

TIDEWATER INC  
Form 10-Q  
July 29, 2009

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

Washington, D.C. 20549

**FORM 10-Q**

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

For the quarterly period ended June 30, 2009

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

**Tidewater Inc.**

(Exact name of registrant as specified in its charter)

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

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

**601 Poydras St., Suite 1900**  
**New Orleans, Louisiana 70130**  
(Address of principal executive offices) (zip code)  
Registrant's telephone number, including area code **(504) 568-1010**

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Not Applicable

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

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

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

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

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

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

51,702,721 shares of Tidewater Inc. common stock \$.10 par value per share were outstanding on July 24, 2009. 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)

|   | June 30,     | March 31, |
|---|--------------|-----------|
|   | 2009         | 2009      |
| <b>ASSETS</b>   |              |           |
| Current assets:   |              |           |
| Cash and cash equivalents   | \$ 314,906   | 250,793   |
| Trade and other receivables, net  | 334,309      | 328,566   |
| Marine operating supplies   | 47,627       | 48,727    |
| Other current assets  | 16,999       | 6,365     |
| Total current assets  | 713,841      | 634,451   |
| Investments in, at equity, and advances to unconsolidated companies   | 41,649       | 37,221    |
| Properties and equipment:   |              |           |
| Vessels and related equipment   | 3,186,468    | 3,238,674 |
| Other properties and equipment  | 81,919       | 81,689    |
|   | 3,268,387    | 3,320,363 |
| Less accumulated depreciation and amortization  | 1,253,558    | 1,307,038 |
| Net properties and equipment  | 2,014,829    | 2,013,325 |
| Goodwill  | 328,754      | 328,754   |
| Other assets  | 81,521       | 60,053    |
| Total assets  | \$ 3,180,594 | 3,073,804 |
| <b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>   |              |           |
| Current liabilities:  |              |           |
| Accounts payable  | 52,800       | 51,530    |
| Accrued expenses  | 129,331      | 111,153   |
| Accrued property and liability losses   | 5,988        | 5,521     |
| Other current liabilities   | 43,202       | 35,146    |
| Total current liabilities   | 231,321      | 203,350   |
| Long-term debt  | 300,000      | 300,000   |
| Deferred income taxes   | 205,473      | 201,200   |
| Accrued property and liability losses   | 12,550       | 8,035     |
| Other liabilities and deferred credits  | 151,186      | 116,541   |
| Commitment and contingencies (Note 6)   |              |           |
| Stockholders' equity:   |              |           |
| Common stock of \$.10 par value, 125,000,000 shares authorized, issued 51,702,721 shares at June and 51,696,245 shares at March | 5,170        | 5,169     |
| Other stockholders' equity  | 2,274,894    | 2,239,509 |
| Total stockholders' equity  | 2,280,064    | 2,244,678 |
| Total liabilities and stockholders' equity  | \$ 3,180,594 | 3,073,804 |

See Notes to Unaudited Condensed Consolidated Financial Statements.

**TIDEWATER INC.****UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF EARNINGS**

(In thousands, except share and per share data)

|   | Three Months Ended<br>June 30, |            |
|---|--------------------------------|------------|
|   | 2009                           | 2008       |
| <b>Revenues:</b>                                      |                                |            |
| Vessel revenues                                       | \$ 310,436                     | 328,371    |
| Other marine revenues                                 | 16,173                         | 11,683     |
|   | 326,609                        | 340,054    |
| <b>Costs and expenses:</b>                            |                                |            |
| Vessel operating costs                                | 153,651                        | 176,728    |
| Costs of other marine revenues                        | 14,700                         | 10,429     |
| Depreciation and amortization                         | 31,649                         | 30,621     |
| General and administrative                            | 34,388                         | 35,108     |
| Provision for Venezuelan operations                   | 48,553                         |            |
| Gain on asset dispositions, net                       | (12,538)                       | (10,387)   |
|   | 270,403                        | 242,499    |
| Operating income                                      | 56,206                         | 97,555     |
| <b>Other income (expenses):</b>                       |                                |            |
| Foreign exchange loss                                 | (2,586)                        | (1,190)    |
| Equity in net earnings of unconsolidated companies    | 5,415                          | 4,196      |
| Interest income and other, net                        | 3,168                          | 1,899      |
| Interest and other debt costs                         | (77)                           | (320)      |
|   | 5,920                          | 4,585      |
| Earnings before income taxes                          | 62,126                         | 102,140    |
| Income taxes  | 17,644                         | 17,364     |
| Net earnings  | \$ 44,482                      | 84,776     |
| Basic earnings per common share                       | \$ 0.87                        | 1.65       |
| Diluted earnings per common share                     | \$ 0.86                        | 1.64       |
| Weighted average common shares outstanding            | 51,362,308                     | 51,519,584 |
| Dilutive effect of stock options and restricted stock | 199,264                        | 295,455    |
| Adjusted weighted average common shares               | 51,561,572                     | 51,815,039 |
| Cash dividends declared per common share              | \$ 0.25                        | 0.25       |

See Notes to Unaudited Condensed Consolidated Financial Statements.

