

TIDEWATER INC  
Form 10-Q  
November 05, 2013

**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, 2013**

**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 of incorporation)**

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

**601 Poydras St., Suite 1500**

**New Orleans, Louisiana 70130**

**(Address of principal executive offices) (zip code)**

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

Not Applicable

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

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

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

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

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

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

49,584,249 shares of Tidewater Inc. common stock \$.10 par value per share were outstanding on October 25, 2013. Registrant has no other class of common stock outstanding.

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**PART I. FINANCIAL INFORMATION**
**ITEM 1. FINANCIAL STATEMENTS****TIDEWATER INC.****CONDENSED CONSOLIDATED BALANCE SHEETS**

(Unaudited)

(In thousands, except share and par value data)

|                                                                                                                                                         | September 30, | March 31, |
|---------------------------------------------------------------------------------------------------------------------------------------------------------|---------------|-----------|
|                                                                                                                                                         | 2013          | 2013      |
| <b>ASSETS</b>                                                                                                                                           |               |           |
| Current assets:                                                                                                                                         |               |           |
| Cash and cash equivalents                                                                                                                               | \$ 45,534     | 40,569    |
| Trade and other receivables, net                                                                                                                        | 558,824       | 393,438   |
| Marine operating supplies                                                                                                                               | 53,744        | 62,348    |
| Other current assets                                                                                                                                    | 23,653        | 11,735    |
| Total current assets                                                                                                                                    | 681,755       | 508,090   |
| Investments in, at equity, and advances to unconsolidated companies                                                                                     | 52,254        | 46,047    |
| Properties and equipment:                                                                                                                               |               |           |
| Vessels and related equipment                                                                                                                           | 4,533,231     | 4,250,169 |
| Other properties and equipment                                                                                                                          | 65,791        | 83,779    |
|                                                                                                                                                         | 4,599,022     | 4,333,948 |
| Less accumulated depreciation and amortization                                                                                                          | 1,067,673     | 1,144,129 |
| Net properties and equipment                                                                                                                            | 3,531,349     | 3,189,819 |
| Goodwill                                                                                                                                                | 339,982       | 297,822   |
| Other assets                                                                                                                                            | 149,239       | 126,277   |
| Total assets                                                                                                                                            | \$ 4,754,579  | 4,168,055 |
| <b>LIABILITIES AND STOCKHOLDERS EQUITY</b>                                                                                                              |               |           |
| Current liabilities:                                                                                                                                    |               |           |
| Accounts payable                                                                                                                                        | \$ 89,689     | 63,602    |
| Accrued expenses                                                                                                                                        | 168,185       | 159,086   |
| Accrued property and liability losses                                                                                                                   | 4,099         | 4,133     |
| Other current liabilities                                                                                                                               | 39,334        | 39,808    |
| Total current liabilities                                                                                                                               | 301,307       | 266,629   |
| Long-term debt                                                                                                                                          | 1,445,628     | 1,000,000 |
| Deferred income taxes                                                                                                                                   | 188,771       | 189,763   |
| Accrued property and liability losses                                                                                                                   | 9,936         | 10,833    |
| Other liabilities and deferred credits                                                                                                                  | 174,370       | 139,074   |
| Commitments and Contingencies (Note 8)                                                                                                                  |               |           |
| Stockholders equity:                                                                                                                                    |               |           |
| Common stock of \$0.10 par value, 125,000,000 shares authorized, issued 49,577,276 shares at September 30, 2013 and 49,485,832 shares at March 31, 2013 | 4,958         | 4,949     |

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|                                            |              |           |
|--------------------------------------------|--------------|-----------|
| Additional paid-in capital                 | 133,386      | 119,975   |
| Retained earnings                          | 2,513,193    | 2,453,973 |
| Accumulated other comprehensive loss       | (16,970)     | (17,141)  |
| Total stockholders' equity                 | 2,634,567    | 2,561,756 |
| Total liabilities and stockholders' equity | \$ 4,754,579 | 4,168,055 |

The accompanying notes are an integral part of the condensed consolidated financial statements.

## TIDEWATER INC.

## CONDENSED CONSOLIDATED STATEMENTS OF EARNINGS

(Unaudited)

(In thousands, except share and per share data)

|                                                       | Quarter Ended<br>September 30, |               | Six Months Ended<br>September 30, |                |
|-------------------------------------------------------|--------------------------------|---------------|-----------------------------------|----------------|
|                                                       | 2013                           | 2012          | 2013                              | 2012           |
| <b>Revenues:</b>                                      |                                |               |                                   |                |
| Vessel revenues                                       | \$ 363,668                     | 309,822       | 695,298                           | 599,916        |
| Other operating revenues                              | 4,269                          | 2,096         | 6,724                             | 6,450          |
|                                                       | 367,937                        | 311,918       | 702,022                           | 606,366        |
| <b>Costs and expenses:</b>                            |                                |               |                                   |                |
| Vessel operating costs                                | 195,316                        | 172,652       | 391,477                           | 333,988        |
| Costs of other operating revenues                     | 4,040                          | 1,585         | 6,060                             | 5,108          |
| General and administrative                            | 46,038                         | 41,867        | 96,518                            | 82,531         |
| Vessel operating leases                               | 3,971                          | 4,403         | 8,002                             | 8,895          |
| Depreciation and amortization                         | 42,056                         | 36,047        | 82,164                            | 71,831         |
| Gain on asset dispositions, net                       | (49)                           | (1,833)       | (2,189)                           | (2,671)        |
|                                                       | 291,372                        | 254,721       | 582,032                           | 499,682        |
| <b>Operating income</b>                               | <b>76,565</b>                  | <b>57,197</b> | <b>119,990</b>                    | <b>106,684</b> |
| <b>Other income (expenses):</b>                       |                                |               |                                   |                |
| Foreign exchange gain (loss)                          | 3,017                          | 529           | 2,928                             | (1,222)        |
| Equity in net earnings of unconsolidated companies    | 3,781                          | 3,357         | 8,201                             | 5,720          |
| Interest income and other, net                        | 538                            | 1,128         | 1,278                             | 1,847          |
| Loss on early extinguishment of debt                  | (4,144)                        | ---           | (4,144)                           | ---            |
| Interest and other debt costs                         | (9,918)                        | (7,148)       | (18,831)                          | (14,735)       |
|                                                       | (6,726)                        | (2,134)       | (10,568)                          | (8,390)        |
| <b>Earnings before income taxes</b>                   | <b>69,839</b>                  | <b>55,063</b> | <b>109,422</b>                    | <b>98,294</b>  |
| Income tax expense                                    | 15,667                         | 13,707        | 25,167                            | 24,082         |
| <b>Net earnings</b>                                   | <b>\$ 54,172</b>               | <b>41,356</b> | <b>84,255</b>                     | <b>74,212</b>  |
| <br>                                                  |                                |               |                                   |                |
| Basic earnings per common share                       | \$ 1.10                        | 0.84          | 1.71                              | 1.49           |
| Diluted earnings per common share                     | \$ 1.09                        | 0.83          | 1.70                              | 1.48           |
| <br>                                                  |                                |               |                                   |                |
| Weighted average common shares outstanding            | 49,274,816                     | 49,392,973    | 49,253,409                        | 49,792,212     |
| Dilutive effect of stock options and restricted stock | 448,303                        | 232,097       | 395,983                           | 214,291        |
| Adjusted weighted average common shares               | 49,723,119                     | 49,625,070    | 49,649,392                        | 50,006,503     |
| <br>                                                  |                                |               |                                   |                |
| Cash dividends declared per common share              | \$ 0.25                        | 0.25          | 0.50                              | 0.50           |

The accompanying notes are an integral part of the condensed consolidated financial statements.



**TIDEWATER INC.****CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**

(Unaudited)

(In thousands)

|                                                                                                            | Quarter Ended<br>September 30, |               | Six Months Ended<br>September 30, |               |
|------------------------------------------------------------------------------------------------------------|--------------------------------|---------------|-----------------------------------|---------------|
|                                                                                                            | 2013                           | 2012          | 2013                              | 2012          |
| Net earnings                                                                                               | \$ 54,172                      | 41,356        | 84,255                            | 74,212        |
| Other comprehensive income/(loss):                                                                         |                                |               |                                   |               |
| Unrealized gains/(losses) on available-for-sale securities net of tax of \$(93), \$225, \$(33) and \$(110) | (173)                          | 419           | (62)                              | (205)         |
| Amortization of loss on derivative contract net of tax of \$62, \$63, \$125 and \$125                      | 116                            | 117           | 233                               | 233           |
| <b>Total comprehensive income</b>                                                                          | <b>\$ 54,115</b>               | <b>41,892</b> | <b>84,426</b>                     | <b>74,240</b> |

The accompanying notes are an integral part of the condensed consolidated financial statements.

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

(Unaudited)

(In thousands)

|                                                                                     | Six Months Ended<br>September 30, |                  |
|-------------------------------------------------------------------------------------|-----------------------------------|------------------|
|                                                                                     | 2013                              | 2012             |
| <b>Operating activities:</b>                                                        |                                   |                  |
| Net earnings                                                                        | \$ 84,255                         | 74,212           |
| Adjustments to reconcile net earnings to net cash provided by operating activities: |                                   |                  |
| Depreciation and amortization                                                       | 82,164                            | 71,831           |
| Benefit for deferred income taxes                                                   | (10,215)                          | (4,372)          |
| Gain on asset dispositions, net                                                     | (2,189)                           | (2,671)          |
| Equity in earnings of unconsolidated companies, less dividends                      | (6,167)                           | (4,031)          |
| Compensation expense - stock-based                                                  | 10,999                            | 10,320           |
| Excess tax benefit on stock options exercised                                       | (341)                             | (95)             |
| Changes in assets and liabilities, net:                                             |                                   |                  |
| Trade and other receivables                                                         | (165,573)                         | (20,707)         |
| Marine operating supplies                                                           | 9,363                             | (2,281)          |
| Other current assets                                                                | (10,666)                          | (5,565)          |
| Accounts payable                                                                    | 11,461                            | 16,195           |
| Accrued expenses                                                                    | 8,631                             | 6,176            |
| Accrued property and liability losses                                               | 39                                | (241)            |
| Other current liabilities                                                           | 276                               | 1,134            |
| Other liabilities and deferred credits                                              | (531)                             | 3,508            |
| Other, net                                                                          | (1,678)                           | 2,846            |
| <b>Net cash provided by operating activities</b>                                    | <b>9,828</b>                      | <b>146,259</b>   |
| <b>Cash flows from investing activities:</b>                                        |                                   |                  |
| Proceeds from sales of assets                                                       | 7,646                             | 9,977            |
| Proceeds from sale/leaseback of assets                                              | 65,550                            | ---              |
| Additions to properties and equipment                                               | (220,309)                         | (189,826)        |
| Payments for acquisition, net of cash acquired                                      | (127,737)                         | ---              |
| Other                                                                               | (687)                             | (1,338)          |
| <b>Net cash used in investing activities</b>                                        | <b>(275,537)</b>                  | <b>(181,187)</b> |
| <b>Cash flows from financing activities:</b>                                        |                                   |                  |
| Debt issuance costs                                                                 | (3,845)                           | ---              |
| Principal payment on long-term debt                                                 | (691,615)                         | (60,000)         |
| Debt borrowings                                                                     | 986,262                           | ---              |
| Proceeds from exercise of stock options                                             | 4,421                             | 938              |
| Cash dividends                                                                      | (24,890)                          | (25,058)         |
| Excess tax benefit on stock options exercised                                       | 341                               | 95               |
| Stock repurchases                                                                   | ---                               | (65,028)         |
| <b>Net cash provided by (used in) financing activities</b>                          | <b>270,674</b>                    | <b>(149,053)</b> |
| <b>Net change in cash and cash equivalents</b>                                      | <b>4,965</b>                      | <b>(183,981)</b> |
| Cash and cash equivalents at beginning of period                                    | 40,569                            | 320,710          |
| <b>Cash and cash equivalents at end of period</b>                                   | <b>\$ 45,534</b>                  | <b>136,729</b>   |



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Supplemental disclosure of cash flow information:

Cash paid during the period for:

|                                                           |    |        |        |
|-----------------------------------------------------------|----|--------|--------|
| Interest                                                  | \$ | 23,338 | 19,259 |
| Income taxes                                              | \$ | 32,144 | 27,075 |
| Supplemental disclosure of non-cash investing activities: |    |        |        |
| Additions to properties and equipment                     | \$ | 4,157  | 6,724  |
| Increase in receivables due to sale of shipyard           | \$ | 6,500  | ---    |

The accompanying notes are an integral part of the condensed consolidated financial statements.

**TIDEWATER INC.****CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY**

(Unaudited)

(In thousands)

|                                                     | Common<br>stock | Additional<br>paid-in<br>capital | Retained<br>earnings | Accumulated<br>other<br>comprehensive<br>loss | Total     |
|-----------------------------------------------------|-----------------|----------------------------------|----------------------|-----------------------------------------------|-----------|
| <b>Balance at March 31, 2013</b>                    | \$ 4,949        | 119,975                          | 2,453,973            | (17,141)                                      | 2,561,756 |
| Total comprehensive income                          | ---             | ---                              | 84,255               | 171                                           | 84,426    |
| Stock option activity                               | 12              | 4,763                            | ---                  | ---                                           | 4,775     |
| Cash dividends declared                             | ---             | ---                              | (25,035)             | ---                                           | (25,035)  |
| Amortization/cancellation of restricted stock units | ---             | 6,220                            | ---                  | ---                                           | 6,220     |
| Amortization/cancellation of restricted stock       | (3)             | 2,428                            | ---                  | ---                                           | 2,425     |
| <b>Balance at September 30, 2013</b>                | \$ 4,958        | 133,386                          | 2,513,193            | (16,970)                                      | 2,634,567 |
| <b>Balance at March 31, 2012</b>                    | \$ 5,125        | 102,726                          | 2,437,836            | (19,330)                                      | 2,526,357 |
| Total comprehensive income                          | ---             | ---                              | 74,212               | 28                                            | 74,240    |
| Stock option activity                               | 3               | 2,148                            | ---                  | ---                                           | 2,151     |
| Cash dividends declared                             | ---             | ---                              | (25,169)             | ---                                           | (25,169)  |
| Retirement of common stock                          | (140)           | ---                              | (64,888)             | ---                                           | (65,028)  |
| Amortization/cancellation of restricted stock units | ---             | 3,867                            | ---                  | ---                                           | 3,867     |
| Amortization/cancellation of restricted stock       | (6)             | 3,865                            | ---                  | ---                                           | 3,859     |
| <b>Balance at September 30, 2012</b>                | \$ 4,982        | 112,606                          | 2,421,991            | (19,302)                                      | 2,520,277 |

The accompanying notes are an integral part of the 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 unaudited condensed consolidated financial statements 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, 2013, filed with the SEC on May 21, 2013.

The unaudited condensed consolidated financial statements include the accounts of Tidewater Inc. and its subsidiaries. Intercompany balances and transactions are eliminated in consolidation. The company uses the equity method to account for equity investments over which the company exercises significant influence but does not exercise control and is not the primary beneficiary. Unless otherwise specified, all per share information included in this document is on a diluted earnings per share basis.

The company made certain reclassifications to prior period amounts to conform to the current year presentation. These reclassifications did not have a material effect on the condensed consolidated statements of earnings, balance sheets or cash flows.

**(2) ACQUISITION**

**Troms Offshore Supply AS**

On June 4, 2013, the company, through a subsidiary, acquired Troms Offshore Supply AS, a Norwegian company (Troms Offshore). At the time of the acquisition, Troms Offshore owned four deepwater PSVs, and had two additional deepwater PSVs under construction, one of which was delivered shortly after the acquisition. The purchase price (not including transaction costs) included a \$150.0 million cash payment to the shareholders of Troms Offshore and the assumption of approximately \$261.3 million of combined Troms Offshore obligations, comprised of net interest-bearing debt and the remaining installment payments due on vessels under construction. The company has performed a fair value analysis and the purchase price was allocated to the acquired assets and liabilities based on their fair values resulting in \$42.2 million of goodwill, all of which was allocated to our Sub-Saharan Africa/Europe segment. The allocation is preliminary and based on estimates and assumptions that are subject to change within the purchase price allocation period (generally one year from the acquisition date).

The following table summarizes the allocation of the purchase price for the acquisition of Troms Offshore:

| (In thousands)                             |                   |
|--------------------------------------------|-------------------|
| Cash                                       | \$ 22,263         |
| Trade receivables and other current assets | 9,816             |
| Vessels                                    | 245,605           |
| Goodwill                                   | 42,160            |
| Payable and other liabilities              | (13,020)          |
| Notes payable                              | (156,824)         |
| <b>Total purchase price</b>                | <b>\$ 150,000</b> |

The effect of the acquisition on pro forma results of operations and the condensed consolidated statement of operations for the six months ended September 30, 2013 are immaterial and therefore not presented.

**(3) STOCKHOLDERS EQUITY****Common Stock Repurchase Program**

On May 15, 2013, the company's Board of Directors authorized the company to spend up to \$200 million to repurchase shares of its common stock in open-market or privately-negotiated transactions. The effective period for this authorization is July 1, 2013 through June 30, 2014. The company uses its available cash and, when considered advantageous, borrowings under its revolving credit facility or other borrowings, to fund any share repurchases. The company evaluates share repurchase opportunities relative to other investment opportunities and in the context of current conditions in the credit and capital markets.

On May 17, 2012, the company's Board of Directors authorized the company to spend up to \$200.0 million to repurchase shares of its common stock in open-market or privately-negotiated transactions. The effective period for this authorization was July 1, 2012 through June 30, 2013.

The aggregate dollar outlay for common stock repurchased, along with number of shares repurchased, and average price paid per share, for the quarters and six-month periods ended September 30 is as follows:

| (In thousands, except share and per share data)      | Quarter Ended<br>September 30, |      | Six Months Ended<br>September 30, |           |
|------------------------------------------------------|--------------------------------|------|-----------------------------------|-----------|
|                                                      | 2013                           | 2012 | 2013                              | 2012      |
| Aggregate dollar outlay for common stock repurchased | \$ ---                         | ---  | ---                               | 65,028    |
| Shares of common stock repurchased                   | ---                            | ---  | ---                               | 1,400,500 |
| Average price paid per common share                  | \$ ---                         | ---  | ---                               | 46.43     |

**Dividends**

The declaration of dividends is at the discretion of the company's Board of Directors. The Board of Directors declared the following dividends for the quarters and six-month periods ended September 30:

| (In thousands, except dividend per share) | Quarter Ended<br>September 30, |        | Six Months Ended<br>September 30, |        |
|-------------------------------------------|--------------------------------|--------|-----------------------------------|--------|
|                                           | 2013                           | 2012   | 2013                              | 2012   |
| Dividends declared                        | \$ 12,536                      | 12,544 | 25,035                            | 25,169 |
| Dividend per share                        | 0.25                           | 0.25   | 0.50                              | 0.50   |

**Accumulated Other Comprehensive Loss**

The changes in accumulated other comprehensive income by component, net of tax for the quarters and six month periods ended September 30, 2013 and 2012 are as follows:

| (in thousands)                   | For the quarter ended September 30, 2013 |                                   |                        |                |                           | For the six months ended September 30, 2013 |                    |                                   |                        |                 |                           |
|----------------------------------|------------------------------------------|-----------------------------------|------------------------|----------------|---------------------------|---------------------------------------------|--------------------|-----------------------------------|------------------------|-----------------|---------------------------|
|                                  | Balance at 6/30/13                       | Reclasses                         |                        |                |                           | Balance at 6/30/13                          | Balance at 3/31/13 | Reclasses                         |                        |                 | Remaining balance 9/30/13 |
|                                  |                                          | Gains/ (losses) recognized in OCI | from OCI to net income | Net period OCI | Remaining balance 9/30/13 |                                             |                    | Gains/ (losses) recognized in OCI | from OCI to net income | Net period OCI  |                           |
| Available for sale securities    | (10)                                     | (237)                             | 64                     | (173)          | (183)                     | (121)                                       | (206)              | 144                               | (62)                   | (183)           |                           |
| Currency translation adjustment  | (9,811)                                  | ---                               | ---                    | ---            | (9,811)                   | (9,811)                                     | ---                | ---                               | ---                    | (9,811)         |                           |
| Pension/Post-retirement benefits | (4,353)                                  | ---                               | ---                    | ---            | (4,353)                   | (4,353)                                     | ---                | ---                               | ---                    | (4,353)         |                           |
| Interest rate swaps              | (2,739)                                  | ---                               | 116                    | 116            | (2,623)                   | (2,856)                                     | ---                | 233                               | 233                    | (2,623)         |                           |
| <b>Total</b>                     | <b>(16,913)</b>                          | <b>(237)</b>                      | <b>180</b>             | <b>(57)</b>    | <b>(16,970)</b>           | <b>(17,141)</b>                             | <b>(206)</b>       | <b>377</b>                        | <b>171</b>             | <b>(16,970)</b> |                           |

| (in thousands)                   | For the quarter ended September 30, 2012 |                                   |                        |                |                           | For the six months ended September 30, 2012 |                    |                                   |                        |                 |                           |
|----------------------------------|------------------------------------------|-----------------------------------|------------------------|----------------|---------------------------|---------------------------------------------|--------------------|-----------------------------------|------------------------|-----------------|---------------------------|
|                                  | Balance at 6/30/12                       | Reclasses                         |                        |                |                           | Balance at 6/30/12                          | Balance at 3/31/12 | Reclasses                         |                        |                 | Remaining balance 9/30/12 |
|                                  |                                          | Gains/ (losses) recognized in OCI | from OCI to net income | Net period OCI | Remaining balance 9/30/12 |                                             |                    | Gains/ (losses) recognized in OCI | from OCI to net income | Net period OCI  |                           |
| Available for sale securities    | (373)                                    | 410                               | 9                      | 419            | 46                        | 251                                         | (351)              | 146                               | (205)                  | 46              |                           |
| Currency translation adjustment  | (9,811)                                  | ---                               | ---                    | ---            | (9,811)                   | (9,811)                                     | ---                | ---                               | ---                    | (9,811)         |                           |
| Pension/Post-retirement benefits | (6,448)                                  | ---                               | ---                    | ---            | (6,448)                   | (6,448)                                     | ---                | ---                               | ---                    | (6,448)         |                           |
| Interest rate swaps              | (3,206)                                  | ---                               | 117                    | 117            | (3,089)                   | (3,322)                                     | ---                | 233                               | 233                    | (3,089)         |                           |
| <b>Total</b>                     | <b>(19,838)</b>                          | <b>410</b>                        | <b>126</b>             | <b>536</b>     | <b>(19,302)</b>           | <b>(19,330)</b>                             | <b>(351)</b>       | <b>379</b>                        | <b>28</b>              | <b>(19,302)</b> |                           |

The following table summarizes the reclassifications from accumulated other comprehensive loss to the condensed consolidated statement of income for the quarters and six month periods ended September 30, 2013 and 2012:

| (In thousands)                                  | Quarter Ended September 30, |            | Six Months Ended September 30, |            | Affected line item in the condensed consolidated statements of income |
|-------------------------------------------------|-----------------------------|------------|--------------------------------|------------|-----------------------------------------------------------------------|
|                                                 | 2013                        | 2012       | 2013                           | 2012       |                                                                       |
| Realized gains on available for-sale securities | \$ 99                       | 15         | 222                            | 225        | Interest income and other, net                                        |
| Amortization of interest rate swap              | 178                         | 180        | 358                            | 358        | Interest and other debt costs                                         |
| <b>Total pre-tax amounts</b>                    | <b>277</b>                  | <b>195</b> | <b>580</b>                     | <b>583</b> |                                                                       |
| Tax effect                                      | 97                          | 68         | 203                            | 204        |                                                                       |
| <b>Total gains for the period, net of tax</b>   | <b>\$ 180</b>               | <b>127</b> | <b>377</b>                     | <b>379</b> |                                                                       |

**(4) INCOME TAXES**

Income tax expense for interim periods is based on estimates of the effective tax rate for the entire fiscal year. The effective tax rate applicable to pre-tax earnings, for the quarters and the six-month periods ended September 30, is as follows:

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|                                                   | Quarter Ended<br>September 30, |       | Six Months Ended<br>September 30, |       |
|---------------------------------------------------|--------------------------------|-------|-----------------------------------|-------|
|                                                   | 2013                           | 2012  | 2013                              | 2012  |
| Effective tax rate applicable to pre-tax earnings | 22.4%                          | 24.9% | 23.0%                             | 24.5% |

The effective tax rates for the six months ended September 30, 2013 and 2012 are lower than the U.S. statutory income tax rate of 35% primarily because the company has not recognized a U.S. deferred tax liability associated with temporary differences related to investments in foreign subsidiaries that are essentially permanent in duration.

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The company's balance sheet at September 30, 2013 reflects the following in accordance with Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 740, *Income Taxes*:

| (In thousands)                              | September 30,<br>2013 |
|---------------------------------------------|-----------------------|
| Tax liabilities for uncertain tax positions | \$ 16,304             |
| Income tax payable                          | 32,787                |

The tax liabilities for uncertain tax positions are attributable to a permanent establishment issue related to a foreign joint venture. Penalties and interest related to income tax liabilities are included in income tax expense. Income tax payable is included in other current liabilities.

Unrecognized tax benefits, which would lower the effective tax rate if realized at September 30, 2013, are as follows:

| (In thousands)                                                              | September 30,<br>2013 |
|-----------------------------------------------------------------------------|-----------------------|
| Unrecognized tax benefit related to state tax issues                        | \$ 8,202              |
| Interest receivable on unrecognized tax benefit related to state tax issues | 20                    |

With limited exceptions, the company is no longer subject to tax audits by U.S. federal, state, local or foreign taxing authorities for years prior to 2006. The company has ongoing examinations by various U.S. federal, state and foreign tax authorities and does not believe that the results of these examinations will have a material adverse effect on the company's financial position, results of operations, or cash flows.

### (5) EMPLOYEE BENEFIT PLANS

#### U.S. Defined Benefit Pension Plan

The company has a defined benefit pension plan (pension plan) that covers certain U.S. citizen employees and other employees who are permanent residents of the United States. In December 2009, the Board of Directors amended the pension plan to discontinue the accrual of benefits once the plan was frozen on December 31, 2010. This change did not affect benefits earned by participants prior to January 1, 2011. The company did not contribute to the defined benefit pension plan during the quarters and six months ended September 30, 2013 and 2012, and does not expect to contribute to the plan during the remaining quarters of fiscal 2014.

#### Supplemental Executive Retirement Plan

The company also offers a non-contributory, defined benefit supplemental executive retirement plan (supplemental plan) that provides pension benefits to certain employees in excess of those allowed under the company's tax-qualified pension plan. A Rabbi Trust has been established for the benefit of participants in the supplemental plan. The Rabbi Trust assets, which are invested in a variety of marketable securities (but not Tidewater stock), are recorded at fair value with unrealized gains or losses included in other comprehensive income. Effective March 4, 2010, the supplemental plan was closed to new participation. The supplemental plan is a non-qualified plan and, as such, the company is not required to make contributions to the supplemental plan. The company did not contribute to the supplemental plan during the quarters and six-month periods ended September 30, 2013 and 2012 and does not expect to contribute to the plan during the remaining quarters of fiscal 2014.

Investments held in a Rabbi Trust for the benefit of participants in the supplemental plan are included in other assets at fair value. The following table summarizes the carrying value of the trust assets, including unrealized gains or losses at September 30, 2013 and March 31, 2013:

| (In thousands)                                                                           | September 30,<br>2013 | March 31,<br>2013 |
|------------------------------------------------------------------------------------------|-----------------------|-------------------|
| Investments held in Rabbi Trust                                                          | \$ 10,182             | 10,486            |
| Unrealized gains (losses) in fair value of trust assets                                  | (183)                 | (121)             |
| Unrealized gains (losses) in fair value of trust assets are net of income tax expense of | (98)                  | (65)              |
| Obligations under the supplemental plan                                                  | 22,260                | 21,431            |





The unrealized gains or losses in the fair value of the trust assets, net of income tax expense, are included in accumulated other comprehensive income (other stockholders' equity). To the extent that trust assets are liquidated to fund benefit payments, gains or losses, if any, will be recognized at that time. The company's obligations under the supplemental plan are included in accrued expenses and other liabilities and deferred credits on the consolidated balance sheet.

### Postretirement Benefit Plan

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

### Net Periodic Benefit Costs

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, 2013 | 2012  | September 30, 2013 | 2012    |
| <b>Pension Benefits:</b>           |                    |       |                    |         |
| Service cost                       | \$ 198             | 273   | 396                | 546     |
| Interest cost                      | 895                | 1,072 | 1,790              | 2,144   |
| Expected return on plan assets     | (718)              | (687) | (1,436)            | (1,374) |
| Amortization of prior service cost | 12                 | 12    | 24                 | 24      |
| Recognized actuarial loss          | 276                | 448   | 552                | 896     |
| Net periodic benefit cost          | \$ 663             | 1,118 | 1,326              | 2,236   |
| <b>Other Benefits:</b>             |                    |       |                    |         |
| Service cost                       | \$ 101             | 119   | 202                | 238     |
| Interest cost                      | 262                | 309   | 524                | 618     |
| Amortization of prior service cost | (508)              | (508) | (1,016)            | (1,016) |
| Recognized actuarial (gain) loss   | (99)               | ---   | (198)              | ---     |
| Net periodic benefit cost          | \$ (244)           | (80)  | (488)              | (160)   |

## (6) INDEBTEDNESS

### Revolving Credit and Term Loan Agreement

In June 2013, the company amended and extended its existing credit facility. The amended credit agreement matures in June 2018 (the Maturity Date) and provides for a \$900 million, five-year credit facility (credit facility) consisting of a (i) \$600 million revolving credit facility (the revolver) and a (ii) \$300 million term loan facility (term loan).

