TIDEWATER INC
Form 10-K
May 30, 2006
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

x **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the Fiscal Year Ended March 31, 2006

For the transition period from ______ to ______.

Commission file number: 1-6311

Tidewater Inc.

(Exact name of registrant as specified in its charter)

Delaware	**72-0487776**
(State of incorporation)	**(I.R.S. employer identification no.)**

601 Poydras St., Suite 1900

New Orleans, Louisiana 70130

(Address of principal executive offices, including zip code)

(504) 568-1010

(Registrant s telephone number, including area code)

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

Title of each class	**Name of each exchange on which registered**
Common Stock, par value $0.10	New York Stock Exchange, Pacific Stock Exchange

Preferred Stock Purchase Rights	New York Stock Exchange, Pacific Stock Exchange

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

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

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

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

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

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

Large accelerated filer x	Accelerated filer ¨	Non-accelerated filer ¨

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

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The aggregate market value of the voting common stock held by non-affiliates of the registrant as of September 30, 2005, was approximately $2,774,962,198 based upon the last sales price reported for such date. Excluded from the calculation of market value are 3,031,240 shares held by the Registrant s grantor stock ownership trust.

58,161,207 shares of Tidewater Inc. common stock $0.10 par value per share were outstanding on April 7, 2006. Excluded from the calculation of shares outstanding at April 7, 2006 are 2,148,957 shares held by the Registrant s grantor stock ownership trust. Registrant has no other class of common stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Proxy Statement for Registrant s 2006 Annual Meeting of Stockholders are incorporated into Part III of this report.

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Forward-looking Information and Cautionary Statement

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

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

PART I

ITEM 1. BUSINESS

General

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

With a fleet of over 520 vessels at March 31, 2006, including 67 stacked vessels, 66 vessels withdrawn from service and 22 vessels operated pursuant to joint venture or other agreements, the company operates and has a strong presence in most of the world s significant oil and gas exploration and production markets and provides services supporting all phases of offshore exploration, development and production, including: towing of and anchor handling of mobile drilling rigs and equipment; transporting supplies and personnel necessary to sustain drilling, workover and production activities; assisting in offshore construction activities; and a variety of specialized services including pipe laying, cable laying and 3-D seismic work.

Website Access to Company Reports

The company s Internet website address is http://www.tdw.com. The company makes available free of charge, on or through its website, its annual reports on Form 10-K, quarterly reports on Form 10-Q and current reports on Form 8-K and any amendments to those reports, as soon as reasonably practicable after they are electronically filed with the Securities and Exchange Commission. The public may read and copy any materials the company has filed with the SEC at the SEC s Public Reference Room at 450 Fifth Street,

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

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

Business Highlights

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

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

In July 2005, the company s Board of Directors authorized the company to spend up to $120.0 million to repurchase shares of its common stock. Repurchases are made through open market or privately-negotiated transactions. The company intends to use its available cash and, when considered advantageous, borrowings under its revolving credit facility to fund the share repurchases. The Board of Directors authorization for this repurchase program will expire when all authorized funds have been expended or on June 30, 2006, unless extended by the Board of Directors. As of March 31, 2006, the company spent $20.8 million for the repurchase and cancellation of 455,000 common shares, or an average price paid per common share of $45.64. At March 31, 2006, approximately $99.2 million was available to repurchase shares of the company s common stock pursuant to the stock repurchase program.

The provisions of the American Jobs Creation Act of 2004 (the Act), were effective for the company as of April 1, 2005, and allowed the company to omit recording deferred tax assets or liabilities on future undistributed earnings of most non-U.S. subsidiaries and business ventures that it considers indefinitely reinvested abroad. At March 31, 2005, the company reversed all previously recorded deferred tax assets and liabilities related to timing differences, foreign tax credits, or prior undistributed earnings of these entities whose future and prior earnings are now anticipated to be indefinitely reinvested abroad. This resulted in an approximate $31.8 million reduction of income tax expense in the fourth quarter of fiscal 2005.

