TIDEWATER INC
Form 10-K
May 25, 2007
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

x **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the fiscal year ended March 31, 2007

¨ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXHANGE ACT OF 1934**
For the transition period from ______ to ______.

Commission file number: 1-6311

Tidewater Inc.

(Exact name of registrant as specified in its charter)

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

601 Poydras St., Suite 1900

New Orleans, Louisiana 70130	**70130**
(Address of principal executive offices)	**(Zip Code)**

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

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

Title of each class	**Name of each exchange on which registered**

Common Stock, par value $0.10	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: None

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

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

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

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

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

Large accelerated filer x	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 x

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The aggregate market value of the voting common stock held by non-affiliates of the registrant as of September 30, 2006, was approximately $2,432,237,176 based upon the last sales price reported for such date. Excluded from the calculation of market value are 1,972,658 shares held by the Registrant s grantor stock ownership trust.

56,276,391 shares of Tidewater Inc. common stock $0.10 par value per share were outstanding on April 6, 2007. Excluded from the calculation of shares outstanding at April 6, 2007 are 1,200,507 shares held by the Registrant s grantor stock ownership trust. Registrant has no other class of common stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Proxy Statement for Registrant s 2007 Annual Meeting of Stockholders are incorporated into Part III of this report.

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Forward-looking Information and Cautionary Statement

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

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

PART I

ITEM 1. BUSINESS
General

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

With a fleet of over 463 vessels at March 31, 2007, including 48 stacked vessels, 29 vessels withdrawn from service and 13 vessels operated pursuant to joint venture or other agreements, the company operates in most of the world s significant oil and gas exploration and production markets and provides services supporting all phases of offshore exploration, development and production, including: towing of and anchor handling of mobile drilling rigs and equipment; transporting supplies and personnel necessary to sustain drilling, workover and production activities; assisting in offshore construction activities; and a variety of specialized services including pipe laying, cable laying and 3-D seismic work.

Website Access to Company Reports

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

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any materials the company has filed with the SEC at the SEC s Public Reference Room at 450 Fifth Street, NW, Washington, DC 20549. Information on the operation of the Public Reference Room may be obtained by calling the SEC at 1-800-SEC-0330. The SEC maintains an internet site that contains the company s reports, proxy and information statements, and the company s other SEC filings. The address of that site is www.sec.gov. Information appearing on the company s website is not part of any report filed with the Securities and Exchange Commission.

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

Business Highlights

During fiscal 2007, strong industry fundamentals improved the company s operating performance above fiscal 2006 levels as fiscal 2007 revenues exceeded the one billion dollar mark for only the second time in the 51-year history of the company. The company recorded $1.1 billion in revenues during fiscal 2007, an increase of approximately $247.6 million, or 28%, over the revenue amounts reported during fiscal 2006. Net earnings rose approximately 51%, or $120.9 million, during fiscal 2007 as compared to fiscal 2006. The company s international operations continue to provide the most significant contribution to earnings and, during fiscal 2007, revenues generated from international operations as a percentage of the company s total revenues were 78%.

During the second quarter of fiscal 2007, the company entered into a definitive agreement with Crosby Marine Transportation, LLC to sell 14 of its offshore tugs, of which 12 operated in the United States and two operated internationally. The sale of 11 of the tugs closed in the company s second quarter of fiscal 2007 for a total cash price of $34.8 million. The sale of the other three tugs closed during the third quarter of fiscal 2007 for a total sales price of $8.9 million. The culmination of the entire transaction resulted in an approximate $34.0 million pre-tax financial gain during fiscal 2007, or approximately $20.8 million after-tax ($0.37 per diluted common share after-tax).

An aggressive new-build vessel construction and acquisition program over the past seven years has facilitated the company s entrance into deepwater markets around the world and allowed the company to begin to replace its core fleet with fewer, larger, more technologically sophisticated vessels. During this time the company purchased and/or constructed 31 anchor handling towing supply vessels for approximately $594.2 million, of which 11 are deepwater vessels. In addition, the company entered into two capitalized lease obligations for a total $22.8 million on two newly constructed 5,500 BHP anchor handling towing supply vessels. The company also added 39 platform supply vessels during this time for approximately $620.0 million, of which 23 are deepwater platform supply vessels, 15 are U.S. built replacement vessels (vessels intended to replace the company s core fleet) and one is an international built replacement vessel. During this same seven year period, the company also expanded its crewboat fleet by 49 vessels and increased its other type of vessels by four vessels for an approximate cost of $174.3 million. Twenty-five of the crewboats and other type of vessels were built in the U.S. while 24 were built by international shipyards.

The vessel construction and acquisition program and the expansion program were initiated with the intent of strengthening the company s presence in all major oil and gas producing regions of the world through the replacement of aging vessels in the company s core fleet. In order to avoid potential overcapacity in our markets that could be created through the addition of the vessels discussed above, the company sold, primarily to buyers who operate outside of our industry, 222 vessels and scrapped 63 vessels between April 2000 and March 2007. Most of the vessel sales were at prices that exceeded carrying values.

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To date, the company has funded all of its vessel commitment programs from current cash balances, operating cash flow, and funds provided by its $300 million senior unsecured notes and its revolving credit facility. At March 31, 2007, the company had 35 vessels under construction for a total capital commitment of $520.6 million, of which the company has already expended $147.0 million. A full discussion of the company s capital commitments, scheduled delivery dates and vessel sales is disclosed in the Vessel Construction Programs and Acquisitions and Vessel Dispositions section of Item 7 and Note 10 of Notes to Consolidated Financial Statements.

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, whichever is earlier, unless extended by the Board of Directors. From inception of the July 2006 authorized repurchase program through March 31, 2007, the company expended $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 March 31, 2007, approximately $117.5 million was available to repurchase shares of the company s common stock pursuant to its current stock repurchase program.

During the prior fiscal year, 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, with the program expiring on June 30, 2006. From inception of this 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.

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

The provisions of the American Jobs Creation Act of 2004 (the Act), were effective for the company as of April 1, 2005. As a result of the Act, the company will no longer be liable for U.S. taxes on future undistributed earnings of most non-U.S. subsidiaries and business ventures that it considers indefinitely reinvested abroad. Accordingly, at March 31, 2005, the company reversed all previously recorded deferred tax assets and liabilities related to timing differences, foreign tax credits, or prior undistributed earnings of these entities whose future and prior earnings are now anticipated to be indefinitely reinvested abroad. This resulted in an approximate $31.8 million reduction of income tax expense in the fourth quarter of fiscal 2005.

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

Areas of Operation

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

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

(In thousands)	2007	2006	2005
Revenues:			
Vessel operations:			
United States	$ 229,247	180,374	118,288
International	868,335	666,608	537,238
Other marine services	27,678	30,635	36,624
	$ 1,125,260	877,617	692,150
Operating profit (loss):			
Vessel operations:			
United States	$ 91,465	61,227	2,022
International	320,971	186,044	95,383
Impairment of long-lived assets		(3,050)	(1,733)
Gain on sales of assets	42,787	86,337	11,977
Other marine operations	3,013	6,511	6,623
	$ 458,236	337,069	114,272
Total marine assets:			
United States	$ 591,856	566,707	532,097
International	1,589,350	1,490,083	1,542,996
Total marine assets	$ 2,181,206	2,056,790	2,075,093

A significant portion of the company s operations are conducted internationally. Revenues from international operations as a percentage of the company s total revenues were 78%, 77% and 80% during fiscal 2007, 2006 and 2005, respectively. The company s international marine vessel operations are vulnerable to the usual risks inherent in doing business in countries other than the United States. Such risks include political and economic instability, possible vessel seizures or nationalization of assets and other governmental actions, currency fluctuations and revaluations, and import/export restrictions; all of which are beyond the control of the company. In addition, the ability to recruit and retain management for overseas operations presents a challenge to operating internationally.

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

Marine Vessel Fleet

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

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

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

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

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

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

Revenue Contribution of Main Classes of Vessels

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

	Year Ended March 31,		
	2007	**2006**	**2005**
Deepwater vessels	23.8%	22.4%	22.3%
Towing-supply/supply	58.6%	58.5%	57.7%
Crew/utility	10.7%	10.9%	10.7%
Offshore tugs	6.5%	7.8%	8.8%
Other	0.4%	0.4%	0.5%

Shipyard Operations

Quality Shipyards, LLC, a wholly-owned subsidiary of the company, operates two shipyards in Houma, Louisiana, which construct, modify and repair vessels. The shipyard performs work for outside customers, as well as the construction, repair and modification of the company s own vessels. During the last three fiscal years, Quality Shipyards, LLC constructed and delivered two 220-foot platform supply vessels and is currently constructing two additional 220-foot platform supply vessels for the company. One of the supply vessels was delivered during fiscal 2006 while the second vessel was delivered during fiscal 2007. The two 220-foot platform supply vessels currently under construction are expected to be delivered during fiscal 2008.

Safety and Risk Management

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

The operation of any marine vessel involves an inherent risk of catastrophic marine disaster, adverse weather conditions, mechanical failure, collisions, and property losses to the vessel and business

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interruption due to political action in countries other than the United States. Any such event may result in a reduction in revenues or increased costs. The company s vessels are insured for their estimated market value against damage or loss, including war, terrorism acts, and pollution risks. The company also carries workers compensation, maritime employer s liability, directors and officers liability, general liability (including third party pollution) and other insurance customary in the industry.

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

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

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

Industry Conditions, Competition and Customers

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

The principal competitive factors for the offshore vessel service industry are suitability and availability of equipment, price and quality of service. The company has numerous competitors in virtually all areas around the world in which it operates, so the business environment is highly competitive.

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

The worldwide offshore marine vessel market faces a potential risk of overcapacity. An estimated 548 new-build vessels are expected to be delivered to the worldwide offshore vessel market within the next five years (excluding the number of vessels currently being constructed by the company) as reported by ODS-Petrodata. An increase in vessel capacity would result in increased competition in the industry which may have the effect of lowering charter rates which, in turn, would result in lower revenues to the company. However, the worldwide offshore marine vessel industry has a large portfolio of aging vessels whose collective ages are nearing or exceeding the estimated economic life of the respective vessels. These older vessels could potentially retire from the market within the next few years if the cost of extending the vessels economic life is not economically justifiable. Although the attrition rate of these aging vessels is unknown, a reduction in worldwide vessel capacity may negate the potential effects the offshore marine industry may encounter when the new-build vessels begin being delivered to the market. Additionally, during the same period, over 150 new drilling and production support units will be added to the worldwide drilling and

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production support vessel fleet, that may, in turn, if fully utilized, create additional demand and minimize the effects of 548 new-build vessels being added to the offshore support vessel fleet.

The company s principal customers are major oil and natural gas exploration, development and production companies, foreign government-owned or controlled organizations and companies that explore and produce oil and natural gas, and companies that provide other services to the offshore energy industry. Over the last several years, consolidation of exploration, development and production companies has occurred which has, and will continue to have, an impact on the company s global operations. Although Chevron Corporation (including its worldwide subsidiaries and affiliates) accounted for approximately 15% and Petroleo Brasileiro SA accounted for approximately 10% of revenues during the year ended March 31, 2007, the five largest customers accounted for approximately 43% of the company s revenues. The company does not consider its operations dependent on any single customer.

Regulatory Matters

The company is subject to various statutes and regulations governing the operation and maintenance of its vessels. Under the citizenship provisions of the Merchant Marine Act of 1920 and the Shipping Act, 1916, the company would not be permitted to engage in U.S. coastwise trade if more than 25% of the company s outstanding stock were owned by non-U.S. citizens. The company has a dual stock certificate system to protect against non-U.S. citizens owning more than 25% of its common stock. In addition, the company s charter provides the company with certain remedies with respect to any transfer or purported transfer of shares of the company s common stock that would result in the ownership by non-U.S. citizens of more than 24% of its common stock. Based on information supplied to the company by its transfer agent, approximately 11% of the company s outstanding common stock was owned by non-U.S. citizens as of March 31, 2007.

The company s vessels are subject to various statutes and regulations governing their operation. The laws of the United States require that vessels engaged in U.S. coastwise trade must be built in the U.S. In addition, once a U.S.-built vessel is registered under a non-U.S. flag, it cannot thereafter engage in U.S. coastwise trade. Therefore, the company s non-U.S. flag vessels must operate outside of U.S. territorial waters, and if the company is not able to secure adequate numbers of charters abroad for such vessels, even if work would otherwise have been available for such vessels in the United States, the company s financial performance could be affected. However, it is the company s significant international presence that is driving its revenues and earnings. Of the total 463 vessels owned or operated by the company at March 31, 2007, 325 vessels were registered under flags other than the United States and 138 vessels were registered under the U.S. flag.

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

Seasonality

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

Environmental Compliance

During the ordinary course of business the company s operations are subject to a wide variety of environmental laws and regulations. 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

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accidents occur. In addition, the company has established operating policies that are intended to increase awareness of actions that may harm the environment.

Employees

As of March 31, 2007, the company had approximately 8,000 employees worldwide. The company considers relations with its employees to be satisfactory. The company is not a party to any union contract in the United States but through several subsidiaries is a party to union agreements covering local nationals in several countries other than the United States. For the past few years, the company has been a target of a union organizing campaign for the U.S. Gulf of Mexico employees by maritime labor unions. These union organizing efforts have recently abated, although the threat has not been completely eliminated. If the Gulf employees were to unionize, the company s flexibility in managing industry changes in the domestic market could be adversely affected.

Internal Investigation

In April 2007, the company announced that it was conducting an internal investigation of its Nigerian operations, focusing on the legality, under the U.S. Foreign Corrupt Practices Act (FCPA) and local laws, of its Nigerian affiliate s reimbursement of certain expenses incurred by a customs agent in connection with the temporary importation of its vessels into Nigeria, particularly the obtaining of certain permits that are necessary for the company s vessels to operate in Nigerian offshore waters. The company further announced that the Audit Committee of the company s Board of Directors had engaged the law firm of Steptoe & Johnson of Washington, D.C., a leading international law firm with significant experience in investigating and advising upon FCPA matters, to lead the investigation.