Borrowings under the credit facility are unsecured and bear interest at the company's option at (i) the greater of prime or the federal funds rate plus 0.25 to 1.0%, or (ii) Eurodollar rates plus margins ranging from 1.25 to 2.0%, based on the company's consolidated funded debt to capitalization ratio. Commitment fees on the unused portion of the facilities range from 0.15 to 0.30% based on the company's funded debt to total capitalization ratio. The credit facility requires that the company maintain a ratio of consolidated debt to consolidated total capitalization that does not exceed 55%, and maintain a consolidated interest coverage ratio (essentially consolidated earnings before interest, taxes, depreciation and amortization, or EBITDA, for the four prior fiscal quarters to consolidated interest charges, including capitalized interest, for such period) of not less than 3.0 to 1.0. All other terms, including the financial and negative covenants, are customary for facilities of its type and consistent with the prior agreement in all material respects.



The company had \$300 million in term loan borrowings, and \$180 million in revolver borrowings, outstanding at September 30, 2013 (whose fair value approximates the carrying value because the borrowings bear interest at variable rates), and has \$420.0 million of availability for future financing needs at September 30, 2013. The company had \$125 million of term loan borrowings and \$110.0 million of revolver borrowings outstanding under the previous credit facility at March 31, 2013. These estimated fair values are based on Level 2 inputs.

### Senior Debt Notes

The determination of fair value includes an estimated credit spread between our long term debt and treasuries with similar matching expirations. The credit spread is determined based on comparable publicly traded companies in the oilfield service segment with similar credit ratings. These estimated fair values are based on Level 2 inputs.

#### September 2013 Senior Notes

On September 30, 2013, the company executed a note purchase agreement for \$500 million and issued \$300 million of senior unsecured notes to a group of institutional investors. In accordance with the note purchase agreement, the company intends to issue the remaining \$200 million of senior unsecured notes on November 15, 2013. A summary of these notes outstanding at September 30, 2013, is as follows:

| (In thousands, except weighted average data)      | September 30,<br>2013 |
|---------------------------------------------------|-----------------------|
| Aggregate debt outstanding                        | \$ 300,000            |
| Weighted average remaining life in years          | 9.3                   |
| Weighted average coupon rate on notes outstanding | 4.73%                 |
| Fair value of debt outstanding                    | 307,601               |

The multiple series of notes totaling \$300 million were originally issued with maturities ranging from approximately seven to 12 years. The multiple series of notes totaling \$200 million to be issued November 15, 2013 will have original maturities of ten and 12 years, a weighted average life of 10.8 years and a weighted average coupon rate of 5.06%. The notes may be retired before their respective scheduled maturity dates subject only to a customary make-whole provision. The terms of the notes require that the company maintain a ratio of consolidated debt to consolidated total capitalization that does not exceed 55% and maintain a ratio of consolidated EBITDA to consolidated interest charges, including capitalized interest, of not less than 3.0 to 1.0.

#### August 2011 Senior Notes

On August 15, 2011, the company issued \$165 million of senior unsecured notes to a group of institutional investors. A summary of these notes outstanding at September 30, 2013 and March 31, 2013, is as follows:

| (In thousands, except weighted average data)      | September 30,<br>2013 | March 31,<br>2013 |
|---------------------------------------------------|-----------------------|-------------------|
| Aggregate debt outstanding                        | \$ 165,000            | 165,000           |
| Weighted average remaining life in years          | 7.1                   | 7.6               |
| Weighted average coupon rate on notes outstanding | 4.42%                 | 4.42%             |
| Fair value of debt outstanding                    | 169,686               | 179,802           |

The multiple series of notes were originally issued with maturities ranging from approximately eight to 10 years. The notes may be retired before their respective scheduled maturity dates subject only to a customary make-whole provision. The terms of the notes require that the company maintain a ratio of consolidated debt to consolidated total capitalization that does not exceed 55%.

**September 2010 Senior Notes**

In fiscal 2011, the company completed the sale of \$425 million of senior unsecured notes. A summary of the aggregate amount of these notes outstanding at September 30, 2013 and March 31, 2013, is as follows:

| (In thousands, except weighted average data)      | September 30,<br>2013 | March 31,<br>2013 |
|---------------------------------------------------|-----------------------|-------------------|
| Aggregate debt outstanding                        | \$ 425,000            | 425,000           |
| Weighted average remaining life in years          | 6.1                   | 6.6               |
| Weighted average coupon rate on notes outstanding | 4.25%                 | 4.25%             |
| Fair value of debt outstanding                    | 436,530               | 458,520           |

The multiple series of these notes were originally issued with maturities ranging from five to 12 years. The notes may be retired before their respective scheduled maturity dates subject only to a customary make-whole provision. The terms of the notes require that the company maintain a ratio of consolidated debt to consolidated total capitalization that does not exceed 55%.

Included in accumulated other comprehensive income at September 30, 2013 and March 31, 2013, is an after-tax loss of \$2.6 million (\$4.0 million pre-tax), and \$2.9 million (\$4.4 million pre-tax), respectively, relating to the purchase of interest rate hedges, which are cash flow hedges, in July 2010 in connection with the September 2010 senior notes offering. The interest rate hedges settled in August 2010 concurrent with the pricing of the senior unsecured notes. The hedges met the effectiveness criteria and their acquisition costs are amortized to interest expense over the term of the individual notes matching the term of the hedges.

**July 2003 Senior Notes**

In July 2003, the company completed the sale of \$300 million of senior unsecured notes. A summary of the aggregate amount of remaining senior unsecured notes outstanding at September 30, 2013 and March 31, 2013, is as follows:

| (In thousands, except weighted average data)      | September 30,<br>2013 | March 31,<br>2013 |
|---------------------------------------------------|-----------------------|-------------------|
| Aggregate debt outstanding                        | \$ 35,000             | 175,000           |
| Weighted average remaining life in years          | 1.8                   | 0.7               |
| Weighted average coupon rate on notes outstanding | 4.61%                 | 4.47%             |
| Fair value of debt outstanding                    | 36,454                | 178,227           |

The multiple series of notes were originally issued with maturities ranging from seven to 12 years. These notes can be retired in whole or in part prior to maturity for a redemption price equal to the principal amount of the notes redeemed plus a customary make-whole premium. The terms of the notes require that the company maintain a ratio of consolidated debt to consolidated total capitalization that does not exceed 55%.

**Troms Offshore Debt**

During the second quarter of fiscal 2014, the company repaid prior to maturity 500 million Norwegian Kroner (NOK) denominated (approximately \$82.1 million) public bonds (plus accrued interest) that had been issued by Troms Offshore in April 2013. The repayment of these bonds, at an average price of approximately 105.0% of par value, resulted in the recognition of a loss on early extinguishment of debt of approximately 26.0 million NOK (or \$4.1 million). The bonds, which were due to mature in April 2016, bore interest based on the three month Norwegian Interbank Offered Rate ( NIBOR ) plus 5.40%.

In May 2012, Troms Offshore entered into a 204.4 million NOK denominated borrowing agreement which matures in May 2024. The loan requires semi-annual principal payments of 8.5 million NOK, bears interest at a fixed rate of 6.38% and is secured by certain guarantees and various types of collateral, including a vessel. As of September 30, 2013, 187.4 million NOK (approximately \$30.8 million) is outstanding under this agreement.

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In May 2012, Troms Offshore entered into a 35.0 million NOK denominated borrowing agreement with a shipyard which matures in May 2015. In June 2013, Troms Offshore entered into a 25.0 million NOK denominated borrowing agreement with a Norwegian bank, which matures in June 2019. These borrowings bear interest based on three month NIBOR plus a credit spread of 2.0% to 3.5%. As of September 30, 2013, 60.0 million NOK (approximately \$9.9 million) is outstanding under these agreements.

Troms Offshore had 60.0 million NOK, or approximately \$9.9 million, outstanding in floating rate debt at September 30, 2013 (whose fair value approximates the carrying value because the borrowings bear interest at variable NIBOR rates plus a margin). Troms Offshore also had 187.4 million NOK, or \$30.8 million, of outstanding fixed rate debt at September 30, 2013 which has an estimated fair value of 196.6 million NOK, or \$32.3 million. These estimated fair values are based on Level 2 inputs.

In June 2013, Troms Offshore repaid a 188.9 million NOK loan (approximately \$32.5 million), plus accrued interest that was secured with various guarantees and collateral, including a vessel.

### Current Maturities of Long Term Debt

Principal repayments of approximately \$5.3 million due during the twelve months ending September 30, 2014 are classified as long term debt in the accompanying balance sheet at September 30, 2013 because the company has the ability and intent to fund the repayments with borrowings under the credit facility which matures in June 2018.

### Debt Costs

The company capitalizes a portion of its interest costs incurred on borrowed funds used to construct vessels. Interest and debt costs incurred, net of interest capitalized, for the quarters and the six-month periods ended September 30, are as follows:

| (In thousands)                                                | Quarter Ended<br>September 30, |               | Six Months Ended<br>September 30, |               |
|---------------------------------------------------------------|--------------------------------|---------------|-----------------------------------|---------------|
|                                                               | 2013                           | 2012          | 2013                              | 2012          |
| Interest and debt costs incurred, net of interest capitalized | \$ 9,918                       | 7,148         | 18,831                            | 14,735        |
| Interest costs capitalized                                    | 2,636                          | 2,913         | 5,598                             | 5,736         |
| <b>Total interest and debt costs</b>                          | <b>\$ 12,554</b>               | <b>10,061</b> | <b>24,429</b>                     | <b>20,471</b> |

### (7) EARNINGS PER SHARE

The components of basic and diluted earnings per share for the quarters and the six-month periods ended September 30, are as follows:

| (In thousands, except share and per share data)                        | Quarter Ended<br>September 30, |            | Six Months Ended<br>September 30, |            |
|------------------------------------------------------------------------|--------------------------------|------------|-----------------------------------|------------|
|                                                                        | 2013                           | 2012       | 2013                              | 2012       |
| Net Income available to common shareholders (A)                        | \$ 54,172                      | 41,356     | 84,255                            | 74,212     |
| Weighted average outstanding shares of common stock, basic (B)         | 49,274,816                     | 49,392,973 | 49,253,409                        | 49,792,212 |
| Dilutive effect of options and restricted stock awards and units       | 448,303                        | 232,097    | 395,983                           | 214,291    |
| Weighted average common stock and equivalents (C)                      | 49,723,119                     | 49,625,070 | 49,649,392                        | 50,006,503 |
| Earnings per share, basic (A/B)                                        | \$ 1.10                        | 0.84       | 1.71                              | 1.49       |
| Earnings per share, diluted (A/C)                                      | \$ 1.09                        | 0.83       | 1.70                              | 1.48       |
| <b>Additional information:</b>                                         |                                |            |                                   |            |
| Antidilutive incremental options and restricted stock awards and units | 2,854                          | 54,694     | 2,854                             | 51,864     |



**(8) COMMITMENTS AND CONTINGENCIES****Vessel and Other Commitments**

The table below summarizes the company's various vessel commitments to acquire and construct new vessels, by vessel type, and remotely operated vehicles (ROVs) as of September 30, 2013:

| (In thousands, except vessel count)     | Number<br>of<br>Vessels/ROVs | Total<br>Cost     | Invested<br>Through<br>9/30/13 | Remaining<br>Balance<br>9/30/13 |
|-----------------------------------------|------------------------------|-------------------|--------------------------------|---------------------------------|
| <b>Vessels under construction:</b>      |                              |                   |                                |                                 |
| Deepwater platform supply vessels       | 22                           | \$ 739,794        | 233,436                        | 506,358                         |
| Towing supply/supply vessels            | 6                            | 113,395           | 46,506                         | 66,889                          |
| Other                                   | 2                            | 33,917            | 28,455                         | 5,462                           |
| <b>Total vessels under construction</b> | <b>30</b>                    | <b>887,106</b>    | <b>308,397</b>                 | <b>578,709</b>                  |
| <b>Vessels to be purchased:</b>         |                              |                   |                                |                                 |
| Deepwater platform supply vessels       | 1                            | 46,845            | ---                            | 46,845                          |
| <b>Total vessel commitments</b>         | <b>31</b>                    | <b>\$ 933,951</b> | <b>308,397</b>                 | <b>625,554</b>                  |
| <b>Total ROV commitments</b>            | <b>5</b>                     | <b>\$ 26,167</b>  | <b>7,850</b>                   | <b>18,317</b>                   |
| <b>Total commitments</b>                | <b>36</b>                    | <b>\$ 960,118</b> | <b>316,247</b>                 | <b>643,871</b>                  |

The total cost of the various vessel new-build commitments includes contract costs and other incidental costs. The company has vessels under construction at a number of different shipyards around the world. The deepwater platform supply vessels (PSV) under construction range between 3,000 and 6,360 deadweight tons (DWT) of cargo capacity while the towing-supply/supply vessels under construction have 7,100 brake horsepower (BHP). Scheduled delivery for the new-build vessels began in October 2013, with delivery of the final new-build vessel expected in February 2016. The company also has new-build commitments for five ROVs at September 30, 2013 with delivery dates between October and December of 2013.

With its commitment to modernizing its fleet through its vessel construction and acquisition program over the past decade, the company is replacing its older fleet of vessels with fewer, larger and more efficient vessels, while also enhancing the size and capabilities of the company's fleet. These efforts are expected to continue, with the company anticipating that it will use some portion of its future operating cash flows and existing borrowing capacity as well as possible new borrowings or lease arrangements in order to fund current and future commitments in connection with the fleet renewal and modernization program. 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.

Currently the company is experiencing substantial delay with one fast supply boat under construction in Brazil that was originally scheduled to be delivered in September 2009. On April 5, 2011, pursuant to the vessel construction contract, the company sent the subject shipyard a letter initiating arbitration in order to resolve disputes of such matters as the shipyard's failure to achieve payment milestones, its failure to follow the construction schedule, and its failure to timely deliver the vessel. The company has suspended construction on the vessel and both parties continue to pursue that arbitration. The company has third party credit support in the form of insurance coverage for 90% of the progress payments made on this vessel, or all but approximately \$2.4 million of the carrying value of the accumulated costs through September 30, 2013. The company had committed and invested \$8.0 million as of September 30, 2013.

In October 2013, the company took delivery of the first of two deepwater PSVs constructed in a U.S. Shipyard. In connection with that delivery, the company and the shipyard agreed to hold \$7.8 million in escrow with a financial institution pending resolution of disputes over whether all or a portion of those funds are due to the shipyard as the shipyard has claimed. Monies held in escrow are included in Total Cost and Remaining Balance 9/30/2013 that is summarized above under Vessel and Other Commitments. Some of the disputes may be resolved by high level management meetings between the parties or through a relatively expeditious technical arbitration proceeding involving a third party technical expert. The balance of the claims will need to be resolved through litigation in New York state court. These formal dispute resolution efforts are currently at an early stage.





The company generally requires shipyards to provide third party credit support in the event that vessels are not completed and delivered timely and in accordance with the terms of the shipbuilding contracts. That third party credit support typically guarantees the return of amounts paid by the company and generally takes the form of refundment guarantees or standby letters of credit issued by major financial institutions located in the country of the shipyard. While the company seeks to minimize its shipyard credit risk by requiring these instruments, the ultimate return of amounts paid by the company in the event of shipyard default is still subject to the creditworthiness of the shipyard and the provider of the credit support, as well as the company's ability to successfully pursue legal action to compel payment of these instruments. When third party credit support is not available or cost effective, the company endeavors to limit its credit risk by minimizing pre-delivery payments and through other contract terms with the shipyard.

#### **Completion of Internal Investigation and Settlements with United States and Nigerian Agencies**

The company has previously reported that special counsel engaged by the company's Audit Committee had completed an internal investigation into certain Foreign Corrupt Practices Act (FCPA) matters and reported its findings to the Audit Committee. The substantive areas of the internal investigation have been reported publicly by the company in prior filings.

Special counsel has reported to the Department of Justice (DOJ) and the Securities and Exchange Commission the results of the investigation, and the company has entered into separate agreements with these two U.S. agencies to resolve the matters reported by special counsel. The company subsequently also entered into an agreement with the Federal Government of Nigeria (FGN) to resolve similar issues with the FGN. The company has previously reported the principal terms of these three agreements. Certain aspects of the agreement with the DOJ are set forth below.

Tidewater Marine International Inc. ( TMII ), a wholly-owned subsidiary of the company organized in the Cayman Islands, and the DOJ entered into a Deferred Prosecution Agreement ( DPA ). Pursuant to the DPA, the DOJ deferred criminal charges against TMII for a period of three years and seven days from the date of judicial approval of the Agreement, in return for: (a) TMII's acceptance of responsibility for, and agreement not to contest or contradict the truthfulness of, the statement of facts and allegations contained in a three-count criminal information to be filed concurrently with the DPA; (b) TMII's payment of a \$7.35 million fine (which has been paid), (c) TMII's and Tidewater Inc.'s compliance with certain undertakings relating to compliance with the FCPA and other applicable laws in connection with the company's operations, and cooperation with domestic and foreign authorities in connection with the matters that are the subject of the DPA; (d) TMII's and Tidewater Inc.'s agreement to continue to address any deficiencies in the company's internal controls, policies and procedures relating to compliance with the FCPA and other applicable anti-corruption laws, if and to the extent not already addressed; and (e) Tidewater Inc.'s agreement to report to the DOJ in writing annually for the term of the DPA regarding remediation of the matters that are the subject of the DPA, the implementation of any enhanced internal controls, and any evidence of improper payments the company may have discovered during the term of the DPA. Implementation of the DOJ settlement eliminated a \$3.0 million contingent civil penalty in connection with the SEC civil settlement detailed above. Tidewater submitted its first annual report to the DOJ in November 2011, its second annual report in November 2012, and its third annual report in October 2013.

If TMII and Tidewater Inc. comply with the DPA during its term, the DOJ will not bring the charges set out in the information. In the event TMII or Tidewater Inc. breaches the DPA, the DOJ has discretion to extend its term for up to a year, or bring certain criminal charges against TMII as outlined in the DPA. A federal district court accepted the DPA on November 9, 2010.

#### **Merchant Navy Officers Pension Fund**

After consultation with its advisers, on July 15, 2013, a subsidiary of the company was placed into administration in the United Kingdom. Joint administrators were appointed to administer and distribute the subsidiary's assets to the subsidiary's creditors. The vessels owned by the subsidiary have become aged and are no longer economical to operate, which has caused the subsidiary's main business to decline in recent years. Only one vessel currently generates revenue and this vessel likely has a limited remaining operating window as an offshore service vessel. As part of the administration, the company agreed to acquire seven vessels and to waive certain intercompany claims. The purchase price valuation for the vessels, all but one of which are stacked, is based on independent, third party appraisals of the vessels.

The company has previously reported that a subsidiary of the company is a participating employer in an industry-wide multi-employer retirement fund in the United Kingdom, known as the Merchant Navy Officers Pension Fund (MNOFP). The subsidiary that participates in the MNOFP is the entity that has been placed into administration in the U.K. MNOFP is that subsidiary's largest creditor, and has claimed as an unsecured creditor in the administration. The Company believes that the administration is in the best interests of the subsidiary and its principal stakeholders, including the MNOFP. The MNOFP has indicated that it does not object to the insolvency process and that, aside from asserting its claim in the subsidiary's administration and based on the company's representations of the financial status and other relevant aspects of the subsidiary, MNOFP will not pursue the subsidiary in connection with any amounts due or which may become due to the Fund. The administration is not expected to be fully complete for more than a year. The company believes that the administration will resolve the subsidiary's participation in the MNOFP. The company believes that the ultimate resolution of this matter will not have a material effect on the consolidated financial statements.

#### **Sonatide Joint Venture**

The company has previously reported that it has been in negotiations with Sonangol regarding a new joint venture agreement for Sonatide, a joint venture between the company and Sonangol that serves the Angolan offshore energy industry. Pending the completion of the new agreement, the joint venture has been operating under a joint venture agreement, extended on several prior occasions, that was last extended through March 31, 2013. Based on the outcome of several meetings that were held during the June and September quarters, the company believes that the substantive issues between the parties have been resolved, and the company has drafted, with Sonangol's input, a new definitive joint venture agreement that the company believes incorporates those understandings. The new definitive joint venture agreement, which has been executed by the company, is awaiting the signature of Sonangol's authorized representatives. Accordingly, there is no agreement yet in place. In the interim, Sonatide continues its normal day-to-day operations consistent with the terms of the expired agreement without significant commercial or operational effects resulting from that expiration.

If negotiations relating to the Sonatide joint venture are ultimately unsuccessful, however, the company will work toward an orderly wind up of the joint venture. Based on prior conduct between the parties during this period of uncertainty, we believe that the joint venture would be allowed to honor existing vessel charter agreements through their contract terms. The global market for offshore supply vessels is currently reasonably well balanced, with offshore vessel supply approximately equal to offshore vessel demand; however, there would likely be negative financial impacts associated with the wind up of the existing joint venture and the possible redeployment of vessels to other markets, including mobilization costs and costs to redeploy Tidewater shore-based employees to other areas, in addition to lost revenues associated with potential downtime between vessel contracts. These financial impacts could, individually or in the aggregate, be material to our results of operations and cash flows for the periods when such costs would be incurred. If there is a need to redeploy vessels which are currently deployed in Angola to other international markets, Tidewater believes that there is sufficient demand for a majority of these vessels at prevailing market day rates.

During the six months ended September 30, 2013, the Sonatide joint venture entered into six new contracts with customers, all of which extend into 2014. During the twelve months ended September 30, 2013, the company redeployed vessels from its Angolan operations to other markets and also transferred vessels into its Angolan operations from other markets resulting in a net increase in the number of vessels operating in the area.

Tidewater and Sonangol have also continued to evaluate and discuss the impact of a new Foreign Exchange Law for the Angolan Petroleum Sector that became effective as of July 1, 2013. Under the new law, oil companies are required to make all payments for goods and services provided by foreign exchange residents in Angolan Kwanzas into an Angolan bank account. This new requirement could result in the joint venture collecting substantially all of its revenue in Angolan Kwanzas, unless a more efficient structure is agreed to by the joint venture parties. The conversion of Angolan Kwanzas into US Dollars and expatriation of the funds currently involves a lengthy process that results in time delays, currency fluctuation risk and conversion fees as well as possible additional taxes. The joint venture is working to design and implement procedures to conform to the recently enacted law and to develop more efficient cash collection processes; however, the successful

implementation of any such processes depends on the new joint venture agreement becoming effective. As discussed below and under Liquidity, Capital Resources and Other Matters, over the last several quarters, the company has experienced a build-up in working capital that it has funded primarily by additional borrowings.

For the six months ended September 30, 2013, Tidewater's Angolan operations generated vessel revenues of approximately \$167.7 million, or 24%, of its consolidated vessel revenue, from an average of approximately 89 Tidewater-owned vessels that are marketed through the Sonatide joint venture (six of which were stacked on average during the six months ended September 30, 2013), and, for the six months ended September 30, 2012, generated vessel revenues of approximately \$134.3 million, or 22%, of consolidated vessel revenue, from an average of approximately 86 Tidewater-owned vessels (11 of which were stacked on average during the six months ended September 30, 2012).

In addition to the company's Angolan operations, which reflect the results of Tidewater-owned vessels marketed through the Sonatide joint venture (owned 49% by Tidewater), ten vessels and other assets are owned by the Sonatide joint venture. As of September 30, 2013 and March 31, 2013, the carrying value of Tidewater's investment in the Sonatide joint venture, which is included in Investments in, at equity, and advances to unconsolidated companies, is approximately \$53 million and \$46 million, respectively.

Included in trade and other receivables at September 30, 2013 is approximately \$280 million related to Sonatide, including cash received by Sonatide from customers and due to the company, costs paid by Tidewater on behalf of Sonatide and, finally, amounts due from customers which are expected to be remitted to the company through Sonatide after a new joint venture agreement is signed by Sonangol.

Included in accrued expenses at September 30, 2013 is approximately \$70 million due to Sonatide for commissions payable (approximately \$24 million) and other costs paid by Sonatide on behalf of the company.

#### **Brazilian Customs**

In April 2011, two Brazilian subsidiaries of Tidewater were notified by the Customs Office in Macae, Brazil that they were jointly and severally being assessed fines of 155.0 million Brazilian reais (approximately \$68.6 million as of September 30, 2013). The assessment of these fines is for the alleged failure of these subsidiaries to obtain import licenses with respect to 17 Tidewater vessels that provided Brazilian offshore vessel services to Petrobras, the Brazilian national oil company, over a three-year period ending December 2009. After consultation with its Brazilian tax advisors, Tidewater and its Brazilian subsidiaries believe that vessels that provide services under contract to the Brazilian offshore oil and gas industry are deemed, under applicable law and regulations, to be temporarily imported into Brazil, and thus exempt from the import license requirement. The Macae Customs Office has, without a change in the underlying applicable law or regulations, taken the position that the temporary importation exemption is only available to new, and not used, goods imported into Brazil and therefore it was improper for the company to deem its vessels as being temporarily imported. The fines have been assessed based on this new interpretation of Brazilian customs law taken by the Macae Customs Office.

After consultation with its Brazilian tax advisors, the company believes that the assessment is without legal justification and that the Macae Customs Office has misinterpreted applicable Brazilian law on duties and customs. The company is vigorously contesting these fines (which it has neither paid nor accrued) and, based on the advice of its Brazilian counsel, believes that it has a high probability of success with respect to the overturn of the entire amount of the fines, either at the administrative appeal level or, if necessary, in Brazilian courts. In December 2011, an administrative board issued a decision that disallowed 149.0 million Brazilian reais (approximately \$65.9 million as of September 30, 2013) of the total fines sought by the Macae Customs Office. In two separate proceedings in 2013, a secondary administrative appeals board considered fines totaling 127.0 million Brazilian reais (approximately \$56.2 million as of September 30, 2013) and rendered decisions that disallowed all of those fines. The remaining fines totaling 28.0 million Brazilian reais (approximately \$12.4 million as of September 30, 2013) are still subject to a secondary administrative appeals board hearing, but the company believes that both decisions will be helpful in that upcoming hearing. The secondary board decisions disallowing the fines totaling 127.0 million Brazilian reais are, however, still subject to the possibility of further administrative appeal by the authorities that imposed the initial fines. The company believes that the ultimate resolution of this matter will not have a material effect on the consolidated financial statements.

#### **Potential for Future Brazilian State Tax Assessment**

The company is aware that a Brazilian state in which the company has operations has notified two of the company's competitors that they are liable for unpaid taxes (and penalties and interest thereon) for failure to pay state import taxes with respect to vessels that such competitors operate within the coastal waters of such state pursuant to charter agreements. The import tax being asserted is equal to a percentage (which could be as high as 16% for vessels entering that state's waters prior to December 31, 2010 and 3% thereafter) of the affected vessels' declared values. The company understands that the two companies involved are contesting the assessment through administrative proceedings before the taxing authority.

The company's two Brazilian subsidiaries have not been similarly notified by the Brazilian state that they have an import tax liability related to their vessel activities imported through that state. Although the company has been advised by its Brazilian tax counsel that substantial defenses would be available if a similar tax claim were asserted against the company, if an import tax claim were to be asserted, it could be for a substantial amount given that the company has had substantial and continuing operations within the territory of the state (although the amount could fluctuate significantly depending on the administrative determination of the taxing authority as to the rate to apply, the vessels subject to the levy and the time periods covered). In addition, under certain circumstances, the company might be required to post a bond or other adequate security in the amount of the assessment (plus any interest and penalties) if it became necessary to challenge the assessment in a Brazilian court. The statute of limitations for the Brazilian state to levy an assessment of the import tax is five years from the date of a vessel's entry into Brazil. The company has not yet determined the potential tax assessment, and according to the Brazilian tax counsel, chances of defeating a possible claim/notification from the State authorities in court are probable. To obtain legal certainty and predictability for future charter agreements and because the company has imported several vessels to start new charters in Brazil, the company filed several suits in 2011, 2012 and 2013, against the Brazilian state and has deposited (or, in recent cases, is in the process of depositing) the respective state tax for these newly imported vessels. As of September 30, 2013, no accrual has been recorded for any liability associated with any potential future assessment for previous periods based on management's assessment, after consultation with Brazilian counsel, that a liability for such taxes was not probable.

#### **Nigeria Marketing Agent Litigation**

On March 1, 2013, Tidewater filed suit in the London Commercial Court against Tidewater's Nigerian marketing agent for breach of the agent's obligations under contractual agreements between the parties. The alleged breach involves actions of the Nigerian marketing agent to discourage various affiliates of TOTAL S.A. from paying approximately \$19 million due to the company for vessel services performed in Nigeria. Shortly after the London Commercial Court filing, TOTAL commenced interpleader proceedings in Nigeria naming the Nigerian agent and the company as respondents and seeking an order which would allow TOTAL to deposit those monies with a Nigerian court for the respondents to resolve. On April 25, 2013, Tidewater filed motions in the Nigerian Federal High Court to stop the interpleader proceedings in Nigeria or alternatively stay them until the resolution of the suit filed in London. The company will continue to actively pursue the collection of those monies. On April 30, 2013, the Nigerian marketing agent filed a separate suit in the Nigerian Federal High Court naming Tidewater and certain TOTAL affiliates as defendants. The suit seeks various declarations and orders, including a claim for the monies that are subject to the above interpleader proceedings, and other relief. The company is seeking dismissal of this suit and otherwise intends to vigorously defend against the claims made. The company has not reserved for this receivable and believes that the ultimate resolution of this matter will not have a material effect on the consolidated financial statements.

In October, 2012, Tidewater had notified the Nigerian marketing agent that it was discontinuing its relationship with the Nigerian marketing agent. The company has entered into a new strategic relationship with a different Nigerian counterparty that it believes will better serve the company's long term interests in Nigeria. This new strategic relationship is currently functioning as the company intended.