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In late March 2004, the company concluded based on mounting extrinsic evidence that low drilling activity levels in the Gulf of Mexico due to a prolonged weakness in the domestic market could possibly persist for a period of time. In March 2004, the company s management performed a review of the recoverability of the values of its Gulf of Mexico operating assets and recorded a non-cash asset impairment charge of $26.5 million ($17.2 million after tax, or $0.30 per share) relating to 83 older Gulf of Mexico supply vessels that had been stacked for as long as several years and were viewed as unlikely to return to active service. The impairment charge was taken to adjust the carrying value of these assets to fair value at March 31, 2004. A full discussion of the impairment of long-lived assets is disclosed in Impairment of Long-lived Assets section of Item 7 and Note 3 of Notes to Consolidated Financial Statements. In the fourth quarter of fiscal 2005, the company reviewed, for impairment purposes, all stacked vessels and vessels withdrawn from service and recorded a non-cash impairment charge of $1.7 million ($1.1 million after tax, or $0.02 per share) to reduce the carrying amount of 10 stacked vessels as to which an impairment charge had not been taken in fiscal 2004 but which were subsequently identified as being unlikely to return to active service. An impairment review during fiscal 2006 resulted in a non-cash impairment charge of approximately $3.1 million ($2.0 million after tax, or $0.03 per share) on eight additional vessels that are withdrawn from service as to which an impairment charge had not been taken previously.

Six years have passed since the company embarked on its aggressive new-build vessel construction and acquisition program which facilitated the company s entrance into the deepwater markets of the world and allowed the company to begin to replace its core fleet with fewer, larger, more efficient vessels. During this time the company purchased and/or constructed 28 anchor handling towing supply vessels for approximately $539.9 million, of which 11 are deepwater vessels. The company also added 38 platform supply vessels during this time for approximately $607.6 million, of which 23 are deepwater platform supply vessels, 14 are U.S. built replacement vessels (vessels intended to replace the company s core fleet) and one is an international built replacement vessel. The company also expanded its crewboat fleet by 43 vessels and increased its other type of vessels by four vessels in the past six years for an approximate cost of $154.1 million. Twenty-five of the crewboats and other type of vessels were built in the U.S. while 22 were built by international shipyards.

The vessel construction and acquisition program and the expansion program were initiated with the intent of strengthening the company s strong presence in all major oil and gas producing regions of the world through the replacement of the company s core fleet. In order to avoid potential overcapacity in our markets that could be created through the addition of the vessels discussed above, the company sold, primarily to buyers who operate outside of our industry, and/or scrapped 219 vessels between April 2000 and March 2006.

To date, the company has funded all of its vessel commitment programs from current cash balances, operating cash flow, and funds provided by its $300 million senior unsecured notes and its revolving credit facility. At March 31, 2006, the company had 13 vessels under construction for a total capital commitment of $175.3 million, of which the company has already expended $61.0 million. A full discussion of each event including capital commitments and scheduled delivery dates is disclosed in the Vessel Construction Programs and Acquisitions and Vessel Dispositions section of Item 7 and Note 10 of Notes to Consolidated Financial Statements.

Areas of Operation

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

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

(In thousands)	2006	2005	2004
Revenues:			
Vessel operations:			
United States	$ 180,374	118,288	125,344
International	666,608	537,238	500,604
Other marine operations	30,635	36,624	26,682
	$ 877,617	692,150	652,630
Operating profit (loss):			
Vessel operations:			
United States	$ 61,227	2,022	(17,715)
International	186,044	95,383	96,316
Impairment of long-lived assets	(3,050)	(1,733)	(26,456)
Gain on sales of assets	86,337	11,977	7,075
Other marine operations	6,511	6,623	4,623
	$ 337,069	114,272	63,843
Total marine assets:			
United States	$ 566,707	532,097	569,841
International	1,490,083	1,542,996	1,389,541
Total marine assets	$ 2,056,790	2,075,093	1,959,382

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

Marine Vessel Fleet

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

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

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

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

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

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

Revenue Contribution of Main Classes of Vessels

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

	Year Ended March 31,		
	2006	2005	2004
Deepwater vessels	22.4%	22.3%	20.5%
Towing-supply/supply	58.5%	57.7%	57.6%
Crew/utility	10.9%	10.7%	9.8%
Offshore tugs	7.8%	8.8%	11.3%
Other	0.4%	0.5%	0.8%

Shipyard Operations

Quality Shipyards, LLC, a wholly-owned subsidiary of the company, operates two shipyards in Houma, Louisiana, which construct, modify and repair vessels. The shipyard performs work for outside customers, as well as the construction, repair and modification of the company s own vessels. During the last three fiscal years, Quality Shipyards, LLC constructed and delivered four 220-foot platform supply vessels and is currently constructing two additional 220-foot platform supply vessels for the company. Three of the supply vessels were delivered during fiscal 2004 while the fourth vessel was delivered during fourth quarter of fiscal 2006. The two remaining 220-foot platform supply vessels currently under construction are expected to be delivered in fiscal 2007.

