC  
Form 10-Q  
October 25, 2006

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

Washington, D.C. 20549

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**FORM 10-Q**

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**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the Quarterly Period Ended September 30, 2006

OR

**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from \_\_\_\_\_ to \_\_\_\_\_.

Commission file number: 1-6311

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**Tidewater Inc.**

(Exact name of registrant as specified in its charter)

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**Delaware**  
(State or other jurisdiction of  
incorporation or organization)

**601 Poydras St., Suite 1900**

**New Orleans, Louisiana 70130**

**72-0487776**  
(I.R.S. employer

identification no.)

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(Address of principal executive offices, including zip code)

(504) 568-1010

(Registrant's telephone number, including area code)

N/A

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

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

Indicate by check mark whether the registrant 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

55,498,737 shares of Tidewater Inc. common stock \$.10 par value per share were outstanding on October 6, 2006. Excluded from the calculation of shares outstanding at October 6, 2006 are 1,972,658 shares held by the Registrant's Grantor Stock Ownership Trust. Registrant has no other class of common stock outstanding.

## PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

## TIDEWATER INC.

## UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEETS

(In thousands, except share and par value data)

|  | September 30,       | March 31,        |
|--|---------------------|------------------|
|  | 2006                | 2006             |
| <b>ASSETS</b>  |                     |                  |
| Current assets:  |                     |                  |
| Cash and cash equivalents  | \$ 257,003          | 246,109          |
| Trade and other receivables, net   | 266,067             | 237,428          |
| Marine operating supplies  | 43,297              | 41,181           |
| Other current assets   | 7,595               | 4,325            |
| <b>Total current assets</b>  | <b>573,962</b>      | <b>529,043</b>   |
| Investments in, at equity, and advances to unconsolidated companies  | 26,665              | 34,308           |
| Properties and equipment:  |                     |                  |
| Vessels and related equipment  | 2,503,169           | 2,457,947        |
| Other properties and equipment   | 50,254              | 50,205           |
|  | 2,553,423           | 2,508,152        |
| Less accumulated depreciation and amortization   | 1,134,313           | 1,134,425        |
| Net properties and equipment   | 1,419,110           | 1,373,727        |
| Goodwill   | 328,754             | 328,754          |
| Other assets   | 72,798              | 98,708           |
| <b>Total assets</b>  | <b>\$ 2,421,289</b> | <b>2,364,540</b> |
| <b>LIABILITIES AND STOCKHOLDERS EQUITY</b>   |                     |                  |
| Current liabilities:   |                     |                  |
| Accounts payable and accrued expenses  | 104,626             | 97,265           |
| Accrued property and liability losses  | 6,861               | 7,223            |
| Other current liabilities  | 12,223              | 11,266           |
| <b>Total current liabilities</b>   | <b>123,710</b>      | <b>115,754</b>   |
| Long-term debt   | 300,000             | 300,000          |
| Deferred income taxes  | 178,802             | 175,267          |
| Accrued property and liability losses  | 19,083              | 21,732           |
| Other liabilities and deferred credits   | 103,115             | 92,666           |
| Stockholders equity:   |                     |                  |
| Common stock of \$.10 par value, 125,000,000 shares authorized, issued 57,471,395 shares at September and 60,310,164 shares at March | 5,747               | 6,031            |
| Other stockholders equity  | 1,690,832           | 1,653,090        |

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|  |              |           |
|--|--------------|-----------|
| Total stockholders' equity                 | 1,696,579    | 1,659,121 |
| Total liabilities and stockholders' equity | \$ 2,421,289 | 2,364,540 |

See Notes to Unaudited Condensed Consolidated Financial Statements.

## TIDEWATER INC.

## UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF EARNINGS

(In thousands, except share and per share data)

|  | Quarter Ended         |                       | Six Months Ended      |                       |
|--|-----------------------|-----------------------|-----------------------|-----------------------|
|  | September 30,<br>2006 | September 30,<br>2005 | September 30,<br>2006 | September 30,<br>2005 |
| <b>Revenues:</b>                                   |                       |                       |                       |                       |
| Vessel revenues                                    | \$ 271,314            | 198,230               | 529,999               | 383,622               |
| Other marine revenues                              | 2,665                 | 6,121                 | 13,800                | 12,896                |
|  | 273,979               | 204,351               | 543,799               | 396,518               |
| <b>Costs and expenses:</b>                         |                       |                       |                       |                       |
| Vessel operating costs                             | 122,568               | 106,005               | 242,330               | 212,215               |
| Costs of other marine revenues                     | 1,948                 | 4,934                 | 11,862                | 9,524                 |
| Depreciation and amortization                      | 28,563                | 26,614                | 56,360                | 52,951                |
| General and administrative                         | 23,975                | 19,433                | 47,667                | 38,692                |
| Gain on sales of assets                            | (28,439)              | (68,553)              | (31,152)              | (70,187)              |
|  | 148,615               | 88,433                | 327,067               | 243,195               |
|  | 125,364               | 115,918               | 216,732               | 153,323               |
| <b>Other income (expenses):</b>                    |                       |                       |                       |                       |
| Foreign exchange gain (loss)                       | 35                    | 411                   | (734)                 | 1,019                 |
| Equity in net earnings of unconsolidated companies | 3,376                 | 2,715                 | 5,825                 | 4,882                 |
| Minority interests                                 | (248)                 | 28                    | (228)                 | 5                     |
| Interest and miscellaneous income                  | 3,733                 | 1,612                 | 8,510                 | 2,817                 |
| Interest and other debt costs                      | (2,345)               | (1,911)               | (4,925)               | (4,273)               |
|  | 4,551                 | 2,855                 | 8,448                 | 4,450                 |
| Earnings before income taxes                       | 129,915               | 118,773               | 225,180               | 157,773               |
| Income taxes                                       | 25,724                | 36,581                | 49,540                | 46,721                |
| Net earnings                                       | \$ 104,191            | 82,192                | 175,640               | 111,052               |
| Basic earnings per common share                    | \$ 1.87               | 1.44                  | 3.11                  | 1.94                  |
| Diluted earnings per common share                  | \$ 1.86               | 1.42                  | 3.08                  | 1.93                  |
| Weighted average common shares outstanding         | 55,595,519            | 57,189,133            | 56,446,266            | 57,209,995            |
| Incremental common shares from stock options       | 525,457               | 545,266               | 618,644               | 448,182               |
| Adjusted weighted average common shares            | 56,120,976            | 57,734,399            | 57,064,910            | 57,658,177            |
| Cash dividends declared per common share           | \$ .15                | .15                   | .30                   | .30                   |

See Notes to Unaudited Condensed Consolidated Financial Statements.



**TIDEWATER INC.****UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**(In thousands)

|   | <b>Six Months Ended<br/>September 30,</b> |             |
|---|---|-------------|
|   | <b>2006</b>                               | <b>2005</b> |
| Net cash provided by operating activities           | \$ 218,309                                | 100,105     |
| Cash flows from investing activities:               |   |             |
| Proceeds from sales of assets                       | 55,531                                    | 191,485     |
| Additions to properties and equipment               | (128,235)                                 | (79,805)    |
| Repayments of advances to unconsolidated companies  | 9,496                                     |             |
| Other   | 218                                       |             |
| Net cash (used in) provided by investing activities | (62,990)                                  | 111,680     |
| Cash flows from financing activities:               |   |             |
| Debt borrowings                                     | 5,000                                     | 30,000      |
| Principal payments on debt                          | (5,000)                                   | (110,000)   |
| Proceeds from issuance of common stock              | 4,495                                     | 4,878       |
| Cash dividends                                      | (17,185)                                  | (17,277)    |
| Stock repurchases                                   | (131,735)                                 | (8,691)     |
| Other   |   | (358)       |
| Net cash used in financing activities               | (144,425)                                 | (101,448)   |
| Net change in cash and cash equivalents             | 10,894                                    | 110,337     |
| Cash and cash equivalents at beginning of period    | 246,109                                   | 15,376      |
| Cash and cash equivalents at end of period          | \$ 257,003                                | 125,713     |
| Supplemental disclosure of cash flow information:   |   |             |
| Cash paid during the period for:                    |   |             |
| Interest  | \$ 6,813                                  | 8,051       |
| Income taxes  | \$ 31,758                                 | 11,941      |

See Notes to Unaudited Condensed Consolidated Financial Statements.

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**TIDEWATER INC.**

**NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**(1) Interim Financial Statements**

The unaudited condensed consolidated financial statements for the interim periods presented herein have been prepared in conformity with United States generally accepted accounting principles and, in the opinion of management, include all adjustments (consisting only of normal recurring adjustments) necessary for a fair presentation of the condensed consolidated balance sheets and the condensed consolidated statements of earnings and cash flows at the dates and for the periods indicated as required by Rule 10-01 of Regulation S-X of the Securities and Exchange Commission (SEC). Results of operations for interim periods are not necessarily indicative of results of operations for the respective full years. These unaudited condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto in the company's Annual Report on Form 10-K for the year ended March 31, 2006, filed with the SEC on May 30, 2006.

**(2) Stockholders' Equity**

At September 30, 2006 and March 31, 2006, 1,972,658 and 2,167,021 shares, respectively, of common stock were held in a grantor stock ownership plan trust for the benefit of stock-based employee benefits programs. These shares are not included in common shares outstanding for earnings per share calculations and transactions between the company and the trust, including dividends paid on the company's common stock, are eliminated in consolidating the accounts of the trust and the company.