### **Venezuelan Operations**

On February 16, 2010, Tidewater and certain of its subsidiaries (collectively, the Claimants) filed with the International Centre for Settlement of Investment Disputes (ICSID) a Request for Arbitration against the Bolivarian Republic of Venezuela. As previously reported by Tidewater, in May 2009 Petróleos de Venezuela, S.A. (PDVSA), the national oil company of Venezuela, took possession and control of (a) eleven of the Claimants' vessels that were then supporting PDVSA operations in Lake Maracaibo, (b) the Claimants' shore-based headquarters adjacent to Lake Maracaibo, (c) the Claimants' operations in Lake Maracaibo, and (d) certain other related assets. The company also previously reported that in July 2009 Petrosucre, S.A., a subsidiary of PDVSA, took possession and control of the Claimants' four vessels, operations, and related assets in the Gulf of Paria. It is Tidewater's position that, through those measures, the Republic of Venezuela directly or indirectly expropriated the Claimants' investments, including the capital stock of the Claimants' principal operating subsidiary in Venezuela.

The Claimants alleged in the Request for Arbitration that each of the measures taken by the Republic of Venezuela against the Claimants violates the Republic of Venezuela's obligations under the bilateral investment treaty with Barbados and rules and principles of Venezuelan law and international law. An arbitral tribunal was constituted under the ICSID Convention to resolve the dispute. The tribunal first addressed the Republic of Venezuela's objections to the tribunal's jurisdiction over the dispute. After two rounds of briefing by the parties, a hearing on jurisdiction was held in Washington, D.C. on February 29 and March 1, 2012.

On February 8, 2013, the tribunal issued its decision on jurisdiction. The tribunal found that it has jurisdiction over the claims under the Venezuela-Barbados bilateral investment treaty, including the claim for compensation for the expropriation of Tidewater's principal operating subsidiary, but that it does not have jurisdiction based on Venezuela's investment law. The practical effect of the tribunal's decision is to exclude from the case the claims for expropriation of the fifteen vessels described above. The proceeding will now move to the merits, including a determination whether the Republic of Venezuela violated the Venezuela-Barbados bilateral investment treaty and a valuation of Tidewater's principal operating subsidiary in Venezuela. At the time of the expropriation, the principal operating subsidiary had sizeable accounts receivable from PDVSA and Petrosucre, denominated in both U.S. Dollars and Venezuelan Bolivars. The company expects those accounts receivable to form part of the total valuation of Tidewater's principal operating subsidiary. As a result of the seizures, the lack of further operations in Venezuela, and the continuing uncertainty about the timing and amount of the compensation the company might collect in the future, the company recorded a \$44.8 million provision during the quarter ended June 30, 2009, to fully reserve accounts receivable due from PDVSA and Petrosucre.

While the tribunal determined that it does not have jurisdiction over the claim for the seizure of the fifteen vessels, Tidewater received during fiscal 2011 insurance proceeds for the insured value of those vessels (less an additional premium payment triggered by those proceeds). Tidewater believes that the claims remaining in the case, over which the tribunal upheld jurisdiction, represent the most substantial portion of the overall value lost as a result of the measures taken by the Republic of Venezuela. Tidewater has discussed the nature of the insurance proceeds received for the fifteen vessels in previous quarterly and annual filings.

The tribunal has issued a briefing and hearing schedule to determine the merits of the claims over which the tribunal has jurisdiction. That schedule culminates in a final hearing in mid-2014.

### **Legal Proceedings**

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

**(9) FAIR VALUE MEASUREMENTS**

The company follows the provisions of ASC 820, *Fair Value Measurements and Disclosures*, for financial assets and liabilities that are measured and reported at fair value on a recurring basis. ASC 820 establishes a hierarchy for inputs used in measuring fair value. Fair value is calculated based on assumptions that market participants would use in pricing assets and liabilities and not on assumptions specific to the entity. The statement requires that each asset and liability carried at fair value be classified into one of the following categories:

Level 1: Quoted market prices in active markets for identical assets or liabilities

Level 2: Observable market based inputs or unobservable inputs that are corroborated by market data

Level 3: Unobservable inputs that are not corroborated by market data

**Assets and Liabilities Measured at Fair Value on a Recurring Basis**

The company measures on a recurring basis and records at fair value investments held by participants in a supplemental executive retirement plan. The following table provides the fair value hierarchy for the plan assets measured at fair value as of September 30, 2013:

| (In thousands)                         | Total            | Quoted prices in active markets (Level 1) | Significant observable inputs (Level 2) | Significant unobservable inputs (Level 3) |
|----------------------------------------|------------------|-------------------------------------------|-----------------------------------------|-------------------------------------------|
| <b>Equity securities:</b>              |                  |                                           |                                         |                                           |
| Common stock                           | \$ 4,039         | 4,039                                     | ---                                     | ---                                       |
| Preferred stock                        | ---              | ---                                       | ---                                     | ---                                       |
| Foreign stock                          | 316              | 316                                       | ---                                     | ---                                       |
| American depository receipts           | 1,697            | 1,697                                     | ---                                     | ---                                       |
| Preferred American depository receipts | 13               | 13                                        | ---                                     | ---                                       |
| Real estate investment trusts          | ---              | ---                                       | ---                                     | ---                                       |
| <b>Debt securities:</b>                |                  |                                           |                                         |                                           |
| Government debt securities             | 1,786            | 1,114                                     | 672                                     | ---                                       |
| Open ended mutual funds                | 1,563            | 1,563                                     | ---                                     | ---                                       |
| Cash and cash equivalents              | 1,032            | 401                                       | 631                                     | ---                                       |
| <b>Total</b>                           | <b>\$ 10,446</b> | <b>9,143</b>                              | <b>1,303</b>                            | <b>---</b>                                |
| Other pending transactions             | (264)            | (264)                                     | ---                                     | ---                                       |
| <b>Total fair value of plan assets</b> | <b>\$ 10,182</b> | <b>8,879</b>                              | <b>1,303</b>                            | <b>---</b>                                |

The following table provides the fair value hierarchy for the plan assets measured at fair value as of March 31, 2013:

| (In thousands)                         | Total            | Quoted prices in active markets (Level 1) | Significant observable inputs (Level 2) | Significant unobservable inputs (Level 3) |
|----------------------------------------|------------------|-------------------------------------------|-----------------------------------------|-------------------------------------------|
| <b>Equity securities:</b>              |                  |                                           |                                         |                                           |
| Common stock                           | \$ 4,240         | 4,240                                     | ---                                     | ---                                       |
| Preferred stock                        | ---              | ---                                       | ---                                     | ---                                       |
| Foreign stock                          | 285              | 285                                       | ---                                     | ---                                       |
| American depository receipts           | 1,811            | 1,811                                     | ---                                     | ---                                       |
| Preferred American depository receipts | 16               | 16                                        | ---                                     | ---                                       |
| Real estate investment trusts          | ---              | ---                                       | ---                                     | ---                                       |
| <b>Debt securities:</b>                |                  |                                           |                                         |                                           |
| Government debt securities             | 2,007            | 1,240                                     | 767                                     | ---                                       |
| Open ended mutual funds                | 1,743            | 1,743                                     | ---                                     | ---                                       |
| Cash and cash equivalents              | 533              | 93                                        | 440                                     | ---                                       |
| <b>Total</b>                           | <b>\$ 10,635</b> | <b>9,428</b>                              | <b>1,207</b>                            | <b>---</b>                                |

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|                                 |           |       |       |     |
|---------------------------------|-----------|-------|-------|-----|
| Other pending transactions      | (149)     | (149) | ---   | --- |
| Total fair value of plan assets | \$ 10,486 | 9,279 | 1,207 | --- |

**Other Financial Instruments**

The company's primary financial instruments consist of cash and cash equivalents, trade receivables and trade payables with book values that are considered to be representative of their respective fair values. The company periodically utilizes derivative financial instruments to hedge against foreign currency denominated assets and liabilities, currency commitments, or to lock in desired interest rates. These transactions are generally spot or forward currency contracts or interest rate swaps that are entered into with major financial institutions. Derivative financial instruments are intended to reduce the company's exposure to foreign currency exchange risk and interest rate risk. The company enters into derivative instruments only to the extent considered necessary to address its risk management objectives and does not use derivative contracts for speculative purposes. The derivative instruments are recorded at fair value using quoted prices and quotes obtainable from the counterparties to the derivative instruments.

**Cash Equivalents.** The company's cash equivalents, which are securities with maturities less than 90 days, are held in money market funds or time deposit accounts with highly rated financial institutions. The carrying value for cash equivalents is considered to be representative of its fair value due to the short duration and conservative nature of the cash equivalent investment portfolio.

**Spot Derivatives.** Spot derivative financial instruments are short-term in nature and generally settle within two business days. The fair value of spot derivatives approximates the carrying value due to the short-term nature of this instrument, and as a result, no gains or losses are recognized.

The company had no outstanding foreign exchange spot contracts at September 30, 2013 and March 31, 2013.

**Forward Derivatives.** Forward derivative financial instruments are generally longer-term in nature but generally do not exceed one year. The accounting for gains or losses on forward contracts is dependent on the nature of the risk being hedged and the effectiveness of the hedge. Forward contracts are valued using counterparty quotations, and we validate the information obtained from the counterparties in calculating the ultimate fair values using the market approach and obtaining broker quotations. As such, these derivative contracts are classified as Level 2.

At September 30, 2013, the company had one British pound forward contract outstanding. The forward contract has an expiration date of December 18, 2013. The change in fair value of the forward contract was immaterial and was recorded as a foreign exchange gain during quarter ended September 30, 2013. The forward contract did not qualify as a hedge instrument; therefore, all changes in fair value of the forward contract were recorded in earnings.

At March 31, 2013, the company had three British pound forward contracts outstanding, which were generally intended to hedge the company's foreign exchange exposure relating to its MNOPF liability as disclosed in Note (8) and elsewhere in this document. The forward contracts expired at various times through December 18, 2013. The combined change in fair value of the forward contracts was immaterial and was recorded as a foreign exchange loss during the fiscal year ended March 31, 2013, because the forward contracts did not qualify as hedge instruments. All changes in fair value of the forward contracts were recorded in earnings.

The following table provides the fair value hierarchy for the company's other financial instruments measured as of September 30, 2013:

|                                                      |                 | Quoted prices in<br>active<br>markets | Significant<br>observable<br>inputs<br>(Level 2) | Significant<br>unobservable<br>inputs<br>(Level 3) |
|------------------------------------------------------|-----------------|---------------------------------------|--------------------------------------------------|----------------------------------------------------|
| (In thousands)                                       | Total           | (Level 1)                             | (Level 2)                                        | (Level 3)                                          |
| Cash equivalents                                     | \$ 376          | 376                                   | ---                                              | ---                                                |
| Long-term British pound forward derivative contracts | 1,132           | ---                                   | 1,132                                            | ---                                                |
| <b>Total fair value of assets</b>                    | <b>\$ 1,508</b> | <b>376</b>                            | <b>1,132</b>                                     | <b>---</b>                                         |



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The following table provides the fair value hierarchy for the company's other financial instruments measured as of March 31, 2013:

| (In thousands)                                       | Total           | Quoted prices in<br>active<br>markets<br>(Level 1) | Significant<br>observable<br>inputs<br>(Level 2) | Significant<br>unobservable<br>inputs<br>(Level 3) |
|------------------------------------------------------|-----------------|----------------------------------------------------|--------------------------------------------------|----------------------------------------------------|
| Cash equivalents                                     | \$ 949          | 949                                                | ---                                              | ---                                                |
| Long-term British pound forward derivative contracts | 4,359           | ---                                                | 4,359                                            | ---                                                |
| <b>Total fair value of assets</b>                    | <b>\$ 5,308</b> | <b>949</b>                                         | <b>4,359</b>                                     | <b>---</b>                                         |

### *Assets and Liabilities Measured at Fair Value on a Nonrecurring Basis*

#### *Asset Impairments*

The company accounts for long-lived assets in accordance with ASC 360-10-35, *Impairment or Disposal of Long-Lived Assets*. The company reviews the vessels in its active fleet for impairment whenever events occur or changes in circumstances indicate that the carrying amount of an asset group may not be recoverable. In such evaluation the estimated future undiscounted cash flows generated by an asset group are compared with the carrying amount of the asset group to determine if a write-down may be required. With respect to vessels that have not been stacked, we group together for impairment testing purposes vessels with similar operating and marketing characteristics. We also subdivide our groupings of assets with similar operating and marketing characteristics between our older vessels and newer vessels.

The company estimates cash flows based upon historical data adjusted for the company's best estimate of expected future market performance, which, in turn, is based on industry trends. If an asset group fails the undiscounted cash flow test, the company uses the discounted cash flow method to determine the estimated fair value of each asset group and compares such estimated fair value (considered Level 3, as defined by ASC 360) to the carrying value of each asset group in order to determine if impairment exists. If impairment exists, the carrying value of the asset group is reduced to its estimated fair value.

In addition to the periodic review of its active long-lived assets for impairment when circumstances warrant, the company also performs a review of its stacked vessels and vessels withdrawn from service every six months or whenever changes in circumstances indicate that the carrying amount of a vessel may not be recoverable. Management estimates each stacked vessel's fair value by considering items such as the vessel's age, length of time stacked, likelihood of a return to active service, actual recent sales of similar vessels, which are unobservable inputs. In certain situations we obtain an estimate of the fair value of the stacked vessel from third-party appraisers or brokers. The company records an impairment charge when the carrying value of a vessel withdrawn from service or a stacked vessel exceeds its estimated fair value. The estimates of fair value of stacked vessels are also subject to significant variability, are sensitive to changes in market conditions, and are reasonably likely to change in the future.

The below table summarizes the combined fair value of the assets that incurred impairments during the quarters and six-month periods ended September 30, 2013 and 2012, along with the amount of impairment. The impairment charges were recorded in gain on asset dispositions, net.

| (In thousands)                                     | Quarter Ended<br>September 30, |       | Six Months Ended<br>September 30, |       |
|----------------------------------------------------|--------------------------------|-------|-----------------------------------|-------|
|                                                    | 2013                           | 2012  | 2013                              | 2012  |
| Amount of impairment incurred                      | \$ 175                         | 790   | 4,047                             | 3,564 |
| Combined fair value of assets incurring impairment | 161                            | 1,192 | 4,466                             | 8,602 |

**(10) OTHER ASSETS, ACCRUED EXPENSES, OTHER CURRENT LIABILITIES AND OTHER LIABILITIES AND DEFERRED CREDITS**

A summary of other assets at September 30, 2013 and March 31, 2013 is as follows:

| (In thousands)                      | September 30,<br>2013 | March 31,<br>2013 |
|-------------------------------------|-----------------------|-------------------|
| Recoverable insurance losses        | \$ 9,870              | 10,833            |
| Deferred income tax assets          | 82,328                | 73,105            |
| Deferred finance charges            | 8,161                 | 5,133             |
| Savings plans and supplemental plan | 22,026                | 23,149            |
| Noncurrent tax receivable           | 9,106                 | 9,106             |
| Other                               | 17,748                | 4,951             |
|                                     | \$ 149,239            | 126,277           |

A summary of accrued expenses at September 30, 2013 and March 31, 2013 is as follows:

| (In thousands)               | September 30,<br>2013 | March 31,<br>2013 |
|------------------------------|-----------------------|-------------------|
| Payroll and related payables | \$ 21,747             | 23,453            |
| Commissions payable          | 31,378                | 13,866            |
| Accrued vessel expenses      | 103,098               | 103,177           |
| Accrued interest expense     | 5,443                 | 8,096             |
| Other accrued expenses       | 6,519                 | 10,494            |
|                              | \$ 168,185            | 159,086           |

A summary of other current liabilities at September 30, 2013 and March 31, 2013 is as follows:

| (In thousands)             | September 30,<br>2013 | March 31,<br>2013 |
|----------------------------|-----------------------|-------------------|
| Taxes payable              | \$ 38,205             | 38,100            |
| Deferred credits - current | 649                   | 1,374             |
| Dividend payable           | 480                   | 334               |
|                            | \$ 39,334             | 39,808            |

A summary of other liabilities and deferred credits at September 30, 2013 and March 31, 2013 is as follows:

| (In thousands)                    | September 30,<br>2013 | March 31,<br>2013 |
|-----------------------------------|-----------------------|-------------------|
| Postretirement benefits liability | \$ 26,939             | 27,681            |
| Pension liabilities               | 39,332                | 37,096            |
| Deferred gain on vessel sales     | 71,544                | 39,568            |
| Other                             | 36,555                | 34,729            |
|                                   | \$ 174,370            | 139,074           |

**(11) ACCOUNTING PRONOUNCEMENTS**

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From time to time new accounting pronouncements are issued by the FASB that are adopted by the company as of the specified effective date. Unless otherwise discussed, management believes that the impact of recently issued standards, which are not yet effective, will not have a material impact on the company's consolidated financial statements upon adoption.

In February 2013, the FASB issued ASU 2013-02 *Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income*. This guidance requires entities to present changes in accumulated other comprehensive income by component, including the amounts of changes that are due to reclassifications and the amounts that are due to current period other comprehensive income. Entities are also required to present significant amounts reclassified out of accumulated other comprehensive income by the respective line items of net income. The new guidance was effective for us beginning April 1, 2013 and includes disclosure changes only.

**(12) SEGMENT AND GEOGRAPHIC DISTRIBUTION OF OPERATIONS**

The company follows the disclosure requirements of ASC 280, *Segment Reporting*. Operating business segments are defined as a component of an enterprise for which separate financial information is available and is evaluated by the chief operating decision maker in deciding how to allocate resources and in assessing performance. We manage and measure our business performance in four distinct operating segments: Americas, Asia/Pacific, Middle East/North Africa, and Sub-Saharan Africa/Europe. These segments are reflective of how the company's chief operating decision maker (CODM) reviews operating results for the purposes of allocating resources and assessing performance. The company's CODM is its Chief Executive Officer.

The following table provides a comparison of revenues, vessel operating profit, depreciation and amortization, and additions to properties and equipment for the quarters and six-month periods ended September 30, 2013 and 2012. Vessel revenues and operating costs relate to vessels owned and operated by the company while other operating revenues relate to the activities of the company's shipyards, brokered vessels and other miscellaneous marine-related businesses.

| (In thousands)                                     | Quarter Ended<br>September 30, |               | Six Months Ended<br>September 30, |                |
|----------------------------------------------------|--------------------------------|---------------|-----------------------------------|----------------|
|                                                    | 2013                           | 2012          | 2013                              | 2012           |
| <b>Revenues:</b>                                   |                                |               |                                   |                |
| <b>Vessel revenues:</b>                            |                                |               |                                   |                |
| Americas                                           | \$ 101,929                     | 82,316        | 192,173                           | 159,966        |
| Asia/Pacific                                       | 37,430                         | 45,738        | 80,386                            | 97,480         |
| Middle East/N. Africa                              | 45,370                         | 32,051        | 86,583                            | 64,501         |
| Sub-Saharan Africa/Europe                          | 178,939                        | 149,717       | 336,156                           | 277,969        |
|                                                    | 363,668                        | 309,822       | 695,298                           | 599,916        |
| Other operating revenues                           | 4,269                          | 2,096         | 6,724                             | 6,450          |
|                                                    | \$ 367,937                     | 311,918       | 702,022                           | 606,366        |
| <b>Vessel operating profit:</b>                    |                                |               |                                   |                |
| Americas                                           | \$ 23,675                      | 9,506         | 43,976                            | 19,698         |
| Asia/Pacific                                       | 4,807                          | 7,826         | 15,096                            | 22,734         |
| Middle East/N. Africa                              | 13,446                         | 6,280         | 23,569                            | 12,562         |
| Sub-Saharan Africa/Europe                          | 47,261                         | 44,330        | 64,780                            | 71,426         |
|                                                    | 89,189                         | 67,942        | 147,421                           | 126,420        |
| Corporate expenses                                 | (12,891)                       | (12,484)      | (29,446)                          | (22,951)       |
| Gain on asset dispositions, net                    | 49                             | 1,833         | 2,189                             | 2,671          |
| Other operating expense                            | 218                            | (94)          | (174)                             | 544            |
| <b>Operating income</b>                            | <b>\$ 76,565</b>               | <b>57,197</b> | <b>119,990</b>                    | <b>106,684</b> |
| Foreign exchange gain (loss)                       | 3,017                          | 529           | 2,928                             | (1,222)        |
| Equity in net earnings of unconsolidated companies | 3,781                          | 3,357         | 8,201                             | 5,720          |
| Interest income and other, net                     | 538                            | 1,128         | 1,278                             | 1,847          |
| Loss on early extinguishment of debt               | (4,144)                        | ---           | (4,144)                           | ---            |
| Interest and other debt costs                      | (9,918)                        | (7,148)       | (18,831)                          | (14,735)       |
| <b>Earnings before income taxes</b>                | <b>\$ 69,839</b>               | <b>55,063</b> | <b>109,422</b>                    | <b>98,294</b>  |
| <b>Depreciation and amortization:</b>              |                                |               |                                   |                |
| Americas                                           | \$ 10,833                      | 10,629        | 20,945                            | 20,721         |
| Asia/Pacific                                       | 4,122                          | 4,833         | 8,647                             | 9,946          |
| Middle East/N. Africa                              | 5,731                          | 4,388         | 11,337                            | 8,467          |
| Sub-Saharan Africa/Europe                          | 20,581                         | 15,309        | 39,736                            | 30,802         |
| Corporate                                          | 789                            | 888           | 1,499                             | 1,895          |
|                                                    | \$ 42,056                      | 36,047        | 82,164                            | 71,831         |
| <b>Additions to properties and equipment:</b>      |                                |               |                                   |                |

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|                               |           |         |         |         |
|-------------------------------|-----------|---------|---------|---------|
| Americas                      | \$ 8,845  | 25,118  | 12,039  | 41,896  |
| Asia/Pacific                  | 453       | 5,071   | 968     | 5,165   |
| Middle East/N. Africa         | 770       | 721     | 909     | 1,795   |
| Sub-Saharan Africa/Europe (A) | 8,086     | 36,659  | 344,557 | 48,534  |
| Corporate (B)                 | 49,747    | 44,194  | 111,597 | 88,285  |
|                               | \$ 67,901 | 111,763 | 470,070 | 185,675 |

- (A) Included in Sub-Saharan Africa/Europe for the six months ended September 30, 2013 is \$245.6 million related to vessels acquired through the acquisition of Troms Offshore.
- (B) Included in Corporate are additions to properties and equipment relating to vessels currently under construction which have not yet been assigned to a non-corporate reporting segment as of the dates presented.

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The following table provides a comparison of total assets at September 30, 2013 and March 31, 2013:

| (In thousands)                                                      | September 30,<br>2013 | March 31,<br>2013 |
|---------------------------------------------------------------------|-----------------------|-------------------|
| <b>Total assets:</b>                                                |                       |                   |
| Americas                                                            | \$ 930,475            | 885,470           |
| Asia/Pacific                                                        | 487,850               | 607,546           |
| Middle East/North Africa                                            | 584,805               | 507,124           |
| Sub-Saharan Africa/Europe                                           | 2,214,683             | 1,706,355         |
|                                                                     | 4,217,813             | 3,706,495         |
| Investments in, at equity, and advances to unconsolidated companies | 52,254                | 46,047            |
|                                                                     | 4,270,067             | 3,752,542         |
| Corporate (A)                                                       | 484,512               | 415,513           |
|                                                                     | \$ 4,754,579          | 4,168,055         |

Note A: Included in Corporate are vessels currently under construction which have not yet been assigned to a non-corporate reporting segment. The vessel construction costs will be reported in Corporate until the earlier of the vessels being assigned to a non-corporate reporting segment or the vessels' delivery. At September 30, 2013 and March 31, 2013, \$306.7 million and \$229.3 million, respectively, of vessel construction costs are included in Corporate.

The following table discloses the amount of revenue by segment, and in total for the worldwide fleet, along with the respective percentage of total vessel revenue for the quarters and six-month periods ended September 30, 2013 and 2012:

| Revenue by vessel class<br>(In thousands) | Quarter Ended September 30, |             |                |             | Six Months Ended September 30, |             |                |             |
|-------------------------------------------|-----------------------------|-------------|----------------|-------------|--------------------------------|-------------|----------------|-------------|
|                                           | 2013                        | %           | 2012           | %           | 2013                           | %           | 2012           | %           |
| <b>Americas fleet:</b>                    |                             |             |                |             |                                |             |                |             |
| Deepwater vessels                         | \$ 61,811                   | 17%         | 44,747         | 14%         | 116,843                        | 17%         | 81,027         | 14%         |
| Towing-supply/supply                      | 30,861                      | 8%          | 31,109         | 10%         | 58,531                         | 8%          | 65,461         | 11%         |
| Other                                     | 9,257                       | 3%          | 6,460          | 2%          | 16,799                         | 3%          | 13,478         | 2%          |
| <b>Total</b>                              | <b>\$ 101,929</b>           | <b>28%</b>  | <b>82,316</b>  | <b>27%</b>  | <b>192,173</b>                 | <b>28%</b>  | <b>159,966</b> | <b>27%</b>  |
| <b>Asia/Pacific fleet:</b>                |                             |             |                |             |                                |             |                |             |
| Deepwater vessels                         | \$ 19,923                   | 5%          | 24,592         | 8%          | 44,215                         | 6%          | 49,929         | 8%          |
| Towing-supply/supply                      | 16,559                      | 5%          | 20,229         | 7%          | 34,281                         | 5%          | 45,729         | 8%          |
| Other                                     | 948                         | <1%         | 917            | <1%         | 1,890                          | <1%         | 1,822          | <1%         |
| <b>Total</b>                              | <b>\$ 37,430</b>            | <b>10%</b>  | <b>45,738</b>  | <b>15%</b>  | <b>80,386</b>                  | <b>11%</b>  | <b>97,480</b>  | <b>16%</b>  |
| <b>Middle East/N. Africa fleet:</b>       |                             |             |                |             |                                |             |                |             |
| Deepwater vessels                         | \$ 15,732                   | 5%          | 12,275         | 4%          | 31,584                         | 5%          | 23,559         | 4%          |
| Towing-supply/supply                      | 28,763                      | 8%          | 18,859         | 6%          | 53,260                         | 8%          | 38,859         | 6%          |
| Other                                     | 875                         | <1%         | 917            | <1%         | 1,739                          | <1%         | 2,083          | <1%         |
| <b>Total</b>                              | <b>\$ 45,370</b>            | <b>13%</b>  | <b>32,051</b>  | <b>10%</b>  | <b>86,583</b>                  | <b>13%</b>  | <b>64,501</b>  | <b>10%</b>  |
| <b>Sub-Saharan Africa/Europe fleet:</b>   |                             |             |                |             |                                |             |                |             |
| Deepwater vessels                         | \$ 106,541                  | 29%         | 67,696         | 22%         | 193,792                        | 28%         | 130,311        | 22%         |
| Towing-supply/supply                      | 56,772                      | 16%         | 63,548         | 20%         | 111,632                        | 16%         | 112,560        | 20%         |
| Other                                     | 15,626                      | 4%          | 18,473         | 6%          | 30,732                         | 4%          | 35,098         | 6%          |
| <b>Total</b>                              | <b>\$ 178,939</b>           | <b>49%</b>  | <b>149,717</b> | <b>48%</b>  | <b>336,156</b>                 | <b>48%</b>  | <b>277,969</b> | <b>47%</b>  |
| <b>Worldwide fleet:</b>                   |                             |             |                |             |                                |             |                |             |
| Deepwater vessels                         | \$ 204,007                  | 56%         | 149,310        | 48%         | 386,434                        | 56%         | 284,826        | 47%         |
| Towing-supply/supply                      | 132,955                     | 37%         | 133,745        | 43%         | 257,704                        | 37%         | 262,609        | 44%         |
| Other                                     | 26,706                      | 7%          | 26,767         | 9%          | 51,160                         | 7%          | 52,481         | 9%          |
| <b>Total</b>                              | <b>\$ 363,668</b>           | <b>100%</b> | <b>309,822</b> | <b>100%</b> | <b>695,298</b>                 | <b>100%</b> | <b>599,916</b> | <b>100%</b> |

**(13) GOODWILL**

The company tests goodwill for impairment annually at the reporting unit level using carrying amounts as of December 31 or more frequently if events and circumstances indicate that goodwill might be impaired.

The company performed its annual goodwill impairment assessment during the quarter ended December 31, 2012 and determined there was no goodwill impairment.

During the first six months ended September 30, 2013, \$42.2 million of goodwill related to the acquisition of Troms Offshore was allocated to the Sub-Saharan Africa/Europe segment.

Goodwill by reportable segment at September 30, 2013 and at March 31, 2013 is as follows:

| (In thousands)            | September 30,<br>2013 | March 31,<br>2013 |
|---------------------------|-----------------------|-------------------|
| Americas                  | \$ 114,237            | 114,237           |
| Asia/Pacific              | 56,283                | 56,283            |
| Sub-Saharan Africa/Europe | 169,462               | 127,302           |
|                           | \$ 339,982            | 297,822           |

**(14) SALE/LEASEBACK ARRANGEMENTS**

In September 2013, the company sold two vessels to an unrelated third party, and simultaneously entered into bareboat charter agreements with the purchaser. The sale/leaseback transactions resulted in proceeds to the company of \$65.6 million and a deferred gain of \$31.3 million. The aggregate carrying value of the two vessels was \$34.3 million at the dates of sale. The leases on the vessels will expire on September 30, 2020 and the company has the option to extend each respective bareboat charter agreement for a period of 24 months.

The company is accounting for the transactions as sale/leaseback transactions with operating lease treatment and expenses lease payments over the seven year lease terms. The deferred gains will be amortized to gain on asset dispositions, net ratably over the lease term.

Under each sale/leaseback agreement, the company has the right to either re-acquire the two vessels at approximately 55% of the original sales price at the end of the sixth year, deliver the vessel to the owner at the end of the lease term, or extend the lease for 24 months at mutually agreeable lease rates. Any deferred gain balance remaining upon the repurchase of the vessel will reduce the vessels' stated cost after exercising the purchase option.

