

TIDEWATER INC
Form 10-Q
October 27, 2008

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the Quarterly Period Ended September 30, 2008

OR

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

For the transition period from _____ to _____.

Commission file number: 1-6311

Tidewater Inc.

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

601 Poydras St., Suite 1900

New Orleans, Louisiana 70130

(Address of principal executive offices, including zip code)

72-0487776
(I.R.S. employer
identification no.)

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(504) 568-1010

(Registrant's telephone number, including area code)

N/A

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

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

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

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

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

51,539,254 shares of Tidewater Inc. common stock \$.10 par value per share were outstanding on October 17, 2008. Registrant has no other class of common stock outstanding.

PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS
TIDEWATER INC.

UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEETS

(In thousands, except share and par value data)

	September 30, 2008	March 31, 2008
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 144,552	270,205
Trade and other receivables, net	337,385	308,813
Marine operating supplies	54,684	46,369
Other current assets	11,852	5,208
Total current assets	548,473	630,595
Investments in, at equity, and advances to unconsolidated companies	28,695	27,433
Properties and equipment:		
Vessels and related equipment	3,082,637	2,867,391
Other properties and equipment	83,111	82,357
	3,165,748	2,949,748
Less accumulated depreciation and amortization	1,293,424	1,270,710
Net properties and equipment	1,872,324	1,679,038
Goodwill	328,754	328,754
Other assets	88,732	85,960
Total assets	\$ 2,866,978	2,751,780
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Current maturities on capitalized lease obligations		10,059
Accounts payable	84,377	93,147
Accrued expenses	54,838	54,497
Accrued property and liability losses	6,085	6,271
Other current liabilities	52,295	34,930
Total current liabilities	197,595	198,904
Long-term debt	300,000	300,000
Deferred income taxes	196,279	189,605
Accrued property and liability losses	10,239	12,530
Other liabilities and deferred credits	120,545	120,657
Commitment and contingencies (Note 5)		
Stockholders equity:		
Common stock of \$.10 par value, 125,000,000 shares authorized, issued 51,539,804 shares at September and 52,318,806 shares at March	5,154	5,232
Other stockholders equity	2,037,166	1,924,852
Total stockholders equity	2,042,320	1,930,084
Total liabilities and stockholders equity	\$ 2,866,978	2,751,780

See Notes to Unaudited Condensed Consolidated Financial Statements.

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

(In thousands, except share and per share data)

	Quarter Ended		Six Months Ended	
	September 30, 2008	2007	September 30, 2008	2007
Revenues:				
Vessel revenues	\$ 344,637	297,368	673,008	590,259
Other marine revenues	2,192	21,678	13,875	34,269
	346,829	319,046	686,883	624,528
Costs and expenses:				
Vessel operating costs	175,371	142,307	352,099	280,847
Costs of other marine revenues	1,315	19,485	11,744	31,232
Depreciation and amortization	30,657	29,836	61,278	58,033
General and administrative	35,315	30,680	70,423	62,192
Gain on sales of assets	(5,851)	(2,102)	(16,238)	(9,032)
	236,807	220,206	479,306	423,272
	110,022	98,840	207,577	201,256
Other income (expenses):				
Foreign exchange gain (loss)	2,487	141	1,297	(384)
Equity in net earnings of unconsolidated companies	3,798	3,725	7,994	7,111
Interest income and other, net	1,425	4,061	3,324	9,702
Interest and other debt costs	(108)	(1,336)	(428)	(4,178)
	7,602	6,591	12,187	12,251
Earnings before income taxes	117,624	105,431	219,764	213,507
Income taxes	22,193	18,965	39,557	39,499
Net earnings	\$ 95,431	86,466	180,207	174,008
Basic earnings per common share	\$ 1.86	1.57	3.51	3.13
Diluted earnings per common share	\$ 1.85	1.56	3.49	3.11
Weighted average common shares outstanding	51,246,848	55,111,678	51,394,460	55,593,382
Incremental common shares from stock options	239,236	447,266	267,346	447,033
Adjusted weighted average common shares	51,486,084	55,558,944	51,661,806	56,040,415
Cash dividends declared per common share	\$.25	.15	.50	.30

See Notes to Unaudited Condensed Consolidated Financial Statements.