International Operations

A significant portion of the company s operations are conducted internationally. Revenues from international operations as a percentage of the company s total revenues were 77%, 80% and 78% during fiscal 2006, 2005 and 2004, respectively. The company s international marine vessel operations are vulnerable to the usual risks inherent in doing business in countries other than the United States. Such risks include political and economic instability, possible vessel seizures or nationalization of assets and other governmental actions, the ability to recruit and retain management for overseas operations, currency fluctuations and revaluations, and import/export restrictions; all of which are beyond the control of the company.

Safety and Risk Management

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

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

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

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

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

Industry Conditions, Competition and Customers

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

The principal competitive factors for the offshore vessel service industry are suitability and availability of equipment, price and quality of service. The company has numerous competitors in virtually all areas in which it operates, and competition is intense. During the prolonged downturn in the Gulf of Mexico market, which began during calendar year 2001, the company made a strategic decision to attempt to maintain high day rates at the expense of lower utilization. During that time, the majority of the company s competitors in the Gulf of Mexico elected to charge lower day rates and maintain higher utilization for their vessels. Lower utilization of the company s Gulf of Mexico supply vessel fleet resulted in the company stacking 89, or 70%, of its 127 supply vessels in the Gulf of Mexico. Of these 89 stacked domestic supply vessels, 72 vessels along with 11 additional vessels that had not been stacked were included in a non-cash asset impairment charge of $26.5 million ($17.2 million after tax, or $0.30 per share) recorded in March 2004. The 17 vessels that were not considered impaired, with an aggregate carrying amount at March 31, 2004 of approximately $10.4 million, had physical and operational characteristics different from the group of impaired vessels which would allow them to be more readily returned to service as market conditions warranted. In the fourth quarter of fiscal 2005, the company reviewed, for impairment purposes, all stacked vessels and vessels withdrawn from service and recorded a non-cash impairment charge of $1.7 million ($1.1 million after tax, or $0.02 per share) to reduce the carrying amount of 10 stacked vessels as to which an impairment charge had not been taken in fiscal 2004 but which were subsequently identified as being unlikely to return to active service. An impairment review during fiscal 2006 resulted in a non-cash asset impairment charge of approximately $3.1 million ($2.0 million after tax, or $0.03 per share) on eight additional vessels that are withdrawn from service as to which an impairment charge had not been taken previously. A full discussion of the impairment of long-lived assets is disclosed in Impairment of Long-lived Assets section of Item 7 and Note 3 of Notes to Consolidated Financial Statements.

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

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The company s principal customers are major oil and natural gas exploration, development and production companies, foreign government-owned or controlled organizations and companies that explore and produce oil and natural gas, and companies that provide other services to the offshore energy industry. Over the last several years, consolidation of exploration, development and production companies has occurred which has, and will continue to have, an impact on the company s global operations. Although Chevron Corporation (including its worldwide subsidiaries and affiliates) accounted for 15% of revenues during the year ended March 31, 2006, the five largest customers accounted for approximately 41% of the company s revenues. The company does not consider its operations dependent on any single customer.

Regulatory Matters

The company is subject to various statutes and regulations governing the operation and maintenance of its vessels. Under the citizenship provisions of the Merchant Marine Act of 1920 and the Shipping Act, 1916, the company would not be permitted to engage in U.S. coastwise trade if more than 25% of the company s outstanding stock were owned by non-U.S. citizens. The company has a dual stock certificate system to protect against non-U.S. citizens owning more than 25% of its common stock. In addition, the company s charter provides the company with certain remedies with respect to any transfer or purported transfer of shares of the company s common stock that would result in the ownership by non-U.S. citizens of more than 24% of its common stock. Based on information supplied to the company by its transfer agent, approximately 6.68% of the company s outstanding common stock was owned by non-U.S. citizens as of March 31, 2006.

The company s vessels are subject to various statutes and regulations governing their operation. The laws of the United States require that vessels engaged in U.S. coastwise trade must be built in the U.S. In addition, once a U.S.-built vessel is registered under a non-U.S. flag, it cannot thereafter engage in U.S. coastwise trade. Therefore, the company s non-U.S. flag vessels must be operated abroad; and if the company is not able to secure adequate numbers of charters abroad for such vessels, even if work would otherwise have been available for such vessels in the United States, the company s financial performance could be adversely affected. Of the total 523 vessels owned or operated by the company at March 31, 2006, 331 were registered under flags other than the United States and 192 were registered under the U.S. flag.