As of September 30, 2013, the future minimum lease payments for these two vessels under the operating lease terms are as follows:

| Fiscal year ending           | Amount                     |
|------------------------------|----------------------------|
| Remaining six-months of 2014 | (In thousands)<br>\$ 2,794 |
| 2015                         | 5,588                      |
| 2016                         | 5,589                      |
| 2017                         | 5,589                      |
| 2018                         | 6,830                      |
| Thereafter                   | 17,076                     |
| Total future lease payments  | \$ 43,466                  |

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**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

To the Board of Directors and Stockholders of Tidewater Inc.

New Orleans, Louisiana

We have reviewed the accompanying condensed consolidated balance sheet of Tidewater Inc. and subsidiaries (the Company) as of September 30, 2013, and the related condensed consolidated statements of earnings, comprehensive income, and stockholders' equity for the three month and six-month periods ended September 30, 2013 and 2012, and of cash flows for the six-month periods ended September 30, 2013 and 2012. These interim financial statements are the responsibility of the Company's management.

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

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

We have previously audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheet of Tidewater Inc. and subsidiaries as of March 31, 2013, and the related consolidated statements of earnings, comprehensive income, stockholders' equity and cash flows for the year then ended (not presented herein); and in our report dated May 21, 2013, we expressed an unqualified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying condensed consolidated balance sheet as of March 31, 2013 is fairly stated, in all material respects, in relation to the consolidated balance sheet from which it has been derived.

/s/ DELOITTE & TOUCHE LLP

New Orleans, Louisiana

November 5, 2013



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

**FORWARD-LOOKING STATEMENT**

*In accordance with the safe harbor provisions of the Private Securities Litigation Reform Act of 1995, the company notes that this Quarterly Report on Form 10-Q and the information incorporated herein by reference contain certain forward-looking statements which reflect the company's current view with respect to future events and future financial performance. All such forward-looking statements are subject to risks and uncertainties, and the company's future results of operations could differ materially from its historical results or current expectations reflected by such forward-looking statements. Some of these risks are discussed in this report and include, without limitation, volatility in worldwide energy demand and oil and gas prices; fleet additions by competitors and industry overcapacity; changes in capital spending by customers in the energy industry for offshore exploration, field development and production; changing customer demands for vessel specifications, which may make some of our older vessels technologically obsolete for certain customer projects or in certain markets; uncertainty of global financial market conditions and difficulty in accessing credit or capital; acts of terrorism and piracy; significant weather conditions; unsettled political conditions, war, civil unrest and governmental actions, such as expropriation or enforcement of customs or other laws that are not well-developed or consistently enforced, especially in higher political risk countries where we operate; foreign currency fluctuations; labor changes proposed by international conventions; increased regulatory burdens and oversight; and enforcement of laws related to the environment, labor and foreign corrupt practices.*

*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 guaranteed performance or events. Any forward-looking statements are based on the company's assessment of current industry, financial and economic information, which by its nature is dynamic and subject to rapid and possibly abrupt changes. The company's actual results may differ materially from those stated or implied by such forward-looking statements due to risks and uncertainties associated with our business. While management believes that these forward-looking statements are reasonable when made, there can be no assurance that future developments that affect us will be those that we anticipate and have identified. The forward-looking statements should be considered in the context of the risk factors listed above and discussed in Items 1, 1A, 2 and 7 included in the company's Annual Report on Form 10-K for the year ended March 31, 2013, filed with the Securities and Exchange Commission (SEC) on May 21, 2013, and elsewhere in the Form 10-Q. Investors and prospective investors are cautioned not to rely unduly on such forward-looking statements, which speak only as of the date hereof. Management disclaims any obligation to update or revise any forward-looking statements contained herein to reflect new information, future events or developments.*

In certain places in this report, we may refer to reports published by third parties that purport to describe trends or developments in energy production and drilling and exploration activity. The company does so for the convenience of our investors and potential investors and in an effort to provide information available in the market that will lead to a better understanding of the market environment in which the company operates. The company specifically disclaims any responsibility for the accuracy and completeness of such information and undertakes no obligation to update such information.

The following information contained in this Form 10-Q should be read in conjunction with the unaudited condensed consolidated financial statements and notes thereto included in Item 1 of this Quarterly Report and related disclosures and the company's Annual Report on Form 10-K for the year ended March 31, 2013, filed with the SEC on May 21, 2013.

**About Tidewater**

We provide offshore service vessels and marine support services to the global offshore energy industry through the operation of a diversified fleet of marine service vessels. Tidewater manages and measures its business performance in four distinct operating segments: Americas, Asia/Pacific, Middle East/North Africa, and Sub-Saharan Africa/Europe, and has one of the broadest global operating footprints in the offshore energy industry. We operate vessels in most of the world's significant offshore crude oil and natural gas exploration and production regions. The company is also one of the most experienced international operators in the offshore

energy industry having operated in many countries throughout the world over the last six decades. At September 30, 2013, the company had 315 vessels (of which 10 were owned by joint ventures, 37 were stacked and one was withdrawn from service) available to serve the global energy industry. The size and composition of the company's offshore service vessel fleet includes vessels that are operated under joint ventures, as well as vessels that have been stacked or withdrawn from service. The company provides offshore vessel services in support of all phases of offshore exploration, field development and production, including towing of, and anchor handling for, mobile offshore drilling units; transporting supplies and personnel necessary to sustain drilling, workover and production activities; offshore construction, remotely operated vehicle (ROV) operations, and seismic and subsea support; and a variety of specialized services such as pipe and cable laying.

Until their recent sale, the company also operated two shipyards that constructed, upgraded and repaired vessels. The shipyards performed repair work and new construction work for third-party customers, as well as the construction, repair and modification of the company's own vessels. One of the two shipyards was sold during fiscal 2013 and the remaining shipyard was sold during the first quarter of fiscal 2014.

### **Principal Factors That Drive Our Revenues**

The company's revenues, net earnings and cash flows from operations are largely dependent upon the activity level of its offshore marine vessel fleet. As is the case with many others in our industry, our business activity is largely dependent on the level of drilling and exploration activity of our customers. Our customers' business activity, in turn, is dependent on crude oil and natural gas prices, which fluctuate depending on expected future levels of supply and demand for crude oil and natural gas, and on estimates of the cost to find, develop and produce reserves.

The company's revenues in all segments are driven primarily by the company's fleet size, vessel utilization and day rates. Because a sizeable portion of the company's operating costs and depreciation expense does not change proportionally with changes in revenue, the company's operating profit is largely dependent on revenue levels.

### **Principal Factors That Drive Our Operating Costs**

Operating costs consist primarily of crew costs, repair and maintenance, insurance and loss reserves and fuel, lube oil and supplies.

Fleet size, fleet composition, geographic areas of operation, supply and demand for marine personnel, and local labor requirements are the major factors which affect overall crew costs in all segments. In addition, the company's newer, more technologically sophisticated anchor handling towing supply vessels (AHTS) and platform supply vessels (PSVs) generally require specially trained, more highly compensated fleet personnel than the company's older, smaller and less sophisticated vessels. Competition for skilled crew personnel has intensified as new-build support vessels currently under construction increase the number of technologically sophisticated offshore vessels operating worldwide. It is expected that crew costs will likely increase as competition for skilled personnel intensifies.

The timing and amount of repair and maintenance costs are influenced by expectations of future customer demand for our vessels, as well as vessel age and drydockings mandated by regulatory agencies. A certain number of periodic drydockings are required to meet regulatory requirements. The company will generally incur drydocking costs only if economically justified, taking into consideration the vessel's age, physical condition, contractual obligations, current customer requirements and future marketability. When the company elects to forego a required drydocking, it stacks and, in recent years, frequently sells the vessel because it is not permitted to work without regulatory certifications that are current. When the company drydocks an active vessel, the company not only foregoes vessel revenues and incurs drydocking costs, but also continues to incur vessel operating and depreciation costs. In any given period, vessel downtime associated with drydockings and major repairs and maintenance can have a significant effect on the company's revenues and operating costs.

At times, vessel drydockings take on an increased significance to the company and its financial performance. Older vessels may require more frequent and more comprehensive repairs and drydockings, which can be expensive. Newer vessels (generally those built after 2000), which now account for a majority of the company's revenues and vessel margin (vessel revenues less vessel operating costs), can also require expensive drydockings, even in the early years of a vessel's useful life, due to the greater relative size and complexity of these vessels. Conversely, when the company stacks vessels, the number of drydockings in any period could decline. The combination of these factors can create volatility in period to period drydock costs, which are primarily included in repair and maintenance expense, and incrementally increase the volatility of the company's revenues and operating income, making period-to-period comparisons of financial results more difficult.

Although the company attempts to efficiently manage its fleet drydocking schedule, changes in the demand for (and supply of) shipyard services can result in heavy workloads at shipyards and inflationary pressure on shipyard pricing. In recent years, increases in drydocking costs and days off hire (due to vessels being drydocked) have contributed to volatility in repair and maintenance costs and vessel revenue. In addition, a number of our more recently constructed vessels are now experiencing their first or second required regulatory drydockings.

Insurance and loss reserves costs are dependent on a variety of factors, including the company's safety record and pricing in the insurance markets, and can fluctuate over time. The company's vessels are generally insured for up to their estimated fair market value in order to cover damage or loss resulting from marine casualties, adverse weather conditions, mechanical failure, collisions, and property losses to the vessel. The company also purchases coverage for potential liabilities stemming from third-party losses with limits that it believes are reasonable for its operations. Insurance limits are reviewed annually and third-party coverage is purchased based on the expected scope of ongoing operations and the cost of third-party coverage.

Fuel and lube costs can also fluctuate in any given period depending on the number and distance of vessel mobilizations, the number of active vessels off charter, drydockings, and changes in fuel prices.

The company also incurs vessel operating costs that are aggregated as other vessel operating costs. These costs consist of commissions, training costs and other miscellaneous costs. Commissions are incurred primarily in the company's non-United States operations where brokers and other intermediaries sometimes assist in obtaining work for the company's vessels. Commissions paid are generally based on a percentage of the day rates earned on a vessel or vessels and, accordingly, commissions paid to brokers generally fluctuate in accordance with vessel revenue. Other costs include, but are not limited to, satellite communication fees, agent fees, port fees, canal transit fees, vessel certification fees, temporary vessel importation fees and any fines or penalties.

#### **Challenges We Confront as a Global Offshore Vessel Company**

We operate in many challenging operating environments around the world that present varying degrees of political, social, economic and other uncertainties. We operate in markets where risks of expropriation, confiscation or nationalization of our vessels or other assets, terrorism, piracy, civil unrest, changing foreign currency exchange rates and controls, and changing political conditions, may adversely affect our operations. Although the company takes what it believes to be prudent measures to safeguard its property, personnel and financial condition against these risks, it cannot eliminate entirely the foregoing risks, though the wide geographic dispersal of the company's vessels helps reduce the potential impact of these risks. In addition, immigration, customs, tax and other regulations (and administrative and judicial interpretations thereof) can have a material impact on our ability to work in certain countries and on our operating costs.

In some international operating environments, local customs or laws may require the company to form joint ventures with local owners or use local agents. The company is dedicated to carrying out its international operations in compliance with the rules and regulations of the Office of Foreign Assets Control (OFAC), the Trading with the Enemy Act, the Foreign Corrupt Practices Act (FCPA), and other applicable laws and regulations. The company has adopted policies and procedures to mitigate the risks of violating these rules and regulations.

### **Sonatide Joint Venture**

The company has previously reported that it has been in negotiations with Sonangol regarding a new joint venture agreement for Sonatide, a joint venture between the company and Sonangol that serves the Angolan offshore energy industry. Pending the completion of the new agreement, the joint venture has been operating under a joint venture agreement, extended on several prior occasions, that was last extended through March 31, 2013. Based on the outcome of several meetings that were held during the June and September quarters, the company believes that the substantive issues between the parties have been resolved, and the company has drafted, with Sonangol's input, a new definitive joint venture agreement that the company believes incorporates those understandings. The new definitive joint venture agreement, which has been executed by the company, is awaiting the signature of Sonangol's authorized representatives. Accordingly, there is no agreement yet in place. In the interim, Sonatide continues its normal day-to-day operations consistent with the terms of the expired agreement without significant commercial or operational effects resulting from that expiration.

If negotiations relating to the Sonatide joint venture are ultimately unsuccessful, however, the company will work toward an orderly wind up of the joint venture. Based on prior conduct between the parties during this period of uncertainty, we believe that the joint venture would be allowed to honor existing vessel charter agreements through their contract terms. The global market for offshore supply vessels is currently reasonably well balanced, with offshore vessel supply approximately equal to offshore vessel demand; however, there would likely be negative financial impacts associated with the wind up of the existing joint venture and the possible redeployment of vessels to other markets, including mobilization costs and costs to redeploy Tidewater shore-based employees to other areas, in addition to lost revenues associated with potential downtime between vessel contracts. These financial impacts could, individually or in the aggregate, be material to our results of operations and cash flows for the periods when such costs would be incurred. If there is a need to redeploy vessels which are currently deployed in Angola to other international markets, Tidewater believes that there is sufficient demand for a majority of these vessels at prevailing market day rates.

During the six months ended September 30, 2013, the Sonatide joint venture entered into six new contracts with customers, all of which extend into 2014. During the twelve months ended September 30, 2013, the company redeployed vessels from its Angolan operations to other markets and also transferred vessels into its Angolan operations from other markets resulting in a net increase in the number of vessels operating in the area.

Tidewater and Sonangol have also continued to evaluate and discuss the impact of a new Foreign Exchange Law for the Angolan Petroleum Sector that became effective as of July 1, 2013. Under the new law, oil companies are required to make all payments for goods and services provided by foreign exchange residents in Angolan Kwanzas into an Angolan bank account. This new requirement could result in the joint venture collecting substantially all of its revenue in Angolan Kwanzas, unless a more efficient structure is agreed to by the joint venture parties. The conversion of Angolan Kwanzas into US Dollars and expatriation of the funds currently involves a lengthy process that results in time delays, currency fluctuation risk and conversion fees as well as possible additional taxes. The joint venture is working to design and implement procedures to conform to the recently enacted law and to develop more efficient cash collection processes; however, the successful implementation of any such processes depends on the new joint venture agreement becoming effective. As discussed below and under Liquidity, Capital Resources and Other Matters, over the last several quarters, the company has experienced a build-up in working capital that it has funded primarily by additional borrowings.

For the six months ended September 30, 2013, Tidewater's Angolan operations generated vessel revenues of approximately \$167.7 million, or 24%, of its consolidated vessel revenue, from an average of approximately 88 Tidewater-owned vessels that are marketed through the Sonatide joint venture (six of which were stacked on average during the six months ended September 30, 2013), and, for the six months ended September 30, 2012, generated vessel revenues of approximately \$134.3 million, or 22%, of consolidated vessel revenue, from an average of approximately 86 Tidewater-owned vessels (11 of which were stacked on average during the six months ended September 30, 2012).

In addition to the company's Angolan operations, which reflect the results of Tidewater-owned vessels marketed through the Sonatide joint venture (owned 49% by Tidewater), ten vessels and other assets are owned by the Sonatide joint venture.

As of September 30, 2013 and March 31, 2013, the carrying value of Tidewater's investment in the Sonatide joint venture, which is included in Investments in, at equity, and advances to unconsolidated companies, is approximately \$53 million and \$46 million, respectively.

Included in trade and other receivables at September 30, 2013 is approximately \$280 million related to Sonatide, including cash received by Sonatide from customers and due to the company, costs paid by Tidewater on behalf of Sonatide and, finally, amounts due from customers which are expected to be remitted to the company through Sonatide after a new joint venture agreement is signed by Sonangol.

Included in accrued expenses at September 30, 2013 is approximately \$70 million due to Sonatide for commissions payable (approximately \$24 million) and other costs paid by Sonatide on behalf of the company.

#### **International Labour Organization's Maritime Labour Convention**

The International Labour Organization's Maritime Labour Convention, 2006 (the Convention) seeks to mandate globally, among other things, seafarer working conditions, ship accommodations, wages, conditions of employment, health and other benefits for all ships (and the seafarers on those ships) that are engaged in commercial activities.

As of August 20, 2012, more than 50% of the world's vessel tonnage ratified the Convention, meeting the requisites for the Convention to become law effective August 20, 2013 for the first 30 countries that ratified as of August 2012. Since then, additional countries have ratified the Convention and their effective dates for enforcement will be one year from their respective dates of ratification.

Presently, the 51 countries that have ratified are: Antigua and Barbuda, Australia, Bahamas, Barbados, Belgium, Benin, Bosnia and Herzegovina, Bulgaria, Canada, Croatia, Cyprus, Denmark, Fiji, Finland, France, Gabon, Germany, Ghana, Greece, Hungary, Japan, Kiribati, Latvia, Lebanon, Liberia, Lithuania, Luxembourg, Malaysia, Malta, Marshall Islands, Morocco, Netherlands, Nigeria, Norway, Palau, Panama, Philippines, Poland, Russian Federation, Saint Kitts and Nevis, St. Vincent and the Grenadines, Serbia, Singapore, South Africa, Spain, Sweden, Switzerland, Togo, Tuvalu, United Kingdom, and Vietnam. Notably, although Fiji, Gabon, Hungary and Lebanon have submitted instruments of ratification, their respective registrations for Member state social protection benefits are still pending.

Because the company has steadfastly maintained that this Convention is unnecessary in light of existing international labor laws that offer substantial equivalency to the labor provisions of the Convention, the company actively worked with its flag states and industry representatives to seek substantial equivalencies to comparable national and industry laws that meet the intent of the Convention. The company is presently undergoing Convention certification on its vessels on an as needed priority basis linked to dates of enforcement by countries, drydock transits, or ocean voyages.

The company continues to assess its global seafarer labor relationships and to review its fleet operational practices in light of the Convention requirements. Where the Convention applies, the company and its customers' operations may be negatively affected by future compliance costs which cannot be reasonably estimated at this time.

#### **Macroeconomic Environment and Outlook**

The primary driver of our business (and revenues) is the level of our customers' capital and operating expenditures for oil and natural gas exploration, field development and production. These expenditures, in turn, generally reflect our customers' expectations for future oil and natural gas prices, economic growth, hydrocarbon demand and estimates of current and future oil and natural gas production. The prices of crude oil and natural gas are critical factors in exploration and production (E&P) companies' decisions to contract drilling rigs and offshore service vessels in the various international markets or the U.S. GOM, with the various international markets being largely driven by supply and demand for crude oil, and the U.S. GOM being influenced both by the supply and demand for natural gas (primarily in regards to shallow water activity) and the supply and demand for crude oil (primarily in regards to deepwater activity).

The price of crude oil decreased slightly during the beginning of our fiscal year due to lower than expected worldwide demand during the first half of 2013 but has rebounded during the current quarter. This rebound is due to intermittent recovery in European markets and improvements in the U.S. economy, and, as a result, analysts believe that this will result in modest growth in emerging markets such as China and Brazil. It should be noted, however, that improvements in the U.S. economy are fragile and are hinged upon debt ceiling negotiations and decisions made by the Federal Reserve Board in regards to monetary policy. Overall crude demand is expected to increase during the remaining months of calendar year 2013 and into 2014 as a consequence of these worldwide economic improvements.

Tidewater anticipates that its longer-term utilization and day rate trends for its vessels will be correlated with demand for and the price of crude oil, which in early October 2013, was trading around \$103 per barrel for West Texas Intermediate (WTI) crude and around \$110 per barrel for Intercontinental Exchange (ICE) Brent crude. These elevated crude oil prices generally bode well for increases in drilling and exploration activity, which would support increases in demand for the company's vessels, both in the various global markets and the deepwater sectors of the U.S. GOM.

During fiscal 2014, natural gas prices have trended lower primarily due to increased supply, which has resulted in increases in natural gas inventories. Causes of the lower demand in natural gas include milder weather patterns and a reduction in the number of nuclear power plant outages. In particular, the continuing rise in production of unconventional gas resources in North America (in part due to increases in onshore shale production resulting from technological advancements in horizontal drilling and hydraulic fracturing) and the commissioning of a number of new, large, Liquefied Natural Gas (LNG) exporting facilities around the world have contributed to an oversupplied natural gas market. As of the beginning of October 2013, natural gas was trading in the U.S. at approximately \$3.70 per Mcf which is down from approximately \$4.00 per Mcf in March 2013. Oversupplied natural gas inventories in the U.S. continue to exert downward pricing pressures on natural gas prices in the U.S. Prolonged periods of oversupply of natural gas (whether from conventional or unconventional natural gas production or gas produced as a byproduct of crude oil production) will likely continue to suppress prices for natural gas, although over the longer term, relatively low natural gas prices may also lead to increased demand for the resource. High onshore gas production along with a prolonged downturn in natural gas prices can negatively impact the offshore exploration and development plans of E&P companies, which in turn, would suppress demand for offshore support vessel services, primarily in the Americas segment (specifically our U.S. operations where natural gas is a more prevalent, exploitable hydrocarbon resource).

Certain oil and gas industry analysts are reporting in their 2013 E&P expenditures (both land-based and offshore) surveys that global capital expenditure budgets for E&P companies are forecast to increase by at least 7% over calendar year 2012 levels. The surveys forecast that international capital spending budgets will increase approximately 9% while North American capital spending budgets are forecast to increase less than 1% as compared to prior year. It is anticipated by these analysts that the North American capital budget increases will primarily be spent onshore rather than offshore, while international E&P spending is expected to be largely offshore, with the strongest markets expected to include Latin America, the Middle East, Russia, Europe and Asia. Capital expenditure budgets incorporated into the spending surveys were based on an approximate \$85 WTI and \$98 Brent average prices per barrel of oil. E&P companies are estimated to be using an approximate \$3.47 per Mcf average natural gas price for their 2013 capital budgets and natural gas directed drilling is forecast to decline in 2013.

Deepwater activity continues to be a significant segment of the global offshore crude oil and natural gas markets, and it is also a source of potential growth for the company. Deepwater oil and gas development typically involves significant capital investment and multi-year development plans. Such projects are generally underwritten by the participating exploration, field development and production companies using relatively conservative assumptions relating to crude oil and natural gas prices. These projects are, therefore, considered less susceptible to short-term fluctuations in the price of crude oil and natural gas. During the past few years, worldwide rig construction increased as rig owners capitalized on the high worldwide demand for drilling and low shipyard and financing costs. Reports published by IHS-Petrodata at the beginning of October 2013 indicate that the worldwide movable offshore drilling rig count, estimated at approximately 900 rigs, approximately 34% of which are designed to operate in deeper waters, will increase with the delivery within the next several years of approximately 230 new-build offshore rigs that are on order

and under construction. Of the estimated 900 movable offshore rigs worldwide, approximately 700 are working as of September 30, 2013, approximately 36% of which are designed to operate in deeper waters. It is further estimated that approximately 45% of the new-build rigs are being built to operate in deeper waters, suggesting that the total population of deepwater working rigs could grow to 38% of the working rig population if all new-build rigs are incremental working rigs. Investment is also being made in the floating production unit market, with approximately 52 new floating production units under construction and expected to be delivered primarily over the next three years to supplement the approximately 365 floating production units already in existence worldwide.

In addition to the increase in deepwater drilling activity, shallow-water exploration and production activity has also increased during the last 12 months. According to IHS-Petrodata, at approximately 397 working jack-up rigs as of October 2013, the number of working jack-up rigs in recent weeks represents an increase of approximately 12% from the number of jack-ups working a year ago. Orders for new jack-up rigs have also increased approximately 30% over the last 12 months to approximately 120 jack-up rigs, nearly all of which are scheduled for delivery in the next three years.

According to IHS-Petrodata, there were 430 new-build offshore support vessels (deepwater platform supply vessels, deepwater AHTS vessels and towing-supply vessels only) under construction as of October 2013, most of which are expected to be delivered to the worldwide offshore vessel market within the next two years. Also as of October 2013, the worldwide fleet of these classes of vessels is estimated at approximately 3,000 vessels, of which Tidewater estimates more than 10% are currently stacked.

An increase in worldwide vessel capacity would tend to have the effect of lowering charter rates, particularly when there are lower levels of exploration, field development and production activity. The worldwide offshore marine vessel industry, however, also has a large number of aged vessels, including approximately 730 vessels, or 25%, of the worldwide offshore fleet, that are at least 25 years old and nearing or exceeding original expectations of their estimated economic lives. These older vessels, approximately 40% of which Tidewater estimates are already stacked, could potentially be removed from the market within the next few years if the cost of extending the vessels' lives is not economically justifiable. Although the future attrition rate of these aging vessels cannot be determined with certainty, the company believes that the retirement of a sizeable portion of these aged vessels could mitigate the potential negative effects of new-build vessels on vessel utilization and vessel pricing. Additional vessel demand could also be created by the addition of new drilling rigs and floating production units that are expected to be delivered and become operational over the next few years, which should help minimize the possible negative effects of the new-build offshore support vessels being added to the offshore support vessel fleet.

#### **Fiscal 2014 Second Quarter Business Highlights**

During the first half of fiscal 2014, the company continued its focus on maintaining its competitive advantages and its market share in markets where it operates and continued to modernize its vessel fleet to increase future earnings capacity while removing from active service certain older vessels that currently have fewer market opportunities. Key elements of the company's strategy continue to be the preservation of its strong financial position and the maintenance of adequate liquidity to fund the expansion of its fleet of newer vessels. Operating management focused on safe operations, minimizing unscheduled vessel downtime, and maintaining disciplined cost control.

On June 4, 2013, the company, through a subsidiary, acquired Troms Offshore Supply AS, a Norwegian company (Troms Offshore). At the time of the acquisition, Troms Offshore owned four deepwater PSVs, and had two additional deepwater PSVs under construction, one of which was delivered shortly after the acquisition. The purchase price (not including transaction costs) included a \$150.0 million cash payment to the shareholders of Troms Offshore and the assumption of approximately \$261.3 million of combined Troms Offshore obligations, comprised of net interest-bearing debt and the remaining installment payments due on vessels under construction. The company has performed a fair value analysis and the purchase price was allocated to the acquired assets and liabilities based on their fair values resulting in \$42.2 million of goodwill, all of which was allocated to our Sub-Saharan Africa/Europe segment. The allocation is preliminary and based on estimates and assumptions that are subject to change within the purchase price allocation period (generally one year from the acquisition date).

At September 30, 2013, the company had 304 owned or chartered vessels (excluding joint-venture vessels and vessels withdrawn from service) in its fleet with an average age of 11.0 years.

The company's consolidated net earnings for the first six months of fiscal 2014 increased 14%, or \$10.0 million, as compared to the same period in fiscal 2013, primarily due to an approximate 16% increase in total revenues, which was partially offset by a 17%, or \$57.5 million, increase in vessel operating costs, a 14%, or \$10.3 million, increase in depreciation expense and a 17%, or \$14.0 million, increase in general and administrative expenses. The company recorded \$702.0 million in revenues during the first six months of fiscal 2014, which is an increase of \$95.7 million over the revenue earned during the same period of fiscal 2013, primarily due to a 17% increase in our total worldwide fleet average day rates attributable to the operation of newer and more sophisticated vessels in a generally improving market environment and \$24.1 million in revenues contributed from Troms Offshore, which was acquired in June of 2013.

Vessel revenues generated by the company's Americas segment increased approximately 20%, or \$32.2 million, during the first six months of fiscal 2014 as compared to the revenues earned during the same period in fiscal 2013, primarily due to a \$35.8 million and \$3.3 million increase in revenues earned on the deepwater and other class of vessels, respectively. These increases in revenue were partially offset by a \$6.9 million decrease in revenue generated by the towing-supply/supply class of vessels during the same comparable periods. Americas-based vessel operating costs increased 7%, or \$7.2 million, during the first six months of fiscal 2014 as compared to the same period in fiscal 2013.

Vessel revenues generated by our Asia/Pacific segment decreased 18%, or \$17.1 million, during the first six months of fiscal 2014 as compared to the revenues earned during the same period in fiscal 2013, primarily due to a decrease in the number of towing-supply/supply vessels operating in this segment because of vessels transferring to other segments and because of vessel sales. Vessel operating costs for the Asia/Pacific segment decreased 14%, or \$7.7 million, during the same comparative periods.

Vessel revenues generated by our Middle East/North Africa segment increased 34%, or \$22.1 million, during the first six months of fiscal 2014 as compared to the revenues earned during the same period in fiscal 2013, primarily due to deepwater and towing-supply/supply vessels mobilizing to the area. Vessel operating costs for the Middle East/North Africa segment increased 21%, or \$7.5 million, during the same comparative periods.

Vessel revenues generated by our Sub-Saharan Africa/Europe segment increased 21%, or \$58.2 million, during the first six months of fiscal 2014 as compared to the revenues earned during the same period in fiscal 2013, primarily due to a 20% increase in average day rates and an increase in the number of vessels mobilizing to the area. Vessel operating costs for the Sub-Saharan Africa/Europe segment increased 35%, or \$50.5 million, during the same comparative periods, primarily due to increased repair and maintenance expense and an increase in the number of vessels operating in the segment.

A more complete discussion of each of the above segment highlights is included in the Results of Operations section below.