The Audit Committee commissioned the internal investigation in late February 2007 after management brought to its attention a settlement earlier that month of well-publicized criminal FCPA proceedings (the second in recent years) involving Vetco Gray Controls, a Houston-based oil service company with substantial operations in Nigeria. Tidewater s management and the Audit Committee were concerned that the company s Nigerian affiliate used the same third-party agent to process its temporary importation permits in Nigeria that was thought to be significantly implicated in the 2007 Vetco Gray proceedings. Given that the company uses the same third-party agent in other countries where its vessel are deployed, the Audit Committee also commissioned special counsel to assess the company s compliance with the FCPA in those selected other countries.

Although the internal investigation is ongoing, enough progress has been made and reported to the Audit Committee by special counsel for the company to conclude that certain changes to its FCPA compliance program would provide the company greater assurance that its assets are not used, directly, or through an intermediary, to make improper payments, including in the areas of customs and immigration, and to also assure that the company is in compliance with the FCPA s record-keeping requirements. Although the company has had a long term published policy requiring compliance with the FCPA, and broadly prohibiting any improper payments by the company to foreign or domestic officials, the company is in the process of adopting intermediate measures intended to minimize the possibility of FCPA violations while the internal investigation is ongoing, although additional measures may be required once the final report has been rendered to the Audit Committee.

The company has voluntarily contacted the Securities and Exchange Commission and the United States Department of Justice to advise both agencies that an internal investigation is underway and that it will cooperate fully with both agencies. The company is unable to predict whether either agency will open a proceeding to separately investigate this matter, or, if a proceeding is opened, what potential remedies, if any, these agencies may seek. In addition, although management will seek to avoid material disruption to its Nigerian operations, the company cannot gauge at this time the long-term effects of implementing the necessary corrective measures on its business in Nigeria. Based on the information obtained to date in the investigation, the company does not believe that any potential liability that may result is either probable or reasonably estimable, and, thus, no accrual has been recorded as of March 31, 2007. Should additional information be obtained the company will record a provision when the amount is both probable and reasonably estimable.

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ITEM 1A. RISK FACTORS

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

Oil and Gas Prices Are Highly Volatile

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

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

Changes in the Level of Capital Spending by Our Customers

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

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

The Offshore Marine Service Industry is Highly Competitive

The company operates in a highly competitive environment. Competitive factors include price and quality of service by vessel operators and the quality and availability of vessels. Decreases in the level of offshore drilling and development activity by the energy industry generally negatively affect the demand for the company s vessels thereby exerting downward pressure on day rates. Extended periods of low vessel demand and/or low day rates will reduce the company s revenues.

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

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Failure to Attract and Retain Key Management and Technical Personnel

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

Risks Associated with Operating Internationally

For the fiscal years ended March 31, 2007, 2006 and 2005, 78%, 77%, and 80%, respectively, of the company s total revenues were generated by international operations. The company s international vessel operations are vulnerable to the usual risks inherent in doing business in countries other than the United States. Such risks include political and economic instability, possible vessel seizures or nationalization of assets and other governmental actions, the ability to recruit and retain management of overseas operations, currency fluctuations and revaluations, and import/export restrictions; all of which are beyond the control of the company.

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

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

Operational Risks Inherent to the Offshore Marine Industry

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

Potential Overcapacity in the Offshore Marine Industry

The worldwide offshore marine vessel market faces a potential risk of overcapacity. An estimated 548 new-build vessels are expected to be delivered to the worldwide offshore vessel market within the next five years (excluding the number of vessels currently being constructed by the company) as reported by ODS-Petrodata. An increase in vessel capacity would result in increased competition in the industry which may have the effect of lowering charter rates which in turn would result in lower revenues to the company. However, the worldwide offshore marine vessel industry has a large portfolio of aging vessels whose collective ages are nearing or exceeding the estimated economic life of the respective vessels. These older vessels could potentially retire from the market within the next few years if the cost of extending the vessels economic life is not economically justifiable. Although the attrition rate of these aging vessels is unknown, a reduction in worldwide vessel capacity may negate the potential effects the offshore marine industry may encounter when the new-build vessels begin being delivered to the market. Additionally, during the same period, over 150 new drilling and production support units will be added to the worldwide drilling and production support vessel fleet, that may, in turn, if fully utilized, create additional demand and minimize the effects of 548 new-build vessels being added to the offshore support vessel fleet.

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ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

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

ITEM 3. LEGAL PROCEEDINGS

Tidewater Inc. (the company) and its chief financial officer, J. Keith Lousteau, have submitted to the Securities and Exchange Commission an offer of settlement which, if accepted by the Commission, would bring to a conclusion the previously disclosed informal inquiry by the Miami office of the Commission into an approximate $26.5 million impairment charge recognized by the company at the end of its 2004 fiscal year.

The offer of settlement submitted to the Commission includes a draft cease and desist order that has been negotiated between the company, Mr. Lousteau, and the enforcement staff of the Miami office. If the offer of settlement is accepted by the Commission and the cease and desist order is entered, the company will be found by the Commission, for certain reporting periods preceding the fiscal year ended March 31, 2004, not to have (i) performed proper impairment analysis on certain of its supply vessels in the Gulf of Mexico, (ii) reviewed properly its depreciation estimates related to such vessels, (iii) disclosed fully and accurately in certain of its public filings the inactive status of certain of the vessels, or (iv) maintained adequate internal controls to assure a proper impairment analysis of its Gulf of Mexico fleets. By reason of the foregoing findings, the order would cite the company for violating Sections 13(a) and 13(b)(2)(B) of the Exchange Act and Rules 12b-20, 13a-1 and 13a-13 thereunder, and Mr. Lousteau would be cited for causing the company to violate the foregoing statutes and regulations. The order would also cite Mr. Lousteau for improperly signing Sarbanes-Oxley civil certifications for the fiscal year ended March 31, 2003 and for fiscal quarters beginning with the quarter ended September 30, 2002 and ending December 31, 2003. Neither the company nor Mr. Lousteau will admit nor deny the findings of the Commission under the order; however, the order would require the company and Mr. Lousteau to cease and desist from committing or causing any current or future violation of the foregoing statutes and regulations. In January 2005, while the informal inquiry of the Commission was ongoing, the company adopted new asset impairment review policies.

If entered in the form submitted in the offer of settlement, the cease and desist order would not require the company to restate any of its historical financial statements, pay any fines or penalties, impose any other sanctions on the company or Mr. Lousteau, or impose any prospective or forward-looking compliance or supervisory measures on the company.

Various legal proceedings and claims are outstanding which arose in the ordinary course of business. In the opinion of management, the amount of ultimate liability, if any, with respect to these actions will not have a material adverse effect on the company s financial position, results of operations, or cash flows.

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

There were no matters submitted to a vote of security holders during the fourth quarter of fiscal 2007.

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PART II

ITEM 5. MARKET FOR THE REGISTRANT S COMMON STOCK AND RELATED STOCKHOLDER MATTERS

Common Stock Market Prices and Dividends

The company s common stock is traded on the New York Stock Exchange under the symbol TDW. At March 31, 2007, there were approximately 1,052 record holders of the company s common stock, based upon the record holder list maintained by the company s stock transfer agent. The following table sets forth the high and low closing sale prices of the company s common stock as reported on the New York Stock Exchange Composite Tape and the amount of cash dividends per share declared on Tidewater common stock for the periods indicated.

Fiscal Year	Quarter	High	Low	Dividend
2007	First	$ 62.50	$ 41.81	$ .15
	Second	51.26	41.68	.15
	Third	55.69	40.06	.15
	Fourth	59.85	43.27	.15
2006	First	$ 40.23	$ 31.85	$ .15
	Second	49.77	37.09	.15
	Third	49.24	41.00	.15
	Fourth	59.17	44.90	.15

Performance Graph

The following graph compares the change in the cumulative total stockholder return on the company s common stock with the cumulative total return of the Standard & Poor s 500 Stock Index and the cumulative total return of the Value Line Oilfield Services Group Index over the last five fiscal years. The analysis assumes the investment of $100 on April 1, 2002, at closing prices on March 31, 2002, and the reinvestment of dividends. The Value Line Oilfield Services Group consists of 21 companies.

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Indexed Returns

Years ended March 31

Company name/Index	2002	2003	2004	2005	2006	2007
Tidewater Inc.	100	69.15	69.09	97.20	140.03	150.21
S&P 500	100	75.24	101.67	108.47	121.19	135.53
Peer Group	100	77.78	106.95	141.86	226.35	230.42

The above graph is being furnished pursuant to the Securities and Exchange Commission rules. It will not be incorporated by reference into any filing under the Securities Act of 1933 or the Securities Exchange Act of 1934, except to the extent that the company specifically incorporates it by reference.

Issuer Repurchases of Equity Securities

In July 2006, the company s Board of Directors authorized a 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, whichever is earlier, unless extended by the Board of Directors. Due to the fact that certain potential transactions were under consideration by the company, no shares of its common stock were repurchased during the quarter ended March 31, 2007. From inception of the July 2006 authorized repurchase program through March 31, 2007, 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 March 31, 2007, approximately $117.5 million was available to repurchase shares of the company s common stock pursuant to its current 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 July 2005 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. As of March 31, 2006, the company spent $20.8 million for the repurchase and cancellation of 455,000 common shares, or an average price paid per common share of $45.64. At March 31, 2006, approximately $99.2 million was available to repurchase shares of the company s common stock pursuant to the July 2005 stock repurchase program.

The following table summarizes the stock repurchase activity for the fiscal year ended March 31, 2007 and the average price paid per share:

Period	Total number of shares purchased	Average price paid per share
April 1, 2006 June 30, 2007	1,941,100	$ 47.06
July 1, 2006 September 30, 2007	867,100	$ 46.57
October 1, 2006 December 31, 2006		
January 1, 2007 March 31, 2007		

Securities Authorized for Issuance under Equity Compensation Plans

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

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ITEM 6. SELECTED FINANCIAL DATA

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

Years Ended March 31

(In thousands, except ratio and per share amounts)	2007 (A)	2006 (B)	2005 (C)	2004 (D)	2003
Statement of Earnings Data :					
Revenues:					
Vessel revenues	$ 1,097,582	846,982	655,526	625,948	624,555
Other marine revenues	27,678	30,635	36,624	26,682	11,268
	$ 1,125,260	877,617	692,150	652,630	635,823
Net earnings	$ 356,646	235,756	101,339	41,662	88,630
Basic earnings per common share	$ 6.38	4.11	1.78	.74	1.57
Diluted earnings per common share	$ 6.31	4.07	1.78	.73	1.57
Cash dividends declared percommon share	$ .60	.60	.60	.60	.60
Balance Sheet Data (at end of period):					
Cash and cash equivalents	$ 393,806	246,109	15,376	17,636	17,767
Total assets	$ 2,649,298	2,364,540	2,213,173	2,081,790	1,849,578
Long-term debt	$ 300,000	300,000	380,000	325,000	139,000
Capitalized lease obligations	$ 19,712				
Stockholders equity	$ 1,886,010	1,659,121	1,442,702	1,366,110	1,351,395
Working capital	$ 584,869	413,289	133,643	152,585	141,225
Current ratio	4.98	4.57	2.42	3.12	2.95
Cash Flow Data:					
Net cash provided by operating activities	$ 435,095	297,378	160,062	129,049	202,000
Net cash provided by (used in) investing activities	$ (151,156)	53,208	(189,125)	(285,429)	(255,931)
Net cash (used in) provided by financing activities	$ (136,242)	(119,853)	26,803	156,249	59,816

(A) During fiscal 2007, the company sold 14 offshore tugs for a cash price of $43.7 million resulting in a $34.0 million pre-tax financial gain or approximately $20.8 million after-tax, or $0.37 per diluted common share.

(B) In July 2005, the company sold six KMAR 404 class of anchor handling towing supply vessels for a cash price of $188.0 million resulting in a $65.9 million pre-tax financial gain or approximately $42.8 million after-tax, or $0.74 per diluted common share.

(C) In March 2005, the company recorded a tax benefit of $31.8 million ($0.56 per share) to reverse previously recorded deferred tax assets and liabilities no longer required as a result of the American Jobs Creation Act of 2004 (for a full discussion see Note 3 of Notes to Consolidated Financial Statements).

(D) In March 2004, the company recorded a non-cash asset impairment charge of $26.5 million ($17.2 million after-tax, or $0.30 per share) on 83 older Gulf of Mexico supply vessels.

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ITEM 7. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Forward-looking Information and Cautionary Statement

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

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

Executive Summary and Overview

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

Strong industry fundamentals during fiscal 2007 improved the company s operating performance above fiscal 2006 levels as fiscal 2007 revenues exceeded the one billion dollar mark for only the second time in the 51-year history of the company. The company recorded $1.1 billion in revenues during fiscal 2007, an increase of approximately $247.6 million, or 28%, over the revenue amounts reported during fiscal 2006. Net earnings rose approximately 51%, or $120.9 million, during fiscal 2007 as compared to fiscal 2006. The company s international operations continue to provide the most significant contribution to earnings and, during fiscal 2007, revenues generated from international operations as a percentage of the company s total revenues were 78%.

The company s international results of operations are primarily dependent on the demand and supply relationship for crude oil. During fiscal 2007, international-based revenues and operating profit increased approximately $201.7 million and $134.9 million, or 30% and 73%, respectively, as compared to fiscal 2006 due to strong worldwide demand for oil and gas and an improved operating environment which resulted in an escalation of vessel dayrates. Higher fiscal 2007 international-based vessel revenues were partially offset by higher operating costs and depreciation expense. Fiscal 2007 s international-based operating costs

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increased approximately 15% from fiscal 2006 levels due primarily to higher crewing costs and repair and maintenance costs.