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

(In thousands)

|  | Three Months Ended<br>June 30, |           |
|--|--------------------------------|-----------|
|  | 2009                           | 2008      |
| <b>Operating activities:</b>   |                                |           |
| Net earnings   | \$ 44,482                      | 84,776    |
| <b>Adjustments to reconcile net earnings to net cash provided by operating activities:</b> |                                |           |
| Depreciation and amortization  | 31,649                         | 30,621    |
| Provision for deferred income taxes  | (7,934)                        | (9,874)   |
| Gain on asset dispositions, net  | (12,538)                       | (10,387)  |
| Provision for Venezuelan operations  | 48,553                         |           |
| Equity in earnings of unconsolidated companies, net of dividends                           | (4,428)                        | 1,462     |
| Compensation expense - stock-based   | 2,468                          | 2,945     |
| Excess tax benefit on stock options exercised  | (162)                          | (1,408)   |
| <b>Changes in assets and liabilities, net:</b>   |                                |           |
| Trade and other receivables  | (51,471)                       | (20,373)  |
| Marine operating supplies  | 1,100                          | (1,385)   |
| Other current assets   | (10,634)                       | (7,875)   |
| Accounts payable   | 1,270                          | (1,918)   |
| Accrued expenses   | 17,827                         | 1,751     |
| Accrued property and liability losses  | 467                            | (105)     |
| Other current liabilities  | 7,930                          | 20,043    |
| Other, net   | 1,771                          | 2,724     |
| Net cash provided by operating activities  | 70,350                         | 90,997    |
| <b>Cash flows from investing activities:</b>   |                                |           |
| Proceeds from sales of assets  | 14,615                         | 12,093    |
| Proceeds from sales/leaseback of assets  | 83,275                         |           |
| Additions to properties and equipment  | (92,172)                       | (129,657) |
| Other  |                                | 312       |
| Net cash provided by (used in) investing activities  | 5,718                          | (117,252) |
| <b>Cash flows from financing activities:</b>   |                                |           |
| Principal payments on capitalized lease obligations  |                                | (283)     |
| Proceeds from issuance of common stock   | 815                            | 6,096     |
| Cash dividends   | (12,932)                       | (12,867)  |
| Stock repurchases  |                                | (53,634)  |
| Excess tax benefits on stock options exercised   | 162                            | 1,408     |
| Net cash used in financing activities  | (11,955)                       | (59,280)  |
| Net change in cash and cash equivalents  | 64,113                         | (85,535)  |
| Cash and cash equivalents at beginning of period   | 250,793                        | 270,205   |
| Cash and cash equivalents at end of period   | \$ 314,906                     | 184,670   |
| <b>Supplemental disclosure of cash flow information:</b>                                   |                                |           |
| <b>Cash paid during the period for:</b>  |                                |           |
| Interest   | \$ 131                         | 238       |
| Income taxes   | \$ 15,087                      | 13,706    |

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, 2009, filed with the SEC on May 14, 2009.

The consolidated financial statements include the accounts of Tidewater Inc. and its subsidiaries. Significant intercompany balances and transactions are eliminated in consolidation. The company uses the equity method to account for equity investments over which the company exercises significant influence but does not exercise control and is not the primary beneficiary.

Certain previously reported amounts have been reclassified to conform to the June 30, 2009 presentation.

**(2) Stockholders Equity**

**Common Stock Repurchase Program**

In July 2009, the company's Board of Directors authorized the company to spend up to \$200.0 million to repurchase shares of its common stock in open-market or privately negotiated transactions. A complete discussion of this new authorization is disclosed in the Subsequent Events Footnote 11 on page 13.

The company's Board of Directors had previously authorized the company in July 2008 to repurchase up to \$200.0 million in shares of its common stock in open-market or privately-negotiated transactions. The Board of Directors' authorization for this repurchase program expired on June 30, 2009. Given the credit markets volatility over the past year, the company focused on preserving cash. As a result, no amounts were expended from inception of the July 2008 authorized program through its conclusion on June 30, 2009.

For the three-month period ended June 30, 2008, the company expended \$53.6 million for the repurchase and cancellation of 915,900 common shares, or an average price paid per common share of \$58.56, pursuant to a repurchase program authorized by the Board of Directors in July 2007. The Board of Directors' authorization for this repurchase program expired on June 30, 2008.

**Dividend Program**

The Board of Directors declared dividends of \$12.9 million and \$12.8 million, or \$0.25 per share, for the quarters ended June 30, 2009 and 2008, respectively. The declaration of dividends is at the discretion of the company's Board of Directors.

**(3) Income Taxes**

Income tax expense for interim periods is based on estimates of the effective tax rate for the entire fiscal year. The effective tax rate applicable to pre-tax earnings for the quarters ended June 30, 2009 and 2008 was 28.4% and 17%, respectively. The increase in the effective tax rate during the quarter ended June 30, 2009, as compared to the quarter ended June 30, 2008 is primarily the result of the company's decision to record a provision to fully reserve receivables related to the company's Venezuelan operations as disclosed in Footnote 6.