## Results of Operations

We manage and measure our business performance in four distinct operating segments which are based on our geographical organization: Americas, Asia/Pacific, Middle East/North Africa, and Sub-Saharan Africa/Europe. The following table compares vessel revenues and vessel operating costs (excluding general and administrative expenses, depreciation expense, and gains on asset dispositions, net) for the company's owned and operated vessel fleet and the related percentage of vessel revenue for the quarters and six-month periods ended September 30, 2013 and 2012 and for the quarter ended June 30, 2013:

| (In thousands)                 | Quarter Ended<br>September 30, |      |         |      | Six Months Ended<br>September 30, |      |         |      | Quarter<br>Ended<br>June 30, |      |
|--------------------------------|--------------------------------|------|---------|------|-----------------------------------|------|---------|------|------------------------------|------|
|                                | 2013                           | %    | 2012    | %    | 2013                              | %    | 2012    | %    | 2013                         | %    |
| <b>Vessel revenues:</b>        |                                |      |         |      |                                   |      |         |      |                              |      |
| Americas                       | \$ 101,929                     | 28%  | 82,316  | 27%  | 192,173                           | 28%  | 159,966 | 27%  | 90,244                       | 27%  |
| Asia/Pacific                   | 37,430                         | 10%  | 45,738  | 15%  | 80,386                            | 12%  | 97,480  | 16%  | 42,956                       | 13%  |
| Middle East/N. Africa          | 45,370                         | 13%  | 32,051  | 10%  | 86,583                            | 12%  | 64,501  | 11%  | 41,213                       | 13%  |
| Sub-Saharan Africa/Europe      | 178,939                        | 49%  | 149,717 | 48%  | 336,156                           | 48%  | 277,969 | 46%  | 157,217                      | 47%  |
|                                | \$ 363,668                     | 100% | 309,822 | 100% | 695,298                           | 100% | 599,916 | 100% | 331,630                      | 100% |
| <b>Vessel operating costs:</b> |                                |      |         |      |                                   |      |         |      |                              |      |
| Crew costs                     | \$ 100,767                     | 28%  | 90,811  | 29%  | 193,999                           | 28%  | 178,115 | 30%  | 93,232                       | 28%  |
| Repair and maintenance         | 38,996                         | 11%  | 32,754  | 11%  | 87,089                            | 13%  | 59,978  | 10%  | 48,093                       | 14%  |
| Insurance and loss reserves    | 3,926                          | 1%   | 3,810   | 1%   | 9,946                             | 1%   | 9,161   | 2%   | 6,020                        | 2%   |
| Fuel, lube and supplies        | 19,354                         | 5%   | 19,269  | 6%   | 38,159                            | 5%   | 37,012  | 6%   | 18,805                       | 6%   |
| Other                          | 32,273                         | 9%   | 26,008  | 9%   | 62,284                            | 9%   | 49,722  | 8%   | 30,011                       | 9%   |
|                                | \$ 195,316                     | 54%  | 172,652 | 56%  | 391,477                           | 56%  | 333,988 | 56%  | 196,161                      | 59%  |

The following table compares other operating revenues and costs related to third-party activities of the company's shipyards (the remainder of which the company disposed of in the quarter ended June 30, 2013), brokered vessels and other miscellaneous marine-related activities for the quarters and the six-month periods ended September 30, 2013 and 2012 and for the quarter ended June 30, 2013:

| (In thousands)                    | Quarter Ended<br>September 30, |       | Six Months Ended<br>September 30, |       | Quarter<br>Ended<br>June 30, |
|-----------------------------------|--------------------------------|-------|-----------------------------------|-------|------------------------------|
|                                   | 2013                           | 2012  | 2013                              | 2012  | 2013                         |
| Other operating revenues          | \$ 4,269                       | 2,096 | 6,724                             | 6,450 | 2,455                        |
| Costs of other operating revenues | 4,040                          | 1,585 | 6,060                             | 5,108 | 2,020                        |

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The following table presents vessel operating costs by the company's segments, the related segment vessel operating costs as a percentage of segment vessel revenues, total vessel operating costs and the related total vessel operating costs as a percentage of total vessel revenues for the quarters and six-month periods ended September 30, 2013 and 2012 and for the quarter ended June 30, 2013.

| (In thousands)                    | Quarter Ended<br>September 30, |            |                |            | Six Months Ended<br>September 30, |            |                |            | Quarter Ended<br>June 30, |            |
|-----------------------------------|--------------------------------|------------|----------------|------------|-----------------------------------|------------|----------------|------------|---------------------------|------------|
|                                   | 2013                           | %          | 2012           | %          | 2013                              | %          | 2012           | %          | 2013                      | %          |
| <b>Vessel operating costs:</b>    |                                |            |                |            |                                   |            |                |            |                           |            |
| <b>Americas:</b>                  |                                |            |                |            |                                   |            |                |            |                           |            |
| Crew costs                        | \$ 31,389                      | 31%        | 29,610         | 36%        | 59,230                            | 31%        | 57,357         | 36%        | 27,841                    | 31%        |
| Repair and maintenance            | 11,750                         | 11%        | 10,725         | 13%        | 20,608                            | 11%        | 18,837         | 12%        | 8,858                     | 10%        |
| Insurance and loss reserves       | 597                            | 1%         | 761            | 1%         | 2,498                             | 1%         | 2,189          | 1%         | 1,901                     | 2%         |
| Fuel, lube and supplies           | 5,901                          | 6%         | 5,108          | 6%         | 9,454                             | 5%         | 10,320         | 6%         | 3,553                     | 4%         |
| Other                             | 7,203                          | 7%         | 6,008          | 7%         | 13,673                            | 7%         | 9,551          | 6%         | 6,470                     | 7%         |
|                                   | 56,840                         | 56%        | 52,212         | 63%        | 105,463                           | 55%        | 98,254         | 61%        | 48,623                    | 54%        |
| <b>Asia/Pacific:</b>              |                                |            |                |            |                                   |            |                |            |                           |            |
| Crew costs                        | \$ 14,567                      | 39%        | 19,793         | 43%        | 30,221                            | 38%        | 38,322         | 39%        | 15,654                    | 36%        |
| Repair and maintenance            | 3,910                          | 10%        | 3,019          | 7%         | 6,022                             | 8%         | 5,627          | 6%         | 2,112                     | 5%         |
| Insurance and loss reserves       | 350                            | 1%         | 425            | 1%         | 1,000                             | 1%         | 527            | 1%         | 650                       | 2%         |
| Fuel, lube and supplies           | 2,410                          | 6%         | 3,274          | 7%         | 5,129                             | 6%         | 6,447          | 7%         | 2,719                     | 6%         |
| Other                             | 3,211                          | 9%         | 2,289          | 5%         | 5,565                             | 7%         | 4,743          | 5%         | 2,354                     | 6%         |
|                                   | 24,448                         | 65%        | 28,800         | 63%        | 47,937                            | 60%        | 55,666         | 58%        | 23,489                    | 55%        |
| <b>Middle East/N. Africa:</b>     |                                |            |                |            |                                   |            |                |            |                           |            |
| Crew costs                        | \$ 11,545                      | 25%        | 9,241          | 29%        | 22,009                            | 26%        | 18,901         | 29%        | 10,464                    | 25%        |
| Repair and maintenance            | 3,638                          | 8%         | 2,911          | 9%         | 6,926                             | 8%         | 5,470          | 8%         | 3,288                     | 8%         |
| Insurance and loss reserves       | 1,216                          | 3%         | 625            | 2%         | 2,018                             | 2%         | 1,531          | 2%         | 802                       | 2%         |
| Fuel, lube and supplies           | 2,372                          | 5%         | 2,925          | 9%         | 6,240                             | 7%         | 5,027          | 8%         | 3,868                     | 9%         |
| Other                             | 3,082                          | 7%         | 1,690          | 5%         | 5,799                             | 7%         | 4,522          | 7%         | 2,717                     | 7%         |
|                                   | 21,853                         | 48%        | 17,392         | 54%        | 42,992                            | 50%        | 35,451         | 54%        | 21,139                    | 51%        |
| <b>Sub-Saharan Africa/Europe:</b> |                                |            |                |            |                                   |            |                |            |                           |            |
| Crew costs                        | \$ 43,266                      | 24%        | 32,167         | 21%        | 82,539                            | 25%        | 63,535         | 23%        | 39,273                    | 25%        |
| Repair and maintenance            | 19,698                         | 11%        | 16,099         | 11%        | 53,533                            | 16%        | 30,044         | 11%        | 33,835                    | 22%        |
| Insurance and loss reserves       | 1,763                          | 1%         | 1,999          | 1%         | 4,430                             | 1%         | 4,914          | 2%         | 2,667                     | 2%         |
| Fuel, lube and supplies           | 8,671                          | 5%         | 7,962          | 5%         | 17,336                            | 5%         | 15,218         | 5%         | 8,665                     | 5%         |
| Other                             | 18,777                         | 11%        | 16,021         | 11%        | 37,247                            | 11%        | 30,906         | 11%        | 18,470                    | 12%        |
|                                   | 92,175                         | 52%        | 74,248         | 49%        | 195,085                           | 58%        | 144,617        | 52%        | 102,910                   | 66%        |
| <b>Total operating costs</b>      | <b>\$ 195,316</b>              | <b>54%</b> | <b>172,652</b> | <b>56%</b> | <b>391,477</b>                    | <b>56%</b> | <b>333,988</b> | <b>56%</b> | <b>196,161</b>            | <b>59%</b> |

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The following table compares operating income and other components of earnings before income taxes and its related percentage of total revenue for the quarters and six-month periods ended September 30, 2013 and 2012 and the quarter ended June 30, 2013:

| (In thousands)                                     | Quarter Ended    |                       |               |            | Six Months Ended |                       |                |            | Quarter                   |            |
|----------------------------------------------------|------------------|-----------------------|---------------|------------|------------------|-----------------------|----------------|------------|---------------------------|------------|
|                                                    | 2013             | September 30,<br>2012 | 2012          | %          | 2013             | September 30,<br>2012 | 2012           | %          | Ended<br>June 30,<br>2013 | %          |
| <b>Vessel operating profit:</b>                    |                  |                       |               |            |                  |                       |                |            |                           |            |
| Americas                                           | \$ 23,675        | 6%                    | 9,506         | 3%         | 43,976           | 6%                    | 19,698         | 3%         | 20,301                    | 6%         |
| Asia/Pacific                                       | 4,807            | 1%                    | 7,826         | 3%         | 15,096           | 2%                    | 22,734         | 4%         | 10,289                    | 3%         |
| Middle East/N. Africa                              | 13,446           | 4%                    | 6,280         | 2%         | 23,569           | 4%                    | 12,562         | 2%         | 10,123                    | 3%         |
| Sub-Saharan Africa/Europe                          | 47,261           | 13%                   | 44,330        | 14%        | 64,780           | 9%                    | 71,426         | 12%        | 17,519                    | 5%         |
|                                                    | 89,189           | 24%                   | 67,942        | 22%        | 147,421          | 21%                   | 126,420        | 21%        | 58,232                    | 17%        |
| Corporate expenses                                 | (12,891)         | (4%)                  | (12,484)      | (4%)       | (29,446)         | (4%)                  | (22,951)       | (4%)       | (16,555)                  | (5%)       |
| Gain on asset dispositions, net                    | 49               | <1%                   | 1,833         | 1%         | 2,189            | <1%                   | 2,671          | <1%        | 2,140                     | 1%         |
| Other operating expenses                           | 218              | <1%                   | (94)          | (<1%)      | (174)            | (<1%)                 | 544            | <1%        | (392)                     | (<1%)      |
| <b>Operating income</b>                            | <b>76,565</b>    | <b>21%</b>            | <b>57,197</b> | <b>18%</b> | <b>119,990</b>   | <b>17%</b>            | <b>106,684</b> | <b>17%</b> | <b>43,425</b>             | <b>13%</b> |
| Foreign exchange gain (loss)                       | 3,017            | 1%                    | 529           | <1%        | 2,928            | <1%                   | (1,222)        | (<1%)      | (89)                      | (<1%)      |
| Equity in net earnings of unconsolidated companies | 3,781            | 1%                    | 3,357         | 1%         | 8,201            | 1%                    | 5,720          | 1%         | 4,420                     | 1%         |
| Interest income and other, net                     | 538              | <1%                   | 1,128         | <1%        | 1,278            | <1%                   | 1,847          | <1%        | 740                       | <1%        |
| Loss on early extinguishment of debt               | (4,144)          | (1%)                  | ---           | ---        | (4,144)          | (<1%)                 | ---            | ---        | ---                       | ---        |
| Interest and other debt costs                      | (9,918)          | (3%)                  | (7,148)       | (2%)       | (18,831)         | (3%)                  | (14,735)       | (2%)       | (8,913)                   | (3%)       |
| <b>Earnings before income taxes</b>                | <b>\$ 69,839</b> | <b>19%</b>            | <b>55,063</b> | <b>18%</b> | <b>109,422</b>   | <b>16%</b>            | <b>98,294</b>  | <b>16%</b> | <b>39,583</b>             | <b>12%</b> |

**Americas Segment Operations.** Americas-based vessel revenues increased 24%, or \$19.6 million and 20%, or \$32.2 million, respectively, during the quarter and six month periods ended September, 30 2013, respectively, as compared to the same periods of the prior fiscal year, due primarily to revenues earned on deepwater vessels which increased \$17.1 million, or 38%, and \$35.8 million, or 44%, respectively. The increase in deepwater revenues during the quarter and six month periods ended September 30, 2013 as compared to the same periods in fiscal 2013 is the result of a 12% and 14% increase in average day rates, respectively, and an increase in the number of vessels operating in the Americas segment which were transferred from other segments because of the increased demand for deepwater drilling services in Brazil and the U.S. Gulf of Mexico during the current fiscal year. Revenues earned on the other vessel class increased 43%, or \$2.8 million during the quarter ended September 30, 2013 and 25%, or \$3.3 million, during the six month period ended September 30, 2013, as compared to the same periods in the prior fiscal year, due to increase in average day rates of 29% and 23%, respectively, as well as increases in utilization rates of 19 and 10 percentage points, respectively. Revenues from towing-supply/supply vessels during the quarters ended September 30, 2013 and 2012 were comparable, however, revenues from towing-supply/supply vessels for the first six months of fiscal 2014 decreased 11%, or \$6.9 million, as compared to the first six months of fiscal 2013 due to a five percentage point decrease in utilization rates.

At the beginning of fiscal 2014, the company had 26 Americas-based stacked vessels. During the first six months of fiscal 2014, the company stacked three additional vessels, returned one vessel to service from the previously stacked vessel fleet and sold six vessels from the previously stacked vessel fleet, resulting in a total of 22 stacked Americas-based vessels as of September 30, 2013.

Operating profit for Americas-based vessels increased 149%, or \$14.2 million, and 123%, or \$24.3 million, respectively, during the quarter and six-month periods ended September 30, 2013, respectively, as compared to the same periods in fiscal 2013, primarily due to higher revenues, which were partially offset by a 9% or \$4.6 million and 7%, or \$7.2 million, respectively, increase in vessel operating costs (primarily crew costs, repairs and maintenance costs and other vessel costs).

Crew costs increased 6%, or \$1.8 million and 3%, or \$1.9 million, respectively, during the quarter and six-month period ended September 30, 2013, as compared to the same periods during fiscal 2013, due to an increase in the number of deepwater vessels operating in the segment. Repair and maintenance costs increased 10% or \$1.0 million, and 10%, or \$1.8 million, respectively, during the quarter and six-month period ended September 30, 2013, as compared to the same periods during fiscal 2013, due to a greater number of drydockings being performed during the current periods.



Other vessel costs increased 20% and 43%, or \$1.2 million and \$4.1 million, respectively, during the quarter and six-month period ended September 30, 2013, as compared to the same periods during fiscal 2013, due primarily attributable to vessels deliveries into the segment during the current period.

Americas-based vessel revenues increased 13%, or \$11.7 million, during the second quarter of fiscal 2014 as compared to the first quarter of fiscal 2014, primarily due to higher revenues earned on the deepwater and towing-supply/supply vessels. Revenues from the deepwater increased 12%, or \$6.8 million, during the same comparative periods, primarily due to an increased number of deepwater vessels operating in the segment which were transferred in from other segments because of the increasing demand for deepwater drilling services in Brazil and the U.S. Gulf of Mexico. In addition, revenues from towing-supply/supply vessels increased 12%, or \$3.2 million, during the same comparative periods, due to a six percentage point increase in utilization rates.

Operating profit for the Americas-based vessels increased 17%, or \$3.4 million, during the second quarter of fiscal 2014 as compared to the first quarter of fiscal 2014, primarily due to higher revenues, partially offset by a 17%, or \$8.2 million, increase in vessel operating costs (primarily crew costs, repairs and maintenance costs and fuel, lube and supplies costs).

Crew costs increased 13%, or \$3.5 million, during the same comparative periods, due to an increase in the number of vessels operating in the segment. Repair and maintenance costs increased 33%, or \$2.9 million, during the same comparative periods, due to a greater number of drydockings performed during the current period and to prepare vessels that had been transferred in from other segments for new contracts. Fuel, lube and supplies costs increased 66%, or \$2.3 million, during the same comparative periods, due to a higher number of vessels mobilizing into the segment.

**Asia/Pacific Segment Operations.** Asia/Pacific-based vessel revenues decreased 18%, or \$8.3 million, and 18%, or \$17.1 million, respectively, during the quarter and six months ended September 30, 2013, as compared to the quarter and six months ended September 30, 2012, primarily due to lower revenues from both the towing-supply/supply and deepwater vessel classes. Revenues from towing-supply/supply vessels decreased 18%, or \$3.7 million, and 25%, or \$11.4 million, respectively, during the quarter and six months ended September 30, 2013 as compared to the same comparative periods of fiscal 2013. Revenues from deepwater vessels also decreased 19%, or \$4.7 million and 11%, or \$5.7 million, respectively, during the same respective comparative periods. Decreases among both vessel classes are attributable to vessel transferring to other segments where market opportunities are currently more robust.

At the beginning of fiscal 2014, the company had nine Asia/Pacific-based stacked vessels. During the first six months of fiscal 2014, the company sold five vessels from the previously stacked vessel fleet and stacked no additional vessels, resulting in a total of four stacked Asia/Pacific-based vessels as of September 30, 2013.

Operating profit for the Asia/Pacific-based vessels decreased 39%, or \$3.0 million and 34%, or \$7.6 million, respectively, during the quarter and six-month periods ended September 30, 2013, as compared to the same periods in fiscal 2013. Decreased vessel revenues were partially offset by a 15%, or \$4.4 million and 14%, or \$7.7 million, respectively, decrease in vessel operating costs (primarily crew costs) and a decrease in depreciation expense during the same quarter and six-month comparative periods.

Crew costs decreased 26%, or \$5.2 million, and 21%, or \$8.1 million, respectively, during the quarter and six-month periods ended September 30, 2013, as compared to same periods during fiscal 2013, and depreciation expense decreased 15%, or \$0.7 million, and 13%, or \$1.3 million, respectively, during the same quarter and six-month comparative periods due to fewer vessels operating in the segment as a result of vessels transferring into other segments.

Asia/Pacific-based vessel revenues decreased 13%, or \$5.5 million, during the second quarter of fiscal 2014 as compared to the first quarter of fiscal 2014, primarily due to a decrease in revenues earned on the deepwater vessels. Deepwater vessel revenue decreased 18%, or \$4.4 million, during the same comparative period, due to a 13 percentage point decrease in utilization rates.

Operating profit for the Asia/Pacific-based vessels decreased 53%, or \$5.5 million, during the second quarter of fiscal 2014 as compared to the first quarter of fiscal 2014, and is primarily attributable to lower revenues and a 4%, or \$1.0 million, increase in vessel operating costs (primarily repairs and maintenance costs). Repairs and maintenance costs increased 85%, or \$1.8 million, during the same comparative periods, due to an increase in the number of drydockings during the second quarter.

**Middle East/North Africa Segment Operations.** Middle East/North Africa-based vessel revenues increased 42% or \$13.3 million and 34%, or \$22.1 million, respectively, during the quarter and six-month periods ended September 30, 2013, as compared to the same periods during fiscal 2013, due to increased revenues on the towing-supply/supply and deepwater vessels. Towing-supply/supply vessel revenue increased 53% or \$9.9 million and 37%, or \$14.4 million, respectively, during the quarter and six-month periods ended September 30, 2013, as compared to the same periods during fiscal 2013, due to a 26% and 27% respective increase in average day rates, a 15 and five respective percentage point increases in utilization rates, as well as an increase in the number of vessels operating in the segment. Deepwater vessel revenue increased 28% or \$3.5 million, and 34%, or \$8.0 million, respectively, during the quarter and six month periods ended September 30, 2013, due to a 21% and 16% respective increase in average day rates as well as an increase in the number of vessels operating in the segment during the comparative periods. Increases in dayrates and overall utilization in Middle East/North Africa segment is primarily the result of increased operations in the Mediterranean Sea and offshore Saudi Arabia since the prior fiscal year.

At the beginning of fiscal 2014, the company had six Middle East/North Africa-based stacked vessels. During the first six months of fiscal 2014, the company sold all six of these vessels and stacked no additional vessels.

Middle East/North Africa-based vessel operating profit increased 114%, or \$7.2 million and 88%, or \$11.0 million, respectively, during the quarter and six-month periods ended September 30, 2013, as compared to the same periods during fiscal 2013, primarily due to higher revenues, which were partially offset by a 26% or \$4.5 million, and 21%, or \$7.5 million, respective increase in vessel operating costs (primarily crew costs and other vessel costs) and an increase in depreciation expense during the same comparative periods.

Crew costs increased 25%, or \$2.3 million and 16%, or \$3.1 million, respectively, during the quarter and six-month periods ended September 30, 2013, as compared to the same periods during fiscal 2013, primarily due to an increase number of vessels operating in the segment which was the result of the transfer of vessels from other segments. Other vessel costs increased 82%, or \$1.4 million and 28%, or \$1.3 million, respectively, during the same comparative periods, as a result of an increase in provisioning and similar costs related to an increase in the number of vessels operating in the segment. Depreciation expense increased 31% or \$1.3 million, and 34%, or \$2.9 million, respectively, during the same comparative periods, also due to an increase in the number of vessels operating in the segment.

Middle East/North Africa-based vessel revenues increased 10% or \$4.2 million, during the second quarter of fiscal 2014 as compared to the first quarter of fiscal 2014, primarily due to higher revenues earned on the towing-supply/supply vessels. Revenues earned on the towing-supply/supply vessels increased 17%, or \$4.3 million, during the same comparative periods, due to a 14 percentage point increase in utilization rates as a result of ships working during the second quarter of fiscal 2014 which were offhire and/or in drydock for a portion of the previous quarter.

Operating profit for the Middle East/North Africa-based vessels increased 33%, or \$3.3 million, during the second quarter of fiscal 2014 as compared to the first quarter of fiscal 2014, primarily due to higher revenues, partially offset by a 3%, or \$0.7 million, increase in vessel operating costs (primarily crew costs). Crew costs increased 10%, or \$1.1 million during the second quarter of fiscal 2014 as compared to the first quarter of fiscal 2014, due to an increase number of vessels operating in the segment which was the result of the transfer of vessels from other segments.

**Sub-Saharan Africa/Europe Segment Operations.** Sub-Saharan Africa/Europe-based vessel revenues increased 20%, or \$29.2 million, during the second quarter of fiscal 2014 as compared to the second quarter of fiscal 2013, primarily due to higher revenues earned on the deepwater vessels. Revenues from deepwater vessels increased 57%, or \$38.8 million, during the same comparative period, due to a 20% increase in average day rates due to the use of newer, higher spec equipment which has been moved into the area to

meet customer needs as older vessels were transferred to other segments or stacked. Revenues from deepwater vessels during the quarter ended September 30, 2013 also included \$20.7 million from vessels related to the June 2013 acquisition of Troms Offshore. Revenues from the towing-supply/supply vessels decreased 11%, or \$6.8 million, during the same comparative periods, due to retroactive rate increases on certain vessel charter agreements that were recorded as vessel revenue in the second quarter of fiscal 2013. Revenues from the other class of vessels decreased 15%, or \$2.8 million, during the same comparative period, due to a 9% decrease in average day rates and a seven percentage point decrease in utilization rates.

Sub-Saharan Africa/Europe-based vessel revenues increased 21%, or \$58.2 million, during the six-month period ended September 30, 2013 as compared to the six-month period ended September 30, 2012, primarily due to higher revenues earned on the deepwater vessels. Revenues earned on the deepwater vessels increased 49%, or \$63.5 million, during the same comparative periods, due to a 21% increase in average day rates attributable to the use of newer, higher spec equipment which has been moved into the area to meet customer needs as older vessels were transferred to other segments or stacked. Revenues from deepwater vessels for the first half of fiscal 2014 also included \$24.1 million from vessels related to the June 2013 acquisition of Troms Offshore. Revenues earned on the other class of vessels decreased 12%, or \$4.4 million, during the same comparative periods, due to a 5% decrease in average day rates and a seven percentage point decrease in utilization rates.

At the beginning of fiscal 2014, the company had 10 Sub-Saharan Africa/Europe-based stacked vessels. During the first half of fiscal 2014, the company stacked three additional vessels, sold one previously stacked vessel and returned to service one vessel from the previously stacked vessel fleet, resulting in a total of 11 stacked Sub-Saharan Africa/Europe-based vessels as of September 30, 2013.

Sub-Saharan Africa/Europe-based vessel operating profit increased 7%, or \$2.9 million, during the second quarter of fiscal 2014 as compared to the second quarter of fiscal 2013, primarily due to higher revenues which were partially offset by a 24%, or \$17.9 million, increase in vessel operating costs (crew costs, repair and maintenance costs and other vessel costs), an increase in depreciation expense and an increase in general and administrative expenses.

Crew costs increased 35%, or \$11.1 million, during the second quarter of fiscal 2014 as compared to the second quarter of fiscal 2013, due to a greater number of crew personnel assigned to this segment related to an increase in the number of deepwater vessels and towing-supply/supply vessels operating in the segment. Repair and maintenance costs increased 22%, or \$3.6 million, during the same comparative periods, due to a greater number of drydockings and major repairs during the current period. Other vessel costs increased 17%, or \$2.8 million, during the same comparative periods, due to an increase in brokers' commissions because of the increased number of vessels in the segment. Depreciation expense increased 34%, or \$5.3 million, during the same comparative periods, due to an increase in the number of vessels operating in this segment including vessels from the Troms Offshore acquisition. General and administrative expenses increased 27%, or \$3.5 million, during the same comparative periods, due to increases in administrative payroll (in part related to the acquisition of Troms Offshore).

Sub-Saharan Africa/Europe-based vessel operating profit decreased 9%, or \$6.6 million, during the six-month period ended September 30, 2013 as compared to the six-month period ended September 30, 2012, primarily due to a 35%, or \$50.5 million, increase in vessel operating costs (primarily crew costs, repairs and maintenance costs and other vessel costs), an increase in depreciation expense and an increase in general and administrative expenses, partially offset by higher revenues.

Crew costs increased 30%, or \$19.0 million, during the six-month period ended September 30, 2013 as compared to the six-month period ended September 30, 2012, primarily due to a greater number of crew personnel assigned to this segment related to an increase in the number of both deepwater vessels and towing-supply/supply vessels operating in the segment. Repair and maintenance costs increased 78%, or \$23.5 million, during the same comparative periods, due to a greater number of drydockings and major repairs during the current period. Other vessel costs increased 21%, or \$6.3 million, during the same comparative periods, due to an increase in brokers' commissions related to the increased number of vessels in the segment. Depreciation expense increased 29%, or \$8.9 million, during the same comparative periods, due to an increase in the number of vessels operating in this segment including vessels from the Troms Offshore acquisition. General and administrative expenses increased 25%, or \$6.2 million, during the same comparative periods, due to increases in administrative payroll (in part related to the acquisition of Troms Offshore).

Sub-Saharan Africa/Europe-based vessel revenues increased 14%, or \$21.7 million, during the second quarter of fiscal 2014 as compared to the first quarter of fiscal 2014, primarily due to higher revenues earned on the deepwater vessels. Revenue earned on the deepwater vessels increased 22%, or \$19.3 million, during the same comparative periods, due the inclusion of a full quarter of revenues related to the acquired Troms Offshore vessels, a 10% increase in average day rates and a ten percentage point increase in utilization rates attributable to the higher than is typical number of large vessels in dry dock in the first quarter of fiscal 2014.

Sub-Saharan Africa/Europe-based vessel operating profit increased 170%, or \$29.7 million, during the second quarter of fiscal 2014 as compared to the first quarter of fiscal 2014, due to higher revenues and a 10%, or \$10.7 million, decrease in vessel operating costs (primarily repair and maintenance costs), partially offset by an increase in depreciation expense.

Repair and maintenance costs decreased 42%, or \$14.1 million, during the second quarter of fiscal 2014 as compared to the first quarter of fiscal 2014, primarily due to a fewer number of drydockings performed during the current period. Depreciation expense increased 8%, or \$1.4 million, during the same comparative periods, due to an increase in the number of vessels operating in the segment.

**Other Items.** Insurance and loss reserves expense were comparable during the quarter and six-month periods ended September 30, 2013, as compared to the same periods during fiscal 2013. Insurance and loss reserves expense decreased \$2.1 million, or 35%, during the quarter ended September 30, 2013 as compared to the first quarter of fiscal 2014 primarily due to downward adjustments to case-based and other reserves.

Gain on asset dispositions, net for the first half of fiscal 2014 decreased \$0.5 million, or 18%, as compared to the same period in fiscal 2013. A comparable amount of gains on vessel sales were recognized during the comparative periods; however, the company recorded an additional \$0.5 million in asset impairments during the six months ended September 30, 2013.

Gain on asset dispositions, net for the second quarter of fiscal 2014 decreased \$1.8 million, or 97%, as compared to the same period in fiscal 2013, primarily due to a higher number of vessel sales during the second quarter of fiscal 2013 as compared to the second quarter of fiscal 2014.

Gain on asset dispositions, net, for the second quarter of fiscal 2014 was \$2.1 million, or 98%, lower in the than the first quarter of fiscal 2014, due to a greater number of vessels sold during the first quarter of fiscal 2014. In addition, a gain related to the sale of a shipyard was also recognized in the first quarter of fiscal 2014.