**(3) Common Stock Repurchase Program**

In July 2006, the company's Board of Directors authorized a new program for the company to use up to \$157.9 million to repurchase shares of its common stock in open-market or privately-negotiated transactions. The company intends to use its available cash and, when considered advantageous, borrowings under its revolving credit facility, to fund the share repurchases. The repurchase program will end at the earlier of the date when all the authorized funds have been expended or June 30, 2007, unless extended by the Board of Directors. For the three-month period ended September 30, 2006, the company used \$40.4 million for the repurchase and cancellation of 867,100 common shares, at an average price paid per common share of \$46.57. At September 30, 2006, approximately \$117.5 million was available to repurchase shares of the company's common stock pursuant to the July 2006 authorized stock repurchase program.

In July 2005, the company's Board of Directors authorized the company to use up to \$120.0 million to repurchase shares of its common stock through open market or privately-negotiated transactions. The Board of Directors' authorization for this repurchase program expired on June 30, 2006. From inception of the repurchase program through its conclusion on June 30, 2006, the company used \$112.1 million for the repurchase and cancellation of 2,396,100 common shares, at an average price paid per common share of \$46.79. For the quarter ended September 30, 2005, the company used \$8.7 million for the repurchase and cancellation of 220,000 common shares, at an average price paid per share of \$39.51, under the July 2005 authorized repurchase program.

**(4) Stock-Based Compensation**

On April 1, 2006, the company adopted 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 pro-forma disclosure only. SFAS 123R eliminates the ability to account for stock-based compensation transactions using the intrinsic value method under APB Opinion No. 25 and instead requires that such transactions be accounted for using a fair-value-based method. In addition, the



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SEC issued Staff Accounting Bulletin 107 in April 2005, which provides supplemental implementation guidance for SFAS 123R.

Prior to adoption of SFAS 123R, the company measured compensation expense for its stock-based compensation plan using the intrinsic value recognition and measurement principles as prescribed by APB Opinion No. 25 and related interpretations. The company also used 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 effects on net earnings and earnings per share for the quarter and six-months ended September 30, 2005 had the company determined compensation cost based on the fair value at the grant date for its stock options under SFAS No. 123.

| <b>(In thousands, except share data)</b>   | <b>Quarter Ended<br/>September 30,<br/>2005</b> | <b>Six Months Ended<br/>September 30,<br/>2005</b> |
|--|---|--|
| Net earnings as reported   | \$ 82,192                                       | 111,052  |
| Add stock-based employee compensation expense included in reported net earnings, net of tax              | 591   | 1,177  |
| Less total stock-based employee compensation expense, under fair value method for all awards, net of tax | (1,211)   | (2,410)  |
| Pro forma net earnings   | \$ 81,572                                       | 109,819  |
| <b>Earnings per common share:</b>  |   |  |
| As reported  | \$ 1.44   | 1.94   |
| Pro forma  | \$ 1.43   | 1.92   |
| <b>Diluted earnings per common share:</b>  |   |  |
| As reported  | \$ 1.42   | 1.93   |
| Pro forma  | \$ 1.41   | 1.90   |

### **General**

The company's employee stock option and restricted stock plans are long-term retention plans that are intended to attract, retain and provide incentives for talented employees, including officers and non-employee directors, and to align stockholder and employee interests. The company believes its employee stock option plans are critical to its operation and productivity. The employee stock option plans allow the company to grant, on a discretionary basis, both incentive stock options and non-qualified stock options, as well as restricted stock.

### **Stock Option Plans**

The company grants stock options to its employees, including officers, under the 1997 and 2001 Stock Incentive Plans. Under the 2001 Stock Incentive Plan, the company can grant up to 5,000 options per director per year to non-employee directors on a non-discretionary basis. Generally, options have been granted that vest annually over a three-year vesting period from the date of grant. Options expire at the earlier of either three months after termination of the grantee's employment or ten years after the date of grant.

The company uses the Black-Scholes option-pricing model to determine the fair-value of stock-based awards under SFAS 123R, consistent with that used for pro forma disclosures under SFAS No. 123. The company elected to use the modified prospective transition method as permitted by SFAS 123R and, accordingly, prior periods have not been restated to reflect the impact of SFAS 123R. Effective in fiscal 2007, the modified prospective transition method requires that stock-based compensation expense be recorded for all new and unvested stock options and restricted stock grants that are ultimately expected to vest as the requisite service is rendered.

The company recorded \$1.0 million and \$2.0 million of stock-option compensation expense during the quarter and six-month period ended September 30, 2006, respectively, as a result of the adoption of SFAS 123R, which had the effect of reducing earnings per share by \$.03 and \$.03, respectively. No stock-option

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compensation costs were capitalized as part of the cost of an asset during the quarter and six-month period ended September 30, 2006. Stock-based compensation expense for awards granted prior to April 1, 2006 is based on the grant date fair-value as determined under the pro forma provisions of SFAS No. 123.

As of September 30, 2006, total unrecognized stock-option compensation costs amounted to \$4.0 million or \$3.1 million net of tax. Unvested stock-option compensation costs will be recognized as the underlying stock options vest over a period of up to 3 years. The amount of unrecognized stock-option compensation will be affected by any future stock option grants and by the termination of any employee that has received stock options that are unvested as of their termination date. There were no modifications to the stock option awards during the quarter and six-month period ended September 30, 2006.

The company did not grant stock options during the quarter and six-month period ended September 30, 2006. The following table sets forth a summary of option activity under our stock option program for the quarter and six month period ended September 30, 2006:

|                                | Weighted-average<br>Exercise Price | Number<br>Of Options<br>Outstanding |
|--------------------------------|------------------------------------|-------------------------------------|
| Balance at March 31, 2006      | \$ 38.57                           | 3,662,875                           |
| Granted                        |                                    |                                     |
| Exercised                      | 31.15                              | (134,583)                           |
| Expired or cancelled/forfeited | 33.77                              | (7,000)                             |
| Balance at June 30, 2006       | \$ 38.87                           | 3,521,292                           |
| Granted                        |                                    |                                     |
| Exercised                      | 36.58                              | (45,500)                            |
| Expired or cancelled/forfeited | 37.10                              | (8,168)                             |
| Balance at September 30, 2006  | \$ 38.90                           | 3,467,624                           |

The intrinsic value of options exercised during the quarter and six-month period ended September 30, 2006 was \$0.6 million and \$3.6 million, respectively. No stock options vested during the quarter and six-month period ended September 30, 2006. The company does not have share-based liabilities.

Information regarding the 3,467,624 options outstanding at September 30, 2006 can be grouped into three general exercise-price ranges as follows:

|   | Exercise Price Range |                    |                    |
|---|----------------------|--------------------|--------------------|
|   | \$ 22.75 - \$29.44   | \$ 32.25 - \$40.28 | \$ 42.19 - \$59.00 |
| At September 30, 2006   |                      |                    |                    |
| Options outstanding   | 1,081,311            | 933,730            | 1,452,583          |
| Weighted average exercise price                                   | \$ 27.00             | \$ 36.47           | \$ 49.32           |
| Weighted average remaining contractual life                       | 5.7 years            | 5.2 years          | 4.4 years          |
| Options exercisable   | 985,962              | 933,730            | 1,215,739          |
| Weighted average exercise price of options exercisable            | \$ 26.90             | \$ 36.47           | \$ 48.06           |
| Weighted average remaining contractual life of exercisable shares | 5.5 years            | 5.2 years          | 3.4 years          |

The aggregate intrinsic value of the options outstanding at September 30, 2006 was \$26.4 million. The aggregate intrinsic value of options exercisable at September 30, 2006 was \$24.8 million.

### **Restricted Stock**

The company grants restricted shares to key employees, including officers, under the company's Employee Restricted Stock Plan and the 1997 and 2001 Stock Incentive Plans. These plans provide for the granting of restricted stock and/or performance awards to officers and key employees. The company awards both time-based shares and performance-based shares of restricted stock. Time-based restricted stock vests over a four year period and requires no goals to be achieved other than the passage of time and continued employment. Performance-based

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restricted stock vests at the end of a four year period, which vesting can be accelerated if the company meets specific annual targets. 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.

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The company granted 1,078 and 1,078 shares of restricted stock during the quarter and six-month period ended September 30, 2006. The following table sets forth a summary of restricted stock activity of the company for the six months ended September 30, 2006:

|  | Weighted-average<br>Grant-Date Fair<br>Value | Time<br>Based<br>Shares | Performance<br>Based<br>Shares |
|--|--|-------------------------|--------------------------------|
| Non-vested balance at March 31, 2006     | \$ 45.58                                     | 137,571                 | 320,550                        |
| Granted                                  |  |                         |                                |
| Vested                                   | 37.55  |                         | (39,863)                       |
| Cancelled/forfeited                      | 40.84  | (6,480)                 | (4,125)                        |
| Non-vested balance at June 30, 2006      | \$ 46.49                                     | 131,091                 | 276,562                        |
| Granted                                  | 47.81  | 1,078                   |                                |
| Vested                                   |  |                         |                                |
| Cancelled/forfeited                      | 39.39  | (1,232)                 | (9,775)                        |
| Non-vested balance at September 30, 2006 | \$ 46.69                                     | 130,937                 | 266,787                        |

The compensation expense related to non-vested restricted stock totaled \$1.2 million and \$0.8 million for the three-month periods ended September 30, 2006 and 2005, respectively, and \$2.4 million and \$1.6 million for the six-month periods ended September 30, 2006 and 2005, respectively. No restricted stock compensation costs were capitalized as part of the cost of an asset as of September 30, 2006. The deferred amount is being amortized by equal monthly charges to earnings over the respective four-year vesting periods. As of September 30, 2006, total unrecognized restricted stock compensation costs amounted to \$15.1 million. The amount of unrecognized restricted stock compensation will be affected by any future restricted stock grants and by the separation of an employee from the company who has received restricted stock grants that are unvested as of their separation date. There were no modifications to the restricted stock awards during the quarter and six-month period ended September 30, 2006.

The Employee Restricted Stock Plan is the only equity compensation plan that has not been approved by shareholders. The 1997 and 2001 Stock Incentive Plans are approved by shareholders.