The company s United States results of operations are primarily dependent on the demand and supply relationship for natural gas. The company s U.S.-based revenues and operating profit increased approximately $48.9 million and $30.2 million, or 27% and 49%, respectively, during fiscal 2007 as compared to fiscal 2006 due to higher average day rates on all vessel classes operating in the U.S. market. Average day rates were propelled by strong demand for offshore supply vessels during calendar years 2004 through 2006 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 and due to the extensive damage caused to the energy infrastructure in the oil producing areas of the U.S. Gulf Coast by Hurricanes Katrina and Rita in late August and September 2005. The offshore vessel market tightened as exploration and production (E&P) companies competed to find available vessels for the necessary repair work resulting from the damage caused by the storms which propelled charter rates past levels achieved in the 1997 and 2001 industry upturns.

As the necessary repair work in the U.S. Gulf of Mexico nears completion, the number of available drilling rigs in the U.S. market should be the primary driver of the company s future profitability in the U.S. market. The strength of the international drilling market has attracted offshore rigs from the U.S. market over the past few years. Over the longer term, the company s U.S.-based fleet should be influenced more by the active Gulf of Mexico rig count than by any other single outside influence, although the number of available vessels of competitor companies will also have a significant effect.

During the second quarter of fiscal 2007, the company entered into a definitive agreement with Crosby Marine Transportation, LLC to sell 14 of its offshore tugs, of which 12 operated in the United States and two operated internationally. The sale of 11 of the tugs closed in the company s second quarter of fiscal 2007 for a total cash price of $34.8 million. The sale of the other three tugs closed during the third quarter of fiscal 2007 for a total sales price of $8.9 million. The culmination of the entire transaction resulted in an approximate $34.0 million pre-tax financial gain during fiscal 2007, or approximately $20.8 million after-tax ($0.37 per diluted common share after-tax). The company also sold and/or scrapped an additional 52 vessels which resulted in additional gains on sales of assets of approximately $9.2 million during fiscal 2007.

Fiscal 2007 witnessed the delivery of eight newly-constructed vessels, which consisted of five anchor handling towing supply vessels, one platform supply vessel and two crewboats. The newly built anchor handlers and the platform supply vessels expanded the company s core vessel fleet. To date, the company has funded all of its vessel commitment programs from current cash balances, operating cash flow, and funds provided by its $300 million senior unsecured notes and its revolving credit facility.

Key Focus for Fiscal 2007 and Outlook

During fiscal 2007, the company continued its focus on growing its international markets, improving its domestic profitability, and regenerating its vessel fleet in order to generate future earnings capacity. The company is effectively utilizing its strong cash position to grow the industry s largest new fleet of vessels and also fund common stock repurchases when appropriate. In the company s operating business, management focused on improving dayrates and utilization, maintaining disciplined cost control in the sourcing of critical supplies and services, and continuing to improve its industry-leading safety record. Fiscal 2007 was a year of strong financial performance with solid improvements in revenue, operating profit and earnings per share, all building the foundation for long-term growth.

Given the progress the company has made in executing its strategies, the company is poised to continue to grow organically and, given the right opportunity, to grow through targeted and disciplined acquisitions. The company will continue to pursue its long-term growth strategies on a disciplined basis. The company has targeted two additional dimensions within its strategic initiatives to include (1) assessing opportunities for its older fleet; and (2) targeted acquisitions. In each case, the company will carefully consider whether proposed transactions have the appropriate risk/reward profile. These areas of opportunity have a common

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theme which is to leverage the company s existing strengths and capitalize on favorable market conditions to improve operating profit, earnings per share and cash flows.

Vessel Construction Programs and Acquisitions

Current Commitments

As of March 31, 2007, the company is constructing 19 anchor handling towing supply vessels, varying in size from 5,000 brake horsepower (BHP), to 13,600 BHP for a total commitment cost of approximately $322.2 million. Five different international shipyards are constructing the vessels. Two of the anchor handling towing supply vessels are large deepwater class vessels. Scheduled deliveries for the 19 vessels begin in August 2007, with the last vessel scheduled for delivery in August 2009. As of March 31, 2007, $80.7 million has been expended on the vessels.

The company is also committed to enter into two bareboat charter agreements on two anchor handling towing supply vessels that are currently under construction. The bareboat charter agreements will each have a purchase option allowing the company to purchase the vessels for $17.2 million each at specific times during the lease term. One of the anchor handling towing supply vessels was delivered in April 2007. Scheduled delivery for the second anchor handling towing supply vessel is expected in October 2007.

The company is also committed to the construction of two 220-foot, two 230-foot and three 250-foot platform supply vessels for a total cost of approximately $103.2 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. An international shipyard is constructing the two 230-foot vessels. Scheduled delivery of the two 220-foot vessels is expected in October 2007 and February 2008, while the three 250-foot vessels, which will be considered deepwater class vessels, are expected to be delivered in June, August and December of 2007. The two 230-foot vessels are scheduled for delivery in September and November of 2008. As of March 31, 2007, $49.9 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 three tugboats for an aggregate cost of approximately $32.1 million. A U.S. shipyard is constructing the 175-foot crewboats, while three international shipyards are each constructing one tugboat. Scheduled delivery for the two 175-foot crewboats is expected in October 2007. One tugboat was delivered in early May 2007 while a second tugboat is expected to be delivered in the latter part of May 2007. The third tugboat is expected to be delivered in July 2007. As of March 31, 2007, $11.2 million has been expended on these five vessels.

The company is also committed to enter into two bareboat charter agreements for two offshore tug vessels that are currently under construction. The bareboat charter agreements will each have a purchase option allowing the company to purchase the vessels for $14.3 million each at specific times during the lease term. Scheduled delivery for the two offshore tugs is expected in June and August of 2009.

The company has also contracted for the construction of a new corporate aircraft for a total approximate cost of $28.7 million. As of March 31, 2007, $17.2 million has been expended, and the airplane was available for use in May of 2007.

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Vessel Commitments Summary at March 31, 2007

The table below summarizes the various vessel commitments by vessel class and type as of March 31, 2007:

	U. S. Built			International Built		
		Total			Total	
Vessel class and type	Number of Vessels	Cost Commitment	Expended Through 3/31/07	Number of Vessels	Cost Commitment	Expended Through 3/31/07
		(In thousands)			(In thousands)	
Deepwater vessels:						
Anchor handling towing supply				2	$ 54,227	$ 5,090
Platform supply vessels	3	$ 52,584	$ 34,157			
Replacement fleet:						
Anchor handling towing supply				19	$ 302,453	$ 75,597
Platform supply vessels	2	$ 27,049	$ 11,405	2	$ 23,575	$ 4,332
Crewboats and offshore tugs:						
Crewboats 175-foot	2	$ 15,142	$ 2,491			
Offshore tugs				5	$ 45,565	$ 13,928
Totals	7	$ 94,775	$ 48,053	28	$ 425,820	$ 98,947

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

	Quarter Period Ended					
Vessel class and type	6/07	9/07	12/07	03/08	6/08	Thereafter
Deepwater vessels:						
Anchor handling towing supply						2
Platform supply vessels		2	1			
Replacement Fleet:						
Anchor handling towing supply	1	3	4	4	1	6
Platform supply vessels			1	1		2
Crewboats and offshore tugs:						
Crewboats 175-foot			2			
Offshore tugs	3					2
Totals	4	5	8	5	1	12

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 core group of older vessels, its supply and towing supply vessels, were constructed between 1976 and 1983. As such, most of this vessel class exceeds 24 years of age and may be replaced within the next several years depending on the strength of the market during this time frame. 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 aging vessels in the core international fleet with fewer, larger and more efficient vessels. The company believes that adequate capital resources and liquidity will be available to fund the continuation of fleet replacement.

Subsequent to March 31, 2007, the company committed to the construction of ten additional vessels for a total cost of approximately $166.6 million. Two of the vessels are large, anchor handling towing supply vessels while another two vessels are large platform supply vessels. All four of these vessels are capable of working in most deepwater regions of the world. The remaining six vessels comprise of four 230-foot platform supply vessels and two 175-foot crewboats. The vessels are expected to be delivered to the market beginning in April 2009 with delivery of the last vessel in December 2009.

Fiscal 2007 Vessel Deliveries and Acquisitions

During fiscal 2007, three anchor handling towing supply vessels were delivered to the company that vary in size from 6,500 to 8,000 BHP. The vessels were delivered by two different international shipyards for a total approximate cost of $54.3 million.

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The company entered into two capitalized lease obligations during fiscal 2007 for a total $22.8 million and accordingly increased its anchor handling towing supply vessel count by two vessels. Both vessels have a BHP of 5,500 and were built by international shipyards.

The company also delivered to the market one 220-foot, platform supply vessel for approximately $12.4 million. The company s shipyard, Quality Shipyard, LLC, constructed the vessel which is capable of working in domestic and international markets.

During fiscal 2007, the company delivered to the market one 175-foot, state-of-the-art, fast, crew/supply boat from a U.S. shipyard and one water jet crewboat from a shipyard in Holland for an approximate total cost of $8.2 million. The company also acquired four used crewboats from Provident Marine Ltd., a 49%-owned joint-venture, due to the dissolution of the joint venture during fiscal 2007.

Fiscal 2006 Vessel Deliveries and Acquisitions

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

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

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

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

Fiscal 2005 Vessel Deliveries and Acquisitions

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

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

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Vessel Deliveries and Acquisitions Summary

The table below summarizes the number of vessels that have been added to the company s fleet during fiscal 2007, 2006 and 2005 by vessel class and vessel type:

	Number of vessels added		
Vessel class and type	**2007**	**2006**	**2005**
Deepwater vessels:			
Anchor handling towing supply		3	2
Platform supply vessels			
Replacement fleet:			
Anchor handling towing supply	5	7	8
Platform supply vessels	1	1	2
Crew/utility:			
Crewboats (A)	6	7	4
Offshore tugs			
Total number of vessels added to the fleet	12	18	16

(A) Included in the fiscal 2007 crewboats count are four used crewboats acquired from Provident Marine Ltd, a 49% owned joint-venture, due to the dissolution of the joint venture during fiscal 2007.

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 with changes in revenue. 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 expected marketability. If the required drydocking is not performed, the vessel is either stacked or sold as it cannot work without the proper certifications.

The following table compares revenues and operating expenses (excluding general and administrative expenses and depreciation expense) for the company s vessel fleet for the years ended March 31. Vessel revenues and operating costs relate to vessels owned and operated by the company, while other marine services relate to third-party activities of the company s shipyards, brokered vessels and other miscellaneous marine-related activities.

(In thousands)	**2007**	**2006**	**2005**
Revenues (A):			
Vessel revenues:			
United States	$ 229,247	180,374	118,288
International	868,335	666,608	537,238
	1,097,582	846,982	655,526
Other marine revenues	27,678	30,635	36,624
Total revenues	$ 1,125,260	877,617	692,150

Operating costs:			
Vessel operating costs:			
Crew costs	$ 273,996	243,584	226,653
Repair and maintenance	98,212	76,058	70,519
Insurance	12,377	15,820	18,568
Fuel, lube and supplies	44,600	39,617	40,329
Vessel operating leases	1,486	23	
Other	67,140	56,379	45,802
	497,811	431,481	401,871
Costs of other marine revenues	24,119	23,836	29,453
Total operating costs	$ 521,930	455,317	431,324

(A) For fiscal 2007, 2006 and 2005, Chevron Corporation (including its worldwide subsidiaries and affiliates) accounted for 14.8%, 15.0% and 13.2%, respectively, of revenues while Petroleo Brasileiro SA accounted for 10.2% of revenue during fiscal 2007 and 2005.

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The following table subdivides vessel operating costs presented above by the company s United States and International segments for the fiscal years ended March 31.

(In thousands)	2007	2006	2005
United States operating costs:			
Vessel operating costs:			
Crew costs	$ 65,225	57,939	51,102
Repair and maintenance	18,005	14,730	14,299
Insurance	7,455	6,333	11,288
Fuel, lube and supplies	4,257	4,643	5,614
Vessel operating leases	564	23	
Other	7,041	4,574	2,952
	102,547	88,242	85,255
International operating costs:			
Vessel operating costs:			
Crew costs	$ 208,771	185,645	175,551
Repair and maintenance	80,207	61,328	56,220
Insurance	4,922	9,487	7,280
Fuel, lube and supplies	40,343	34,974	34,715
Vessel operating leases	922		
Other	60,099	51,805	42,850
	395,264	343,239	316,616
Total operating costs	$ 497,811	431,481	401,871

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

(In thousands)	2007	2006	2005
Vessel activity:			
United States	$ 91,465	61,227	2,022
International	320,971	186,044	95,383
	412,436	247,271	97,405
Impairment of long-lived assets		(3,050)	(1,733)
Gain on sales of assets	42,787	86,337	11,977
Other marine services	3,013	6,511	6,623
Operating profit	458,236	337,069	114,272
Other income	27,468	16,797	7,589
Corporate expenses	(25,212)	(21,280)	(15,179)
Interest and other debt costs	(9,657)	(9,074)	(6,887)
Earnings before income taxes	$ 450,835	323,512	99,795

As a result of the uncertainty of a certain customer to make payment of vessel charter hire, the company has deferred the recognition of approximately $5.3 million of billings as of March 31, 2007, $6.1 million of billings as of March 31, 2006 and $1.6 million of billings as of

March 31, 2005 which would otherwise have been recognized as revenue. The company will recognize the amounts as revenue as cash is collected or at such time as the uncertainty has been resolved.