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

Seasonality

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

Environmental Compliance

During the ordinary course of business the company s operations are subject to a wide variety of environmental laws and regulations. The company attempts to comply in all material respects with these laws and regulations in order to avoid costly accidents and related environmental damage. Compliance with existing governmental regulations that have been enacted or adopted regulating the discharge of materials into the environment, or otherwise relating to the protection of the environment, has not had, nor is expected to have, a material effect on the company. The company is proactive in establishing policies and operating procedures for safeguarding the environment against any environmentally hazardous material aboard its vessels and at shore base locations. Whenever possible, hazardous materials are maintained or transferred in confined areas to ensure containment if accidents occur. In addition, the company has established operating policies that are intended to increase awareness of actions that may harm the environment.

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Employees

As of March 31, 2006, the company had approximately 7,500 employees worldwide. The company considers relations with its employees to be satisfactory. The company is not a party to any union contract in the United States but through several subsidiaries is a party to union agreements covering local nationals in several countries other than the United States. For the past few years, the company has been a target of a union organizing campaign for the U.S. Gulf of Mexico employees by maritime labor unions. These union organizing efforts have recently abated, although the threat has not been completely eliminated. If the Gulf employees were to unionize, the company s flexibility in managing industry changes in the domestic market could be adversely affected.

ITEM 1A. RISK FACTORS

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

Oil and Gas Prices Are Highly Volatile

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

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

Changes in the Level of Capital Spending by Our Customers

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

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

The Offshore Marine Service Industry is Highly Competitive

The company operates in a highly competitive environment. Competitive factors include price and quality of service by vessel operators and the quality and availability of vessels. Decreases in the level of offshore drilling and development activity by the energy industry generally negatively affect the demand for the

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company s vessels thereby exerting downward pressure on day rates. Extended periods of low vessel demand and/or low day rates will reduce the company s revenues.

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

Failure to Attract and Retain Key Management and Technical Personnel

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

Risks Associated with Operating Internationally

For the fiscal years ended March 31, 2006, 2005 and 2004, 77%, 80%, and 78%, respectively, of the company s total revenues were generated by international operations. The company s international marine vessel operations are vulnerable to the usual risks inherent in doing business in countries other than the United States. Such risks include political and economic instability, possible vessel seizures or nationalization of assets and other governmental actions, the ability to recruit and retain management of overseas operations, currency fluctuations and revaluations, and import/export restrictions; all of which are beyond the control of the company.

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

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

Operational Risks Inherent to the Offshore Marine Industry

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

ITEM 1B. UNRESOLVED STAFF COMMENTS

The company has previously disclosed that it is the subject of an informal inquiry by the Securities and Exchange Commission (SEC) related to the $26.5 million impairment charge that it recorded in its fiscal year ended March 31, 2004 that was related to 83 vessels that had been used in the Gulf of Mexico. The

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company is in discussions with the SEC in an effort to resolve the matters raised by the inquiry. At this time, the company is unable to predict the timing or ultimate outcome of these discussions.

ITEM 2. PROPERTIES

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

ITEM 3. LEGAL PROCEEDINGS

The company is not a party to any litigation that, in the opinion of management, is likely to have a material adverse effect on the company s financial position or results of operations.

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

There were no matters submitted to a vote of security holders during the fourth quarter of fiscal 2006.

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PART II

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

Common Stock Market Prices and Dividends

The company s common stock is traded on the New York Stock Exchange and the Pacific Stock Exchange under the symbol TDW. At March 31, 2006, there were approximately 1,369 record holders of the company s common stock, based upon the record holder list maintained by the company s stock transfer agent. The following table sets forth the high and low closing sale prices of the company s common stock as reported on the New York Stock Exchange Composite Tape and the amount of cash dividends per share declared on Tidewater common stock for the periods indicated.