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

(In thousands)

	Six Months Ended	
	September 30, 2008	2007
Operating activities:		
Net earnings	\$ 180,207	174,008
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation and amortization	61,278	58,033
Provision (benefit) for deferred income taxes	(4,890)	(13,399)
Gain on sales of assets	(16,238)	(9,032)
Equity in earnings of unconsolidated companies, net of dividends	(1,574)	(6,620)
Compensation expense - stock-based	6,152	6,049
Excess tax benefits on stock options exercised	(1,438)	(15,102)
Changes in assets and liabilities, net:		
Trade and other receivables	(23,522)	(9,185)
Marine operating supplies	(8,315)	4,547
Other current assets	(6,644)	(3,281)
Accounts payable	(9,442)	(4,804)
Accrued expenses	341	7,777
Accrued property and liability losses	(187)	(106)
Other current liabilities	19,143	27,003
Other, net	2,032	4,583
Net cash provided by operating activities	196,903	220,471
Cash flows from investing activities:		
Proceeds from sales of assets	20,638	58,714
Additions to properties and equipment	(259,845)	(216,453)
Other	312	
Net cash used in investing activities	(238,895)	(157,739)
Cash flows from financing activities:		
Principal payments on capitalized lease obligations	(10,059)	(2,527)
Proceeds from exercise of stock options	4,347	43,419
Cash dividends	(25,753)	(16,806)
Stock repurchases	(53,634)	(174,743)
Excess tax benefits on stock options exercised	1,438	15,102
Net cash used in financing activities	(83,661)	(135,555)
Net change in cash and cash equivalents	(125,653)	(72,823)
Cash and cash equivalents at beginning of period	270,205	393,806
Cash and cash equivalents at end of period	\$ 144,552	320,983
Supplemental disclosure of cash flow information:		
Cash paid during the period for:		
Interest	\$ 6,970	8,839
Income taxes	\$ 29,833	29,297
Non-cash financing activities:		
Capitalized leases	\$	33,876

See Notes to Unaudited Condensed Consolidated Financial Statements.

TIDEWATER INC.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(1) Interim Financial Statements

The unaudited condensed consolidated financial statements for the interim periods presented herein have been prepared in conformity with United States generally accepted accounting principles and, in the opinion of management, include all adjustments (consisting only of normal recurring adjustments) necessary for a fair presentation of the condensed consolidated balance sheets and the condensed consolidated statements of earnings and cash flows at the dates and for the periods indicated as required by Rule 10-01 of Regulation S-X of the Securities and Exchange Commission (SEC). Results of operations for interim periods are not necessarily indicative of results of operations for the respective full years. These unaudited condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto in the company's Annual Report on Form 10-K for the year ended March 31, 2008, filed with the SEC on May 30, 2008.

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

(2) Stockholders' Equity

Common Stock Repurchase Program

In July 2008, the company's Board of Directors authorized the company to repurchase up to \$200.0 million in shares of its common stock in open-market or privately-negotiated transactions. The company will use its available cash and, when considered advantageous, borrowings under its revolving credit facility or other borrowings, to fund any share repurchases. The repurchase program will end on the earlier of the date that all authorized funds have been expended or June 30, 2009, unless extended by the Board of Directors. No amounts were expended for the quarter ended September 30, 2008. At September 30, 2008, \$200.0 million was available to repurchase shares of the company's common stock pursuant to the July 2008 authorized stock repurchase program. The company will continue to evaluate share repurchase opportunities relative to other investment opportunities and in the context of current conditions in the credit and capital markets.

In July 2007, the company's Board of Directors authorized the company to repurchase up to \$200.0 million in shares of its common stock in open-market or privately-negotiated transactions, which program the Board expanded by an additional \$50.0 million on January 31, 2008. The Board of Directors' authorization for this repurchase program expired on June 30, 2008. From inception of the July 2007 authorized program through its conclusion on June 30, 2008, the company expended the entire \$250.0 million authorization to repurchase and cancel 4,502,100 common shares at an average price paid per common share of \$55.53. For the quarter ended September 30, 2007, the company expended \$61.1 million to repurchase and cancel 950,000 common shares at an average price paid per common share of \$64.27.

In July 2006, the company's Board of Directors authorized the company to repurchase up to \$157.9 million in shares of its common stock in open-market or privately-negotiated transactions. The Board of Directors' authorization for this repurchase program expired on June 30, 2007. From inception of the July 2006 authorized repurchase program through its conclusion on June 30, 2007, the company expended \$154.1 million to repurchase and cancel 2,560,500 common shares at an average price paid per common share of \$60.17. For the three-month period ended June 30, 2007, the company expended \$113.7 million to repurchase and cancel 1,693,400 common shares at an average price paid per common share of \$67.13.

Dividend Program

In May 2008, the company's Board of Directors authorized the increase of its dividend from \$0.15 per share to \$0.25 per share, a 67% increase. On July 31, 2008, the company's Board of Directors declared a quarterly dividend of \$0.25 per share. Future dividends are subject to declaration by the company's Board of Directors.