<u>Comparison of Fiscal 2007 to Fiscal 2006</u>

Fiscal 2007 Market Conditions

Strong industry fundamentals improved the company s operating performance above fiscal 2006 levels as fiscal 2007 revenues exceeded the one billion dollar mark for only the second time in the 51-year history of the company. The company recorded $1.1 billion in revenues during fiscal 2007, an increase of approximately $247.6 million, or 28%, over the revenue amounts reported during fiscal 2006. Net earnings rose approximately 51%, or $120.9 million, during fiscal 2007 as compared to fiscal 2006. A significant portion of the company s operations are conducted internationally. During fiscal 2007, revenues generated from international operations as a percentage of the company s total revenues were 78%. The company s revenues generated by vessels working internationally increased approximately 30%, or $201.7 million, during fiscal 2007 as compared to fiscal 2006 while revenues generated by vessels working in the United States increased $48.9 million, or approximately 27%, during the same comparative period.

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Higher average day rates and utilization on all vessel classes operating internationally are the cause of the strength of the company s international-based results of operations during fiscal 2007. Average day rates for the total international-based fleet increased approximately 17% during fiscal 2007 as compared to fiscal 2006 while utilization for the entire international-based fleet increased approximately 10% during the same comparative period. The company s international results of operations have been primarily dependent on the supply and demand relationship for crude oil. Crude oil prices were quite volatile during fiscal 2007 but remained in a range of prices that were consistently attractive to the E&P companies. By the end of March 2007, crude oil prices were in the low $60 s (after reaching an all time closing high of $77 in mid-July 2006) due to the Organization of Petroleum Exporting Countries (OPEC) commitment to maintain the $60 price floor by deciding in November 2006 to cut oil production by one million barrels per day. Analysts forecast that global demand for crude oil will likely remain strong throughout calendar year 2007 and expect future crude oil prices to remain at attractive levels due to high worldwide consumer demand for oil, relatively low excess OPEC production capacity, OPEC s intention to defend a specific floor price for crude oil 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 as long as crude oil prices remain at levels whereby E&P companies would continue to expend their anticipated E&P spending budgets, which are at levels that exceed 2006 actual expenditures.

Higher utilization and average day rates are also the basis of the company s improved U.S. results of operations during fiscal 2007 as compared to fiscal 2006. Average day rates increased on all vessel classes operating in the U.S. market. Total average day rates on the entire U.S.-based fleet increased approximately 48% during fiscal 2007 as compared to fiscal 2006, while utilization for the total U.S.-based fleet increased approximately 9% during the same comparative period. Fiscal 2007 s strong financial performance is a result of several significant improvements that occurred in the offshore support vessel market in previous years. During the first half of calendar year 2005, the market for offshore support vessels improved as a result of the tightening of the supply of offshore support vessels 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 E&P companies competed to find available vessels for the necessary repair work resulting from the damage caused by the two storms. Demand for the company s vessels in the Gulf of Mexico prior to the two storms had already strengthened and business after the storms propelled charter rates past levels achieved in the 1997 and 2001 industry upturns. However, consistent with public reports, the company has seen some softening in the shallow water offshore vessel market as the needed infrastructure repair work slows and as numerous drilling rigs begin to relocate to international areas.

With 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 U.S. 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 U.S.-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 three years the worldwide moveable drilling rig count will increase as new-build rigs currently on order and under construction stand at approximately 129 rigs to supplement the current approximately 688 movable rigs worldwide. Analysts have reported that the majority of the new jackups being delivered in calendar year 2007 will work in the international markets.

Commodity prices for crude oil and natural gas are critical factors in E&P companies decision to retain their drilling rigs in the U.S. Gulf of Mexico market or mobilize the rigs to profitable international markets. Natural gas prices were relatively weak during calendar year 2006 as inventory levels exceeded five-year averages due to mild weather. By mid-calendar year 2006, natural gas inventories exceeded the five-year average by 32% as reported by the Department of Energy and were well on their way to maximum storage capacity by the end of the summer which helped drive natural gas prices below $5.00 per Mcf. Natural gas prices have strengthened since calendar year 2007 began as demand for natural gas increased due to late winter cold temperatures in the Northern Hemisphere which reduced inventories to normalized levels. The company s U.S. results of operations are primarily driven by natural gas exploration and production and, given the

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relative volatility and uncertainty in natural gas pricing in the near term, it is unknown how U.S.-based vessel demand will be affected. Certain industry analysts forecast near term weakness in the natural gas market but expect solid results in the latter portion of calendar year 2007 as excess inventory levels dissipate.

While these factors lead to questions about the immediate future activity level of the U.S. market, the company s assets are highly mobile and should the U.S. market soften, the company has the ability to redeploy its 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. In reaction to rigs departing the Gulf of Mexico during the latter part of calendar year 2006, the company relocated 16 vessels to international areas during fiscal 2007 where the vessels were contracted for more attractive term work at effectively more profitable dayrates than what the vessels were achieving in the Gulf of Mexico. The company will continue to assess the demand for vessels in the Gulf and consider relocating additional vessels to stronger international areas as necessary.

United States-based Operations

U.S.-based vessel revenues increased 27%, or $48.9 million, during fiscal 2007 as compared to fiscal 2006 due to higher average day rates and utilization. The company s deepwater class of vessels contributed approximately 47% of revenue growth during fiscal 2007 as compared to fiscal 2006. Towing supply/supply vessels, the company s most significant income producing vessel class in the U.S. market, generated approximately 67% of the revenue growth during the same comparative periods.

Revenues on the company s crew/utility class of vessels during fiscal 2007 decreased by 6% as compared to fiscal 2006, due to fewer crew/utility vessels operating in the U.S. market resulting from Tidewater s sale of crewboats during the fourth quarter of fiscal 2006. The company s offshore tug class of vessels also had a reduction in revenues during fiscal 2007 of approximately 30% compared to fiscal 2006 due to the sale of the company s offshore tugs that operated in the U.S. market.

Average day rates on the U.S.-based towing supply/supply vessels increased approximately 40% during fiscal 2007 as compared to fiscal 2006, while utilization rates on this same class of vessel decreased a modest 1% during fiscal 2007 as compared to fiscal 2006. Average day rates on the company s U.S.-based deepwater class of vessels increased approximately 36% during fiscal 2007 as compared to fiscal 2006. During fiscal 2007, utilization rates on the deepwater class of vessels decreased a modest 1% as compared to fiscal 2006. During fiscal 2007, average day rates for the crew/utility class of vessels increased approximately 35% as compared to fiscal 2006 while utilization rates on the same class of vessel increased 5% during fiscal 2007 as compared to fiscal 2006.

U.S.-based operating profit increased approximately 49%, or $30.2 million, during fiscal 2007 as compared to fiscal 2006 primarily due to higher revenues which were partially offset by a 16% increase in vessel operating costs (primarily crew cost and repair and maintenance costs) and a 14% increase in depreciation expense. Increases in crew costs are primarily due to wage pressures while increases in repair and maintenance costs resulted from higher shipyard pricing combined with necessary repairs work needed on an aging fleet.

International-based Operations

International-based vessel revenues increased approximately 30%, or $201.7 million, for fiscal 2007 as compared to fiscal 2006 due to an increase in utilization and average day rates on all classes of vessels operating in the international market. The company s international deepwater class, towing supply/supply class and crew/utility classes of vessels generated approximately 24%, 57% and 13% of the revenue growth during fiscal 2007 as compared to fiscal 2006 while the company s offshore tugs contributed 5% of the revenue growth during the same comparative period.

Average day rates on the company s international-based deepwater class of vessels increased approximately 25% during fiscal 2007 as compared to fiscal 2006 while utilization rates on the deepwater class of vessels increased 8% during the same comparative period. Average day rates on the international-based towing supply/supply vessels increased approximately 19% during fiscal 2007 as compared to fiscal 2006, while utilization rates on this same class of vessels increased 6% during fiscal 2007 as compared to

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fiscal 2006. During fiscal 2007, average day rates for the crew/utility class of vessels increased approximately 18% as compared to fiscal 2006 while utilization rates on the same class of vessels increased 13% during fiscal 2007 as compared to fiscal 2006. Average day rates and utilization on the company s international-based offshore tugs increased approximately 9% and 18%, respectively during fiscal 2007 as compared to fiscal 2006.

Fiscal 2007 international-based vessel operating profit increased 73%, or $134.9 million, as compared to fiscal 2006 primarily due to higher revenues which were partially offset by an approximate 15% increase in vessel operating costs (primarily crew costs, repair and maintenance costs, fuel and lube, and brokers commission) and a 7% increase in depreciation expense. International crew costs increased primarily because the newer, technically sophisticated anchor handling towing supply vessels and platform supply vessels that have been added to the fleet generally require a greater number of specially trained fleet personnel than the older smaller vessels in the fleet. These same vessels incur higher maintenance costs as a result of the increased complexity and sophistication of the newer equipment installed on the vessels. In addition, crew costs increased due to worldwide wage pressures on all crew staff positions. Repair and maintenance costs also increased during the comparative periods because of necessary repair work needed on an aging fleet combined with higher shipyard pricing. Fuel costs increased due to higher per gallon price for fuel and more vessel mobilizations during fiscal 2007 as compared to fiscal 2006. Brokers commissions increased due to increases in revenues.

Other Items

Due to an improved safety record and lower claim costs and loss reserves, the company s insurance and loss reserve costs decreased approximately 22% during fiscal 2007 as compared to fiscal 2006.

The company performed a thorough review of all the vessel classes in its fleet for asset impairment during the third quarter of fiscal 2007. The review resulted in no impairment charge. During fiscal 2006, the company s review of asset impairment resulted in an impairment charge of $3.1 million on eight vessels in the company s fleet. The eight vessels were written down to each vessel s respective estimated fair value.

During the second quarter of fiscal 2007, the company entered into a definitive agreement with Crosby Marine Transportation, LLC to sell 14 of its offshore tugs, of which 12 operated in the United States and two operated internationally. The sale of 11 of the tugs closed in the company s second quarter of fiscal 2007 for a total cash price of $34.8 million. The sale of the other three tugs closed during the third quarter of fiscal 2007 for a total sales price of $8.9 million. The culmination of the entire transaction resulted in an approximate $34.0 million pre-tax financial gain during fiscal 2007, or approximately $20.8 million after-tax ($0.37 per diluted common share after-tax).

Gain on sales of assets during fiscal 2007 is approximately 50% lower than during fiscal 2006 primarily due to the July 2005 sale of six KMAR 404 class of anchor handling towing supply vessels to Deep Sea Supply ASA for a total cash price of $188.0 million which resulted in a $65.9 million pre-tax financial gain.

Interest and miscellaneous income increased approximately 64%, or $10.7 million, as compared to fiscal 2006 because the company had higher levels of cash invested in short-term, interest-bearing securities during fiscal 2007 than in fiscal 2006.

Comparison of Fiscal 2006 to Fiscal 2005

Fiscal 2006 Market Conditions

Fiscal 2006 U.S. results of operations benefited from strong industry fundamentals which translated into higher utilization and average day rates for the company s U.S.-based vessel fleet. Prospects for growth in the offshore market in the U.S. Gulf of Mexico showed significant improvement from the previous fiscal year. However, Hurricanes Katrina and Rita caused extensive damage to the energy industry infrastructure in the Gulf of Mexico and along the U.S. Gulf Coast resulting in an interruption in oil and gas production in the Gulf of Mexico. The U.S. Minerals Management Service (MMS) statistical report on production shut-ins due to Hurricanes Katrina and Rita dated March 22, 2006 reported that total shut-in oil production, for the period of September 26, 2005 to March 22, 2006, totaled approximately 25% of the yearly U.S. Gulf oil production.

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During this same period of time, natural gas shut-in totaled approximately 19% of the yearly U.S. Gulf gas production as reported by MMS. Pre-storm offshore rig demand improved greatly and drilling activity was forecast to remain at improved levels well into calendar 2006. The E&P companies contracted offshore drilling rigs for longer durations than in past periods due to concerns over rig availability in the U.S. market. The market for offshore support vessels tightened as drilling operators discovered that offshore vessels that were in service were in short supply. The U.S. Gulf of Mexico supply boat market still had a significant number of vessels stacked that could resume active status, but only after expenditures to drydock to re-certify the vessels. The company did not experience any injuries to its personnel or damage or interruption of service to its fleet of vessels serving the offshore oil and gas industry in the Gulf of Mexico due to Hurricanes Katrina and Rita. The aftermath of the storms did not have any material impact on the company s ability to respond to customer needs or its ability to fulfill contract commitments. Demand for the company s available U.S.-based vessels prior to the two storms was strong and business after the storms propelled charter rates past levels achieved in the 1997 and 2001 industry upturns.

U.S.-based results of operations are primarily driven by natural gas exploration and production and, given the damage sustained to the offshore oil and gas infrastructure; the company s vessels were in high demand in the Gulf of Mexico while repairs were made to offshore pipelines and platforms. The repair work in the Gulf of Mexico kept U.S.-based vessel demand high for the near term, but the offshore rig count in the Gulf of Mexico remained relatively depressed as compared to past up cycles. The uptick in U.S.-based business during the second half of fiscal 2006 was related to the repair work resulting from damage caused by Hurricanes Katrina and Rita. After the completion of the needed repair work in the U.S. Gulf of Mexico, the number of available drilling rigs in the U.S. market became the primary driver of the company s future profitability in the U.S. market. The strength of the international drilling market attracted offshore rigs from the U.S. market over the past few years. This capacity constraint forced some E&P companies to delay drilling programs. Over the longer term, the company s U.S.-based fleet will be influenced more by the active offshore rig count than by any other single outside influence. Fiscal 2006 analysts reports indicated that the offshore drilling rig count would increase as the new-build order books for jackup rigs stood at approximately 62 rigs. Nine of these rigs were scheduled for delivery in calendar 2006 while calendar years 2007, 2008 and 2009 were expected to have 21, 26 and 6 rig deliveries, respectively.

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

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

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property damage, including extra-expense coverage which covers costs incurred to continue as nearly as practicable the normal operations of the business.

United States-based Operations

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

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

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

International-based Operations

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

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

Other Items

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

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Due to an improved safety record and lower claim costs and loss reserves, the company s insurance and loss reserve costs decreased approximately 15% during fiscal 2006 as compared to fiscal 2005. Other marine services operating profit which consist of operating profit on the company s shipyard operations, brokered vessel and other marine services lines of business were comparable to fiscal 2005 levels.