### (5) Income Taxes

The effective tax rate applicable to pre-tax earnings for the quarter and six-month periods ended September 30, 2006 was 19.8% and 22%, respectively. The effective tax rate applicable to pre-tax earnings for the quarter and six-month periods ended September 30, 2005 was 30.8% and 29.6%, respectively. The reduction in the effective tax rate during the quarter ended September 30, 2006 is a result of the company's proportionally greater profitability from international operations, where statutory income tax rates are generally lower than those applicable to the U.S. operations.

### (6) Employee Benefit Plans

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. In addition, the company also offers a supplemental retirement plan (supplemental plan) that provides pension benefits to certain employees in excess of those allowed under the company's tax-qualified pension plan. The company contributed \$0.3 million and \$0.6 million to the defined benefit pension plan during the quarter and six-month period ended September 30, 2006 and expects to contribute an additional \$0.6 million to the plan during the remainder of the current fiscal year.

Qualified retired employees currently are covered by a program that 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.

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

| (In thousands)                     | Six Months Ended               |              |               |              |
|------------------------------------|--------------------------------|--------------|---------------|--------------|
|                                    | Quarter Ended<br>September 30, |              | September 30, |              |
|                                    | 2006                           | 2005         | 2006          | 2005         |
| <b><u>Pension Benefits:</u></b>    |                                |              |               |              |
| Service cost                       | \$ 232                         | 190          | 464           | 380          |
| Interest cost                      | 918                            | 883          | 1,836         | 1,765        |
| Expected return on plan assets     | (628)                          | (613)        | (1,256)       | (1,226)      |
| Amortization of prior service cost | 15                             | 22           | 30            | 44           |
| Recognized actuarial loss          | 331                            | 237          | 662           | 474          |
| <b>Net periodic benefit cost</b>   | <b>\$ 868</b>                  | <b>719</b>   | <b>1,736</b>  | <b>1,437</b> |
| <b><u>Other Benefits:</u></b>      |                                |              |               |              |
| Service cost                       | \$ 323                         | 503          | 646           | 1,006        |
| Interest cost                      | 413                            | 591          | 826           | 1,182        |
| Amortization of prior service cost | (550)                          | (4)          | (1,100)       | (8)          |
| Recognized actuarial loss          | 387                            | 127          | 774           | 254          |
| <b>Net periodic benefit cost</b>   | <b>\$ 573</b>                  | <b>1,217</b> | <b>1,146</b>  | <b>2,434</b> |

### (7) Sale of Vessels

On August 11, 2006, the company entered into a definitive agreement with Crosby Marine Transportation, LLC to sell 14 of its offshore tugs, 12 of which operated in the United States and two of which are currently on international assignments in the Middle East. The sale of 11 of the tugs closed in August 2006 for a total cash price of \$34.8 million. The culmination of this transaction resulted in an approximate \$28.2 million pre-tax financial gain, or approximately \$17.2 million after tax, or \$0.31 per diluted common share after tax. The balance of the three tugs covered by the definitive agreement, with a total sales price of \$10.0 million, should close over the next three months as current charter contracts to which the three tugs are subject to expire.

In July 2005, the company sold six of its KMAR 404 class of Anchor Handling Towing Supply vessels 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.

### (8) Contingencies

At the conclusion of its examination of the company's income tax returns covering fiscal years 2001 through 2004, the Internal Revenue Service (IRS) proposed changes to taxable income which, if sustained, would result in additional income tax due of \$18.6 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. The company has filed a formal protest with the IRS seeking a reconsideration of their position taken for fiscal years 2001 and 2002 and intends to do the same for fiscal years 2003 and 2004. The company has also received a final assessment of additional income tax due of \$1.8 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. Should the company's position in the above mentioned tax returns prove unsuccessful, the company estimates that additional income tax expense of approximately \$10.2 million would be required. The company also has 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 (MNOFF.) The company has been informed of an estimated 234 million sterling, or approximately \$433 million, total fund deficit as estimated by the MNOFF 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 annual installment payments are paid in the fourth quarter of each fiscal year and, as such, no amounts were paid during the six months ended September 30, 2006.

It is possible that in the future the fund's trustee may claim that the company owes additional amounts 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.

#### **(9) New Accounting Pronouncements**

In September 2006, the Financial Accounting Standards Board (FASB) issued SFAS No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans* an amendment of FASB Statements No. 87, 88, 106, and 132(R), which requires employers to: (a) recognize in its statement of financial position an asset for a plan's overfunded status or a liability for a plan's underfunded status; (b) measure a plan's assets and its obligations that determine its funded status as of the end of the employer's fiscal year; and (c) recognize changes in the funded status of a defined benefit postretirement plan in the year in which the changes occur. Those changes will be reported in comprehensive income of a business entity. The requirement to recognize the funded status of a benefit plan and the disclosure requirements are effective as of the end of the fiscal year ending after December 15, 2006, for entities with publicly traded equity securities. The requirement to measure plan assets and benefit obligations as of the date of the employer's fiscal year-end statement of financial position is effective for fiscal years ending after December 15, 2008. The company is assessing SFAS No. 158 and has not determined yet the impact that the adoption of SFAS No. 158 will have on its result of operations or financial position.

Also in September 2006, FASB issued SFAS No. 157, *Fair Value Measurements* which defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles and expands disclosures about fair value measurements. This Statement is effective for financial statements issued for fiscal years beginning after November 15, 2007 and interim periods within those fiscal years. Earlier application is encouraged provided that the reporting entity has not yet issued financial statements for that fiscal year including financial statements for an interim period within that fiscal year. The company is assessing SFAS No. 157 and has not determined yet the impact that the adoption of SFAS No. 157 will have on its result of operations or financial position.

In July 2006, the FASB issued FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes - an interpretation of FASB Statement No. 109* (FIN 48), which clarifies the accounting and disclosure for uncertain tax positions, as defined. FIN 48 seeks to reduce the diversity in practice associated with certain aspects of the recognition and measurement related to accounting for income taxes. This interpretation is effective for fiscal years beginning after December 15, 2006. The company is assessing FIN 48 and has not determined yet the impact that the adoption of FIN 48 will have on its result of operations or financial position.

In May 2005 the FASB issued SFAS No. 154, *Accounting Changes and Error Corrections*, which replaces APB No. 20, *Accounting Changes*, and SFAS No. 3, *Reporting Accounting Changes in Interim Financial Statements*. SFAS No. 154 applies to all voluntary changes in accounting principle, and changes the requirements for accounting for and reporting of a change in accounting principle. SFAS No. 154 requires retrospective application to prior periods' financial statements of a voluntary change in accounting principle unless it is impracticable. APB No. 20 previously required that most voluntary changes in accounting principle be recognized with a cumulative effect adjustment in net income of the period of the change. SFAS No. 154 is effective for accounting changes made in annual periods beginning after December 15, 2005.

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.

**(10) 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, depreciation and amortization, and additions to properties and equipment for the quarters and six-month periods ended September 30, 2006 and 2005. 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)                                     | Quarter Ended      |                    | Six Months Ended   |                    |
|--|--------------------|--------------------|--------------------|--------------------|
|  | September 30, 2006 | September 30, 2005 | September 30, 2006 | September 30, 2005 |
| <b>Revenues:</b>                                   |                    |                    |                    |                    |
| Vessel revenues:                                   |                    |                    |                    |                    |
| United States                                      | \$ 62,272          | 40,718             | 124,080            | 76,000             |
| International                                      | 209,042            | 157,512            | 405,919            | 307,622            |
|  | 271,314            | 198,230            | 529,999            | 383,622            |
| Other marine revenues                              | 2,665              | 6,121              | 13,800             | 12,896             |
|  | \$ 273,979         | 204,351            | 543,799            | 396,518            |
| Marine operating profit:                           |                    |                    |                    |                    |
| Vessel activity:                                   |                    |                    |                    |                    |
| United States                                      | \$ 26,361          | 12,996             | 52,285             | 19,849             |
| International                                      | 76,798             | 38,357             | 144,914            | 71,136             |
|  | 103,159            | 51,353             | 197,199            | 90,985             |
| Gain on sales of assets                            | 28,439             | 68,553             | 31,152             | 70,187             |
| Other marine services                              | 612                | 1,057              | 1,712              | 3,121              |
| Operating profit                                   | \$ 132,210         | 120,963            | 230,063            | 164,293            |
| Equity in net earnings of unconsolidated companies | 3,376              | 2,715              | 5,825              | 4,882              |
| Interest and other debt costs                      | (2,345)            | (1,911)            | (4,925)            | (4,273)            |
| Corporate general and administrative               | (6,248)            | (4,029)            | (12,543)           | (8,563)            |
| Other income                                       | 2,922              | 1,035              | 6,760              | 1,434              |
| Earnings before income taxes                       | \$ 129,915         | 118,773            | 225,180            | 157,773            |
| Depreciation and amortization:                     |                    |                    |                    |                    |
| Marine equipment operations                        |                    |                    |                    |                    |
| United States                                      | \$ 6,579           | 5,562              | 12,668             | 10,587             |
| International                                      | 21,826             | 20,893             | 43,376             | 42,046             |
| General corporate depreciation                     | 158                | 159                | 316                | 318                |
|  | \$ 28,563          | 26,614             | 56,360             | 52,951             |
| Additions to properties and equipment:             |                    |                    |                    |                    |
| Marine equipment operations                        |                    |                    |                    |                    |
| United States                                      | \$ 17,437          | 5,782              | 32,805             | 16,641             |
| International                                      | 69,456             | 30,148             | 89,151             | 63,113             |
| General corporate                                  | 1,234              | 1                  | 6,279              | 51                 |
|  | \$ 88,127          | 35,931             | 128,235            | 79,805             |





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**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

To the Board of Directors and Stockholders of

Tidewater Inc.