(3) Income Taxes

The effective tax rate applicable to pre-tax earnings, for the quarter and six-month periods ended September 30, 2008, was 18.9% and 18%, respectively. The effective tax rate applicable to pre-tax earnings for the quarter and six-month periods ended September 30, 2007 was 18% and 18.5%, respectively.

On January 9, 2008, the U.S. District Court for the Eastern District of Louisiana rendered a summary judgment in the company's favor concerning the disallowance by the IRS of the company's tax deduction for foreign sales corporation commissions for fiscal years 1999 and 2000. On March 6, 2008, the IRS appealed the district court's decision to the Fifth Circuit Court of Appeals. Although the ultimate resolution of this matter can not be predicted, it is reasonably possible that the dispute will be resolved within the next twelve months. The company has approximately \$28.5 million of tax liabilities recorded at September 30, 2008, with respect to this issue, which includes liabilities recorded for similar deductions taken in years subsequent to fiscal 2000 that would be reversed should these deductions ultimately be allowed.

Penalties and interest related to FIN 48 liabilities are recorded as income tax expense for financial statement purposes.

Included in other current liabilities at September 30, 2008 and March 31, 2008 are taxes payable (primarily income) of \$38.3 million and \$22.1 million, respectively.

(4) Employee Benefit Plans

The company has a defined benefit pension plan that covers certain U.S. citizen employees and employees who are permanent residents of the United States. Benefits are based on years of service and employee compensation. In addition, the company also offers a supplemental retirement plan (supplemental plan) that provides pension benefits to certain employees in excess of those allowed under the company's tax-qualified pension plan. The company contributed \$0.4 million and \$3.1 million to the defined benefit pension plan during the quarter and six-month period ended September 30, 2008 and expects to contribute an additional \$0.9 million to the plan during the remainder of the current fiscal year. The company contributed \$0.3 million and \$0.7 million to the defined benefit pension plan during the quarter and six-month period ended September 30, 2007.

Qualified retired employees currently are covered by a program that provides limited health care and life insurance benefits. Costs of the program are based on actuarially determined amounts and are accrued over the period from the date of hire to the full eligibility date of employees who are expected to qualify for these benefits.

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

(In thousands)	Quarter Ended		Six Months Ended	
	September 30, 2008	September 30, 2007	September 30, 2008	September 30, 2007
Pension Benefits:				
Service cost	\$ 265	297	530	594
Interest cost	1,150	1,052	2,300	2,104
Expected return on plan assets	(635)	(638)	(1,270)	(1,276)
Amortization of prior service cost	3	6	6	12
Recognized actuarial loss	400	488	800	976
Net periodic benefit cost	\$ 1,183	1,205	2,366	2,410
Other Benefits:				
Service cost	\$ 281	342	562	684
Interest cost	514	458	1,028	916
Amortization of prior service cost	(496)	(547)	(992)	(1,094)
Recognized actuarial loss	268	339	536	678
Net periodic benefit cost	\$ 567	592	1,134	1,184

(5) Commitments and contingencies

The company previously indicated that it believed it had sufficient financial capacity to support a \$1.0 billion annual investment in acquiring or building new vessels for the intermediate term, assuming customer demand, acquisition and shipyard economics and other considerations justified such an investment. At present, due to the financial market uncertainties, it is unclear whether adequate capital and liquidity will be available to supplement cash generated by the company to fully implement the continuation of its fleet replacement program at this level, or, if available, on terms and pricing as advantageous as the company has enjoyed historically. The company continues to evaluate its fleet renewal program, whether through new construction or acquisitions, relative to other investment opportunities and uses of cash, including the current share repurchase authorization, and in the context of current conditions in the credit and capital markets. At September 30, 2008, the company had approximately \$145.0 million of cash and cash equivalents. In addition, at September 30, 2008, the entire amount of the company's \$300.0 million revolving credit facility was available for future financing needs.

Vessel Commitments

As of September 30, 2008, the company has commitments to build 57 vessels at a total cost of approximately \$1.2 billion, which includes contract costs and other incidental costs. The company is committed to the construction of 23 anchor handling towing supply vessels ranging between 6,500 to 13,600 brake horsepower (BHP), 28 platform supply vessels, 4 crewboats, and 2 offshore tugs. Scheduled delivery of the vessels is expected to begin in October 2008 with delivery of the final vessel in July 2012. As of September 30, 2008, \$377.9 million has been expended on these vessels.

The company's vessel construction program has been