Fiscal 2006 gain on sales of assets increased significantly as compared to fiscal 2005 due primarily to the July 26, 2005 sale of six KMAR 404 class of anchor handling towing supply vessels to Deep Sea Supply ASA for a total cash price of $188.0 million. The transaction resulted in a $65.9 million pre-tax financial gain, or approximately $42.8 million after-tax, or $0.74 per diluted common share. The company also sold and/or scrapped an additional 45 vessels which resulted in additional gains on sales of assets of approximately $19.9 million during fiscal 2006.

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 only on vessels in service and, as such, do not include vessel withdrawn from service or joint venture vessels. The following tables compare day-based utilization percentages and average day rates by vessel class and in total for each of the quarters in the years ended March 31:

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UTILIZATION:

Fiscal Year 2007	First	Second	Third	Fourth	Year
Domestic-based fleet:					
Deepwater vessels	93.8%	99.4	100.0	100.0	98.3
Towing-supply/supply	64.2	64.0	59.6	55.9	61.2
Crew/utility	96.4	87.4	87.2	87.8	89.7
Offshore tugs	39.8	41.8	100.0		42.6
Total	68.0%	69.5	69.4	67.6	68.6
International-based fleet:					
Deepwater vessels	89.3%	94.9	95.4	96.7	94.1
Towing-supply/supply	77.4	77.7	79.8	79.7	78.7
Crew/utility	83.8	86.2	89.3	85.7	86.3
Offshore tugs	72.1	65.1	63.3	70.7	67.7
Other	45.8	52.0	44.8	54.4	48.9
Total	78.4%	78.9	80.6	81.0	79.8
Worldwide fleet:					
Deepwater vessels	90.2%	95.8	96.3	97.3	94.9
Towing-supply/supply	74.8	75.1	76.1	75.9	75.5
Crew/utility	85.8	86.4	89.0	86.0	86.8
Offshore tugs	63.9	61.7	64.0	70.6	64.8
Other	45.8	52.0	44.8	54.4	48.9
Total	76.4%	77.2	78.8	79.1	77.9

Fiscal Year 2006	First	Second	Third	Fourth	Year
Domestic-based fleet:					
Deepwater vessels	100.0%	97.9	99.3	99.7	99.2
Towing-supply/supply	62.4	60.6	62.2	62.0	61.8
Crew/utility	80.6	86.6	88.0	86.6	85.5
Offshore tugs	26.2	26.4	32.7	30.8	28.9
Total	61.5%	61.9	65.0	64.5	63.2
International-based fleet:					
Deepwater vessels	85.5%	82.7	89.4	89.9	86.8
Towing-supply/supply	71.5	72.1	75.8	76.8	74.1
Crew/utility	75.2	74.1	79.9	76.2	76.4
Offshore tugs	57.5	46.4	63.0	63.3	57.5
Other	34.6	35.7	44.3	28.8	35.9
Total	70.9%	69.6	75.5	75.2	72.8
Worldwide fleet:					
Deepwater vessels	87.4%	85.2	91.1	91.7	88.8
Towing-supply/supply	69.7	69.9	73.2	74.0	71.7
Crew/utility	76.5	76.9	81.7	78.5	78.5
Offshore tugs	48.4	40.3	54.2	53.7	49.0
Other	34.6	35.7	44.3	28.8	35.9
Total	69.0%	68.0	73.3	72.9	70.8

Fiscal Year 2005	First	Second	Third	Fourth	Year
Domestic-based fleet:					
Deepwater vessels	74.9%	94.1	91.7	91.6	87.2
Towing-supply/supply	50.7	54.6	57.6	57.1	55.0
Crew/utility	68.1	80.3	77.1	80.0	76.0
Offshore tugs	28.6	29.3	24.6	25.1	27.1
Total	51.2%	57.4	57.2	58.0	55.8

International-based fleet:					
Deepwater vessels	72.6%	87.9	91.8	84.8	84.5
Towing-supply/supply	68.7	68.5	72.2	70.9	70.1
Crew/utility	75.1	74.0	77.0	75.7	75.5
Offshore tugs	64.1	68.3	62.2	61.6	64.0
Other	55.5	49.4	45.4	47.3	49.4
Total	69.2%	70.6	72.8	71.2	71.0
Worldwide fleet:					
Deepwater vessels	73.1%	89.0	91.8	85.7	84.9
Towing-supply/supply	65.0	65.7	69.3	68.3	67.1
Crew/utility	73.2	75.6	77.0	76.7	75.6
Offshore tugs	50.2	55.6	50.8	51.3	52.0
Other	55.5	49.4	45.4	47.3	49.4
Total	64.9%	67.7	69.5	68.5	67.7

AVERAGE DAY RATES:

Fiscal Year 2007	First	Second	Third	Fourth	Year
Domestic-based fleet:					
Deepwater vessels	$ 21,380	23,442	26,551	28,305	24,928
Towing-supply/supply	11,645	12,102	12,655	12,461	12,181
Crew/utility	6,457	6,456	6,264	6,104	6,329
Offshore tugs	15,920	17,793	6,511		15,726
Total	$ 11,987	12,606	13,130	13,297	12,694
International-based fleet:					
Deepwater vessels	$ 18,216	19,593	20,206	21,893	20,012
Towing-supply/supply	8,076	8,311	8,682	9,142	8,563
Crew/utility	3,748	3,895	3,982	4,375	4,004
Offshore tugs	5,964	6,328	5,934	6,501	6,179
Other	3,615	3,526	4,134	4,132	3,821
Total	$ 7,833	8,222	8,453	9,061	8,400
Worldwide fleet:					
Deepwater vessels	$ 18,856	20,369	21,487	23,111	20,990
Towing-supply/supply	8,671	8,944	9,249	9,531	9,100
Crew/utility	4,229	4,319	4,313	4,636	4,375
Offshore tugs	7,534	7,469	5,952	6,505	6,922
Other	3,615	3,526	4,134	4,132	3,821
Total	$ 8,540	8,935	9,107	9,577	9,039

Fiscal Year 2006	First	Second	Third	Fourth	Year
Domestic-based fleet:					
Deepwater vessels	$ 15,041	17,456	20,306	20,006	18,401
Towing-supply/supply	7,169	7,569	9,474	10,545	8,706
Crew/utility	3,843	4,238	5,080	5,455	4,673
Offshore tugs	9,191	11,110	10,146	9,707	10,060
Total	$ 7,104	7,814	9,318	10,049	8,606
International-based fleet:					
Deepwater vessels	$ 13,850	15,592	17,014	17,823	16,012
Towing-supply/supply	6,728	7,121	7,318	7,682	7,224
Crew/utility	3,292	3,306	3,444	3,541	3,399
Offshore tugs	4,960	5,847	6,129	5,735	5,669
Other	2,939	3,536	3,064	4,597	3,442
Total	$ 6,648	7,046	7,284	7,635	7,162
Worldwide fleet:					
Deepwater vessels	$ 14,029	15,933	17,640	18,272	16,448
Towing-supply/supply	6,803	7,194	7,667	8,140	7,467
Crew/utility	3,426	3,547	3,845	4,018	3,716
Offshore tugs	5,632	6,914	6,841	6,407	6,440
Other	2,939	3,536	3,064	4,597	3,442
Total	$ 6,730	7,191	7,655	8,078	7,428

Fiscal Year 2005	First	Second	Third	Fourth	Year
Domestic-based fleet:					
Deepwater vessels	$ 12,678	12,577	13,289	14,009	13,087
Towing-supply/supply	5,569	5,794	6,194	6,741	6,080
Crew/utility	3,035	3,357	3,477	3,689	3,382
Offshore tugs	7,385	7,566	7,388	9,648	7,874
Total	$ 5,736	5,909	6,136	6,735	6,117

International-based fleet:					
Deepwater vessels	$ 12,680	11,847	12,553	13,165	12,552
Towing-supply/supply	6,050	6,202	6,288	6,561	6,279
Crew/utility	2,838	2,742	2,950	3,184	2,930
Offshore tugs	4,371	4,559	4,347	5,057	4,585
Other	1,579	1,262	1,201	1,418	1,375
Total	$ 5,723	5,874	6,064	6,372	6,013
Worldwide fleet:					
Deepwater vessels	$ 12,680	11,959	12,648	13,279	12,636
Towing-supply/supply	5,972	6,134	6,273	6,591	6,246
Crew/utility	2,889	2,904	3,073	3,303	3,042
Offshore tugs	5,045	5,074	4,793	5,691	5,145
Other	1,579	1,262	1,201	1,418	1,375
Total	$ 5,726	5,881	6,076	6,433	6,032

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The average age of the company s 421 owned or chartered vessel fleet at March 31, 2007 is approximately 19.9 years. The average age of the 109 vessels that the company acquired or constructed in the last seven years as part of its new build and acquisition program, some of which were discussed in the Vessel Construction Programs and Acquisition section, is 4.6 years. The remaining 312 vessels have an average age of 25.2 years. The following table compares the average number of vessels by class and geographic distribution during the years ended March 31 and the actual March 31, 2007 vessel count:

	Actual Vessel Count at March 31, 2007	Average Number of Vessels During Year Ended March 31, 2007	2006	2005
Domestic-based fleet:				
Deepwater vessels	6	7	6	6
Towing-supply/supply	39	47	48	49
Crew/utility	12	13	20	21
Offshore tugs		5	17	19
Total	57	72	91	95
International-based fleet:				
Deepwater vessels	30	29	30	32
Towing-supply/supply	217	209	205	198
Crew/utility	75	72	67	63
Offshore tugs	37	38	40	40
Other	5	6	8	12
Total	364	354	350	345
Owned or chartered vessels included in marine revenues	421	426	441	440
Vessels withdrawn from service	29	46	82	97
Joint-venture and other	13	18	27	31
Total	463	490	550	568

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 48, 67 and 74 stacked vessels at March 31, 2007, 2006 and 2005, respectively.

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

During fiscal 2007, the company took delivery of five anchor handling towing supply vessels, one platform supply vessel and six crewboats (four from a joint-venture) and sold to third party operators or to scrap dealers 18 anchor handling towing supply vessels, 27 platform supply vessels, two crewboats, 16 offshore tugs and three other type vessels.

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.

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

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company sold seven anchor handling towing supply vessels, one platform supply vessel, three offshore tugs, 10 crewboats and two other type vessel.

General and Administrative Expenses

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

(In thousands)	2007	2006	2005
Personnel	$ 60,732	52,165	42,392
Office and property	14,497	12,636	12,840
Sales and marketing	6,963	5,662	4,731
Professional service	9,560	9,295	7,378
Other	6,976	6,731	6,083
	$ 98,728	86,490	73,424

General and administrative expenses for fiscal 2007 were higher compared to fiscal 2006 due to the amortization of restricted stock granted in March 2006, 2005 and 2004; stock option expensing which became effective April 1, 2006 with the adoption of SFAS No. 123R; an improved business environment; and increased employee bonus plan costs resulting from increased earnings of the company.

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

Liquidity, Capital Resources and Other Matters

The company s current ratio, level of working capital and amount of cash flows from operations for any year are directly related to fleet activity and vessel day rates. Fleet activity and vessel day rates are ultimately determined by the supply/demand relationship for crude oil and natural gas. Variations from year-to-year in these items are primarily the result of market conditions. Cash from operations, in combination with the company s senior unsecured debt and available line of credit, provide the company, in management s opinion, with adequate resources to satisfy its current financing requirements. At March 31, 2007, the entire amount of the company s $300 million revolving line of credit (which includes a mechanism for increasing the amount of the facility to $400 million) 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, whichever is earlier, unless extended by the Board of Directors. From inception of the July 2006 authorized repurchase program through March 31, 2007, the company expended $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 March 31, 2007, approximately $117.5 million was available to repurchase shares of the company s common stock pursuant to its current stock repurchase program.

During the prior fiscal year, 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, with the program expiring on June 30, 2006. From inception of this 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. As of March 31, 2006, the company spent $20.8 million for the repurchase and cancellation of 455,000 common

shares, or an average price paid per common share of $45.64. At March 31, 2006, approximately $99.2 million was available to repurchase shares of the company s common stock pursuant to the July 2005 stock repurchase program.

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

On July 8, 2003, the company issued $300 million of senior unsecured notes. The multiple series of notes with maturities ranging from 7 years to 12 years have an average outstanding life to maturity of 9.5 years and can be retired prior to maturity without penalty. The weighted average interest rate on the notes sold to private institutional investors is 4.35%.

Operating Activities

Net cash provided by operating activities for any period will fluctuate according to the level of business activity for the applicable period. Fiscal 2007 net cash from operating activities was $442.2 million. Significant components of cash provided by operating activities during fiscal 2007 include net earnings of $356.6 million, adjusted for non-cash items of $88.2 million and changes in working capital balances of $9.7 million.

Fiscal 2006 net cash from operating activities was $297.4 million. Significant components of cash provided by operating activities during fiscal 2006 include net earnings of $235.8 million, adjusted for non-cash items of $84.9 million and an increase in working capital of $23.2 million.

Fiscal year 2005 net cash from operating activities was $160.1 million. Significant components of cash provided by operating activities during fiscal 2005 include net earnings of $101.3 million, adjusted for non-cash items of $59.7 million and a increase in working capital of $1.0 million.

Investing Activities

Investing activities in fiscal 2007 used $151.2 million, which is attributed to the $235.2 million additions to properties and equipment partially offset by approximately $74.4 million of proceeds from the sales of assets and the collection of $9.5 million relating to the repayment 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 $37.4 million in capitalized major repair costs, $166.6 million for the construction of offshore marine vessels, $15.5 million for vessel enhancements, $12.9 million for the construction of an aircraft and $2.8 million of other properties and equipment purchases.