New Orleans, Louisiana

We have reviewed the accompanying condensed consolidated balance sheet of Tidewater Inc. and subsidiaries (the Corporation) as of September 30, 2006, and the related condensed consolidated statements of earnings for the three-month and six-month periods ended September 30, 2006 and 2005, and of cash flows for the six-month periods ended September 30, 2006 and 2005. These interim financial statements are the responsibility of the Corporation's management.

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

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

We have previously audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheet of Tidewater Inc. and subsidiaries as of March 31, 2006, and the related consolidated statements of earnings, stockholders' equity and other comprehensive income, and cash flows for the year then ended (not presented herein); and in our report dated May 25, 2006, we expressed an unqualified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying condensed consolidated balance sheet as of March 31, 2006 is fairly stated, in all material respects, in relation to the consolidated balance sheet from which it has been derived.

DELOITTE & TOUCHE LLP

New Orleans, Louisiana

October 24, 2006

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

**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 Quarterly Report on Form 10-Q and the information incorporated herein by reference contain certain forward-looking statements which reflect the company's current view with respect to future events and financial performance. 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, can, could, will, continue, intend, seek, plan, should, would and similar expressions contained in this report, are predictions and not guarantees of future performance or events. Any forward-looking statements are based on current industry, financial and 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 in Items 1, 1A, 2 and 7 included in the company's Annual Report on Form 10-K for the year ended March 31, 2006, filed with the Securities and Exchange Commission (SEC) on May 30, 2006 and elsewhere in this Form 10-Q. 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.*

**Overview**

The company provides services 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. Vessel fleet activity levels are dependent upon oil and natural gas prices, which, in turn, are determined by the supply/demand relationship for crude oil and natural gas. The following information contained in this Form 10-Q should be read in conjunction with the unaudited condensed consolidated financial statements and notes thereto included in Item 1 of this Quarterly Report and related disclosures and the company's Annual Report on Form 10-K for the year ended March 31, 2006, filed with the SEC on May 30, 2006.

**General Market Conditions and Results of Operations**

Offshore service vessels provide a diverse range of services and equipment to the energy industry. The company's revenues and operating profit are primarily driven by fleet size, vessel utilization and day rates 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 which 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. Drydocking costs are only incurred if economically justified, taking into consideration the vessel's age, physical condition and future marketability. The following table compares revenues and operating expenses (excluding general and administrative expense, depreciation expense and gain on sales of assets) for the quarters and six-month periods ended September 30, 2006 and 2005 and for the quarter ended June 30, 2006. Vessel revenues and operating costs relate to vessels owned and operated by the company while other marine revenues relate to third-

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

| (In thousands)                 | Quarter Ended      |                    | Six Months Ended   |                    | Quarter             |
|--------------------------------|--------------------|--------------------|--------------------|--------------------|---------------------|
|                                | September 30, 2006 | September 30, 2005 | September 30, 2006 | September 30, 2005 | Ended June 30, 2006 |
| <b>Revenues:</b>               |                    |                    |                    |                    |                     |
| <b>Vessel revenues:</b>        |                    |                    |                    |                    |                     |
| United States                  | \$ 62,272          | 40,718             | 124,080            | 76,000             | 61,808              |
| International                  | 209,042            | 157,512            | 405,919            | 307,622            | 196,877             |
|                                | 271,314            | 198,230            | 529,999            | 383,622            | 258,685             |
| Other marine revenues          | 2,665              | 6,121              | 13,800             | 12,896             | 11,135              |
|                                | \$ 273,979         | 204,351            | 543,799            | 396,518            | 269,820             |
| <b>Operating costs:</b>        |                    |                    |                    |                    |                     |
| <b>Vessel operating costs:</b> |                    |                    |                    |                    |                     |
| Crew costs                     | \$ 66,248          | 61,926             | 129,657            | 120,883            | 63,409              |
| Repair and maintenance         | 25,313             | 16,793             | 50,302             | 36,589             | 24,989              |
| Insurance and loss reserves    | 4,407              | 2,628              | 8,955              | 8,152              | 4,548               |
| Fuel, lube and supplies        | 10,776             | 10,932             | 22,141             | 20,365             | 11,365              |
| Vessel operating leases        | 364                |                    | 618                |                    | 254                 |
| Other                          | 15,460             | 13,726             | 30,657             | 26,226             | 15,197              |
|                                | 122,568            | 106,005            | 242,330            | 212,215            | 119,762             |
| Costs of other marine revenues | 1,948              | 4,934              | 11,862             | 9,524              | 9,914               |
|                                | \$ 124,516         | 110,939            | 254,192            | 221,739            | 129,676             |

The following table subdivides vessel operating costs presented above by the company's United States and International segments for the quarters and six-month periods ended September 30, 2006 and 2005 and for the quarter ended June 30, 2006.

| (In thousands)                               | Quarter Ended      |                    | Six Months Ended   |                    | Quarter             |
|--|--------------------|--------------------|--------------------|--------------------|---------------------|
|  | September 30, 2006 | September 30, 2005 | September 30, 2006 | September 30, 2005 | Ended June 30, 2006 |
| <b>Operating costs:</b>                      |                    |                    |                    |                    |                     |
| <b>United States vessel operating costs:</b> |                    |                    |                    |                    |                     |
| Crew costs                                   | \$ 16,359          | 13,955             | 32,154             | 26,750             | 15,795              |
| Repair and maintenance                       | 5,370              | 2,883              | 10,419             | 6,735              | 5,049               |
| Insurance and loss reserves                  | 2,361              | 1,122              | 5,090              | 3,526              | 2,729               |
| Fuel, lube and supplies                      | 975                | 1,103              | 2,706              | 2,450              | 1,731               |
| Vessel operating leases                      | 262                |                    | 516                |                    | 254                 |
| Other  | 1,615              | 1,162              | 3,380              | 2,124              | 1,765               |
|  | 26,942             | 20,225             | 54,265             | 41,585             | 27,323              |
| <b>International vessel operating costs:</b> |                    |                    |                    |                    |                     |
| Crew costs                                   | \$ 49,889          | 47,971             | 97,503             | 94,133             | 47,614              |
| Repair and maintenance                       | 19,943             | 13,910             | 39,883             | 29,854             | 19,940              |
| Insurance and loss reserves                  | 2,046              | 1,506              | 3,865              | 4,626              | 1,819               |
| Fuel, lube and supplies                      | 9,801              | 9,829              | 19,435             | 17,915             | 9,634               |
| Vessel operating leases                      | 102                |                    | 102                |                    |                     |
| Other  | 13,845             | 12,564             | 27,277             | 24,102             | 13,432              |
|  | 95,626             | 85,780             | 188,065            | 170,630            | 92,439              |

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|                       |            |         |         |         |         |
|-----------------------|------------|---------|---------|---------|---------|
| Total operating costs | \$ 122,568 | 106,005 | 242,330 | 212,215 | 119,762 |
|-----------------------|------------|---------|---------|---------|---------|

Marine support services are conducted worldwide with highly mobile assets. 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 of 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.

As a result of the uncertainty of an individual customer to make payment of vessel charter hire, the company has deferred the recognition of approximately \$4.8 million of billings as of September 30, 2006 (\$6.1 million of billings as of March 31, 2006), 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 significantly reduced.

The company's net earnings in the first half of fiscal 2007 grew approximately 58% over net earnings achieved during the first half of fiscal 2006. The company's domestic revenues increased approximately 63%, or \$48.1 million, during the six-months ended September 30, 2006 as compared to the same period in fiscal 2006 while the company's international revenues increased \$98.3 million, or approximately 32% during the same comparative period. A significant portion of the company's operations are conducted internationally. For the six-months ended September 30, 2006, revenues generated from international operations as a percentage of the company's total revenues were 75%.

Higher average day rates and utilization are at the root of the company's domestic results of operations for the first half of fiscal 2007. Average day rates for the total domestic-based fleet increased approximately 65% during the first half of fiscal 2007 as compared to the first half of fiscal 2006 while utilization for the entire domestic-based fleet increased approximately 11% during the same comparative periods. The strong financial performance during the first half of fiscal 2007 is a result of several significant improvements in the market for offshore support vessels. In the first half of calendar year 2005, the market for offshore support vessels tightened as drilling operators discovered that offshore vessels that were in service were in short supply due to high demand associated with the continuation of repair work to the offshore energy infrastructure that was damaged by Hurricane Ivan in calendar year 2004. Hurricanes Katrina and Rita, which caused extensive damage to the energy industry infrastructure in the oil producing areas of the U.S. Gulf Coast in late August and September 2005, respectively, further tightened the offshore vessel market as exploration and production (E&P) companies scrambled to find available vessels for the necessary repair work resulting from the damage caused by the two storms. Demand for the company's vessels was strong before the two storms and business has been brisk since the storms propelling charter rates past levels achieved in the 1997 and 2001 industry upturns. Analysts are currently reporting that the shallow water offshore vessel market is beginning to show signs of a slowdown as the needed infrastructure repair work slows and numerous drilling rigs are scheduled to relocate to international areas.

Upon completion of the needed repair work in the U.S. Gulf of Mexico, the number of available drilling rigs in the U.S. market should be the primary driver of the company's future profitability in the domestic market and, at present time, the offshore rig count in the Gulf of Mexico remains relatively depressed as compared to past up cycles. In addition, the strength of the international drilling market has attracted offshore rigs from the U.S. market over the past few years and this trend is expected to continue in the upcoming quarters. Over the longer term, the company's domestic-based fleet should be influenced more by the active offshore rig count than by any other single outside influence. Industry reports indicate that over the next 4 years the moveable drilling rig count will increase as new-build rigs currently on order and under construction stand at approximately 105 rigs to supplement the current approximately 680 movable rigs worldwide.