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The company's balance sheet at June 30, 2009 reflects \$45.8 million of tax liabilities for uncertain tax positions in accordance with Financial Accounting Standards Board (FASB) Interpretation No. 48, *Accounting for Uncertainty in Income Taxes - an Interpretation of FASB Statement No. 109* (FIN 48). The liabilities are

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**TIDEWATER INC.**

**NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

attributable to the IRS disallowance of all claimed deductions from taxable income related to the company's Foreign Sales Corporation and the Extraterritorial Income Exclusion for fiscal years 1999 through 2009, a permanent establishment issue related to a foreign joint venture and a tax audit of a foreign subsidiary. In addition, the company has \$12.9 million of unrecognized tax benefits related to a state tax issue, including interest of \$1.1 million. The unrecognized tax benefits would lower the effective tax rate if realized. Penalties and interest related to income tax liabilities are included in income tax expense.

In January 2008, the U.S. District Court for the Eastern District of Louisiana issued its final ruling in the company's favor with respect to a motion for summary judgment concerning the IRS disallowance of the company's tax deduction for foreign sales corporation commissions for fiscal years 1999 and 2000. In March of 2008, the IRS appealed the verdict to the Fifth Circuit Court of Appeals, which in April of 2009, affirmed the District Court's judgment. The IRS has chosen not to file a petition for review with the United States Supreme Court resulting in resolution of the issue in the company's favor in July 2009. The company will reverse its liability recorded for this issue in the second quarter of fiscal 2010, which includes liabilities recorded for similar deductions taken in years subsequent to fiscal 2000. As of June 30, 2009, the amount of the reserve that will be reversed, including interest, is approximately \$32.6 million.

With limited exceptions, the company is no longer subject to tax audits by state, local or foreign taxing authorities for years prior to 2002. The company has ongoing examinations by various state and foreign tax authorities and does not believe that the results of these examinations will have a material adverse effect on the company's financial position or results of operations although resolution of outstanding audit issues could reduce reported tax expense and the related effective tax rate.

Included in other current liabilities at June 30, 2009, and March 31, 2009, are income taxes payable of \$34.7 million and \$24.8 million, respectively.

**(4) Employee Benefit Plans**

The company has a defined benefit pension plan that covers certain U.S. citizen employees and employees who are permanent residents of the United States. Benefits are based on years of service and employee compensation. The company contributed \$0.5 million and \$0.4 million to the defined benefit pension plan during the quarters ended June 30, 2009 and 2008, respectively, and expects to contribute an additional \$0.5 million to the plan during the remainder of the current fiscal year.

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. Effective December 2008, the supplemental plan was amended to allow participants the option to elect a lump sum benefit in lieu of other payment options currently provided by the plan. As a result of the amendment, certain participants currently receiving monthly benefit payments received lump sum distributions in July 2009 in settlement of the supplemental plan obligation. The aggregate payment to those participants electing the lump sum distribution in July 2009 was \$8.7 million. A settlement loss, which is currently estimated to be \$3.5 million, will be recorded in the second quarter of fiscal 2010.

Included in other assets at June 30, 2009, is \$14.2 million of investments held in a Rabbi Trust for the benefit of participants in the supplemental plan. The trust assets are recorded at fair value as of June 30, 2009, with unrealized gains or losses included in other comprehensive income. The carrying value of the trust assets at June 30, 2009 is after the effect of \$2.1 million of after-tax unrealized losses (\$3.3 million pre-tax), which are included in accumulated other comprehensive income (other stockholders equity). To the extent that trust assets are liquidated to fund benefit payments, gains or losses, if any, will be recognized at that time.

Qualified retired employees currently are covered by a program which provides limited health care and life insurance benefits. Costs of the program are based on actuarially determined amounts and are accrued over the period from the date of hire to the full eligibility date of employees who are expected to qualify for these benefits. The net periodic benefit cost for the company's U.S. defined benefit pension plan and the





**TIDEWATER INC.****NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

supplemental plan (referred to collectively as Pension Benefits ) and the postretirement health care and life insurance plan (referred to collectively as Other Benefits ) is comprised of the following components:

| (In thousands)                     | Quarter Ended |       |
|------------------------------------|---------------|-------|
|                                    | 2009          | 2008  |
| <b><u>Pension Benefits:</u></b>    |               |       |
| Service cost                       | \$ 211        | 265   |
| Interest cost                      | 1,301         | 1,150 |
| Expected return on plan assets     | (576)         | (635) |
| Amortization of prior service cost | 10            | 3     |
| Recognized actuarial loss          | 375           | 400   |
| Net periodic benefit cost          | \$ 1,321      | 1,183 |
| <b><u>Other Benefits:</u></b>      |               |       |
| Service cost                       | \$ 251        | 281   |
| Interest cost                      | 537           | 514   |
| Amortization of prior service cost | (502)         | (496) |