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

Investing activities for fiscal 2005 used $189.1 million of cash, which is primarily attributed to the $207.4 million additions to properties and equipment partially offset by approximately $18.3 million of proceeds from the sale of assets. Additions to properties and equipment was comprised of approximately $29.6 million in capitalized major repair costs, $2.4 million for vessel enhancements, $120.8 million for the construction of offshore marine vessels and $54.6 million for the acquisition of four vessels. Additions to properties and equipment were lower in fiscal 2005 as compared to fiscal 2004 due to fewer vessels purchased.

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Financing Activities

Fiscal 2007 financing activities used $143.4 million of cash, which is primarily the result of $131.7 million used to repurchase common stock, $33.9 million used for the payment of common stock dividends of $0.60 per common share, $5.0 million used to repay debt and $0.9 million of principal payments on capitalized lease obligations. These uses of cash were partially offset by $5.0 million provided by debt borrowings and $23.2 million of proceeds from the issuance of common stock.

Fiscal 2006 financing activities used $119.9 million of cash, which included debt repayments of $110.0 million, principal payments on capitalized lease obligations of $14.2 million, repurchase of common stock of $20.8 million and $34.6 million of cash used for the payment of common stock dividends of $0.60 per share. This was offset primarily by $30.0 million of credit facility borrowings and $29.6 million from the issuance of common stock as a result of stock option exercises.

Fiscal 2005 financing activities provided $26.8 million of cash, which included debt repayments of $58.0 million and $34.3 million of cash used for quarterly payment of common stock dividends of $0.60 per share. This was offset primarily by $113.0 million of credit facility borrowings and $7.5 million from the issuance of common stock as a result of stock option exercises. Net borrowings were used to help finance the company s various vessel construction programs and vessel acquisitions.

Interest and Debt Costs

Interest and debt costs incurred, net of interest capitalized, for fiscal 2007, 2006, and 2005 was approximately $9.7 million, $9.1 million, and $6.9 million, respectively. Interest costs capitalized during fiscal 2007, 2006, and 2005 was approximately $4.8 million, $6.3 million, and $10.0 million, respectively. Total interest and debt cost expense incurred in fiscal 2007 were higher than the previous two fiscal years because the relative-portion of interest cost capitalized during fiscal 2007 was less than in fiscal years 2006 and 2005.

Other Liquidity Matters

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 core group of older vessels, its supply and towing supply vessels, were constructed between 1976 and 1983. As such, most of this vessel class exceeds 24 years of age and may be replaced within the next several years depending on the strength of the market during this time frame. 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 aging vessels in the core international fleet with fewer, larger and more efficient vessels. The company believes that adequate capital resources and liquidity will be available to fund the continuation of 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 financial statement exposure with respect to the same tax position for fiscal years 2005 and 2006 is an additional $2.9 million. The company also has

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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 (MNOPF.) The company has been informed of an estimated 413 million sterling, or approximately $825 million, total fund deficit as estimated by the MNOPF 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 then 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, $0.5 million was paid during the quarter ended March 31, 2007.

In February 2007, the company received notification of an additional assessment for a shortfall in the original deficit in the amount of 0.3 million sterling, or approximately $0.5 million. The company recorded the full amount of the additional assessment in crew costs expense during the fourth quarter of fiscal 2007. According to the terms of the agreement, the company will pay the increase in eight equal installments including interest charges, beginning March 2007. In March 2007, the company provided an additional $3.0 million due to the finalization of the pension fund s 2006 actuarial evaluation. The first installment on the additional $3.0 million is due in September 2007.

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 been made a defendant in several lawsuits in various areas of the world where its marine vessel operations are conducted, including a recent filing of a class action styled suit in California, alleging certain labor and wage and hour law violations claimed by certain current and former employees. The amount, if any, of all such claims for which the company ultimately may be held liable is not presently capable of being determined or estimated based on the current status of the claims and the information available to the company. The company is in the process of defending against these claims and, in management s opinion, the ultimate outcome of these matters is not expected to have a material adverse effect on the company s financial position or its results of operations.

In April 2007, the company announced that it was conducting an internal investigation of its Nigerian operations, focusing on the legality, under the U.S. Foreign Corrupt Practices Act (FCPA) and local laws, of its Nigerian affiliate s reimbursement of certain expenses incurred by a customs agent in connection with the temporary importation of its vessels into Nigeria, particularly the obtaining of certain permits that are necessary for the company s vessels to operate in Nigerian offshore waters. The company further announced that the Audit Committee of the company s Board of Directors had engaged the law firm of Steptoe & Johnson of Washington, D.C., a leading international law firm with significant experience in investigating and advising upon FCPA matters, to lead the investigation.

The Audit Committee commissioned the internal investigation in late February 2007 after management brought to its attention a settlement earlier that month of well-publicized criminal FCPA proceedings (the second in recent years) involving Vetco Gray Controls, a Houston-based oil service company with substantial operations in Nigeria. Tidewater s management and the Audit Committee were concerned that

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the company s Nigerian affiliate used the same third-party agent to process its temporary importation permits in Nigeria that was thought to be significantly implicated in the 2007 Vetco Gray proceedings. Given that the company uses the same third-party agent in other countries where its vessel are deployed, the Audit Committee also commissioned special counsel to assess the company s compliance with the FCPA in those selected other countries.

Although the internal investigation is ongoing, enough progress has been made and reported to the Audit Committee by special counsel for the company to conclude that certain changes to its FCPA compliance program would provide the company greater assurance that its assets are not used, directly, or through an intermediary, to make improper payments, including in the areas of customs and immigration, and to also assure that the company is in compliance with the FCPA s record-keeping requirements. Although the company has had a long term published policy requiring compliance with the FCPA, and broadly prohibiting any improper payments by the company to foreign or domestic officials, the company is in the process of adopting intermediate measures intended to minimize the possibility of FCPA violations while the internal investigation is ongoing, although additional measures may be required once the final report has been rendered to the Audit Committee.

The company has voluntarily contacted the Securities and Exchange Commission and the United States Department of Justice to advise both agencies that an internal investigation is underway and that it will cooperate fully with both agencies. The company is unable to predict whether either agency will open a proceeding to separately investigate this matter, or, if a proceeding is opened, what potential remedies, if any, these agencies may seek. In addition, although management will seek to avoid material disruption to its Nigerian operations, the company cannot gauge at this time the long-term effects of implementing the necessary corrective measures on its business in Nigeria. Based on the information obtained to date in the investigation, the company does not believe that any potential liability that may result is either probable or reasonably estimable, and, thus, no accrual has been recorded as of March 31, 2007. Should additional information be obtained the company will record a provision when the amount is both probable and reasonably estimable.

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.

Contractual Obligations

The following table summarizes the company s consolidated contractual obligations as of March 31, 2007 and the effect such obligations, inclusive of interest costs, are expected to have on the company s liquidity and cash flows in future periods.

(In thousands)		**Payments Due by Period**			
Contractual Obligation	**Total**	**Less than One Year**	**2-3 Years**	**4-5 Years**	**More Than 5 Years**
Long-Term Debt	$ 377,075	13,057	26,114	88,376	249,528
Operating Leases	$ 6,948	2,403	3,209	1,173	163
Bareboat Charter Leases	$ 52,117	4,718	13,454	13,454	20,491
Purchase Obligations	$ 5,800	5,800			
Vessel Construction Obligations	$ 379,289	242,657	136,632		
Capitalized Lease Obligations	$ 58,380	22,464	35,916		
Total	$ 879,609	291,099	215,325	103,003	270,182

Off-Balance Sheet Arrangements

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

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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. During fiscal 2007 and 2006, the company expensed approximately $1.5 million and $23,250, respectively, on these bareboat charter arrangements. Both charter hire operating lease terms expire in calendar year 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 calendar year 2017.

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 June 2007 with final delivery of the last vessel in December 2007.

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 as is fully explained in Item 7A. Quantitative and Qualitative Disclosures about Market Risk.

See Note 9 to Notes to Consolidated Financial Statements included in Item 8 of this Form 10-K for a more complete discussion of this transaction. Table of Contents

appropriate liabilities for these contingencies have been recorded; however, actual results may differ materially from our estimates.
Ajax Tocco Magnethermic (“ATM”) is the defendant in a lawsuit pending in the United States District Court for the Eastern District of Arkansas. The plaintiff is IPSCO Tubulars Inc. d/b/a TMK IPSCO. The complaint alleges claims for breach of contract, gross negligence and constructive fraud. TMK IPSCO is seeking approximately $6.0 million in direct and $4.0 million in consequential damages as well as an unspecified amount of punitive damages. ATM denies the allegations against it, believes it has a number of meritorious defenses and is vigorously defending the lawsuit. A motion for partial summary judgment filed by ATM that, among other things, denied the plaintiff's fraud claims was granted by the district court. The remaining claims were the subject of a bench trial in May 2013. At the close of TMK IPSCO's case, the court entered partial judgment in favor of ATM, dismissing the gross negligence claim, dismissing a portion of the breach of contract claim, and dismissing any claim for punitive damages. The trial proceeded with respect to the remainder of TMK IPSCO's claim for damages. Post-trial briefing was submitted to the court in July 2013 and closing arguments are scheduled to be heard in August 2013.

NOTE P — Goodwill and Other Intangible Assets

The change in the carrying amount of goodwill by reportable segment for the periods ended June 30, 2013 and December 31, 2012 were as follows:

	Supply Technologies	Assembly Components	Engineered Products	Total
Balance at January 1, 2012	$ —	$ 4.6	$ 4.9	$ 9.5
Acquisitions	—	40.2	—	40.2
Balance at December 31, 2012	—	44.8	4.9	49.7
Acquisition	—	4.2	—	4.2
Foreign currency translation	—	(0.1)	—	(0.1)
Balance at June 30, 2013	$ —	$ 48.9	$ 4.9	$ 53.8

The increase in goodwill from December 31, 2012 is due to the acquisition of Bates in the second quarter of 2013. The goodwill associated with this transaction is deductible for income tax purposes.

Information regarding other intangible assets as of June 30, 2013 and December 31, 2012 follows:

	June 30, 2013			December 31, 2012		
	Acquisition Costs	Accumulated Amortization	Net	Acquisition Costs	Accumulated Amortization	Net
Non-contractual customer relationships	$47.3	$7.2	$40.1	$41.7	$5.7	$36.0
Other	3.7	1.5	2.2	3.4	1.3	2.1
	$51.0	$8.7	$42.3	$45.1	$7.0	$38.1
Indefinite-lived tradenames			11.5			11.5
Goodwill			53.8			49.7
Total			$107.6			$99.3

Amortization expense for the six months ended June 30, 2013 and 2012 was $1.7 million and $1.2 million, respectively. The weighted-average amortization period for the acquired intangible assets was 13.4 years for non-contractual customer relationships and 10.5 years for other intangible assets.

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NOTE Q — Shares Outstanding

The changes in capital stock shares and treasury stock shares for the period ended June 30, 2013 were as follows:

	Common Shares	Treasury Shares
	(In whole shares)	
Balance at December 31, 2012	14,109,255	1,872,265
Common stock award	14,000	—
Exercise of stock options	37,834	—
Restricted stock awards	139,900	—
Restricted stock canceled	(4,000)	—
Purchase of treasury stock	—	43,328
Balance at June 30, 2013	14,296,989	1,915,593

NOTE R — Subsequent Event

Effective August 1, 2013, the Company entered into an agreement to sell 25% of its Southwest Steel Processing LLC, business to Arkansas Steel Associates, LLC, for $5.0 million. Southwest Steel Processing LLC is included in our Engineered Products segment. This transaction will facilitate the Company's capacity expansion in its growing swaged tie-plate business.

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Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Our condensed consolidated financial statements include the accounts of Park-Ohio Holdings Corp. and its subsidiaries (collectively, "we" or the "Company"). All significant intercompany transactions have been eliminated in consolidation.

Executive Overview

We are an industrial Total Supply Management™ and diversified manufacturing business, operating in three segments: Supply Technologies, Assembly Components and Engineered Products.

Our Supply Technologies business provides our customers with Total Supply Management™, a proactive solutions approach that manages the efficiencies of every aspect of supplying production parts and materials to our customers' manufacturing floor, from strategic planning to program implementation. Total Supply Management™ includes such services as engineering and design support, part usage and cost analysis, supplier selection, quality assurance, bar coding, product packaging and tracking, just-in-time and point-of-use delivery, electronic billing services and ongoing technical support. The principal customers of Supply Technologies are in the heavy-duty truck, automotive and vehicle parts, electrical distribution and controls, consumer electronics, power sports/fitness equipment, HVAC, agricultural and construction equipment, semiconductor equipment, plumbing, aerospace and defense, and appliance industries.

Assembly Components manufactures industrial hose and injected molded rubber components, and fuel filler assemblies. In addition, Assembly Components casts and machines aluminum engine, transmission, brake, suspension and other components such as pump housings, clutch retainers/pistons, control arms, knuckles, master cylinders, pinion housings, brake calipers, oil pans and flywheel spacers for automotive, agricultural, construction, heavy-duty truck and marine original equipment manufacturers ("OEMs"), primarily on a sole-source basis. Assembly Components also provides value-added services such as design and engineering and assembly.

Engineered Products operates a diverse group of niche manufacturing businesses that design and manufacture a broad range of highly-engineered products including induction heating and melting systems, pipe threading systems, industrial oven systems, and forged and machined products. Engineered Products also produces and provides services and spare parts for the equipment it manufactures. The principal customers of Engineered Products are OEMs, sub-assemblers and end users in the ferrous and non-ferrous metals, silicon, coatings, forging, foundry, heavy-duty truck, construction equipment, automotive, oil and gas, rail and locomotive manufacturing and aerospace and defense industries.

Sales, segment operating income and other relevant financial data for these three segments are provided in Note C to the condensed consolidated financial statements, included elsewhere herein.