The below table summarizes the combined fair value of the assets that incurred impairments during the quarters and six-month periods ended September 30, 2013 and 2012, along with the amount of impairment. The impairment charges were recorded in gain on asset dispositions, net.

| (In thousands)                                     | Quarter Ended      |                    | Six Months Ended   |                    |
|----------------------------------------------------|--------------------|--------------------|--------------------|--------------------|
|                                                    | September 30, 2013 | September 30, 2012 | September 30, 2013 | September 30, 2012 |
| Amount of impairment incurred                      | \$ 175             | 790                | 4,047              | 3,564              |
| Combined fair value of assets incurring impairment | 161                | 1,192              | 4,466              | 8,602              |

### Vessel Class Revenue and Statistics by Segment

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 largely through the level of offshore exploration, field development and production spending by energy companies relative to the supply of offshore service vessels. Suitability of equipment and the degree of service provided may 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. Stacked vessels depress utilization rates because stacked vessels are considered available to work, and as such, are included in the calculation of utilization rates. 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.



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Vessel utilization and average day rates are calculated on all vessels in service (which includes stacked vessels and vessels in drydock) but do not include vessels withdrawn from service (one vessel at September 30, 2013) or vessels owned by joint ventures (10 vessels at September 30, 2013).

The following tables compare revenues, day-based vessel utilization percentages and average day rates by vessel class and in total for the quarters and six-month periods ended September 30, 2013 and 2012 and the quarter ended June 30, 2013:

|                                                 | Quarter Ended<br>September 30, |         | Six Months Ended<br>September 30, |         | Quarter<br>Ended<br>June 30, |
|-------------------------------------------------|--------------------------------|---------|-----------------------------------|---------|------------------------------|
|                                                 | 2013                           | 2012    | 2013                              | 2012    | 2013                         |
| <b>REVENUES BY VESSEL CLASS (In thousands):</b> |                                |         |                                   |         |                              |
| <u>Americas fleet:</u>                          |                                |         |                                   |         |                              |
| Deepwater vessels                               | \$ 61,811                      | 44,747  | 116,843                           | 81,027  | 55,032                       |
| Towing-supply/supply                            | 30,861                         | 31,109  | 58,531                            | 65,461  | 27,670                       |
| Other                                           | 9,257                          | 6,460   | 16,799                            | 13,478  | 7,542                        |
| Total                                           | \$ 101,929                     | 82,316  | 192,173                           | 159,966 | 90,244                       |
| <u>Asia/Pacific fleet:</u>                      |                                |         |                                   |         |                              |
| Deepwater vessels                               | \$ 19,923                      | 24,592  | 44,215                            | 49,929  | 24,292                       |
| Towing-supply/supply                            | 16,559                         | 20,229  | 34,281                            | 45,729  | 17,722                       |
| Other                                           | 948                            | 917     | 1,890                             | 1,822   | 942                          |
| Total                                           | \$ 37,430                      | 45,738  | 80,386                            | 97,480  | 42,956                       |
| <u>Middle East/N. Africa fleet:</u>             |                                |         |                                   |         |                              |
| Deepwater vessels                               | \$ 15,732                      | 12,275  | 31,584                            | 23,559  | 15,852                       |
| Towing-supply/supply                            | 28,763                         | 18,859  | 53,260                            | 38,859  | 24,497                       |
| Other                                           | 875                            | 917     | 1,739                             | 2,083   | 864                          |
| Total                                           | \$ 45,370                      | 32,051  | 86,583                            | 64,501  | 41,213                       |
| <u>Sub-Saharan Africa/Europe fleet:</u>         |                                |         |                                   |         |                              |
| Deepwater vessels                               | \$ 106,541                     | 67,696  | 193,792                           | 130,311 | 87,251                       |
| Towing-supply/supply                            | 56,772                         | 63,548  | 111,632                           | 112,560 | 54,860                       |
| Other                                           | 15,626                         | 18,473  | 30,732                            | 35,098  | 15,106                       |
| Total                                           | \$ 178,939                     | 149,717 | 336,156                           | 277,969 | 157,217                      |
| <u>Worldwide fleet:</u>                         |                                |         |                                   |         |                              |
| Deepwater vessels                               | \$ 204,007                     | 149,310 | 386,434                           | 284,826 | 182,427                      |
| Towing-supply/supply                            | 132,955                        | 133,745 | 257,704                           | 262,609 | 124,749                      |
| Other                                           | 26,706                         | 26,767  | 51,160                            | 52,481  | 24,454                       |
| Total                                           | \$ 363,668                     | 309,822 | 695,298                           | 599,916 | 331,630                      |
| <b>UTILIZATION:</b>                             |                                |         |                                   |         |                              |
| <u>Americas fleet:</u>                          |                                |         |                                   |         |                              |
| Deepwater vessels                               | 72.3%                          | 70.7    | 74.9                              | 72.1    | 77.8                         |
| Towing-supply/supply                            | 49.5                           | 48.2    | 46.3                              | 50.8    | 43.3                         |
| Other                                           | 91.6                           | 72.5    | 86.8                              | 76.5    | 82.2                         |
| Total                                           | 63.9%                          | 58.6    | 62.0                              | 60.9    | 60.1                         |
| <u>Asia/Pacific fleet:</u>                      |                                |         |                                   |         |                              |
| Deepwater vessels                               | 80.1%                          | 81.2    | 86.4                              | 87.4    | 92.7                         |
| Towing-supply/supply                            | 73.0                           | 52.2    | 68.5                              | 53.6    | 64.5                         |
| Other                                           | 100.0                          | 100.0   | 100.0                             | 74.1    | 100.0                        |
| Total                                           | 75.8%                          | 58.7    | 73.9                              | 60.7    | 72.2                         |
| <u>Middle East/N. Africa fleet:</u>             |                                |         |                                   |         |                              |
| Deepwater vessels                               | 81.2%                          | 91.8    | 86.1                              | 92.7    | 91.3                         |
| Towing-supply/supply                            | 86.1                           | 71.2    | 79.1                              | 74.2    | 72.1                         |
| Other                                           | 81.8                           | 34.5    | 57.9                              | 38.4    | 44.7                         |
| Total                                           | 84.7%                          | 69.9    | 78.9                              | 72.4    | 73.3                         |
| <u>Sub-Saharan Africa/Europe fleet:</u>         |                                |         |                                   |         |                              |
| Deepwater vessels                               | 88.8%                          | 83.0    | 84.0                              | 83.6    | 79.3                         |
| Towing-supply/supply                            | 66.8                           | 67.8    | 67.2                              | 64.1    | 67.6                         |
| Other                                           | 72.5                           | 79.9    | 71.4                              | 78.2    | 70.2                         |
| Total                                           | 75.0%                          | 75.4    | 73.4                              | 73.3    | 71.8                         |
| <u>Worldwide fleet:</u>                         |                                |         |                                   |         |                              |
| Deepwater vessels                               | 81.9%                          | 79.8    | 81.6                              | 81.4    | 81.2                         |
| Towing-supply/supply                            | 66.3                           | 59.9    | 63.5                              | 60.0    | 60.8                         |
| Other                                           | 77.3                           | 74.7    | 74.4                              | 74.4    | 71.5                         |

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|       |       |      |      |      |      |
|-------|-------|------|------|------|------|
| Total | 73.2% | 67.8 | 71.0 | 68.1 | 68.8 |
|-------|-------|------|------|------|------|

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|                                         | Quarter Ended<br>September 30, |        | Six Months Ended<br>September 30, |        | Quarter<br>Ended<br>June 30, |
|-----------------------------------------|--------------------------------|--------|-----------------------------------|--------|------------------------------|
|                                         | 2013                           | 2012   | 2013                              | 2012   | 2013                         |
| <b>AVERAGE VESSEL DAY RATES:</b>        |                                |        |                                   |        |                              |
| <b>Americas fleet:</b>                  |                                |        |                                   |        |                              |
| Deepwater vessels                       | \$ 31,953                      | 28,450 | 30,894                            | 27,213 | 29,786                       |
| Towing-supply/supply                    | 15,520                         | 14,103 | 15,348                            | 14,120 | 15,161                       |
| Other                                   | 7,843                          | 6,094  | 7,423                             | 6,038  | 6,965                        |
| Total                                   | \$ 19,974                      | 17,012 | 19,493                            | 16,247 | 18,977                       |
| <b>Asia/Pacific fleet:</b>              |                                |        |                                   |        |                              |
| Deepwater vessels                       | \$ 37,812                      | 42,037 | 38,610                            | 36,411 | 39,291                       |
| Towing-supply/supply                    | 12,430                         | 12,663 | 12,729                            | 13,491 | 13,022                       |
| Other                                   | 10,300                         | 9,972  | 10,326                            | 9,959  | 10,353                       |
| Total                                   | \$ 19,184                      | 20,109 | 19,990                            | 19,717 | 20,749                       |
| <b>Middle East/N. Africa fleet:</b>     |                                |        |                                   |        |                              |
| Deepwater vessels                       | \$ 22,195                      | 18,359 | 21,685                            | 18,624 | 21,202                       |
| Towing-supply/supply                    | 12,440                         | 9,857  | 12,498                            | 9,834  | 12,567                       |
| Other                                   | 4,750                          | 4,812  | 4,750                             | 4,946  | 4,750                        |
| Total                                   | \$ 14,156                      | 11,561 | 14,231                            | 11,441 | 14,316                       |
| <b>Sub-Saharan Africa/Europe fleet:</b> |                                |        |                                   |        |                              |
| Deepwater vessels                       | \$ 30,244                      | 25,235 | 28,950                            | 23,919 | 27,514                       |
| Towing-supply/supply                    | 15,737                         | 15,721 | 15,563                            | 14,707 | 15,386                       |
| Other                                   | 4,779                          | 5,236  | 4,830                             | 5,063  | 4,883                        |
| Total                                   | \$ 17,206                      | 14,602 | 16,617                            | 13,875 | 15,993                       |
| <b>Worldwide fleet:</b>                 |                                |        |                                   |        |                              |
| Deepwater vessels                       | \$ 30,481                      | 27,102 | 29,549                            | 25,749 | 28,572                       |
| Towing-supply/supply                    | 14,389                         | 13,705 | 14,364                            | 13,377 | 14,338                       |
| Other                                   | 5,651                          | 5,496  | 5,576                             | 5,373  | 5,496                        |
| Total                                   | \$ 17,603                      | 15,384 | 17,299                            | 14,827 | 16,976                       |

The utilization, average day rates and the number of the company's new vessels (defined as vessels acquired or constructed since calendar year 2000 as part of its new build and acquisition program) for the quarters and six-month periods ended September 30, 2013 and 2012 and the quarter ended June 30, 2013 were as follows:

|                               | Quarter Ended<br>September 30, |      | Six Months Ended<br>September 30, |      | Quarter<br>Ended<br>June 30, |
|-------------------------------|--------------------------------|------|-----------------------------------|------|------------------------------|
|                               | 2013                           | 2012 | 2013                              | 2012 | 2013                         |
| <b>UTILIZATION:</b>           |                                |      |                                   |      |                              |
| Deepwater vessels             |                                |      |                                   |      |                              |
| Platform supply vessels       | 84.6%                          | 84.6 | 84.3                              | 85.3 | 84.0                         |
| Anchor handling towing supply | 87.9                           | 79.3 | 91.9                              | 86.5 | 95.9                         |
| Towing-supply/supply          | 85.7                           | 87.6 | 83.7                              | 88.4 | 81.7                         |
| Other                         | 73.2                           | 80.3 | 73.3                              | 79.5 | 73.3                         |
| Total                         | 82.7%                          | 84.7 | 82.0                              | 85.5 | 81.2                         |

|                                  |           |        |        |        |        |
|----------------------------------|-----------|--------|--------|--------|--------|
| <b>AVERAGE VESSEL DAY RATES:</b> |           |        |        |        |        |
| Deepwater vessels                |           |        |        |        |        |
| Platform supply vessels          | \$ 31,053 | 27,224 | 29,911 | 25,662 | 28,689 |
| Anchor handling towing supply    | 28,885    | 30,226 | 29,236 | 29,516 | 29,561 |
| Towing-supply/supply             | 14,484    | 14,456 | 14,538 | 14,059 | 14,595 |
| Other                            | 5,635     | 5,868  | 5,739  | 5,764  | 5,843  |
| Total                            | \$ 18,637 | 16,660 | 18,303 | 16,064 | 17,955 |

|                               |     |     |     |     |     |
|-------------------------------|-----|-----|-----|-----|-----|
| <b>AVERAGE VESSEL COUNT:</b>  |     |     |     |     |     |
| Deepwater vessels             |     |     |     |     |     |
| Platform supply vessels       | 73  | 57  | 71  | 56  | 69  |
| Anchor handling towing supply | 11  | 11  | 11  | 11  | 11  |
| Towing-supply/supply          | 103 | 101 | 103 | 101 | 103 |
| Other                         | 52  | 49  | 52  | 49  | 53  |
| Total                         | 239 | 218 | 237 | 217 | 236 |



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**Vessel Count, Dispositions, Acquisitions and Construction Programs**

The following table compares the average number of vessels by class and geographic distribution for the quarters and the six-month periods ended September 30, 2013 and 2012 and for the quarter ended June 30, 2013:

|                                          | Quarter Ended<br>September 30, |            | Six Months Ended<br>September 30, |            | Quarter<br>Ended<br>June 30, |
|------------------------------------------|--------------------------------|------------|-----------------------------------|------------|------------------------------|
|                                          | 2013                           | 2012       | 2013                              | 2012       | 2013                         |
| <b>Americas fleet:</b>                   |                                |            |                                   |            |                              |
| Deepwater vessels                        | 30                             | 24         | 28                                | 23         | 27                           |
| Towing-supply/supply                     | 44                             | 50         | 45                                | 50         | 46                           |
| Other                                    | 14                             | 16         | 14                                | 16         | 14                           |
| <b>Total</b>                             | <b>88</b>                      | <b>90</b>  | <b>87</b>                         | <b>89</b>  | <b>87</b>                    |
| Less stacked vessels                     | 24                             | 25         | 24                                | 24         | 25                           |
| <b>Active vessels</b>                    | <b>64</b>                      | <b>65</b>  | <b>63</b>                         | <b>65</b>  | <b>62</b>                    |
| <b>Asia/Pacific fleet:</b>               |                                |            |                                   |            |                              |
| Deepwater vessels                        | 7                              | 8          | 7                                 | 9          | 7                            |
| Towing-supply/supply                     | 20                             | 33         | 21                                | 34         | 24                           |
| Other                                    | 1                              | 1          | 1                                 | 1          | 1                            |
| <b>Total</b>                             | <b>28</b>                      | <b>42</b>  | <b>29</b>                         | <b>44</b>  | <b>32</b>                    |
| Less stacked vessels                     | 4                              | 13         | 4                                 | 14         | 6                            |
| <b>Active vessels</b>                    | <b>24</b>                      | <b>29</b>  | <b>25</b>                         | <b>30</b>  | <b>26</b>                    |
| <b>Middle East/N. Africa fleet:</b>      |                                |            |                                   |            |                              |
| Deepwater vessels                        | 9                              | 8          | 9                                 | 8          | 9                            |
| Towing-supply/supply                     | 29                             | 29         | 30                                | 29         | 30                           |
| Other                                    | 2                              | 6          | 3                                 | 6          | 4                            |
| <b>Total</b>                             | <b>40</b>                      | <b>43</b>  | <b>42</b>                         | <b>43</b>  | <b>43</b>                    |
| Less stacked vessels                     | 0                              | 7          | 2                                 | 7          | 3                            |
| <b>Active vessels</b>                    | <b>40</b>                      | <b>36</b>  | <b>40</b>                         | <b>36</b>  | <b>40</b>                    |
| <b>Sub-Saharan Africa/Europe fleet:</b>  |                                |            |                                   |            |                              |
| Deepwater vessels                        | 43                             | 35         | 44                                | 35         | 44                           |
| Towing-supply/supply                     | 59                             | 65         | 58                                | 66         | 58                           |
| Other                                    | 49                             | 48         | 49                                | 48         | 48                           |
| <b>Total</b>                             | <b>151</b>                     | <b>148</b> | <b>151</b>                        | <b>149</b> | <b>150</b>                   |
| Less stacked vessel                      | 11                             | 20         | 11                                | 20         | 10                           |
| <b>Active vessels</b>                    | <b>140</b>                     | <b>128</b> | <b>140</b>                        | <b>129</b> | <b>140</b>                   |
| <b>Active owned or chartered vessels</b> | <b>268</b>                     | <b>258</b> | <b>268</b>                        | <b>260</b> | <b>268</b>                   |
| Stacked vessels                          | 39                             | 65         | 41                                | 65         | 44                           |
| <b>Total owned or chartered vessels</b>  | <b>307</b>                     | <b>323</b> | <b>309</b>                        | <b>325</b> | <b>312</b>                   |
| Vessels withdrawn from service           | 1                              | 2          | 1                                 | 2          | 1                            |
| Joint-venture and other                  | 10                             | 10         | 10                                | 10         | 10                           |
| <b>Total</b>                             | <b>318</b>                     | <b>335</b> | <b>320</b>                        | <b>337</b> | <b>323</b>                   |

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Owned or chartered vessels include vessels that were stacked by the company. The company considers a vessel to be stacked if the vessel crew is disembarked and limited maintenance is being performed on the vessel. The company reduces operating costs by stacking vessels when management does not foresee opportunities to profitably or strategically operate the vessels in the near future. Vessels are stacked when market conditions warrant and they are no longer considered stacked when they are returned to active service, sold or otherwise disposed. When economically practical marketing opportunities arise, the stacked vessels can be returned to service by performing any necessary maintenance on the vessel and either rehiring or 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 37, 61 and 41 stacked vessels at September 30, 2013 and 2012 and June 30, 2013, respectively. Most of the vessels stacked are being marketed for sale and are not expected to return to the active fleet, primarily due to their age.

Vessels withdrawn from service are not included in the company's utilization statistics.

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The following is a summary of net properties and equipment at September 30, 2013 and March 31, 2013:

|                                                      | September 30, 2013   |                                     | March 31, 2013       |                                     |
|------------------------------------------------------|----------------------|-------------------------------------|----------------------|-------------------------------------|
|                                                      | Number<br>Of Vessels | Carrying<br>Value<br>(In thousands) | Number<br>of Vessels | Carrying<br>Value<br>(In thousands) |
| Owned vessels in active service                      | 256                  | \$ 3,145,679                        | 256                  | \$ 2,882,908                        |
| Stacked vessels                                      | 37                   | 19,991                              | 51                   | 30,084                              |
| Vessels withdrawn from service                       | 1                    | 120                                 | 2                    | 633                                 |
| Marine equipment and other assets under construction |                      | 333,168                             |                      | 239,287                             |
| Other property and equipment                         |                      | 32,391                              |                      | 36,907                              |
| <b>Totals</b>                                        | <b>294</b>           | <b>\$ 3,531,349</b>                 | <b>309</b>           | <b>\$ 3,189,819</b>                 |

### *Vessel Dispositions*

The company seeks opportunities to sell and/or scrap its older vessels when market conditions warrant and opportunities arise. The majority of the company's vessels are sold to buyers who do not compete with the company in the offshore energy industry. The following is a summary of the number of vessels disposed of by vessel class and segment during the six months ended September 30:

|                                             | Six Months Ended<br>September 30, |           |
|---------------------------------------------|-----------------------------------|-----------|
|                                             | 2013                              | 2012      |
| Number of vessels disposed by vessel class: |                                   |           |
| Deepwater vessels (A)                       | 2                                 | ---       |
| Towing-supply/supply                        | 13                                | 11        |
| Other                                       | 5                                 | 5         |
| <b>Total</b>                                | <b>20</b>                         | <b>16</b> |
| Number of vessels disposed by segment:      |                                   |           |
| Americas                                    | 7                                 | 2         |
| Asia/Pacific                                | 5                                 | 5         |
| Middle East/North Africa                    | 7                                 | 1         |
| Sub-Saharan Africa/Europe                   | 1                                 | 8         |
| <b>Total</b>                                | <b>20</b>                         | <b>16</b> |

Note A: Excludes two vessels that were sold and leaseback by the company as disclosed in Note (14) in Notes to the Condensed Consolidated Financials.

### *Vessel and Other Deliveries and Acquisitions*

During the first half of fiscal 2014, the company took delivery of two waterjet crewboats and one towing-supply/supply vessel, acquired two deepwater PSVs from third parties, and acquired a fleet of four vessels as a result of the acquisition of Troms Offshore Supply AS, as disclosed in Note 2 of Notes to the Condensed Consolidated Financial Statements. The two waterjet crewboats were constructed at an international shipyard for a total aggregate cost of \$6.0 million. The one 220-foot towing-supply/supply PSV was constructed at an international shipyard for a total cost of \$25.6 million. The company acquired one 290-foot deepwater PSV for a total cost of \$46.8 million from a third party, and also acquired a fleet of four deepwater PSVs, ranging from 280-feet to 285-feet, as a result of the Troms Offshore Supply AS acquisition. Based on preliminary fair value analysis performed on Troms Offshore Supply AS at the acquisition date, the purchase price allocated to these four vessels total an aggregate \$234.9 million. In addition, the company also assumed two vessel construction contracts that were in various stages of completion. One of the two vessels (a 270-foot, deepwater PSV) was completed in mid-June 2013 for a total cost of \$50.2 million. In September 2013, the company also took delivery of a remotely operated vehicle (ROV) for a total cost of \$4.8 million.

During fiscal 2013, the company took delivery of eleven newly-built vessels and acquired seven vessels from third parties. Seven of the delivered vessels are deepwater PSVs, six of which are 286-feet in length and one is 249-feet in length. The six 286-foot PSVs were constructed at an international shipyard for a total aggregate cost of \$176.3 million. The 249-foot PSV was built at a different international shipyard for

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\$19.2 million. The company also took delivery of two towing-supply/supply vessels that each have 8,200 brake horse power (BHP). These two vessels were constructed at an international shipyard for a total aggregate cost of \$47.6



million. The company also took delivery of two waterjet crewboats at an international shipyard for \$6.0 million. In addition, the company acquired six deepwater PSVs for a total cost of \$170.5 million (which range between 220-feet to 288-feet in length) and one towing-supply/supply vessel for a total cost of \$13.1 million.

In addition to the 18 deliveries noted above, we acquired two additional towing-supply/supply vessels during fiscal 2013 which were originally taken delivery of, then sold and leased back during fiscal 2006 and 2007. The company elected to repurchase these vessels from the lessors during fiscal 2013 for an aggregate total cost of \$17.2 million. Please refer to the *Off-Balance Sheet Arrangements* section of Management Discussion and Analysis of this report for a discussion on the company's sale/leaseback vessels.

#### ***Vessel and Other Commitments at September 30, 2013***

At September 30, 2013, the company had six 7,100 BHP towing-supply/supply vessels under construction at an international shipyard, for a total expected cost of \$113.4 million. The vessels are expected to be delivered beginning in July 2014 with final delivery of the last vessel in April 2015. As of September 30, 2013, the company had invested \$46.5 million for these vessels.

The company is also committed to the construction of two 246-foot, four 261-foot, one 264-foot, ten 275-foot, one 268-foot and four 300-foot deepwater PSVs for a total estimated cost of \$739.8 million. Two of the 300-foot and one 264-foot deepwater class vessels are being constructed at a U.S. shipyard and a different U.S. shipyard is constructing the two other 300-foot deepwater PSVs. Two different international shipyards are constructing four and six 275-foot deepwater PSVs, respectively. Three other international shipyards are constructing two 246-foot, four 261-foot and one 268-foot deepwater PSVs, respectively. The 246-foot deepwater PSVs are expected to deliver in March and June 2014, and the 261-foot deepwater PSVs have expected delivery dates ranging from April 2015 to October 2015. The 264-foot vessel is expected to deliver in April 2014. The ten 275-foot deepwater class vessels are expected to be delivered beginning in May 2014, with final delivery of the tenth vessel in July 2015. The four 300-foot deepwater PSVs are scheduled for delivery between October 2013 and February 2016. The 268-foot deepwater PSV is scheduled for delivery in January 2014. As of September 30, 2013, \$233.4 million was invested in these 22 vessels.

The company is also committed to the construction at an international shipyard of one 215-foot specialty vessel for a cost of \$25.9 million which is expected to be delivered in December 2013. As of September 30, 2013, the company had invested \$20.4 million for the construction of this vessel.

The company is also committed to the construction of five remotely operated vehicles (ROVs) for a total cost of \$26.2 million at a U.S. facility, with delivery expected during the quarter ended December 31, 2013. As of September 30, 2013, the company had invested \$7.9 million for the construction of these ROVs.

Currently the company is experiencing substantial delay with one fast supply boat under construction in Brazil that was originally scheduled to be delivered in September 2009. On April 5, 2011, pursuant to the vessel construction contract, the company sent the subject shipyard a letter initiating arbitration in order to resolve disputes of such matters as the shipyard's failure to achieve payment milestones, its failure to follow the construction schedule, and its failure to timely deliver the vessel. The company has suspended construction on the vessel and both parties continue to pursue that arbitration. The company has third party credit support in the form of insurance coverage for 90% of the progress payments made on this vessel, or all but approximately \$2.4 million of the carrying value of the accumulated costs through September 30, 2013. The company had committed and invested \$8.0 million as of September 30, 2013.

At September 30, 2013, the company had agreed to purchase one deepwater PSV for a total purchase price of \$46.8 million. The company took delivery of the purchased PSV in October 2013; however, as of September 30, 2013, the company had not expended funds related to this vessel.

In October, the company took delivery of the first of two deepwater PSVs constructed in a U.S. Shipyard. In connection with that delivery, the company and the shipyard agreed to hold \$7.8 million in escrow (which are included in the summary of vessel and other commitments) with a financial institution pending resolution of disputes over whether all or a portion of those funds are due to the shipyard as the shipyard has claimed. Some of the disputes may be resolved by high level management meetings or a relatively expeditious technical

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arbitration proceeding involving a third party technical expert. The balance of the claims will need to be resolved in New York state court litigation. These formal dispute resolution efforts are currently at an early stage.

**Vessel and Other Commitments Summary at September 30, 2013**

The table below summarizes the company's various commitments to acquire and construct new vessels, by vessel type, and remotely operated vehicles (ROVs) as of September 30, 2013:

| Vessel class and type<br>In thousands, except number of vessels: | Number<br>of<br>Vessels/ROVs | Non-U.S. Built    |                                 |                                  | Remaining<br>Balance<br>09/30/13 | Number<br>of<br>Vessels/ROVs | U.S. Built     |                                 |                                  |
|------------------------------------------------------------------|------------------------------|-------------------|---------------------------------|----------------------------------|----------------------------------|------------------------------|----------------|---------------------------------|----------------------------------|
|                                                                  |                              | Total<br>Cost     | Invested<br>Through<br>09/30/13 | Remaining<br>Balance<br>09/30/13 |                                  |                              | Total<br>Cost  | Invested<br>Through<br>09/30/13 | Remaining<br>Balance<br>09/30/13 |
| Deepwater platform supply vessels                                | 18                           | \$ 519,009        | 95,368                          | 423,641                          | 5                                | 267,630                      | 138,068        | 129,562                         |                                  |
| Towing-supply/supply vessels                                     | 6                            | 113,395           | 46,506                          | 66,889                           | ---                              | ---                          | ---            | ---                             |                                  |
| Other                                                            | 2                            | 33,917            | 28,455                          | 5,462                            | ---                              | ---                          | ---            | ---                             |                                  |
| <b>Total vessel commitments</b>                                  | <b>26</b>                    | <b>\$ 666,321</b> | <b>170,329</b>                  | <b>495,992</b>                   | <b>5</b>                         | <b>267,630</b>               | <b>138,068</b> | <b>129,562</b>                  |                                  |
| Total ROV commitments                                            | ---                          | \$ ---            | ---                             | ---                              | 5                                | 26,167                       | 7,850          | 18,317                          |                                  |
| <b>Total commitments</b>                                         | <b>26</b>                    | <b>\$ 666,321</b> | <b>170,329</b>                  | <b>495,992</b>                   | <b>10</b>                        | <b>293,797</b>               | <b>145,918</b> | <b>147,879</b>                  |                                  |

The table below summarizes by vessel class and vessel type the number of vessels and ROVs expected to be delivered by quarter along with the expected cash outlay (in thousands) of the various commitments as discussed above:

| Vessel class and type             | Quarter Period Ended |            |            |            |            |            |  |
|-----------------------------------|----------------------|------------|------------|------------|------------|------------|--|
|                                   | 12/13                | 03/14      | 06/14      | 09/14      | 12/14      | Thereafter |  |
| Deepwater platform supply vessels | 3                    | 2          | 5          | 3          | 1          | 9          |  |
| Towing-supply/supply vessels      | ---                  | ---        | ---        | 3          | 1          | 2          |  |
| Other                             | 1                    | ---        | ---        | ---        | ---        | 1          |  |
| <b>Total vessel commitments</b>   | <b>4</b>             | <b>2</b>   | <b>5</b>   | <b>6</b>   | <b>2</b>   | <b>12</b>  |  |
| <b>Total ROV commitments</b>      | <b>5</b>             | <b>---</b> | <b>---</b> | <b>---</b> | <b>---</b> | <b>---</b> |  |
| <b>Total commitments</b>          | <b>9</b>             | <b>2</b>   | <b>5</b>   | <b>6</b>   | <b>2</b>   | <b>12</b>  |  |
| (In thousands)                    |                      |            |            |            |            |            |  |
| Expected quarterly cash outlay    | \$ 137,934           | 98,204     | 97,017     | 114,039    | 47,123     | 149,554(A) |  |

(A) The \$149,554 of Thereafter vessel construction obligations are expected to be paid out as follows: \$44,323 in the fourth quarter of fiscal 2015 and \$105,231 during fiscal 2016.