As reported by certain sell-side analysts in their mid-year E&P capital spending reports, worldwide E&P expenditures are exceeding original estimates. These analysts reported that calendar year 2006 worldwide E&P capital expenditures are forecast to grow approximately 21% over calendar year 2005 spending as compared to spending estimate increases reported in December 2005 of approximately 15%. These analysts also reported that many of the corporations surveyed for the report indicated higher E&P spending in calendar year 2007. Commodity prices for crude oil and natural gas are critical factors in E&P companies' development of capital spending budgets. At present time, commodity prices for natural gas have decreased below the \$5.00 per Mcf level on the news that inventory levels for the resource have exceeded five-year inventory averages and that the inventory levels are nearing maximum storage capacity. Domestic results of operations are primarily driven by natural gas exploration and production and, given the current price and inventory levels of natural gas, it is possible the recent level of drilling activity will decline.

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Even with hurricane repair work perhaps being on the decline and with future natural gas pricing being in question, the Western Gulf of Mexico Lease Sale, held in mid August 2006, attracted record bidding. The number of bids submitted was the highest in nine years which may indicate that interest in the Gulf of Mexico is not declining. However, the strongest demand/bids were for deepwater tracts. The average high bid for deepwater tracts increased approximately 50% as compared to last year's lease sale. The number of bids submitted for shallow water tracts were essentially equal to last year's lease sale while the average high bid for the shallow water tracts decreased approximately 58% as compared to last year. While these factors lead to questions about the immediate future activity level of the domestic market, the company's assets are highly mobile and should the domestic Gulf of Mexico market soften, the company has the ability to redeploy its domestic-based vessels to international markets where the vessels may benefit from strong average day rates and earnings are taxed at statutory income tax rates that are typically lower than in the United States.

Higher average day rates and utilization are also at the root of the strength of the company's international-based results of operations for the first half of fiscal 2007. Average day rates for the total international-based fleet increased approximately 17% during the first half of fiscal 2007 as compared to the first half of fiscal 2006 while utilization for the entire international-based fleet increased approximately 12% during the same comparative periods. The company's international results of operations have been primarily dependent on the supply and demand relationship for crude oil and, at present, crude oil prices have retrenched to the \$58-\$63 range after reaching an all time closing high of \$77 in mid-July 2006. Although U.S. inventories have risen in recent weeks, due mostly to rising imports, excess capacity in the global market is still near its 30 year low as reported by analysts. In addition, the Organization of Petroleum Exporting Countries (OPEC) recently announced that it will cut production by one million barrels per day in November which bodes well for strong crude oil commodity pricing. Analysts forecast that global demand for crude oil will likely remain strong throughout the remainder of calendar year 2006 and into calendar 2007 and expect future crude oil commodity prices to remain at attractive levels due to OPEC's desire to defend a specific floor price for crude oil, high worldwide consumer demand for oil, low excess OPEC production capacity and continued concerns over possible supply interruptions caused by geopolitical risk in certain countries that are members of OPEC. Management anticipates international vessel demand will remain strong along with these market conditions.

Marine operating profit and other components of earnings before income taxes for the quarters and six-month periods ended September 30, 2006 and 2005 and for the quarter ended June 30, 2006 consist of the following:

| <b>(In thousands)</b>                              | <b>Quarter Ended</b> |                | <b>Six Months Ended</b> |                | <b>Quarter</b>  |
|--|----------------------|----------------|-------------------------|----------------|-----------------|
|  | <b>September 30,</b> | <b>2005</b>    | <b>September 30,</b>    | <b>2005</b>    | <b>Ended</b>    |
|  | <b>2006</b>          |                | <b>2006</b>             |                | <b>June 30,</b> |
|  |                      |                |                         |                | <b>2006</b>     |
| Vessel activity:                                   |                      |                |                         |                |                 |
| United States                                      | \$ 26,361            | 12,996         | 52,285                  | 19,849         | 25,924          |
| International                                      | 76,798               | 38,357         | 144,914                 | 71,136         | 68,116          |
|  | 103,159              | 51,353         | 197,199                 | 90,985         | 94,040          |
| Gain on sales of assets                            | 28,439               | 68,553         | 31,152                  | 70,187         | 2,713           |
| Other marine services                              | 612                  | 1,057          | 1,712                   | 3,121          | 1,100           |
| <b>Operating profit</b>                            | <b>132,210</b>       | <b>120,963</b> | <b>230,063</b>          | <b>164,293</b> | <b>97,853</b>   |
| Equity in net earnings of unconsolidated companies | 3,376                | 2,715          | 5,825                   | 4,882          | 2,449           |
| Interest and other debt costs                      | (2,345)              | (1,911)        | (4,925)                 | (4,273)        | (2,580)         |
| Corporate general and administrative               | (6,248)              | (4,029)        | (12,543)                | (8,563)        | (6,295)         |
| Other income                                       | 2,922                | 1,035          | 6,760                   | 1,434          | 3,838           |
| <b>Earnings before income taxes</b>                | <b>\$ 129,915</b>    | <b>118,773</b> | <b>225,180</b>          | <b>157,773</b> | <b>95,265</b>   |

### United States-based Operations

U.S.-based vessel revenues for the quarter and six-month period ended September 30, 2006 increased approximately 53% and 63%, or \$21.6 million and \$48.1 million, respectively, as compared to the same periods in fiscal year 2006 due to higher utilization and average day rates. Active towing supply/supply





vessels, the company's major income producing vessel class in the domestic market, generated approximately 71% and 62% of the revenue growth for the quarter and six-months ended September 30, 2006, respectively, as compared to the same periods in fiscal year 2006. The company's deepwater class of vessels contributed approximately 28% and 25% of revenue growth during the same comparative periods, respectively, while the crew/utility class contributed 2% and 5% of the revenue growth during the same comparative periods, respectively.

Average day rates on the domestic-based towing supply/supply vessels increased approximately 60% and 61% for the quarter and six-month period ended September 30, 2006, respectively, as compared to the same periods in fiscal year 2006, while utilization rates on this same class of vessel increased approximately 6% and 4% during the same comparative periods, respectively. Average day rates on the company's domestic-based deepwater class of vessels increased approximately 34% and 38% for the quarter and six-month period ended September 30, 2006, respectively, as compared to the same periods in fiscal year 2006. Utilization rates on the deepwater class of vessels increased 2% for the quarter ended September 30, 2006 as compared to the quarter ended September 30, 2005 and dipped 2% for the six-months ended September 30, 2006 as compared to the six-months ended September 30, 2005. Utilization rates on the company's domestic-based crew/utility class of vessels increased approximately 1% and 10% for the quarter and six-month period ended September 30, 2006, respectively, as compared to the same periods in fiscal year 2006. Average day rates for the crew/utility class of vessels increased approximately 52% and 59% from the same comparative periods, respectively. Utilization on the company's offshore tug class of vessels increase approximately 58% and 54% for the quarter and six-month period ended September 30, 2006, respectively, as compared to the same periods in fiscal 2006 while average day rates on the offshore tug class of vessels increased 60% and 63% for the quarter and six-month period ended September 30, 2006, respectively, as compared to the same periods in fiscal 2006.

U.S.-based operating profit for the quarter and six-month period ended September 30, 2006 increased approximately 103% and 163%, or \$13.4 million and \$32.4 million, respectively, as compared to the same periods in fiscal year 2006 primarily due to higher revenues which were partially offset by higher vessel operating costs (primarily crew costs and repair and maintenance costs).

Current quarter U.S.-based vessel revenues and operating costs were comparable to the previous quarter.

#### **International-based Operations**

International-based vessel revenues increased approximately 33% and 32%, or \$51.5 million and \$98.3 million, for the quarter and six-month period ended September 30, 2006, respectively, as compared to the same periods in fiscal year 2006 due to an increase in utilization on all international-based vessel classes and due to higher average day rates on the international-based deepwater, towing supply/supply, crew/utility and offshore tugs class of vessels. The company's international deepwater class, towing supply/supply class and crew/utility class of vessels generated approximately 29%, 49% and 13%, respectively, of the revenue growth during the quarter ended September 30, 2006 and generated approximately 23%, 55% and 12%, respectively, of the revenue growth for the six-month period ended September 30, 2006 as compared to the same periods in fiscal year 2006.

International-based vessel operating profit increased 100% and 104%, or \$38.4 million and \$73.8 million, for the quarter and six-month period ended September 30, 2006, respectively, as compared to the same periods in fiscal year 2006 primarily due to higher revenues which were partially offset by increases in vessel operating costs (primarily crew cost and repair and maintenance costs).

Current quarter international-based vessel revenues increased approximately 6%, or \$12.2 million, as compared to the previous quarter due to an increase in average day rates and utilization. International-based vessel operating profit for the current quarter increased 13%, or \$8.7 million, as compared to the previous quarter primarily due to higher revenues.

**Other Items**

In August 2006, the company sold 11 of its offshore tugs for a total cash price of \$34.8 million. The culmination of this transaction resulted in an approximate \$28.2 million pre-tax financial gain, or approximately \$17.2 million after tax, or \$0.31 per diluted common share after tax. The company also agreed to sell an additional three tugs, with a total sales price of \$10.0 million, over the next three months as current charter contracts to which the three tugs are subject expire.

Gain on sales of assets for the first half of fiscal 2006 included the July 2005 sale of six KMAR 404 class of Anchor Handling Towing Supply vessels 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.