Effective April 26, 2013, the Company acquired certain assets and assumed specific liabilities relating to Bates Acquisition, LLC and Bates Real Estate Acquisition, LLC (collectively, "Bates") for a total purchase consideration of $20.8 million in cash. The acquisition was funded from borrowings under the revolving credit facility provided by the Credit Agreement (as defined below). Bates is a leading manufacturer of extruded, formed and molded products and assemblies for the transportation and industrial markets. Bates' production facilities are located in Tennessee. The financial results of Bates are included in the Company's Assembly Components segment and had insignificant revenues and net income from the date acquired through June 30, 2013. The acquisition was accounted for under the acquisition method of accounting.

On March 23, 2012, the Company completed the acquisition of Fluid Routing Solutions Holding Corp. ("FRS"), a leading manufacturer of automotive and industrial rubber and thermoplastic hose products and fuel filler and hydraulic fluid assemblies, in an all cash transaction valued at $98.8 million. FRS products include fuel filler, hydraulic, and thermoplastic assemblies and several forms of manufactured rubber and thermoplastic hose, including bulk and formed fuel, power steering, transmission oil cooling, hydraulic and thermoplastic hose. FRS sells to automotive and industrial customers throughout North America, Europe and Asia. FRS has five production facilities located in Florida, Michigan, Ohio, Tennessee and the Czech Republic. FRS is included in the Company's Assembly Components segment.

In connection with the acquisition of FRS, we amended and restated our existing credit and security agreement, dated November 5, 2003, as amended (the "Credit Agreement"), to, among other things, increase the revolving loan commitment from $200 million to $220 million and provide a seven-year amortizing term loan for $25 million that is secured by certain real

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estate and machinery and equipment. We funded the acquisition with cash of $40 million, the $25 million term loan provided by the Credit Agreement and $33.8 million of borrowings under the revolving credit facility provided by the Credit Agreement.

During the second quarter of 2012, we agreed to settle the Evraz Highveld Steel and Vanadium (“Evraz”) arbitration proceeding for the sum of $13.0 million in cash, which payment was made in June 2012.

Results of Operations

Second Quarter 2013 Compared with Second Quarter 2012

Net Sales by Segment:

	Three Months Ended June 30, 2013	2012	Change	Percent Change
	(Dollars in millions)			
Supply Technologies	$123.6	$131.5	$(7.9)	(6)%
Assembly Components	105.6	91.4	14.2	16%
Engineered Products	80.2	85.9	(5.7)	(7)%
Consolidated Net Sales	$309.4	$308.8	$0.6	—%

Net sales increased $0.6 million to $309.4 million in the second quarter of 2013, compared to $308.8 million in the same period in 2012, as we experienced volume increases in our Assembly Components segment offset by a decline in our Supply Technology and Engineered Products segments. Supply Technologies sales decreased 6% primarily due to volume declines in the heavy-duty truck, electrical, power sports, HVAC, lawn and garden, and medical industries partially offset by increases in the industrial machinery and computer and office equipment industries. Assembly Components sales increased 16% primarily due to incremental sales of $8.1 million resulting from the acquisition of Bates and higher sales in the aluminum products business unit. Engineered Products sales decreased 7% primarily due to lower sales in the capital equipment business unit.

Cost of Sales & Gross Profit:

	Three Months Ended June 30, 2013	2012	Change	Percent Change
	(Dollars in millions)			
Consolidated cost of sales	$251.3	$252.9	$(1.6)	(1)%
Consolidated gross profit	$58.1	$55.9	$2.2	4%
Gross Margin	18.8%	18.1%		

Cost of sales decreased $1.6 million to $251.3 million in the second quarter of 2013, compared to $252.9 million in the same period in 2012, while gross margin increased to 18.8% in the second quarter of 2013 compared to 18.1% in the same period in 2012. The decrease in cost of sales was due primarily to the mix impact of sales volume reductions in Supply Technologies and Engineered Products business units partially offset by a sales volume increase in Assembly Components. Gross margin increased primarily due to product mix and improved operating efficiencies.

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Selling, General & Administrative (SG&A) Expenses:

	Three Months Ended June 30, 2013	2012	Change	Percent Change
	(Dollars in millions)			
Consolidated SG&A expenses	$33.3	$29.5	$3.8	13 %
SG&A as a percentage of net sales	10.8 %	9.6 %		

Consolidated SG&A expenses increased 13% in the second quarter of 2013 compared to the same period in 2012, representing a 120-basis-point increase in SG&A expenses as a percent of sales. SG&A expenses increased in the second quarter of 2013 compared to the same period in 2012 primarily due to increases in payroll, payroll related items and share-based compensation expense.

Settlement of litigation:

During the second quarter of 2012, we agreed to settle the Evraz arbitration proceeding for the sum of $13.0 million in cash, which payment was made in June 2012.

Interest Expense:

	Three Months Ended June 30, 2013	2012	Change	Percent Change
	(Dollars in millions)			
Interest expense	$6.6	$6.6	$—	— %
Average outstanding borrowings	$390.2	$395.0	$(4.8)	(1)%
Average borrowing rate	6.75 %	6.82 %	7	basis points

Interest expense was flat in the second quarter of 2013 compared to the same period of 2012. Average borrowings in the second quarter of 2013 were lower when compared to the same period in 2012 primarily due to debt reduction in the second half of 2012 and first quarter of 2013 offset by additional borrowings in the second quarter of 2013 to fund the Bates acquisition. The lower average borrowing rate in the second quarter of 2013 was due primarily to the interest rate mix of our revolving credit facility provided by the Credit Agreement and our 8.125% senior notes due 2021 (“Senior Notes”) when compared to the interest rate mix in the same period in 2012.

Income Tax:

The provision for income taxes was $6.2 million in the second quarter of 2013, which was a 34.1% effective income tax rate, compared to income taxes of $2.4 million provided in the corresponding period of 2012, which was a 34.5% effective income tax rate.

Net Income:

Net income increased $7.6 million to $12.0 million in the second quarter of 2013, compared to $4.4 million in the same period of 2012, due to the reasons described above.

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Six Months Ended June 30, 2013 Compared with Six Months Ended June 30, 2012

Net Sales by Segment:

	Six Months Ended June 30,			
	2013	2012	Change	Percent Change
	(Dollars in millions)			
Supply Technologies	$237.5	$264.2	$(26.7)	(10)%
Assembly Components	197.8	136.0	61.8	45%
Engineered Products	159.2	171.7	(12.5)	(7)%
Consolidated Net Sales	$594.5	$571.9	$22.6	4%

Net sales increased $22.6 million to $594.5 million in the first six months of 2013, compared to $571.9 million in the same period in 2012, as we experienced volume increases from our Assembly Components segment partially offset by decreases in our Supply Technologies and Engineered Products segments. Supply Technologies sales decreased 10% primarily due to volume decreases in the heavy-duty truck, HVAC, appliance, electric, automotive, lawn and garden, medical and plumbing industries partially offset by increases in the power sports, agricultural and construction equipment and computer and office equipment industries. Assembly Components sales increased 45% primarily from incremental sales of $43.2 million resulting from the acquisition of FRS and increased sales in the aluminum products and rubber products business units. Engineered Products sales decreased 7% primarily due to decreased volume in the capital equipment business unit partially offset by a sales increase in the forged and machine business units.

Cost of Sales & Gross Profit:

	Six Months Ended June 30,			
	2013	2012	Change	Percent Change
	(Dollars in millions)			
Consolidated cost of sales	$484.5	$467.1	$17.4	4%
Consolidated gross profit	$110.0	$104.8	$5.2	5%
Gross Margin	18.5%	18.3%		

Cost of sales increased $17.4 million to $484.5 million in the first six months of 2013, compared to $467.1 million in the same period in 2012, while gross margin increased to 18.5% in the first six months of 2013 compared to 18.3% in the same period in 2012. The increase in cost of products sold was due primarily to the inclusion of a full six months of FRS results in 2013 and sales volume increases in the aluminum products, rubber products, and forged and machined business units partially offset by reductions in the capital equipment and Supply Technologies business units. Gross margin increased in each segment resulting primarily from favorable product mix and improved operating efficiencies.

SG&A Expenses:

	Six Months Ended June 30,			
	2013	2012	Change	Percent Change
	(Dollars in millions)			
Consolidated SG&A expenses	$62.6	$58.3	$4.3	7%
SG&A as a percentage of net sales	10.5%	10.2%		

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Consolidated SG&A expenses increased 7% in the first six months of 2013 compared to the same period in 2012, which represented a 30-basis-point increase in SG&A expenses as a percent of sales. SG&A expenses increased in the first six months of 2013 compared to the same period in 2012 primarily due to $2.7 million of incremental expense associated with FRS and Bates, increases in payroll, payroll related expenses and share-based compensation offset by FRS acquisition expenses of $1.1 million and $1.0 million of legal expenses associated with the litigation settlement in 2012.

Settlement of litigation:

During the second quarter of 2012, we agreed to settle the Evraz arbitration proceeding for the sum of $13.0 million in cash, which payment was made in June 2012.

Interest Expense:

	Six Months Ended June 30,			Percent Change
	2013	2012	Change	
	(Dollars in millions)			
Interest expense	$13.1	$13.3	$(0.2)	(2)%
Average outstanding borrowings	$382.2	$374.1	$8.1	2%
Average borrowing rate	6.87%	7.10%	23	basis points

Interest expense decreased $0.2 million in the first six months of 2013 compared to the same period of 2012, primarily due to debt extinguishment costs in 2012 as a result of the amendment of the Credit Agreement. Average borrowings in the first six months of 2013 were higher when compared to the same period in 2012 due to additional borrowings to fund the acquisition of Bates. The lower average borrowing rate in the first six months of 2013 was due primarily to the interest rate mix of our revolving credit facility provided by the Credit Agreement and the Senior Notes when compared to the interest rate mix in the same period in 2012.

Income Tax:

The provision for income taxes was $12.0 million in the first six months of 2013, a 34.9% effective income tax rate, compared to income taxes of $6.8 million provided in the corresponding period of 2012, a 33.6% effective income tax rate.

Net Income:

Net income increased $8.9 million to $22.3 million for the first six months of 2013, compared to $13.4 million for the first six months of 2012, due to the reasons described above.

Liquidity and Sources of Capital

As of June 30, 2013, we had $117.8 million outstanding under the revolving credit facility, approximately $74.2 million of unused borrowing availability and cash and cash equivalents of $56.2 million.

Our liquidity needs are primarily for working capital and capital expenditures. Our primary sources of liquidity have been funds provided by operations and funds available from existing bank credit arrangements and the sale of our debt securities. On April 7, 2011, we completed the sale of $250.0 million aggregate principal amount of Senior Notes. The Senior Notes bear an interest rate of 8.125% per annum and will be payable semi-annually in arrears on April 1 and October 1 of each year beginning on April 1, 2011. The Senior Notes mature on April 1, 2021.

Pursuant to the Credit Agreement, we may borrow or issue standby letters of credit or commercial letters of credit. On March 23, 2012, the Credit Agreement was amended and restated to, among other things, increase the revolving loan commitment from $200 million to $220 million, and provide a term loan for $25 million that is secured by certain real estate and machinery and equipment. Amounts borrowed under the revolving credit facility may be borrowed at either (i) LIBOR plus 1.75% to 2.75% or (ii) the bank’s prime lending rate minus .25% to 1.00%, at the Company's election. The interest rate is dependent on the Company's debt service coverage ratio, as defined in the Credit Agreement. Under the Credit Agreement, a detailed borrowing base formula provides borrowing availability to the Company based on percentages of eligible accounts receivable and inventory. On April 3, 2013, the Credit Agreement was amended to increase the advance rate on eligible accounts receivable and inventory. Interest on the term loan is at either (i) LIBOR plus 2.75% or (ii) the bank's prime lending rate plus .25%, at the Company's election. The term loan is amortized based on a seven-year schedule with the balance due at maturity (April 7, 2016).

Current financial resources (working capital and available bank borrowing arrangements) and anticipated funds from operations are expected to be adequate to meet current cash requirements for at least the next twelve months. The future availability of bank borrowings under the revolving credit facility provided by the Credit Agreement is based on our ability to meet a debt service ratio covenant, which could be materially impacted by negative economic trends. Failure to meet the debt service ratio could materially impact the availability and interest rate of future borrowings.

The Company had cash and cash equivalents held by foreign subsidiaries of $47.8 million at June 30, 2013 and $42.2 million at December 31, 2012. For each of our foreign subsidiaries, we make a determination regarding the amount of earnings intended for permanent reinvestment, with the balance, if any, available to be repatriated to the United States. The cash held by foreign subsidiaries for permanent reinvestment is generally used to finance the foreign subsidiaries' operational activities and/or future foreign investments. At June 30, 2013, management believed that sufficient liquidity was available in the United States, and it is our current intention to permanently reinvest undistributed earnings of our foreign subsidiaries outside of the United States. Although we have no intention to repatriate the approximately $85.8 million of undistributed earnings of our foreign subsidiaries, as of June 30, 2013, if we were to repatriate these earnings, there would potentially be an adverse tax impact.

At June 30, 2013, our debt service coverage ratio was 2.0, and, therefore, we were in compliance with the debt service coverage ratio covenant contained in the revolving credit facility provided by the Credit Agreement. We were also in compliance with the other covenants contained in the revolving credit facility as of June 30, 2013. The debt service coverage ratio is calculated at the end of each fiscal quarter and is based on the most recently ended four fiscal quarters of consolidated EBITDA minus cash taxes paid, minus unfunded capital expenditures, plus cash tax refunds to consolidated debt charges that are consolidated cash interest expense plus scheduled principal payments on indebtedness plus scheduled reductions in our term debt as defined in the Credit Agreement. The debt service coverage ratio must be greater than 1.0 and not less than 1.1 for any two consecutive fiscal quarters. While we expect to remain in compliance throughout 2013, declines in sales volumes in 2013 could adversely impact our ability to remain in compliance with certain of these financial covenants. Additionally, to the extent our customers are adversely affected by declines in the economy in general, they may not be able to pay their accounts payable to us on a timely basis or at all, which would make the accounts receivable ineligible for purposes of the revolving credit facility and could reduce our borrowing base and our ability to borrow under such facility.