The company believes it has sufficient liquidity and financial capacity to support the continued investment in new vessels, assuming customer demand, acquisition and shipyard economics and other considerations justify such an investment. 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 its financial position and conditions in the credit and capital markets. In recent years, the company has funded vessel additions with available cash, operating cash flow, revolving credit facility borrowings, bank term loans, various leasing arrangements, and funds provided by the sale of senior unsecured notes as disclosed in Note (6) of Notes to Condensed Consolidated Financial Statements. The company has \$643.9 million in unfunded capital commitments associated with the 30 vessels and five ROVs currently under construction and the one vessel purchase commitment at September 30, 2013.



**General and Administrative Expenses**

Consolidated general and administrative expenses and its related percentage of total revenues for the quarters and the six-month periods ended September 30, 2013 and 2012 and for the quarter ended June 30, 2013 consist of the following components:

| (In thousands)        | Quarter Ended<br>September 30, |     |        |     | Six Months Ended<br>September 30, |     |        |     | Quarter<br>Ended<br>June 30, |     |
|-----------------------|--------------------------------|-----|--------|-----|-----------------------------------|-----|--------|-----|------------------------------|-----|
|                       | 2013                           | %   | 2012   | %   | 2013                              | %   | 2012   | %   | 2013                         | %   |
| Personnel             | \$ 26,662                      | 7%  | 26,347 | 8%  | 54,763                            | 8%  | 51,502 | 8%  | 28,102                       | 8%  |
| Office and property   | 6,821                          | 2%  | 6,288  | 2%  | 14,558                            | 2%  | 12,315 | 2%  | 7,738                        | 2%  |
| Sales and marketing   | 2,741                          | 1%  | 2,209  | 1%  | 5,254                             | 1%  | 4,587  | 1%  | 2,512                        | 1%  |
| Professional services | 7,399                          | 2%  | 4,288  | 1%  | 16,941                            | 2%  | 8,652  | 1%  | 9,542                        | 3%  |
| Other                 | 2,415                          | 1%  | 2,735  | 1%  | 5,002                             | 1%  | 5,475  | 1%  | 2,586                        | 1%  |
|                       | \$ 46,038                      | 13% | 41,867 | 13% | 96,518                            | 14% | 82,531 | 13% | 50,480                       | 15% |

General and administrative expenses during the second quarter of fiscal 2014, were 10%, or \$4.2 million, higher than the second quarter of fiscal 2013, primarily due to increases in professional services. Professional services increased 73%, or \$3.1 million, largely due to legal fees associated with arbitration activities related to our historical operations in Venezuela and the administration of a subsidiary company based in the United Kingdom.

General and administrative expenses during the six months ended September 30, 2013, were 17%, or \$14.0 million, higher than the six month period ended September 30, 2012, primarily due to increases in professional services, personnel costs as well as office and property costs. Professional services increased 96%, or \$8.3 million, due to the acquisition of Troms Offshore, arbitration activities related to our historical operations in Venezuela and the administration of a subsidiary company based in the United Kingdom. Personnel costs increased 6%, or \$3.3 million, primarily due to additional administrative personnel costs and costs related to stock-based compensation. In addition, office and property costs increased 18%, or \$2.2 million, \$0.9 million of which is related to a customs charge assessed in Equatorial Guinea.

General and administrative expenses during the second quarter of fiscal 2014 were lower by approximately 9%, or \$4.4 million, as compared to the quarter ended June 30, 2013, due to decreases in professional services of 23%, or \$2.1 million, which is primarily associated with the acquisition of Troms Offshore during the first quarter as well as decreases in office and property costs of 12%, or \$0.9 million primarily attributable to a \$0.9 million customs charge assessed in Equatorial Guinea also recognized in the first quarter.

**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 primarily related to fleet activity, vessel day rates and the timing of collections and disbursements. Vessel activity levels and vessel day rates are, among other things, dependent upon the supply/demand relationship for offshore vessels, which tend to follow the level of oil and natural gas exploration and production. Variations from year-to-year in these items are primarily the result of market conditions.

**Availability of Cash**

At September 30, 2013, the company had \$45.5 million in cash and cash equivalents, of which \$43.3 million was held by foreign subsidiaries. The company currently intends that earnings by foreign subsidiaries will be indefinitely reinvested in foreign jurisdictions in order to fund strategic initiatives (such as investment, expansion and acquisitions), fund working capital requirements and repay debt (both third-party and intercompany) of its foreign subsidiaries in the normal course of business. Moreover, the company does not currently intend to repatriate earnings of foreign subsidiaries to the United States because cash generated from the company's domestic businesses and credit available under its domestic financing facilities, as well as the repayment of intercompany liabilities from foreign subsidiaries, are currently sufficient (and are expected to continue to be sufficient for the foreseeable future) to fund the cash needs of its operations in the United States. However, if, in the future, cash and cash equivalents held by foreign subsidiaries are needed to fund the company's

operations in the United States, the repatriation of such amounts to the United States could result in a significant incremental tax liability in the period in which the decision to repatriate occurs. Payment of any incremental tax liability would reduce the cash available to the company to fund its operations by the amount of taxes paid.

Our objective in financing our business is to maintain adequate financial resources and access to sufficient levels of liquidity. Cash and cash equivalents, future net cash provided by operating activities and the company's revolving credit facilities provide the company, in our opinion, with sufficient liquidity to meet our liquidity requirements, including repayment of debt that becomes due, required payments on vessel construction currently in progress and payments required to be made in connection with current vessel purchase commitments. The company also believes that it has reasonable access to capital and credit markets that would allow it to possibly make opportunistic investments in connection with its fleet renewal and modernization program.

### Indebtedness

**Revolving Credit and Term Loan Agreement.** In June 2013, the company amended and extended its existing credit facility. The amended credit agreement matures in June 2018 (the Maturity Date) and provides a \$900 million, five-year credit facility (credit facility) consisting of a (i) \$600 million revolving credit facility (the revolver) and a (ii) \$300 million term loan facility (term loan).

Borrowings under the credit facility are unsecured and bear interest at the company's option at (i) the greater of prime or the federal funds rate plus 0.25 to 1.0%, or (ii) Eurodollar rates plus margins ranging from 1.25 to 2.0%, based on the company's consolidated funded debt to capitalization ratio. Commitment fees on the unused portion of the facilities range from 0.15 to 0.30% based on the company's funded debt to total capitalization ratio. The credit facility requires that the company maintain a ratio of consolidated debt to consolidated total capitalization that does not exceed 55%, and maintain a consolidated interest coverage ratio (essentially consolidated earnings before interest, taxes, depreciation and amortization, or EBITDA, for the four prior fiscal quarters to consolidated interest charges, including capitalized interest, for such period) of not less than 3.0 to 1.0. All other terms, including the financial and negative covenants, are customary for facilities of its type and consistent with the prior agreement in all material respects.

The company had \$300 million in term loan borrowings, and \$180 million in revolver borrowings, outstanding at September 30, 2013 (whose fair value approximates the carrying value because the borrowings bear interest at variable rates), and has \$420.0 million of availability for future financing needs at September 30, 2013. The company had \$125 million of term loan borrowings and \$110.0 million of revolver borrowings outstanding under the previous credit facility at March 31, 2013. These estimated fair values are based on Level 2 inputs.

### Senior Debt Notes

**September 2013 Senior Notes.** On September 30, 2013, the company executed a note purchase agreement for \$500 million and issued \$300 million of senior unsecured notes to a group of institutional investors. In accordance with the note purchase agreement, the company intends to issue the remaining \$200 million of senior unsecured notes on November 15, 2013. A summary of these notes outstanding at September 30, 2013, is as follows:

| (In thousands, except weighted average data)      | September 30,<br>2013 |
|---------------------------------------------------|-----------------------|
| Aggregate debt outstanding                        | \$ 300,000            |
| Weighted average remaining life in years          | 9.3                   |
| Weighted average coupon rate on notes outstanding | 4.73%                 |
| Fair value of debt outstanding                    | 307,601               |

The multiple series of notes totaling \$300 million were originally issued with maturities ranging from approximately seven to 12 years. The multiple series of notes totaling \$200 million to be issued November 15, 2013 will have original maturities of ten and 12 years, a weighted average life of 10.8 years and a weighted average coupon rate of 5.06%. The notes may be retired before their respective scheduled

maturity dates subject only to a customary make-whole provision. The terms of the notes require that the company maintain a ratio of consolidated debt to consolidated total capitalization that does not exceed 55% and maintain a ratio of consolidated EBITDA to consolidated interest charges, including capitalized interest, of not less than 3.0 to 1.0.

**August 2011 Senior Notes.** On August 15, 2011, the company issued \$165 million of senior unsecured notes to a group of institutional investors. A summary of these notes outstanding at September 30, 2013 and March 31, 2013, is as follows:

| (In thousands, except weighted average data)      | September 30,<br>2013 | March 31,<br>2013 |
|---------------------------------------------------|-----------------------|-------------------|
| Aggregate debt outstanding                        | \$ 165,000            | 165,000           |
| Weighted average remaining life in years          | 7.1                   | 7.6               |
| Weighted average coupon rate on notes outstanding | 4.42%                 | 4.42%             |
| Fair value of debt outstanding                    | 169,686               | 179,802           |

The multiple series of notes were originally issued with maturities ranging from approximately eight to 10 years. The notes may be retired before their respective scheduled maturity dates subject only to a customary make-whole provision. The terms of the notes require that the company maintain a ratio of consolidated debt to consolidated total capitalization that does not exceed 55%.

**September 2010 Senior Notes.** In fiscal 2011, the company completed the sale of \$425 million of senior unsecured notes. A summary of the aggregate amount of these notes outstanding at September 30, 2013 and March 31, 2013, is as follows:

| (In thousands, except weighted average data)      | September 30,<br>2013 | March 31,<br>2013 |
|---------------------------------------------------|-----------------------|-------------------|
| Aggregate debt outstanding                        | \$ 425,000            | 425,000           |
| Weighted average remaining life in years          | 6.1                   | 6.6               |
| Weighted average coupon rate on notes outstanding | 4.25%                 | 4.25%             |
| Fair value of debt outstanding                    | 436,530               | 458,520           |

The multiple series of these notes were originally issued with maturities ranging from five to 12 years. The notes may be retired before their respective scheduled maturity dates subject only to a customary make-whole provision. The terms of the notes require that the company maintain a ratio of consolidated debt to consolidated total capitalization that does not exceed 55%.

Included in accumulated other comprehensive income at September 30, 2013 and March 31, 2013, is an after-tax loss of \$2.6 million (\$4.0 million pre-tax), and \$2.9 million (\$4.4 million pre-tax), respectively, relating to the purchase of interest rate hedges, which are cash flow hedges, in July 2010 in connection with the September 2010 senior notes offering. The interest rate hedges settled in August 2010 concurrent with the pricing of the senior unsecured notes. The hedges met the effectiveness criteria and their acquisition costs are being amortized to interest expense over the term of the individual notes matching the term of the hedges.

**July 2003 Senior Notes.** In July 2003, the company completed the sale of \$300 million of senior unsecured notes. A summary of the aggregate amount of remaining senior unsecured notes that were issued in July 2003 and outstanding at September 30, 2013 and March 31, 2013, is as follows:

| (In thousands, except weighted average data)      | September 30,<br>2013 | March 31,<br>2013 |
|---------------------------------------------------|-----------------------|-------------------|
| Aggregate debt outstanding                        | \$ 35,000             | 175,000           |
| Weighted average remaining life in years          | 1.8                   | 0.7               |
| Weighted average coupon rate on notes outstanding | 4.61%                 | 4.47%             |
| Fair value of debt outstanding                    | 36,454                | 178,227           |

The multiple series of notes were originally issued with maturities ranging from seven to 12 years. These notes can be retired in whole or in part prior to maturity for a redemption price equal to the principal amount of the notes redeemed plus a customary make-whole premium. The terms of the notes require that the company maintain a ratio of consolidated debt to consolidated total capitalization that does not exceed 55%.



**Troms Offshore Debt.** During the second quarter of fiscal 2014, the company repaid prior to maturity 500 million Norwegian Kroner (NOK) denominated (approximately \$82.1 million) public bonds (plus accrued interest) that had been issued by Troms Offshore in April 2013. The repayment of these bonds, at an average price of approximately 105.0% of par value, resulted in the recognition of a loss on early extinguishment of debt of approximately 26 million NOK or (\$4.1 million). The bonds, which were due to mature in April 2016, bore interest based on the three month Norwegian Interbank Offered Rate ( NIBOR ) plus 5.40%.

In May 2012, Troms Offshore entered into a 204.4 million NOK denominated borrowing agreement which matures in May 2024. The loan requires semi-annual principal payments of 8.5 million NOK, bears interest at a fixed rate of 6.38% and is secured by certain guarantees and various types of collateral, including a vessel. As of September 30, 2013, 187.4 million NOK (approximately \$30.8 million) is outstanding under this agreement.

In May 2012, Troms Offshore entered into a 35.0 million NOK denominated borrowing agreement with a shipyard which matures in May 2015. In June 2013, Troms Offshore entered into a 25.0 million NOK denominated borrowing agreement with a Norwegian bank, which matures in June 2019. These borrowings bear interest based on three month NIBOR plus a credit spread of 2.0% to 3.5%. As of September 30, 2013 60.0 million NOK (approximately \$9.9 million) is outstanding under these agreements.

Troms Offshore had 60.0 million NOK, or approximately \$9.9 million, outstanding in floating rate debt at September 30, 2013 (whose fair value approximates the carrying value because the borrowings bear interest at variable NIBOR rates plus a margin). Troms Offshore also had 187.4 million NOK, or \$30.8 million, of outstanding fixed rate debt at September 30, 2013 which has an estimated fair value of 196.6 million NOK, or \$32.3 million. These estimated fair values are based on Level 2 inputs.

In June 2013, Troms Offshore repaid a 188.9 million NOK loan (approximately \$32.5 million), plus accrued interest that was secured with various guarantees and collateral, including a vessel.

#### **Current Maturities of Long Term Debt**

Principal repayments of approximately \$5.3 million due during the twelve months ending September 30, 2014 are classified as long term debt in the accompanying balance sheet at September 30, 2013 because the company has the ability and intent to fund the repayments with borrowing under the credit facility which matures in June 2018.

#### **Interest and Debt Costs**

The company capitalizes a portion of its interest costs incurred on borrowed funds used to construct vessels. Interest and debt costs incurred, net of interest capitalized, for the quarters and the six-month periods ended September 30, 2013 and 2012 are as follows:

| (In thousands)                                                | Quarter Ended      |        | Six Months Ended   |        |
|---------------------------------------------------------------|--------------------|--------|--------------------|--------|
|                                                               | September 30, 2013 | 2012   | September 30, 2013 | 2012   |
| Interest and debt costs incurred, net of interest capitalized | \$ 9,918           | 7,148  | 18,831             | 14,735 |
| Interest costs capitalized                                    | 2,636              | 2,913  | 5,598              | 5,736  |
| Total interest and debt costs                                 | \$ 12,554          | 10,061 | 24,429             | 20,471 |

Total interest and debt costs were higher, during the quarter and six-month periods ended September 30, 2013 than the same period in fiscal 2013, because of an increase in interest expense due to increased borrowings under the credit facility and the addition of interest related from the acquisition of the Troms Offshore.



**Share Repurchases**

On May 15, 2013, the company's Board of Directors authorized the company to spend up to \$200 million to repurchase shares of its common stock in open-market or privately-negotiated transactions. The effective period for this authorization is July 1, 2013 through June 30, 2014. The company uses its available cash and, when considered advantageous, borrowings under its revolving credit facility or other borrowings, to fund any share repurchases. The company evaluates share repurchase opportunities relative to other investment opportunities and in the context of current conditions in the credit and capital markets.

On May 17, 2012, the company's Board of Directors authorized the company to spend up to \$200.0 million to repurchase shares of its common stock in open-market or privately-negotiated transactions. The effective period for this authorization was July 1, 2012 through June 30, 2013.

The aggregate dollar outlay for common stock repurchased, along with number of shares repurchased, and average price paid per share, for the quarters and six month periods ended September 30 is as follows:

| (In thousands, except share and per share data)      | Quarter Ended<br>September 30, |      | Six Months Ended<br>September 30, |           |
|------------------------------------------------------|--------------------------------|------|-----------------------------------|-----------|
|                                                      | 2013                           | 2012 | 2013                              | 2012      |
| Aggregate dollar outlay for common stock repurchased | \$ ---                         | ---  | ---                               | 65,028    |
| Shares of common stock repurchased                   | ---                            | ---  | ---                               | 1,400,500 |
| Average price paid per common share                  | \$ ---                         | ---  | ---                               | 46.43     |

**Dividends**

The declaration of dividends is at the discretion of the company's Board of Directors. The Board of Directors declared the following dividends for the quarters and six month periods ended September 30:

| (In thousands, except dividend per share) | Quarter Ended<br>September 30, |        | Six Months Ended<br>September 30, |        |
|-------------------------------------------|--------------------------------|--------|-----------------------------------|--------|
|                                           | 2013                           | 2012   | 2013                              | 2012   |
| Dividends declared                        | \$ 12,536                      | 12,544 | 25,035                            | 25,169 |
| Dividend per share                        | 0.25                           | 0.25   | 0.50                              | 0.50   |

**Operating Activities**

Net cash provided by operating activities for any period will fluctuate according to the level of business activity for the applicable period.

Net cash provided by operating activities for the six months ended September 30, is as follows:

| (In thousands)                              | 2013      | Change    | 2012    |
|---------------------------------------------|-----------|-----------|---------|
| Net earnings                                | \$ 84,255 | 10,043    | 74,212  |
| Depreciation and amortization               | 82,164    | 10,333    | 71,831  |
| Benefit for deferred income taxes           | (10,215)  | (5,843)   | (4,372) |
| Gain on asset dispositions, net             | (2,189)   | 482       | (2,671) |
| Changes in operating assets and liabilities | (148,678) | (149,743) | 1,065   |
| Other non-cash items                        | 4,491     | (1,703)   | 6,194   |
| Net cash provided by operating activities   | \$ 9,828  | (136,431) | 146,259 |

Cash flows from operations decreased \$136.4 million, or 93%, to \$9.8 million, during the six months ended September 30, 2013 as compared to \$146.3 million during the six months ended September 30, 2012, due primarily to changes in net operating assets and liabilities; most significantly, an increase in trade and other receivable balances of \$165.4 million. This increase in trade and other receivables is primarily due to an increase in trade receivables of \$110.8 million and an increase in amounts due from affiliates of \$65.1 million from March 31, 2013 to September 30, 2013 both of which are attributable to changes in local laws within our Sub-Saharan Africa/Europe segment which required key

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customers to make payments for goods and services into local bank accounts beginning in the third quarter of fiscal 2013. Following the execution of the new Sonatide joint venture agreement, the company expects that the currently high working capital levels will normalize as it adjusts its procedures and contracting arrangements with customers to comply with the new requirements. To date,

the company has funded the recent increase in the level of working capital with additional borrowings. It is important, however, for the company and Sonatide to implement new invoicing and remittance processes for onshore and offshore work expeditiously in order to avoid the necessity of continuing to borrow funds to provide for out of the ordinary levels of working capital. As noted under the Sonatide Joint Venture disclosure above, this will require the execution of the new joint venture agreement.

### *Investing Activities*

Net cash used in investing activities for the six months ended September 30, is as follows:

| (In thousands)                                 | 2013         | Change    | 2012      |
|------------------------------------------------|--------------|-----------|-----------|
| Proceeds from the sale of assets               | \$ 7,646     | (2,331)   | 9,977     |
| Proceeds from the sale/leaseback of assets     | 65,550       | 65,550    | ---       |
| Additions to properties and equipment          | (220,309)    | (30,483)  | (189,826) |
| Payments for acquisition, net of cash acquired | (127,737)    | (127,737) | ---       |
| Other                                          | (687)        | 651       | (1,338)   |
| Net cash used in investing activities          | \$ (275,537) | (94,350)  | (181,187) |

Investing activities for the six months ended September 30, 2013 used \$275.5 million of cash, which is primarily attributed to \$220.3 million of additions to properties and equipment as well as \$127.7 million used in the acquisition of Troms Offshore partially offset by \$65.6 million in proceeds from the sale/leaseback of vessels. Refer to the Fiscal 2014 First Quarter Business Highlights section of this report for a discussion of the company's acquisition of Troms Offshore. Additions to properties and equipment were comprised of approximately \$21.6 million in capitalized major repair costs, \$196.7 million for the construction and purchase of offshore marine vessels and \$2.0 million in other properties and equipment purchases. These amounts were partially offset by \$65.6 million of proceeds from the sale/leaseback of two deepwater PSVs.

Investing activities for the six months ended September 30, 2012 used \$181.2 million of cash, which is primarily attributed to \$189.8 million of additions to properties and equipment partially offset by \$10.0 million in proceeds from the sales of assets. Additions to properties and equipment were comprised of approximately \$17.8 million in capitalized major repair costs, \$171.2 million for the construction and purchase of offshore marine vessels and \$0.8 million in other properties and equipment purchases.

### *Financing Activities*

Net cash provided by (used in) financing activities for the six months ended September 30, is as follows:

| (In thousands)                                      | 2013         | Change    | 2012      |
|-----------------------------------------------------|--------------|-----------|-----------|
| Principal payments on debt                          | \$ (691,615) | (631,615) | (60,000)  |
| Debt borrowings                                     | 986,262      | 986,262   | ---       |
| Debt issuance costs                                 | (3,845)      | (3,845)   | ---       |
| Proceeds from exercise of stock options             | 4,421        | 3,483     | 938       |
| Cash dividends                                      | (24,890)     | 168       | (25,058)  |
| Excess tax benefit on stock options exercised       | 341          | 246       | 95        |
| Stock repurchases                                   | ---          | 65,028    | (65,028)  |
| Net cash provided by (used in) financing activities | \$ 270,674   | 419,727   | (149,053) |

Financing activities for the six months ended September 30, 2013 provided \$270.7 million of cash, primarily from \$295.0 million in net debt financings, which include \$300.0 million of funding from the September 2013 senior notes, \$175.0 million increase in the term loan and \$70.0 million in net incremental borrowings on the credit facility. The additional debt was used to fund the Troms Offshore acquisition, repay 2003 senior notes, and fund vessel construction and purchase commitments. Cash provided by financing activities was partially offset by \$140.0 million repayment of July 2003 senior notes, approximately \$114.6 million used to retire Troms Offshore obligations and \$24.9 million used for the quarterly payment of common stock dividends of \$0.25 per common share.

Financing activities for the six months ended September 30, 2012 used \$149.1 million of cash, which is primarily the result of \$65.0 million used to repurchase the company's common stock, \$60.0 million used to repay debt, and \$25.1 million used for the quarterly payment of common stock dividends of \$0.25 per common share. Uses of cash were slightly offset by \$0.9 million of proceeds from the issuance of common stock resulting from stock option exercises and \$95.0 thousand tax benefit on stock options exercised during the quarter.

***Other Liquidity Matters***

**Vessel Construction.** With its commitment to modernizing its fleet through its vessel construction and acquisition program over the past decade, the company is replacing its older fleet of vessels with fewer, larger and more efficient vessels, while also enhancing the size and capabilities of the company's fleet. These efforts are expected to continue, with the company anticipating that it will use some portion of its future operating cash flows and existing borrowing capacity as well as possible new borrowings or lease arrangements in order to fund current and future commitments in connection with the fleet renewal and modernization program. 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, 2013, the company had approximately \$45.5 million of cash and cash equivalents, of which \$43.3 million was held by foreign subsidiaries and is not expected to be repatriated. In addition, \$420.0 million of undrawn capacity on the credit facility was available to the company.

Currently the company is experiencing substantial delay with one fast supply boat under construction in Brazil that was originally scheduled to be delivered in September 2009. On April 5, 2011, pursuant to the vessel construction contract, the company sent the subject shipyard a letter initiating arbitration in order to resolve disputes of such matters as the shipyard's failure to achieve payment milestones, its failure to follow the construction schedule, and its failure to timely deliver the vessel. The company has suspended construction on the vessel and both parties continue to pursue that arbitration. The company has third party credit support in the form of insurance coverage for 90% of the progress payments made on this vessel, or all but approximately \$2.4 million of the carrying value of the accumulated costs through September 30, 2013.

The company generally requires shipyards to provide third party credit support in the event that vessels are not completed and delivered in accordance with the terms of the shipbuilding contracts. That third party credit support typically guarantees the return of amounts paid by the company, and generally takes the form of refundment guarantees or standby letters of credit issued by major financial institutions located in the country of the shipyard. While the company seeks to minimize its shipyard credit risk by requiring these instruments, the ultimate return of amounts paid by the company in the event of shipyard default is still subject to the creditworthiness of the shipyard and the provider of the credit support, as well as the company's ability to successfully pursue legal action to compel payment of these instruments. When third party credit support is not available or cost effective, the company endeavors to limit its credit risk by requiring cash deposits and through other contract terms with the shipyard and other counterparties.

**Sale of Shipyard.** As previously disclosed on Form 8-K, on June 30, 2013, the company completed the sale of the company's remaining shipyard to a third party for \$9.5 million and recognized a gain of \$4.0 million. The company no longer operates shipyards.

**Merchant Navy Officers Pension Fund.** After consultation with its advisers, on July 15, 2013, a subsidiary of the company was placed into administration in the United Kingdom. Joint administrators were appointed to administer and distribute the subsidiary's assets to the subsidiary's creditors. The vessels owned by the subsidiary have become aged and are no longer economical to operate, which has caused the subsidiary's main business to decline in recent years. Only one vessel currently generates revenue and this vessel likely has a limited remaining operating window as an offshore service vessel. As part of the administration, the company agreed to acquire seven vessels and to waive certain intercompany claims. The purchase price valuation for the vessels, all but one of which are stacked, is based on independent, third party appraisals of the vessels.

The company has previously reported that a subsidiary of the company is a participating employer in an industry-wide multi-employer retirement fund in the United Kingdom, known as the Merchant Navy Officers Pension Fund (MNOFP). The subsidiary that participates in the MNOFP is the entity that has been placed into administration in the U.K. MNOFP is that subsidiary's largest creditor, and has claimed as an unsecured creditor in the administration. The Company believes that the administration is in the best interests of the subsidiary and its principal stakeholders, including the MNOFP. The MNOFP has indicated that it does not object to the insolvency process and that, aside from asserting its claim in the subsidiary's administration and based on the company's representations of the financial status and other relevant aspects of the subsidiary, MNOFP will not pursue the subsidiary in connection with any amounts due or which may become due to the Fund. The administration is not expected to be fully complete for more than a year. The company believes that the administration will resolve the subsidiary's participation in the MNOFP. The company believes that the ultimate resolution of this matter will not have a material effect on the consolidated financial statements.

**Brazilian Customs.** In April 2011, two Brazilian subsidiaries of Tidewater were notified by the Customs Office in Macae, Brazil that they were jointly and severally being assessed fines of 155.0 million Brazilian reais (approximately \$68.6 million as of September 30, 2013). The assessment of these fines is for the alleged failure of these subsidiaries to obtain import licenses with respect to 17 Tidewater vessels that provided Brazilian offshore vessel services to Petrobras, the Brazilian national oil company, over a three-year period ending December 2009. After consultation with its Brazilian tax advisors, Tidewater and its Brazilian subsidiaries believe that vessels that provide services under contract to the Brazilian offshore oil and gas industry are deemed, under applicable law and regulations, to be temporarily imported into Brazil, and thus exempt from the import license requirement. The Macae Customs Office has, without a change in the underlying applicable law or regulations, taken the position that the temporary importation exemption is only available to new, and not used, goods imported into Brazil and therefore it was improper for the company to deem its vessels as being temporarily imported. The fines have been assessed based on this new interpretation of Brazilian customs law taken by the Macae Customs Office.

After consultation with its Brazilian tax advisors, the company believes that the assessment is without legal justification and that the Macae Customs Office has misinterpreted applicable Brazilian law on duties and customs. The company is vigorously contesting these fines (which it has neither paid nor accrued) and, based on the advice of its Brazilian counsel, believes that it has a high probability of success with respect to the overturn of the entire amount of the fines, either at the administrative appeal level or, if necessary, in Brazilian courts. In December 2011, an administrative board issued a decision that disallowed 149.0 million Brazilian reais (approximately \$65.9 million as of September 30, 2013) of the total fines sought by the Macae Customs Office. In two separate proceedings in 2013, a secondary administrative appeals board considered fines totaling 127.0 million Brazilian reais (approximately \$56.2 million as of September 30, 2013) and rendered decisions that disallowed all of those fines. The remaining fines totaling 28.0 million Brazilian reais (approximately \$12.4 million as of September 30, 2013) are still subject to a secondary administrative appeals board hearing, but the company believes that both decisions will be helpful in that upcoming hearing. The secondary board decisions disallowing the fines totaling 127.0 million Brazilian reais are, however, still subject to the possibility of further administrative appeal by the authorities that imposed the initial fines. The company believes that the ultimate resolution of this matter will not have a material effect on the consolidated financial statements.

**Potential for Future Brazilian State Tax Assessment.** The company is aware that a Brazilian state in which the company has operations has notified two of the company's competitors that they are liable for unpaid taxes (and penalties and interest thereon) for failure to pay state import taxes with respect to vessels that such competitors operate within the coastal waters of such state pursuant to charter agreements. The import tax being asserted is equal to a percentage (which could be as high as 16% for vessels entering that state's waters prior to December 31, 2010 and 3% thereafter) of the affected vessels' declared values. The company understands that the two companies involved are contesting the assessment through administrative proceedings before the taxing authority.