**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 vessels withdrawn from active service or joint venture vessels. The following tables compare day-based utilization percentages and average day rates by vessel class and in total for the quarters and six month periods ended September 30, 2006 and 2005 and the quarter ended June 30, 2006:

|                                   | Quarter Ended |        | Six Months Ended |        | Quarter Ended |
|-----------------------------------|---------------|--------|------------------|--------|---------------|
|                                   | September 30, | 2005   | September 30,    | 2005   | June 30,      |
|                                   | 2006          |        | 2006             |        | 2006          |
| <b>UTILIZATION:</b>               |               |        |                  |        |               |
| <u>Domestic-based fleet:</u>      |               |        |                  |        |               |
| Deepwater vessels                 | 99.4%         | 97.9   | 96.6             | 98.9   | 93.8          |
| Towing-supply/supply              | 64.0          | 60.6   | 64.1             | 61.5   | 64.2          |
| Crew/utility                      | 87.4          | 86.6   | 91.8             | 83.7   | 96.4          |
| Offshore tugs                     | 41.8          | 26.4   | 40.5             | 26.3   | 39.8          |
| Total                             | 69.5%         | 61.9   | 68.7             | 61.7   | 68.0          |
| <u>International-based fleet:</u> |               |        |                  |        |               |
| Deepwater vessels                 | 94.9%         | 82.7   | 92.1             | 84.2   | 89.3          |
| Towing-supply/supply              | 77.7          | 72.1   | 77.5             | 71.8   | 77.4          |
| Crew/utility                      | 86.2          | 74.1   | 85.0             | 74.6   | 83.8          |
| Offshore tugs                     | 65.1          | 46.4   | 68.5             | 52.0   | 72.1          |
| Other                             | 52.0          | 35.7   | 48.9             | 35.1   | 45.8          |
| Total                             | 78.9%         | 69.6   | 78.7             | 70.3   | 78.4          |
| <u>Worldwide fleet:</u>           |               |        |                  |        |               |
| Deepwater vessels                 | 95.8%         | 85.2   | 93.0             | 86.3   | 90.2          |
| Towing-supply/supply              | 75.1          | 69.9   | 74.9             | 69.8   | 74.8          |
| Crew/utility                      | 86.4          | 76.9   | 86.1             | 76.7   | 85.8          |
| Offshore tugs                     | 61.7          | 40.3   | 62.8             | 44.3   | 63.9          |
| Other                             | 52.0          | 35.7   | 48.9             | 35.1   | 45.8          |
| Total                             | 77.2%         | 68.0   | 76.8             | 68.5   | 76.4          |
| <b>AVERAGE VESSEL DAY RATES:</b>  |               |        |                  |        |               |
| <u>Domestic-based fleet:</u>      |               |        |                  |        |               |
| Deepwater vessels                 | \$ 23,442     | 17,456 | 22,444           | 16,311 | 21,380        |
| Towing-supply/supply              | 12,102        | 7,569  | 11,875           | 7,369  | 11,645        |
| Crew/utility                      | 6,456         | 4,238  | 6,457            | 4,052  | 6,457         |
| Offshore tugs                     | 17,793        | 11,110 | 16,596           | 10,185 | 15,920        |
| Total                             | \$ 12,606     | 7,814  | 12,290           | 7,468  | 11,987        |
| <u>International-based fleet:</u> |               |        |                  |        |               |
| Deepwater vessels                 | \$ 19,593     | 15,592 | 18,929           | 14,657 | 18,216        |
| Towing-supply/supply              | 8,311         | 7,121  | 8,194            | 6,928  | 8,076         |
| Crew/utility                      | 3,895         | 3,306  | 3,822            | 3,299  | 3,748         |
| Offshore tugs                     | 6,328         | 5,847  | 6,139            | 5,352  | 5,964         |
| Other                             | 3,526         | 3,536  | 3,569            | 3,228  | 3,615         |
| Total                             | \$ 8,222      | 7,046  | 8,028            | 6,846  | 7,833         |
| <u>Worldwide fleet:</u>           |               |        |                  |        |               |
| Deepwater vessels                 | \$ 20,369     | 15,933 | 19,639           | 14,935 | 18,856        |
| Towing-supply/supply              | 8,944         | 7,194  | 8,808            | 7,001  | 8,671         |
| Crew/utility                      | 4,319         | 3,547  | 4,275            | 3,488  | 4,229         |
| Offshore tugs                     | 7,469         | 6,914  | 7,504            | 6,218  | 7,534         |
| Other                             | 3,526         | 3,536  | 3,569            | 3,228  | 3,615         |
| Total                             | \$ 8,935      | 7,191  | 8,738            | 6,961  | 8,540         |

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The following table compares the average number of vessels by class and geographic distribution for the quarters and six-month periods ended September 30, 2006 and 2005 and for the quarter ended June 30, 2006:

|  | Quarter Ended      |      | Six Months Ended   |      | Quarter             |
|--|--------------------|------|--------------------|------|---------------------|
|  | September 30, 2006 | 2005 | September 30, 2006 | 2005 | Ended June 30, 2006 |
| <b>Domestic-based fleet:</b>                           |                    |      |                    |      |                     |
| Deepwater vessels                                      | 7                  | 6    | 7                  | 5    | 7                   |
| Towing-supply/supply                                   | 50                 | 48   | 50                 | 48   | 50                  |
| Crew/utility   | 14                 | 20   | 14                 | 20   | 13                  |
| Offshore tugs  | 6                  | 18   | 9                  | 17   | 13                  |
| Total  | 77                 | 92   | 80                 | 90   | 83                  |
| <b>International-based fleet:</b>                      |                    |      |                    |      |                     |
| Deepwater vessels                                      | 29                 | 29   | 29                 | 31   | 29                  |
| Towing-supply/supply                                   | 205                | 205  | 206                | 204  | 207                 |
| Crew/utility   | 70                 | 67   | 70                 | 66   | 71                  |
| Offshore tugs  | 39                 | 40   | 39                 | 41   | 38                  |
| Other  | 7                  | 8    | 7                  | 8    | 7                   |
| Total  | 350                | 349  | 351                | 350  | 352                 |
| Owned or chartered vessels included in marine revenues | 427                | 441  | 431                | 440  | 435                 |
| Vessels withdrawn from service                         | 48                 | 85   | 55                 | 88   | 62                  |
| Joint-venture and other                                | 20                 | 31   | 21                 | 31   | 21                  |
| Total  | 495                | 557  | 507                | 559  | 518                 |

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 51, 81 and 59 stacked vessels at September 30, 2006 and 2005 and at June 30, 2006, 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.

The following is a summary of net properties and equipment at September 30, 2006 and March 31, 2006:

|                                     | September 30, 2006 |                               | March 31, 2006    |                               |
|-------------------------------------|--------------------|-------------------------------|-------------------|-------------------------------|
|                                     | Number Of Vessels  | Carrying Value (In thousands) | Number Of Vessels | Carrying Value (In thousands) |
| Vessels in active service           | 374                | \$ 1,249,323                  | 368               | \$ 1,214,195                  |
| Stacked vessels                     | 51                 | 16,132                        | 67                | 20,170                        |
| Vessels withdrawn from service      | 47                 | 6,177                         | 66                | 10,163                        |
| Marine equipment under construction |                    | 133,498                       |                   | 112,261                       |
| Other property and equipment        |                    | 15,940                        |                   | 16,938                        |

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Totals

472 \$ 1,421,070

501 \$ 1,373,727

During the first half of fiscal 2007, the company took delivery of four anchor handling towing supply vessels and three crewboats and sold to third party operators or to scrap dealers eight anchor handling towing supply vessels, 14 platform supply vessels, two crewboats, 12 offshore tugs and one other type vessel.

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.

### General and Administrative Expenses

Consolidated general and administrative expenses for the quarters and six-month periods ended September 30, 2006 and 2005 and for the quarter ended June 30, 2006 were as follows:

| (In thousands)        | Quarter Ended      |                    | Six Months Ended   |                    | Quarter Ended |
|-----------------------|--------------------|--------------------|--------------------|--------------------|---------------|
|                       | September 30, 2006 | September 30, 2005 | September 30, 2006 | September 30, 2005 | June 30, 2006 |
| Personnel             | \$ 14,100          | 12,008             | 29,313             | 23,303             | 15,213        |
| Office and property   | 3,582              | 2,974              | 6,943              | 6,032              | 3,361         |
| Sales and marketing   | 1,790              | 1,240              | 3,159              | 2,321              | 1,369         |
| Professional services | 2,086              | 2,117              | 4,408              | 4,482              | 2,322         |
| Other                 | 2,417              | 1,094              | 3,844              | 2,554              | 1,427         |
|                       | \$ 23,975          | 19,433             | 47,667             | 38,692             | 23,692        |

General and administrative expenses for the quarter and six-month period ended September 30, 2006 increased as compared to the same periods in fiscal 2006 due to an increase in the amortization of restricted stock granted in March 2006, stock option expensing which became effective April 1, 2006 with the adoption of SFAS No. 123R and an improved business environment. General and administrative expenses for the quarter ended September 30, 2006 were comparable to the first quarter of fiscal 2007.

### Liquidity, Capital Resources and Other Matters

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 September 30, 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.

In July 2006, the company's Board of Directors authorized a new program for the company to use up to \$157.9 million to repurchase shares of its common stock in open-market or privately-negotiated transactions. The company intends to use its available cash and, when considered advantageous, borrowings under its revolving credit facility, to fund the share repurchases. The repurchase program will end when all the authorized funds have been expended or June 30, 2007, unless extended by the Board of Directors. For the three-month period ended September 30, 2006, the company used \$40.4 million for the repurchase and cancellation of 867,100 common shares, at an average price paid per common share of \$46.57. At September 30, 2006, approximately \$117.5 million was available to repurchase shares of the company's common stock pursuant to the July 2006 authorized stock repurchase program.

In July 2005, the company's Board of Directors authorized the company to use up to \$120.0 million to repurchase shares of its common stock through open market or privately-negotiated transactions. The Board of Directors' authorization for this repurchase program expired on June 30, 2006. From inception of the repurchase program through its conclusion on June 30, 2006, the company used \$112.1 million for the repurchase and cancellation of 2,396,100 common shares, at an average price paid per common share of \$46.79. For the quarter ended September 30, 2005, the company used \$8.7 million for the repurchase and



cancellation of 220,000 common shares, at an average price paid per share of \$39.51, under the July 2005 authorized repurchase program.