The ratio of current assets to current liabilities was 2.43 at June 30, 2013, versus 2.42 at December 31, 2012. Working capital increased by $16.9 million to $289.2 million at June 30, 2013, from $272.3 million at December 31, 2012. Accounts receivable increased $11.1 million to $172.4 million at June 30, 2013, from $161.3 million at December 31, 2012, primarily resulting from the acquisition of Bates and its $6.0 million of accounts receivable and sales volume increases. Inventory increased by $1.8 million at June 30, 2013, to $217.4 million from $215.6 million at December 31, 2012, primarily resulting from $2.4 million of increases associated with the acquisition of Bates offset by some planned inventory reductions. Accounts payable increased $16.2 million to $118.3 million at June 30, 2013, from $102.1 million at December 31, 2012, primarily as a result of acquiring the accounts payable of Bates of $2.2 million and the timing of payments at June 30, 2013. Accrued expenses decreased by $5.8 million to $77.5 million at June 30, 2013, from $83.3 million at December 31, 2012, primarily resulting from a reduction in advance billings and payments of accrued bonuses partially offset by the accrued liabilities of Bates of $1.8 million.

During the first six months of 2013, we provided $33.8 million of cash from operating activities compared to $19.1 million in the same period of 2012. The increase in the operating cash flows of $14.7 million in the first six months of 2013 compared to the first six months of 2012 was primarily the result of an increase in net income and an increase in cash flows from operating assets and liabilities compared to the prior year. In the first six months of 2013, we used cash of $16.0 million for capital expenditures and $20.8 million for the acquisition of Bates. These activities and an increase in borrowings of $13.9 million and purchase of treasury stock of $1.5 million offset by funds received upon the exercise of stock options of $0.2 million resulted in a increase in cash of $11.8 million in the first six months of 2013.

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We do not have off-balance sheet arrangements, financing or other relationships with unconsolidated entities or other persons. There are occasions whereupon we enter into forward contracts on foreign currencies, purely for the purpose of hedging exposure to changes in the value of accounts receivable in those currencies against the U.S. dollar. At June 30, 2013, none were outstanding. We currently have no other derivative instruments.

Seasonality; Variability of Operating Results

The timing of orders placed by our customers has varied with, among other factors, orders for customers' finished goods, customer production schedules, competitive conditions and general economic conditions. The variability of the level and timing of orders has, from time to time, resulted in significant periodic and quarterly fluctuations in the operations of our business units. Such variability is particularly evident at the capital equipment business unit, included in the Engineered Products segment, which typically ships a few large systems per year.

Critical Accounting Policies

Our critical accounting policies are described in Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations, and in the notes to our Consolidated Financial Statements for the year ended December 31, 2012 contained in our 2012 Annual Report on Form 10-K. There were no new accounting policies or updates to existing accounting policies as a result of new accounting pronouncements discussed in the notes to our condensed consolidated financial statements in this Quarterly Report on Form 10-Q. The application of our critical accounting policies may require management to make judgments and estimates about the amounts reflected in the Condensed Consolidated Financial Statements. Management uses historical experience and all available information to make these estimates and judgments, and different amounts could be reported using different assumptions and estimates.

Forward-Looking Statements

This Quarterly Report on Form 10-Q contains certain statements that are "forward-looking statements" within the meaning of Section 27A of the Securities Act and Section 21E of the Exchange Act. The words "believes", "anticipates", "plans", "expects", "intends", "estimates" and similar expressions are intended to identify forward-looking statements. These forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause our actual results, performance and achievements, or industry results, to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. These factors include, but are not limited to the following: our substantial indebtedness; the uncertainty of the global economic environment; general business conditions and competitive factors, including pricing pressures and product innovation; demand for our products and services; raw material availability and pricing; component part availability and pricing; changes in our relationships with customers and suppliers; the financial condition of our customers, including the impact of any bankruptcies; our ability to successfully integrate recent and future acquisitions into existing operations; the amounts and timing, if any, of purchases of our common stock; changes in general domestic economic conditions such as inflation rates, interest rates, tax rates, unemployment rates, higher labor and healthcare costs, recessions and changing government policies, laws and regulations, including the uncertainties related to the current global financial crises; adverse impacts to us, our suppliers and customers from acts of terrorism or hostilities; our ability to meet various covenants, including financial covenants, contained in the agreements governing our indebtedness; disruptions, uncertainties or volatility in the credit markets that may limit our access to capital; potential disruption due to a partial or complete reconfiguration of the European Union; increasingly stringent domestic and foreign governmental regulations, including those affecting the environment; inherent uncertainties involved in assessing our potential liability for environmental remediation-related activities; the outcome of pending and future litigation and other claims and disputes with customers; our dependence on the automotive and heavy-duty truck industries, which are highly cyclical; the dependence of the automotive industry on consumer spending, which could be lower due to the effects of the recent financial crises; our ability to negotiate contracts with labor unions; our dependence on key management; our dependence on information systems; and the other factors we describe under the "Item 1A. Risk Factors" included in the Company's annual report on Form 10-K for the year ended December 31, 2012. Any forward-looking statement speaks only as of the date on which such statement is made, and we undertake no obligation to update any forward-looking statement, whether as a result of new information, future events or otherwise, except as required by law. In light of these and other uncertainties, the inclusion of a forward-looking statement herein should not be regarded as a representation by us that our plans and objectives will be achieved.

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Item 3. Quantitative and Qualitative Disclosure About Market Risk

We are exposed to market risk, including changes in interest rates. We are subject to interest rate risk on borrowings under the floating rate revolving credit facility and term loan provided by our Credit Agreement, which consisted of borrowings of $138.3 million at June 30, 2013. A 100-basis-point increase in the interest rate would have resulted in an increase in interest expense of approximately $0.7 million during the six month period ended June 30, 2013.

Our foreign subsidiaries generally conduct business in local currencies. During the second quarter of 2013, we recorded a favorable foreign currency translation adjustment of $0.7 million related to net assets located outside the United States. This foreign currency translation adjustment resulted primarily from the strengthening of the U.S. dollar. Our foreign operations are also subject to other customary risks of operating in a global environment, such as unstable political situations, the effect of local laws and taxes, tariff increases and regulations and requirements for export licenses, the potential imposition of trade or foreign exchange restrictions and transportation delays.

The Company periodically enters into forward contracts on foreign currencies, primarily the euro and the British pound sterling, purely for the purpose of hedging exposure to changes in the value of accounts receivable in those currencies against the U.S. dollar. We currently use no other derivative instruments. At June 30, 2013, there were no such currency hedge contracts outstanding.

Item 4. Controls and Procedures

Under the supervision of and with the participation of our management, including our chief executive officer and chief financial officer, we evaluated the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15(d)-15(e) under the Securities Exchange Act of 1934) as of the end of the period covered by this Quarterly Report. In the second quarter of fiscal 2013, the Company acquired Bates. The scope of the Company’s assessment of the effectiveness of internal control over financial reporting did not include Bates. This exclusion is in accordance with the SEC’s general guidance that an assessment of a recently acquired business may be omitted from the Company’s scope in the year of acquisition.

Based on that evaluation, our chief executive officer and chief financial officer have concluded that, as of the end of the period covered by this Quarterly Report, our disclosure controls and procedures were effective.

There have been no changes in our internal control over financial reporting that occurred during the second quarter of 2013 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

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PART II
OTHER INFORMATION

Item 1. Legal Proceedings

We are subject to various pending and threatened lawsuits in which claims for monetary damages are asserted in the ordinary course of business. While any litigation involves an element of uncertainty, in the opinion of management, liabilities, if any, arising from currently pending or threatened litigation are not expected to have a material adverse effect on our financial condition, liquidity or results of operations.

In addition to the routine lawsuits and asserted claims noted above, we were a party to the lawsuits and legal proceedings described below as of June 30, 2013:

We were a co-defendant in approximately 268 cases asserting claims on behalf of approximately 615 plaintiffs alleging personal injury as a result of exposure to asbestos. These asbestos cases generally relate to production and sale of asbestos-containing products and allege various theories of liability, including negligence, gross negligence and strict liability, and seek compensatory and, in some cases, punitive damages.

In every asbestos case in which we are named as a party, the complaints are filed against multiple named defendants. In substantially all of the asbestos cases, the plaintiffs either claim damages in excess of a specified amount, typically a minimum amount sufficient to establish jurisdiction of the court in which the case was filed (jurisdictional minimums generally range from $25,000 to $75,000), or do not specify the monetary damages sought. To the extent that any specific amount of damages is sought, the amount applies to claims against all named defendants.

There are only seven asbestos cases, involving 25 plaintiffs, that plead specified damages. In each of the seven cases, the plaintiff is seeking compensatory and punitive damages based on a variety of potentially alternative causes of action. In three cases, the plaintiff has alleged compensatory damages in the amount of $3.0 million for four separate causes of action and $1.0 million for another cause of action and punitive damages in the amount of $10.0 million. In the fourth case, the plaintiff has alleged against each named defendant, compensatory and punitive damages, each in the amount of $10.0 million, for seven separate causes of action. In the fifth case, the plaintiff has alleged compensatory damages in the amount of $20.0 million for three separate causes of action and $5.0 million for another cause of action and punitive damages in the amount of $20.0 million. In the remaining two cases, the plaintiffs have each alleged against each named defendant, compensatory and punitive damages, each in the amount of $50.0 million, for four separate causes of action.

Historically, we have been dismissed from asbestos cases on the basis that the plaintiff incorrectly sued one of our subsidiaries or because the plaintiff failed to identify any asbestos-containing product manufactured or sold by us or our subsidiaries. We intend to vigorously defend these asbestos cases, and believe we will continue to be successful in being dismissed from such cases. However, it is not possible to predict the ultimate outcome of asbestos-related lawsuits, claims and proceedings due to the unpredictable nature of personal injury litigation. Despite this uncertainty, and although our results of operations and cash flows for a particular period could be adversely affected by asbestos-related lawsuits, claims and proceedings, management believes that the ultimate resolution of these matters will not have a material adverse effect on our financial condition, liquidity or results of operations. Among the factors management considered in reaching this conclusion were: (a) our historical success in being dismissed from these types of lawsuits on the bases mentioned above; (b) many cases have been improperly filed against one of our subsidiaries; (c) in many cases the plaintiffs have been unable to establish any causal relationship to us or our products or premises; (d) in many cases, the plaintiffs have been unable to demonstrate that they have suffered any identifiable injury or compensable loss at all or that any injuries that they have incurred did in fact result from alleged exposure to asbestos; and (e) the complaints assert claims against multiple defendants and, in most cases, the damages alleged are not attributed to individual defendants. Additionally, we do not believe that the amounts claimed in any of the asbestos cases are meaningful indicators of our potential exposure because the amounts claimed typically bear no relation to the extent of the plaintiff's injury, if any.

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Our cost of defending these lawsuits has not been material to date and, based upon available information, our management does not expect its future costs for asbestos-related lawsuits to have a material adverse effect on our results of operations, liquidity or financial position.

Ajax Tocco Magnethermic ("ATM") is the defendant in a lawsuit pending in the United States District Court for the Eastern District of Arkansas. The plaintiff is IPSCO Tubulars Inc. d/b/a TMK IPSCO. The complaint alleges claims for breach of contract, gross negligence and constructive fraud. TMK IPSCO is seeking approximately $6.0 million in direct and $4.0 million in consequential damages as well as an unspecified amount of punitive damages. ATM denies the allegations against it, believes it has a number of meritorious defenses and is vigorously defending the lawsuit. A motion for partial summary judgment filed by ATM that, among other things, denied the plaintiff's fraud claims was granted by the district court. The remaining claims were the subject of a bench trial in May 2013. At the close of TMK IPSCO's case, the court entered partial judgment in favor of ATM, dismissing the gross negligence claim, dismissing a portion of the breach of contract claim, and dismissing any claim for punitive damages. The trial proceeded with respect to the remainder of TMK IPSCO's claim for damages. Post-trial briefing was submitted to the court in July 2013 and closing arguments are scheduled to be heard in August 2013.

Item 1A. Risk Factors

There have been no material changes in the risk factors previously disclosed in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2012.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

Set forth below is information regarding our repurchases of our common stock during the quarter ended June 30, 2013.

Period	Total Number of Shares Purchased		Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans (1)	Maximum Number of Shares That May Yet Be Purchased Under the Plans or Program
April 1 — April 31, 2013	3,000		$35.36	3,000	992,000
May 1 — May 31, 2013	15,770	(2)	36.51	—	992,000
June 1 — June 30, 2013	19,558	(2)	36.62	—	992,000
Total	38,328		$36.48	3,000	992,000

(1) On March 4, 2013, we announced a share repurchase program whereby we may repurchase up to 1.0 million shares of our outstanding common stock. During the second quarter of 2013, 3,000 shares were purchased as part of this program.

(2) Consists of shares of common stock we acquired from recipients of restricted stock awards at the time of vesting of such awards in order to settle recipient minimum withholding tax liabilities.

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Item 6. Exhibits

The following exhibits are included herein:

31.1	Principal Executive Officer's Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Principal Financial Officer's Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32	Certification requirement under Section 906 of the Sarbanes-Oxley Act of 2002
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document

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SIGNATURES

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

PARK-OHIO HOLDINGS CORP.
(Registrant)

By:	/s/ W. Scott Emerick
Name:	W. Scott Emerick
Title:	Vice President and Chief Financial Officer (Principal Financial and Accounting Officer)

Date: August 9, 2013

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EXHIBIT INDEX
QUARTERLY REPORT ON FORM 10-Q
PARK-OHIO HOLDINGS CORP. AND SUBSIDIARIES
FOR THE QUARTER ENDED JUNE 30, 2013

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