The company's two Brazilian subsidiaries have not been similarly notified by the Brazilian state that they have an import tax liability related to their vessel activities imported through that state. Although the company has been advised by its Brazilian tax counsel that substantial defenses would be available if a similar tax claim were asserted against the company, if an import tax claim were to be asserted, it could be for a substantial

amount given that the company has had substantial and continuing operations within the territory of the state (although the amount could fluctuate significantly depending on the administrative determination of the taxing authority as to the rate to apply, the vessels subject to the levy and the time periods covered). In addition, under certain circumstances, the company might be required to post a bond or other adequate security in the amount of the assessment (plus any interest and penalties) if it became necessary to challenge the assessment in a Brazilian court. The statute of limitations for the Brazilian state to levy an assessment of the import tax is five years from the date of a vessel's entry into Brazil. The company has not yet determined the potential tax assessment, and according to the Brazilian tax counsel, chances of defeating a possible claim/notification from the State authorities in court are probable. To obtain legal certainty and predictability for future charter agreements and because the company has imported several vessels to start new charters in Brazil, the company filed several suits in 2011, 2012 and 2013 against the Brazilian state and has deposited (or, in recent cases, is in the process of depositing) the respective state tax for these newly imported vessels. As of September 30, 2013, no accrual has been recorded for any liability associated with any potential future assessment for previous periods based on management's assessment, after consultation with Brazilian counsel, that a liability for such taxes was not probable.

**Venezuelan Operations.** On February 16, 2010, Tidewater and certain of its subsidiaries (collectively, the Claimants) filed with the International Centre for Settlement of Investment Disputes (ICSID) a Request for Arbitration against the Bolivarian Republic of Venezuela. As previously reported by Tidewater, in May 2009 Petróleos de Venezuela, S.A. (PDVSA), the national oil company of Venezuela, took possession and control of (a) eleven of the Claimants' vessels that were then supporting PDVSA operations in Lake Maracaibo, (b) the Claimants' shore-based headquarters adjacent to Lake Maracaibo, (c) the Claimants' operations in Lake Maracaibo, and (d) certain other related assets. The company also previously reported that in July 2009 Petrosucre, S.A., a subsidiary of PDVSA, took possession and control of the Claimants' four vessels, operations, and related assets in the Gulf of Paria. It is Tidewater's position that, through those measures, the Republic of Venezuela directly or indirectly expropriated the Claimants' investments, including the capital stock of the Claimants' principal operating subsidiary in Venezuela.

The Claimants alleged in the Request for Arbitration that each of the measures taken by the Republic of Venezuela against the Claimants violates the Republic of Venezuela's obligations under the bilateral investment treaty with Barbados and rules and principles of Venezuelan law and international law. An arbitral tribunal was constituted under the ICSID Convention to resolve the dispute. The tribunal first addressed the Republic of Venezuela's objections to the tribunal's jurisdiction over the dispute. After two rounds of briefing by the parties, a hearing on jurisdiction was held in Washington, D.C. on February 29 and March 1, 2012.

On February 8, 2013, the tribunal issued its decision on jurisdiction. The tribunal found that it has jurisdiction over the claims under the Venezuela-Barbados bilateral investment treaty, including the claim for compensation for the expropriation of Tidewater's principal operating subsidiary, but that it does not have jurisdiction based on Venezuela's investment law. The practical effect of the tribunal's decision is to exclude from the case the claims for expropriation of the fifteen vessels described above. The proceeding will now move to the merits, including a determination whether the Republic of Venezuela violated the Venezuela-Barbados bilateral investment treaty and a valuation of Tidewater's principal operating subsidiary in Venezuela. At the time of the expropriation, the principal operating subsidiary had sizeable accounts receivable from PDVSA and Petrosucre, denominated in both U.S. Dollars and Venezuelan Bolívares. The company expects those accounts receivable to form part of the total valuation of Tidewater's principal operating subsidiary. As a result of the seizures, the lack of further operations in Venezuela, and the continuing uncertainty about the timing and amount of the compensation the company might collect in the future, the company recorded a \$44.8 million provision during the quarter ended June 30, 2009, to fully reserve accounts receivable due from PDVSA and Petrosucre.

While the tribunal determined that it does not have jurisdiction over the claim for the seizure of the fifteen vessels, Tidewater received during fiscal 2011 insurance proceeds for the insured value of those vessels (less an additional premium payment triggered by those proceeds). Tidewater believes that the claims remaining in the case, over which the tribunal upheld jurisdiction, represent the most substantial portion of the overall value lost as a result of the measures taken by the Republic of Venezuela. Tidewater has discussed the nature of the insurance proceeds received for the fifteen vessels in previous quarterly and annual filings.

The tribunal has issued a briefing and hearing schedule to determine the merits of the claims over which the tribunal has jurisdiction. That schedule culminates in a final hearing in mid-2014.

**Legal Proceedings.** On March 1, 2013, Tidewater filed suit in the London Commercial Court against Tidewater's Nigerian marketing agent for breach of the agent's obligations under contractual agreements between the parties. The alleged breach involves actions of the Nigerian marketing agent to discourage various affiliates of TOTAL S.A. from paying approximately \$19 million due to the company for vessel services performed in Nigeria. Shortly after the London Commercial Court filing, TOTAL commenced interpleader proceedings in Nigeria naming the Nigerian agent and the company as respondents and seeking an order which would allow TOTAL to deposit those monies with a Nigerian court for the respondents to resolve. On April 25, 2013, Tidewater filed motions in the Nigerian Federal High Court to stop the interpleader proceedings in Nigeria or alternatively stay them until the resolution of the suit filed in London. The company will continue to actively pursue the collection of those monies. On April 30, 2013, the Nigerian marketing agent filed a separate suit in the Nigerian Federal High Court naming Tidewater and certain TOTAL affiliates as defendants. The suit seeks various declarations and orders, including a claim for the monies that are subject to the above interpleader proceedings, and other relief. The company is seeking dismissal of this suit and otherwise intends to vigorously defend against the claims made. The company has not reserved for this receivable and believes that the ultimate resolution of this matter will not have a material effect on the consolidated financial statements.

In October, 2012, Tidewater had notified the Nigerian marketing agent that it was discontinuing its relationship with the Nigerian marketing agent. The company has entered into a new strategic relationship with a different Nigerian counterparty that it believes will better serve the company's long term interests in Nigeria. This new strategic relationship is currently functioning as the company intended.

In January, 2013, the Ministry of the Environment, Nature Conservation, and Tourism, an agency of the Democratic Republic of Congo (DRC) with jurisdiction over environmental affairs, delivered a letter requesting that the company pay \$0.25 million to the DRC. The request was made as indemnification for alleged environmental damages to the coastal waters of the DRC related to the sinking of the company's anchor handling tug, Nana Tide, in shallow waters off the Congolese coast on December 21, 2012. The cause of the casualty loss is not yet known. We are cooperating with our customer, our insurers and DRC authorities to evaluate how best to recover the vessel and limit the environmental impact of this incident. While there has been some evidence, from time to time, of a sheen in the immediate vicinity of the Nana Tide, we do not believe that there has been any major breach of her liquid tanks. Also, other than the initial letter from the DRC agency, we are not aware of any proceedings that have been instituted by the DRC.

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 and Other Commercial Commitments

A discussion regarding the company's vessel construction commitments is disclosed in the "Vessel Count, Dispositions, Acquisitions and Construction Programs" section above. The company did not have any other material changes in its contractual obligations and commercial commitments other than in the ordinary course of business since the end of fiscal 2013 except as noted below. The following table summarizes the changes to the company's consolidated contractual obligations as of September 30, 2013 for the remaining months of fiscal 2014, and the next four fiscal years and thereafter, 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 Fiscal Year |         |         |         |        |        |         | More Than<br>5 Years |
|-----------------------------------------|-----------------------------|---------|---------|---------|--------|--------|---------|----------------------|
|                                         | Total                       | 2014    | 2015    | 2016    | 2017   | 2018   |         |                      |
| Vessel purchase obligations             | \$ 46,845                   | 46,845  | ---     | ---     | ---    | ---    | ---     |                      |
| Vessel and ROV construction obligations | 597,026                     | 189,293 | 302,502 | 105,231 | ---    | ---    | ---     |                      |
| Term loan interest                      | 23,968                      | 2,523   | 5,046   | 5,046   | 5,046  | 5,046  | 1,261   |                      |
| Revolver loan interest                  | 14,368                      | 1,512   | 3,025   | 3,025   | 3,025  | 3,025  | 756     |                      |
| September 2013 senior note interest     | 161,630                     | 7,097   | 14,195  | 14,195  | 14,195 | 14,195 | 97,753  |                      |
| Troms related debt                      | 40,629                      | 1,399   | 5,261   | 6,082   | 2,798  | 2,798  | 22,291  |                      |
| September 2013 sale/leaseback           | 43,466                      | 2,794   | 5,588   | 5,589   | 5,589  | 6,830  | 17,076  |                      |
| Total obligations                       | \$ 927,932                  | 251,463 | 335,617 | 139,168 | 30,653 | 31,894 | 139,137 |                      |

Refer to the company's Annual Report on Form 10-K for additional information regarding the company's contractual obligations and commercial commitments.

### *Off-Balance Sheet Arrangements*

#### *Fiscal 2014 Sale/Leaseback*

In September 2013, the company sold two vessels to an unrelated third party, and simultaneously entered into bareboat charter agreements with the purchaser. The sale/leaseback transactions resulted in proceeds to the company of \$65.6 million and a deferred gain of \$31.3 million. The aggregate carrying value of the two vessels was \$34.3 million at the dates of sale. The leases on the vessels will expire on September 30, 2020 and the company has the option to extend each respective bareboat charter agreement for a period of 24 months.

The company is accounting for the transactions as sale/leaseback transactions with operating lease treatment and expenses lease payments over the seven year lease terms. The deferred gain will be amortized to gain on asset dispositions, net ratably over the lease term.

Under each sale/leaseback agreement, the company has the right to either re-acquire the two vessels at approximately 55% of the original sales price at the end of the sixth year, deliver the vessel to the owner at the end of the lease term, or extend the lease for 24 months at mutually agreeable lease rates. Any deferred gain balance remaining upon the repurchase of the vessel will reduce the vessels' stated cost after exercising the purchase option.

#### *Fiscal 2010 Sale/Leaseback*

In June 2009, the company sold five vessels to four unrelated third-party companies, and simultaneously entered into bareboat charter agreements for the vessels with the purchasers. In July 2009, the company sold an additional vessel to an unrelated third-party company, and simultaneously entered into a bareboat charter agreement with that purchaser.





The sale/leaseback transactions resulted in proceeds to the company of approximately \$101.8 million and a deferred gain of \$39.6 million. The aggregate carrying value of the six vessels was \$62.2 million at the dates of sale. The leases on the five vessels sold in June 2009 will expire June 30, 2014, and the lease on the vessel sold in July 2009 will expire July 30, 2014. The company is accounting for the transactions as sale/leaseback transactions with operating lease treatment and expenses lease payments over the five year lease terms.

Under the sale/leaseback agreements, the company has the right to either re-acquire the six vessels at 75% of the original sales price or cause the owners to sell the vessels to a third-party under an arrangement where the company guarantees approximately 84% of the original lease value to the third party purchaser. The company will recognize the deferred gain as income if it does not exercise its option to purchase the six vessels at the end of the operating lease term. If the company exercises its option to purchase these vessels, the deferred gain will reduce the vessels' stated cost after exercising the purchase option.

#### ***Fiscal 2006 Sale/Leaseback***

In March 2006, the company entered into agreements 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 \$76.5 million and simultaneously entered into bareboat charter agreements with BOAL&C upon the vessels' delivery to the market. Construction on these five vessels was completed at various times between March 2006 and March 2008, at which time the company sold the respective vessels and simultaneously entered into bareboat charter agreements.

The company accounted for all five transactions as sale/leaseback transactions with operating lease treatment. Accordingly, the company did not record the assets on its books and the company is expensing periodic lease payments. The operating lease for all five charter hire agreements were for eight year terms. The company has the option to extend the respective bareboat charter agreements three times, each for a period of 12 months. At the end of the basic term (or extended option periods), the company has an option to purchase each of the vessels at its then fair market value or to redeliver the vessel to its owner.

The bareboat charter agreements on the first two vessels, whose original expiration dates were in calendar year 2014, ended in September and October 2012 because the company elected to re-acquire these vessels as discussed below. The bareboat charter agreements on the third and fourth vessels expire in 2015 and the company has the option to extend the bareboat charter agreements three times, each for a period of 12 months, which would provide the company the opportunity to extend the operating leases through calendar year 2018. The bareboat charter agreement on the fifth vessel expires in 2016. The company has the option to extend the bareboat charter agreements three times, each for a period of 12 months, which would provide the company the opportunity to extend the operating leases through calendar year 2019.

The company may purchase each of the vessels at their fixed amortized values, as outlined in the bareboat charter agreements, at the end of the fifth year, and again at the end of the seventh year, from the commencement dates of the respective charter agreements. The company may also purchase each of the vessels at a mutually agreed upon price at any time during the lease term. In September 2012, the company elected to repurchase one of its leased vessels from the lessor for a total \$8.9 million. In addition, during October 2012, the company repurchased a second platform supply vessel, for a total \$8.4 million.

#### ***Future Minimum Lease Payments***

As of September 30, 2013, the future minimum lease payments for the vessels under the operating lease terms are as follows:

| Fiscal year ending (In thousands)  | Fiscal 2013      | Fiscal 2010    | Fiscal 2006    | Total         |
|------------------------------------|------------------|----------------|----------------|---------------|
|                                    | Sale/Leaseback   | Sale/Leaseback | Sale/Leaseback |               |
| Remaining six months of 2014       | \$ 2,794         | 5,351          | 2,412          | 10,557        |
| 2015                               | 5,588            | 2,836          | 4,825          | 13,249        |
| 2016                               | 5,589            | ---            | 2,304          | 7,893         |
| 2017                               | 5,589            | ---            | ---            | 5,589         |
| 2018                               | 6,830            | ---            | ---            | 6,830         |
| Thereafter                         | 17,076           | ---            | ---            | 17,076        |
| <b>Total future lease payments</b> | <b>\$ 43,466</b> | <b>8,187</b>   | <b>9,541</b>   | <b>61,194</b> |

For the quarters and six months ended September 30, 2013 and 2012, the company expensed approximately \$4.0 million and \$4.4 million and \$8.0 million and \$8.9 million, respectively, on all of its bareboat charter arrangements.

#### **Application of Critical Accounting Policies and Estimates**

The company's Annual Report on Form 10-K for the year ended March 31, 2013, filed with the Securities and Exchange Commission on May 21, 2013, describes the accounting policies that are critical to reporting the company's financial position and operating results and that require management's most difficult, subjective or complex judgments. This Quarterly Report on Form 10-Q should be read in conjunction with the discussion contained in the company's Annual Report on Form 10-K for the year ended March 31, 2013, regarding these critical accounting policies.

#### **New Accounting Pronouncements**

For information regarding the effect of new accounting pronouncements, refer to Note (11) of Notes to Unaudited Condensed Consolidated Financial Statements included in Part I, Item 1 of this report.

#### **Effects of Inflation**

Day-to-day operating costs are generally affected by inflation. Because the energy services industry requires specialized goods and services, general economic inflationary trends may not affect the company's operating costs. The major impact on operating costs is the level of offshore exploration, field development and production spending by energy exploration and production companies. As spending increases, prices of goods and services used by the energy industry and the energy services industry will increase. Future increases in vessel day rates may shield the company from the inflationary effects on operating costs.

The company's newer technologically sophisticated AHTS vessels and PSVs generally require a greater number of specially trained fleet personnel than the company's older, smaller vessels. Competition for skilled crews will likely intensify, particularly in international markets, as new-build vessels currently under construction enter the global fleet. Concerns regarding shortages in skilled labor have become an increasing concern globally. Increases in local wages are another developing trend. Globally, local wages are projected to increase during 2013 at a pace higher than wages earned by the expatriate employee work force. If competition for personnel intensifies, the market for experienced crews could exert upward pressure on wages, which would likely increase the company's crew costs.

Stronger fundamentals in the global energy industry and increases in exploration and production activity have also increased the activity levels at shipyards worldwide. Despite a slight increase in the demand for steel over the past year some economists believe that higher levels of excess steelmaking capacity currently exist which have caused steel prices to continue to decrease. If the price of steel declines, the cost of new vessels will result in lower capital expenditures and depreciation expenses, which taken by themselves would increase our future operating profits.

#### **Environmental Compliance**

During the ordinary course of business, the company's operations are subject to a wide variety of environmental laws and regulations that govern the discharge of oil and pollutants into navigable waters. Violations of these laws may result in civil and criminal penalties, fines, injunction and other sanctions. Compliance with the 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. Environmental laws and regulations are subject to change however, and may impose increasingly strict requirements and, as such, the company cannot estimate the ultimate cost of complying with such potential changes to environmental laws and regulations.

The company is also involved in various legal proceedings that relate to asbestos and other environmental matters. In the opinion of management, based on current information, the amount of ultimate liability, if any, with respect to these proceedings is not expected to have a material adverse effect on the company's financial position, results of operations, or cash flows. The company is proactive in establishing policies and operating procedures for safeguarding the environment against any hazardous materials aboard its vessels and at shore-based locations. Whenever possible, hazardous materials are maintained or transferred in confined areas in an attempt to ensure containment if accidents occur.

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

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

Market risk refers to the potential losses arising from changes in interest rates, foreign currency fluctuations and exchange rates, equity prices and commodity prices including the correlation among these factors and their volatility. The company is primarily exposed to interest rate risk and foreign currency fluctuations and exchange risk. The company enters into derivative instruments only to the extent considered necessary to meet its risk management objectives and does not use derivative contracts for speculative purposes.

#### **Interest Rate Risk and Indebtedness**

Changes in interest rates may result in changes in the fair market value of the company's financial instruments, interest income and interest expense. The company's financial instruments that are exposed to interest rate risk are its cash equivalents and long-term borrowings. Due to the short duration and conservative nature of the cash equivalent investment portfolio, the company does not expect any material loss with respect to its investments. The book value for cash equivalents is considered to be representative of its fair value.

#### ***Revolving Credit and Term Loan Agreement***

Please refer to the "Liquidity, Capital Resources and Other Matters" section of this report for a discussion on the company's revolving credit and term loan agreement and outstanding senior notes.

At September 30, 2013, the company had a \$300.0 million outstanding term loan and \$180.0 million outstanding borrowings from the revolver loan. The fair market value of this debt approximates the carrying value because the borrowings bear interest at variable rates which currently approximate 1.6% percent (1.4% margin plus 0.20% Eurodollar rate). A one percentage point change in the Eurodollar interest rate on the combined \$480 million term loan and revolver loan borrowings at September 30, 2013 would change the company's interest costs by approximately \$4.8 million annually.

#### ***Senior Notes***

Please refer to the "Liquidity, Capital Resources and Other Matters" section of this report for a discussion on the company's outstanding senior notes debt.

Because the senior notes outstanding at September 30, 2013 bear interest at fixed rates, interest expense would not be impacted by changes in market interest rates. The following table discloses how the estimated fair value of our respective senior notes, as of September 30, 2013, would change with a 100 basis-point increase or decrease in market interest rates:

| (In thousands) | Outstanding<br>Value | Estimated<br>Fair Value | 100 Basis<br>Point Increase | 100 Basis<br>Point Decrease |
|----------------|----------------------|-------------------------|-----------------------------|-----------------------------|
| September 2013 | \$ 300,000           | 307,601                 | 285,844                     | 331,439                     |
| August 2011    | 165,000              | 169,686                 | 159,898                     | 180,201                     |
| September 2010 | 425,000              | 436,530                 | 414,230                     | 460,372                     |
| July 2003      | 35,000               | 36,454                  | 35,819                      | 37,103                      |
| Total          | \$ 925,000           | 950,271                 | 895,791                     | 1,009,115                   |

**Troms Offshore Debt**

Troms Offshore has 60.0 million NOK, or approximately \$9.9 million, outstanding in floating rate debt at September 30, 2013 (whose fair value approximates the carrying value because the borrowings bear interest at variable NIBOR rates plus a margin). Troms Offshore also has 187.4 million NOK, or \$ 30.8 million, of outstanding fixed rate debt at September 30, 2013 which has an estimated fair value of 196.6 million NOK, or \$32.3 million. The following table discloses how the estimated fair value of the fixed rate Troms Offshore notes, as of September 30, 2013, would change with a 100 basis-point increase or decrease in market interest rates:

| (In thousands) | Outstanding<br>Value | Estimated<br>Fair Value | 100 Basis<br>Point Increase | 100 Basis<br>Point Decrease |
|----------------|----------------------|-------------------------|-----------------------------|-----------------------------|
| Total          | \$ 30,777            | 32,286                  | 30,916                      | 33,753                      |

**Foreign Exchange Risk**

The company's financial instruments that can be affected by foreign currency fluctuations and exchange risks consist primarily of cash and cash equivalents, trade receivables and trade payables denominated in currencies other than the U.S. dollar. The company periodically enters into spot and forward derivative financial instruments as a hedge against foreign currency denominated assets and liabilities, currency commitments, or to lock in desired interest rates. Spot derivative financial instruments are short-term in nature and settle within two business days. The fair value of spot derivatives approximates the carrying value due to the short-term nature of this instrument, and as a result, no gains or losses are recognized. Forward derivative financial instruments are generally longer-term in nature but generally do not exceed one year. The accounting for gains or losses on forward contracts is dependent on the nature of the risk being hedged and the effectiveness of the hedge.

**Derivatives**

The company had no outstanding foreign exchange spot contracts outstanding at September 30, 2013 and March 31, 2013.

At September 30, 2013, the company had one British pound forward contract outstanding. The forward contract has an expiration date of December 18, 2013. The change in fair value of the forward contract was immaterial and was recorded as a foreign exchange gain during quarter ended September 30, 2013. The forward contract did not qualify as a hedge instrument; therefore, all changes in fair value of the forward contract were recorded in earnings.

At March 31, 2013, the company had three British pound forward contracts outstanding, which were generally intended to hedge the company's foreign exchange exposure relating to its MNOPF liability as disclosed in Note (8) and elsewhere in this document. The forward contracts expired at various times through December 18, 2013. The combined change in fair value of the forward contracts was immaterial and was recorded as a foreign exchange loss during the fiscal year ended March 31, 2013, because the forward contracts did not qualify as hedge instruments. All changes in fair value of the forward contracts were recorded in earnings.

**Other**

Due to the company's international operations, the company is exposed to foreign currency exchange rate fluctuations and exchange rate risks on all charter hire contracts denominated in foreign currencies. For some of our international contracts, a portion of the revenue and local expenses are incurred in local currencies with the result that the company is at risk of changes in the exchange rates between the U.S. dollar and foreign currencies. We generally do not hedge against any foreign currency rate fluctuations associated with foreign currency contracts that arise in the normal course of business, which exposes us to the risk of exchange rate losses. To minimize the financial impact of these items the company attempts to contract a significant majority of its services in U.S. dollars. In addition, the company attempts to minimize its financial impact of these risks by matching the currency of the company's operating costs with the currency of the revenue streams when considered appropriate. The company continually monitors the currency exchange risks associated with all contracts not denominated in U.S. dollars.

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**ITEM 4. CONTROLS AND PROCEDURES**

**CEO and CFO Certificates**

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

**Evaluation of Disclosure Controls and Procedures**

Disclosure controls and procedures are designed with the objective of ensuring that all information required to be disclosed in our reports filed under the Securities Exchange Act of 1934 ( Exchange Act ), such as this report, is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by an issuer in the reports that it files or submits under the Exchange Act is accumulated and communicated to the issuer's management, including its chief executive and chief financial officers, or person performing similar functions, as appropriate to allow timely decisions regarding required disclosure. However, any control system, no matter how well conceived and followed, can provide only reasonable, and not absolute, assurance that the objectives of the control system are met.

The company evaluated, under the supervision and with the participation of the company's management, including the company's Chairman of the Board, President and Chief Executive Officer and Chief Financial Officer, the effectiveness of the design and operation of the company's disclosure controls and procedures (as defined in Rule 13a-15(e) and 15d-15(e) under the Exchange Act, as amended), as of the end of the period covered by this report. Based on that evaluation, the company's Chairman of the Board, President and Chief Executive Officer along with the company's Chief Financial Officer concluded that the company's disclosure controls and procedures are effective in timely alerting them to material information relating to the company (including its consolidated subsidiaries) that is required to be disclosed in the reports the company files and submits under the Exchange Act.

**Changes in Internal Control Over Financial Reporting**

There was no change in the company's internal control over financial reporting that occurred during the quarter ended September 30, 2013, that has materially affected, or is reasonably likely to materially affect, the company's internal control over financial reporting.

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**PART II. OTHER INFORMATION**

**ITEM 1. LEGAL PROCEEDINGS**

**Nana Tide Sinking**

In January, 2013, the Ministry of the Environment, Nature Conservation, and Tourism, an agency of the Democratic Republic of Congo (DRC) with jurisdiction over environmental affairs, delivered a letter requesting that the company pay \$0.25 million to the DRC. The request was made as indemnification for alleged environmental damages to the coastal waters of the DRC related to the sinking of the company's anchor handling tug, Nana Tide, in shallow waters off the Congolese coast on December 21, 2012. The cause of the casualty loss is not yet known. We are cooperating with our customer, our insurers and DRC authorities to evaluate how best to recover the vessel and limit the environmental impact of this incident. While there has been some indication, from time to time, of a sheen in the immediate vicinity of the Nana Tide, we do not believe that there has been any major breach of her liquid tanks. Also, other than the initial letter from the DRC agency, we are not aware of any proceedings that have been instituted by the DRC.

**Nigeria Marketing Agent Litigation**

On March 1, 2013, Tidewater filed suit in the London Commercial Court against Tidewater's Nigerian marketing agent for breach of the agent's obligations under contractual agreements between the parties. The alleged breach involves actions of the Nigerian marketing agent to discourage various affiliates of TOTAL S.A. from paying approximately \$19 million due to the company for vessel services performed in Nigeria. Shortly after the London Commercial Court filing, TOTAL commenced interpleader proceedings in Nigeria naming the Nigerian agent and the company as respondents and seeking an order which would allow TOTAL to deposit those monies with a Nigerian court for the respondents to resolve. On April 25, 2013, Tidewater filed motions in the Nigerian Federal High Court to stop the interpleader proceedings in Nigeria or alternatively stay them until the resolution of the suit filed in London. The company will continue to actively pursue the collection of those monies. On April 30, 2013, the Nigerian marketing agent filed a separate suit in the Nigerian Federal High Court naming Tidewater and certain TOTAL affiliates as defendants. The suit seeks various declarations and orders, including a claim for the monies that are subject to the above interpleader proceedings, and other relief. The company is seeking dismissal of this suit and otherwise intends to vigorously defend against the claims made. The company has not reserved for this receivable and believes that the ultimate resolution of this matter will not have a material effect on the consolidated financial statements.

In October, 2012, Tidewater had notified the Nigerian marketing agent that it was discontinuing its relationship with the Nigerian marketing agent. The company has entered into a new strategic relationship with a different Nigerian counterparty that it believes will better serve the company's long term interests in Nigeria. This new strategic relationship is currently functioning as the company intended.

**Other Items**

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. Information related to various commitments and contingencies, including legal proceedings, is disclosed in Note (8) of Notes to the Unaudited Condensed Consolidated Financial Statements included in Part I, Item 1 of this report.

**ITEM 1A. RISK FACTORS**

There have been no material changes to the risk factors as previously disclosed in Item 1A in the company's Annual Report on Form 10-K for the year ended March 31, 2013, filed with the Securities and Exchange Commission on May 21, 2013.

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

**Common Stock Repurchase Program**

On May 15, 2013, the company's Board of Directors authorized the company to spend up to \$200 million to repurchase shares of its common stock in open-market or privately-negotiated transactions. The effective period for this authorization is July 1, 2013 through June 30, 2014. The company uses its available cash and, when considered advantageous, borrowings under its revolving credit facility or other borrowings, to fund any share repurchases. The company evaluates share repurchase opportunities relative to other investment opportunities and in the context of current conditions in the credit and capital markets.

On May 17, 2012, the company's Board of Directors authorized the company to spend up to \$200.0 million to repurchase shares of its common stock in open-market or privately-negotiated transactions. The effective period for this authorization was July 1, 2012 through June 30, 2013.

**ITEM 3. DEFAULTS UPON SENIOR SECURITIES**

None.

**ITEM 4. RESERVED**

None.

**ITEM 5. OTHER INFORMATION**

None.

**ITEM 6. EXHIBITS**

The information required by this Item 6 is set forth in the Index to Exhibits accompanying this quarterly report on Form 10-Q.



**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

TIDEWATER INC.  
(Registrant)

Date: November 5, 2013

/s/ Jeffrey M. Platt  
Jeffrey M. Platt  
President and Chief Executive Officer

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

Date: November 5, 2013

/s/ Quinn P. Fanning  
Quinn P. Fanning  
Executive Vice President and Chief Financial Officer

Date: November 5, 2013

/s/ Craig J. Demarest  
Craig J. Demarest  
Vice President, Principal Accounting Officer and Controller

**EXHIBIT INDEX**

| Exhibit Number | Description                                                                                                                                                                                                   |
|----------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 3.1            | Restated Certificate of Incorporation of Tidewater Inc. (filed with the Commission as Exhibit 3(a) to the company's quarterly report on Form 10-Q for the quarter ended September 30, 1993, File No. 1-6311). |
| 3.2            | Tidewater Inc. Amended and Restated Bylaws dated May 17, 2012 (filed with the Commission as Exhibit 3.2 to the company's current report on Form 8-K on May 22, 2012, File No. 1-6311).                        |
| 10.1           | Tidewater Inc. Note Purchase Agreement dated as of September 30, 2013 (filed with the Commission as Exhibit 10.1 to the company's current report on Form 8-K on October 3, 2013, File No. 1-6311).            |
| 15*            | Letter re Unaudited Interim Financial Information                                                                                                                                                             |
| 31.1*          | Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002                                                                                                            |
| 31.2*          | Certification of Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002                                                                                                            |
| 32.1*          | Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002                                                                                        |
| 101*           | Interactive Data File                                                                                                                                                                                         |

\* Filed herewith

+ Indicates a management contract or compensatory plan or arrangement.