**Operating Activities**

Net cash provided by operating activities for any quarter will fluctuate according to the level of business activity for the applicable quarter. For the six-months ended September 30, 2006, net cash from operating activities was \$218.3 million compared to \$100.1 million as of September 30, 2005. Significant components of cash provided by operating activities for the six-months ended September 30, 2006 include net earnings of \$175.6 million, adjusted for non-cash expenses of \$87.3 million and an increase in working capital of \$13.4 million. Significant components of cash provided by operating activities for the six-months ended September 30, 2005, include net earnings of \$111.1 million, adjusted for non-cash expenses of \$97.8 million and an increase in working capital of \$38.6 million.

**Investing Activities**

Investing activities for the six months ended September 30, 2006 used \$63.0 million, which is attributed to the \$128.2 million additions to properties and equipment offset by approximately \$55.5 million of sales of assets and the collection of \$9.5 million relating to the payoff of an outstanding financing arrangement the company had with Sonatide Marine Ltd., a 49% owned joint-venture. Additions to properties and equipment were comprised of approximately \$22.4 million in capitalized major repair costs, \$92.4 million for the construction of offshore marine vessels, \$6.2 million for vessel enhancements, \$6.0 million for the construction of an aircraft and \$1.2 million of other properties and equipment purchases.

Investing activities for the six months ended September 30, 2005 provided \$111.7 million of cash, which is primarily attributed to the \$191.5 million of proceeds from the sale of assets, partially offset by \$79.8 million of additions to property and equipment. Additions to properties and equipment were comprised of approximately \$12.3 million in capitalized major repair costs, \$66.3 million for the construction of offshore marine vessels and \$1.2 million of other properties and equipment purchases.

**Financing Activities**

Financing activities for the six months ended September 30, 2006 used \$144.4 million of cash, which is primarily the result of \$131.7 million used to repurchased common stock, \$17.2 million used for quarterly payment of common stock dividends of \$0.15 per common share, and \$5.0 million used to repay debt. These uses of cash were partially offset by \$5.0 million provided by debt borrowings and \$4.5 million of proceeds from the issuance of common stock.

Financing activities for the six months ended September 30, 2005 used \$101.4 million of cash, which is primarily the result of \$110.0 million used to repay debt, \$17.3 million used for quarterly payment of common stock dividends of \$0.15 per common share, and \$8.7 million used to repurchase common stock. These uses of cash were partially offset by \$30.0 million provided by debt borrowings and \$4.9 million of proceeds from the issuance of common stock.

**Vessel Construction and Acquisition Expenditures**

The company is constructing 15 anchor handling towing supply vessels varying in size from 5,000 brake horsepower (BHP) to 10,000 BHP for a total commitment cost of approximately \$235.1 million. Four different international shipyards are constructing the vessels. Scheduled delivery for the 15 vessels will begin in November 2006, with the last vessel scheduled for delivery in September 2008. As of September 30, 2006, \$65.6 million has been expended on the vessels.

The company is also committed to the construction of two 220-foot and three 250-foot supply vessels for approximately \$79.3 million. The company's shipyard, Quality Shipyard, LLC, is constructing the two 220-foot vessels while a different U.S. shipyard is constructing the three 250-foot vessels. Scheduled delivery of the two 220-foot vessels is expected in August 2007 and February 2008 while the three 250-foot vessels



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are expected to be delivered in March, June and September of 2007. As of September 30, 2006, \$24.5 million has been expended on these five vessels.

The company is also committed to the construction of two 175-foot, state-of-the-art, fast, crew/supply boats, and two tugboats for an aggregate cost of approximately \$26.2 million. A U.S. shipyard is constructing the 175-foot crewboats, while two international shipyards are each constructing one tugboat. Scheduled delivery for the two 175-foot crewboats is expected in October 2007. The tugboats are expected to be delivered in February and April of 2007. As of September 30, 2006, \$7.3 million has been expended on these four vessels.

The table below summarizes the various vessel commitments as discussed above by vessel class and type as of September 30, 2006:

| Vessel class and type         | U. S. Built<br>Total |                                      |  | International Built<br>Total |                                      |  |
|-------------------------------|----------------------|--------------------------------------|--|------------------------------|--------------------------------------|--|
|                               | Number of<br>Vessels | Cost<br>Commitment<br>(In thousands) | Expended<br>Through<br>9/30/06<br>(In thousands) | Number<br>of<br>Vessels      | Cost<br>Commitment<br>(In thousands) | Expended<br>Through<br>9/30/06<br>(In thousands) |
| Deepwater vessels:            |                      |                                      |  |                              |                                      |  |
| Platform supply vessels       | 3                    | \$ 52,076                            | \$ 21,288  |                              |                                      |  |
| Replacement Fleet:            |                      |                                      |  |                              |                                      |  |
| Anchor handling towing supply |                      |                                      |  | 15                           | \$ 235,092                           | \$ 65,628  |
| Platform supply vessels       | 2                    | \$ 27,174                            | \$ 3,181   |                              |                                      |  |
| Crewboats and offshore tugs:  |                      |                                      |  |                              |                                      |  |
| Crewboats 175-foot            | 2                    | \$ 15,120                            | \$ 2,140   |                              |                                      |  |
| Offshore tugs                 |                      |                                      |  | 2                            | \$ 11,073                            | \$ 5,161   |
| <b>Totals</b>                 | <b>7</b>             | <b>\$ 94,370</b>                     | <b>\$ 26,609</b>                                 | <b>17</b>                    | <b>\$ 246,165</b>                    | <b>\$ 70,789</b>                                 |

To date, the company has financed its vessel commitment programs from its current cash balances, its operating cash flow and its \$300 million senior unsecured notes and its revolving credit facility. Of the total \$340.5 million of capital commitments for vessels currently under construction the company has expended \$97.4 million as of September 30, 2006.

The company has also contracted for the construction of a new corporate aircraft for a total approximate cost of \$28.7 million. As of September 30, 2006, \$9.8 million has been spent. The airplane is expected to be available for use in May of 2007.

### Interest and Debt Costs

The company is capitalizing a portion of its interest costs incurred on borrowed funds used to construct vessels. Interest and debt costs incurred, net of interest capitalized for the quarter and six-month period ended September 30, 2006, was approximately \$2.3 million and \$4.9 million, respectively. Interest costs capitalized for the quarter and six-month period ended September 30, 2006 was approximately \$1.2 million and \$2.1 million, respectively.

Interest and debt costs incurred, net of interest capitalized for the quarter and six-month period ended September 30, 2005, was approximately \$1.9 million and \$4.3 million, respectively. Interest costs capitalized for the quarter and six-month period ended September 30, 2005 was approximately \$1.9 million and \$4.0 million, respectively.

### Other Liquidity Matters

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 through 2004, the Internal Revenue Service (IRS) proposed changes to taxable income which, if sustained, would result in additional income tax due of \$18.6 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. The company has filed a formal protest with the IRS seeking a reconsideration of their position taken for fiscal years 2001 and 2002 and intends to do the same for fiscal years 2003 and 2004. The company has also received a final assessment of additional income tax due of \$1.8 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. Should the company's position in the above mentioned tax returns prove unsuccessful, the company estimates that additional income tax expense of approximately \$10.2 million would be required. The company also has 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 annual installment payments are paid in the fourth quarter of each fiscal year and, as such, no amounts were paid during the six months ended September 30, 2006.

It is possible that in the future the fund's trustee may claim that the company owes additional amounts 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.

### **Off-Balance Sheet Arrangements**

In March 2006, the company entered into an agreement to sell five of its vessels, that are under construction, to Banc of America Leasing & Capital LLC (BOAL&C), an unrelated third party, for \$75.5 million and simultaneously enter into bareboat charter arrangements with BOAL&C upon the vessels' delivery to the market.

In late March 2006, the company sold one of its newly-built vessels under the sale/leaseback agreement for \$12.0 million and simultaneously entered into a bareboat charter arrangement with BOAL&C. The company sold a second vessel under this agreement during the second quarter of fiscal 2007 for \$12.0 million and simultaneously entered into a bareboat charter arrangement. The company is accounting for the two transactions as sale/leaseback transactions with operating lease treatment. Accordingly, the company did not record the asset on its books and the company is expensing periodic lease payments. For the quarter and six-month period ended September 30, 2006, the company expensed approximately \$0.4 million and \$0.6 million, respectively, on these bareboat charter arrangements.

The company has three additional vessels to sell and simultaneously bareboat charter from BOAL&C under the agreement. The vessels are currently under construction and will be sold upon the vessels' delivery to the market. BOAL&C agreed to pay actual invoice cost of the respective vessels being acquired, or \$51.5 million. The vessels currently under construction are expected to be delivered to the market beginning March 2007 with final delivery of the last vessel in September 2007.

Both charter hire operating lease terms expire in 2014. The company has the option to extend the respective charter hire operating leases three times, each for a period of 12 months, which would provide the company the opportunity to extend the operating leases through 2017.

The company is exposed to possible interest rate fluctuation related to its commitment to the sale and simultaneous leaseback of three additional vessels it agreed to sell to Banc of America Leasing & Capital LLC.

### **Critical Accounting Policies and Estimates**

The company's Annual Report on Form 10-K for the year ended March 31, 2006, filed with the Securities and Exchange Commission on May 30, 2006, describes the accounting policies that are critical to reporting the company's financial position and operating results and that require management's most difficult, subjective or complex judgments. This Quarterly Report on Form 10-Q should be read in conjunction with the discussion contained in the company's Annual Report on Form 10-K for the year ended March 31, 2006, regarding these critical accounting policies.

### **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.

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.

#### **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.

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, unless day rates increase commensurately.

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

Market risk refers to the potential losses arising from changes in interest rates, foreign currency fluctuations and exchange rates, equity prices and commodity prices including the correlation among these factors and their volatility. The company is primarily exposed to interest rate risk and foreign currency fluctuations and exchange risk.

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 September 30, 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 September 30, 2006 is estimated to be \$283.4 million.

The company is exposed to possible interest rate fluctuations related to its commitment to the sale/leaseback of three of its vessels to BOAL&C. On March 24, 2006, the company entered into three interest rate swap transactions to effectively fix the amount of the lease payments on three 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 September 30, 2006, the three interest rate swaps had a combined fair value loss of approximately \$0.6 million which is included in other liabilities 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 no outstanding currency spot contracts at September 30, 2006 and 2005.

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 \$16.6 million. At September 30, 2006 the company had six forward contracts outstanding totaling \$11.7 million that hedged the company's foreign exchange exposure relating to the Indonesian shipyard commitments. At September 30, 2006, the combined fair value of the six forward contracts of approximately \$0.7 million, of which \$0.6 million was recorded as an increase to earnings during the first half of fiscal 2007 because the forward contracts did not qualify as hedge instruments. The remaining \$0.1 million of fair value was recorded during the fourth quarter of fiscal 2006. All future changes in fair value of the forward contracts will be recorded in earnings.

The company had no derivative financial instruments outstanding at September 30, 2005 that qualified as a hedge instrument.

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 4. CONTROLS AND PROCEDURES**

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

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

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

Disclosure controls and procedures are designed with the objective of ensuring that 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.

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

There have been no other changes in the company's internal controls over financial reporting during the period covered by this report that have materially affected or are reasonably likely to materially affect, the company's internal control over financial reporting.

## PART II. OTHER INFORMATION

### ITEM 1. 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 1A. RISK FACTORS

There have been no material changes to the risk factors as previously disclosed in Item 1A in the company's Annual Report on Form 10-K for the year ended March 31, 2006, filed with the Securities and Exchange Commission on May 30, 2006.

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

#### Common Stock Repurchase Program

In July 2006, the company's Board of Directors authorized a new program for the company to use up to \$157.9 million to repurchase shares of its common stock in open-market or privately-negotiated transactions. The company intends to use its available cash and, when considered advantageous, borrowings under its revolving credit facility, to fund the share repurchases. The repurchase program will end at the earlier of the date when all the authorized funds have been expended or June 30, 2007, unless extended by the Board of Directors. For the three-month period ended September 30, 2006, the company used \$40.4 million for the repurchase and cancellation of 867,100 common shares, at an average price paid per common share of \$46.57. At September 30, 2006, approximately \$117.5 million was available to repurchase shares of the company's common stock pursuant to the July 2006 authorized stock repurchase program.

In July 2005, the company's Board of Directors authorized the company to use up to \$120.0 million to repurchase shares of its common stock through open market or privately-negotiated transactions. The Board of Directors' authorization for this repurchase program expired on June 30, 2006. From inception of the repurchase program through its conclusion on June 30, 2006, the company used \$112.1 million for the repurchase and cancellation of 2,396,100 common shares, at an average price paid per common share of \$46.79. For the quarter ended September 30, 2005, the company used \$8.7 million for the repurchase and cancellation of 220,000 common shares, at an average price paid per share of \$39.51, under the July 2005 authorized repurchase program.

The following table summarizes the stock repurchase activity for the three months ending September 30, 2006 and the approximate dollar value of shares that may yet be purchased pursuant to the stock repurchase program:

|  | Total Number<br>of Shares<br>Purchased | Average<br>Price Paid<br>Per<br>Share | Total Number of<br>Shares Purchased as<br>Part of Publicly<br>Announced Program | Approximate Dollar<br>Value of Shares that<br>May Yet Be Purchased<br>Under the Program |
|--|--|---------------------------------------|---|---|
| July 1, 2006 - July 31, 2006           | 40,000                                 | \$ 44.55                              | 40,000  | \$ 156,118,148  |
| August 1, 2006 - August 31, 2006       | 502,800                                | 48.32                                 | 502,800   | 131,823,190   |
| September 1, 2006 - September 30, 2006 | 324,300                                | 44.12                                 | 324,300   | 117,516,186   |
| Total                                  | 867,100                                | \$ 46.57                              | 867,100   |   |



**ITEM 3. DEFAULTS UPON SENIOR SECURITIES**

None.

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

The 2006 Annual Meeting of Shareholders of the company was held on July 20, 2006. A total of 54,836,989 of the company's shares were present or represented by proxy at the meeting. This represented more than 91% of the eligible voting shares. At the meeting, the company's shareholders took the following actions:

1. Elected the following three directors for terms to expire at the 2009 Annual Meeting of Shareholders, with votes as indicated opposite each director's name:

| Name                | For        | Withheld  |
|---------------------|------------|-----------|
| Arthur R. Carlson   | 53,512,759 | 1,324,230 |
| Jon C. Madonna      | 53,673,972 | 1,163,016 |
| William C. O Malley | 49,178,427 | 5,658,562 |

The directors whose term of office as a director continued after the meeting are:

Arthur R. Carlson  
 Richard T. du Moulin  
 J. Wayne Leonard  
 Jon C. Madonna  
 Paul W. Murrill  
 William C. O Malley  
 Richard A. Pattarozzi  
 Dean E. Taylor  
 Jack E. Thompson

2. The selection of Deloitte & Touche LLP as the company's independent registered public accounting firm for the fiscal year ending March 31, 2007 was ratified with 54,606,014 votes cast for, 145,658 votes against, and 85,317 abstentions, and 0 non-votes.
3. A proposal to declassify the board was approved with 53,363,527 votes cast for, 1,286,921 votes cast against, 186,540 abstentions, and 0 non-votes.
4. A proposal to approve the 2006 Stock Incentive Plan was approved with 40,912,875 votes cast for, 3,893,412 votes against, 266,163 abstentions, and 9,764,538 non-votes.

**ITEM 5. OTHER INFORMATION**

None.

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**ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K**

- A. At page 34 of this report is the index for those exhibits required to be filed as a part of this report.
- B. The company's report on Form 8-K dated July 7, 2006, reported the company issued a press release announcing that Jeffrey M. Platt has been promoted to the position of Executive Vice President, effective July 1, 2006. The Form 8-K also reported that the company learned that both Institutional Shareholder Services (ISS) and Glass Lewis & Co. recommended that stockholders withhold votes from director nominees William C. O'Malley and Jon C. Madonna.
- C. The company's report on Form 8-K dated July 20, 2006 reported that the company issued a press release announcing that (1) the company's Board of Directors declared a quarterly dividend of \$.15 per share on Tidewater's approximately 56.3 million shares of common stock outstanding which excludes shares held by the Company's grantor stock ownership trust and (2) the company's Board of Directors authorized a new program for the company to spend up to \$157.9 million to repurchase shares of its common stock in open-market or privately-negotiated transactions. The repurchase program will end on the earlier of the date that all authorized funds have been expended or June 30, 2007, unless extended by the Board of Directors.
- D. The company's report on Form 8-K dated July 20, 2006 reported that Dean E. Taylor, Chairman of the Board, President and Chief Executive Officer of Tidewater Inc., delivered a presentation at the 2006 Annual Meeting of Stockholders in New Orleans, Louisiana. The company furnished a slide presentation and transcript to the presentation.
- E. The company's report on Form 8-K dated July 24, 2006 reported the company issued a press release announcing the election of Nicholas J. Sutton to its Board of Directors for a term expiring in July 2007.
- F. The company's report on Form 8-K dated July 27, 2006 reported that the company issued an earnings release announcing its financial results for the quarter ended June 30, 2006.
- G. The company's report on Form 8-K dated July 27, 2006 reported that the company provided a transcript from the company's July 27, 2006 analyst conference call discussing its financial results for the quarter ended June 30, 2006.
- H. The company's report on Form 8-K dated August 11, 2006 reported that the company issued a press release announcing the company entered into a definitive agreement to sell 14 of its offshore tugs for a cash sales price of \$44.8 million which will result in an estimated pre-tax financial gain of approximately \$34 million, or \$22 million after tax.
- I. The company's report on Form 8-K dated August 17, 2006 reported that the company issued a press release announcing the company completed the sale of 10 out of 14 offshore tugs for a total cash price of \$31.5 million. The balance of the four tugs, with a total sales price of \$13.3 million, should close over the next four months as current charter contracts to which the four tugs are subject to expire.
- J. The company's report on Form 8-K dated August 31, 2006 reported that the company issued a press release announcing that Dean Taylor, Chairman, President and Chief Executive Officer and J. Keith Lousteau, Chief Financial Officer, Executive Vice President and Treasurer, will present at the Lehman Brothers CEO Energy Conference in New York on Tuesday, September 5, 2006.
- K. The company's report on Form 8-K dated September 5, 2006 reported that the company furnished a slide presentation to investors at the Lehman Brothers 2006 CEO Energy/Power Conference in New York, NY and a transcript to the presentation at the Lehman Brothers 2006 CEO Energy/Power Conference held in New York, NY.

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- L. The company's report on Form 8-K dated September 21, 2006 reported that the company issued a press release announcing the election of M. Jay Allison to its Board of Directors for a term expiring in July 2007.

**SIGNATURES**

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

TIDEWATER INC.  
(Registrant)

Date: October 25, 2006

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

Date: October 25, 2006

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

Date: October 25, 2006

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

**EXHIBIT INDEX**

**Exhibit**

**Number**

|      |   |
|------|---|
| 15   | Letter re Unaudited Interim Financial Information   |
| 31.1 | Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. |
| 31.2 | Certification of Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. |
| 32.1 | Certification 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. |