Fiscal Year	Quarter	High	Low	Dividend
2006	First	$ 40.23	$ 31.85	$ .15
	Second	49.77	37.09	.15
	Third	49.24	41.00	.15
	Fourth	59.17	44.90	.15
2005	First	$ 30.05	$ 25.74	$ .15
	Second	33.50	26.90	.15
	Third	36.45	29.61	.15
	Fourth	42.84	33.39	.15

Issuer Repurchases of Equity Securities

In July 2005, the company s Board of Directors authorized the company to spend up to $120.0 million to repurchase shares of its common stock. Repurchases are made through open market or privately-negotiated transactions. The company intends to use its available cash and, when considered advantageous, borrowings under its revolving credit facility to fund the share repurchases. The Board of Directors authorization for this repurchase program will expire when all authorized funds have been expended or on June 30, 2006, unless extended by the Board of Directors. As of March 31, 2006, the company spent $20.8 million for the repurchase and cancellation of 455,000 common shares, or an average price paid per common share of $45.64. At March 31, 2006, approximately $99.2 million was available to repurchase shares of the company s common stock pursuant to the stock repurchase program. The following table summarizes the stock repurchase activity for the three months ending March 31, 2006 and the approximate dollar value of shares that may yet be purchased pursuant to the stock repurchase program:

	Total Number of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Program	Approximate Dollar Value of Shares that May Yet Be Purchased Under the Program
January 1, 2006 January 31, 2006		$		$ 111,308,581
February 1, 2006 February 28, 2006	90,000	52.55	90,000	106,578,738
March 1, 2006 March 31, 2006	145,000	50.64	145,000	99,235,700
Total	235,000	$ 51.37	235,000	

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Securities Authorized for Issuance under Equity Compensation Plans

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

ITEM 6. SELECTED FINANCIAL DATA

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

Years Ended March 31

(In thousands, except ratio and per share amounts)	2006 (B)	2005 (C)	2004 (D)	2003	2002
Statement of Earnings Data :					
Revenues:					
Vessel revenues	$ 846,982	655,526	625,948	624,555	715,361
Other marine revenues	30,635	36,624	26,682	11,268	13,668
	$ 877,617	692,150	652,630	635,823	729,029
Net earnings	$ 235,756	101,339	41,662	88,630	136,159
Earnings per common share (A)	$ 4.07	1.78	.73	1.57	2.41
Cash dividends declared per common share	$ .60	.60	.60	.60	.60
Balance Sheet Data (at end of period):					
Cash and cash equivalents	$ 246,109	15,376	17,636	17,767	11,882
Total assets	$ 2,364,540	2,213,173	2,081,790	1,849,578	1,669,370
Long-term debt	$ 300,000	380,000	325,000	139,000	54,000
Stockholders equity	$ 1,659,121	1,442,702	1,366,110	1,351,395	1,285,818
Working capital	$ 413,289	133,643	152,585	141,225	152,891
Current ratio	4.57	2.42	3.12	2.95	3.07
Cash Flow Data:					
Net cash provided by operating activities	$ 283,578	160,062	129,049	202,000	194,390
Net cash provided by (used in) investing activities	$ 53,208	(189,125)	(285,429)	(255,931)	(300,216)
Net cash (used in) provided by financing activities	$ (106,053)	26,803	156,249	59,816	22,555

(A) All per share amounts were computed on a diluted basis.

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

(C) In March 2005, the company recorded a tax benefit of $31.8 million ($0.56 per share) to reverse previously recorded deferred tax assets and liabilities no longer required as a result of the American Jobs Creation Act of 2004 (for a full discussion see note 4 of Notes to Consolidated Financial Statements).

(D) In March 2004, the company recorded a non-cash asset impairment charge of $26.5 million ($17.2 million after tax, or $0.30 per share) on 83 older Gulf of Mexico supply vessels. A full discussion of the impairment of long-lived assets is disclosed in Impairment of Long-lived Assets section of Item 7 and Note 3 of Notes to Consolidated Financial Statements.

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

Forward-looking Information and Cautionary Statement

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

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

Executive Summary and Overview

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

Fiscal 2006 domestic results of operations improved significantly as compared to fiscal 2005. The company s domestic-based revenues and operating profit increased approximately $62.1 million and $59.2 million, respectively, during the current fiscal year due to favorable commodity prices and an improved operating environment which resulted in increased demand for the company s vessels which in turn resulted in an escalation of vessel dayrates. A significant portion of the company s increase in domestic-based revenues went directly to operating profit because operating costs and depreciation did not change proportionally when revenue changed. Hurricanes Katrina and Rita caused extensive damage to the energy industry infrastructure in the Gulf of Mexico and along the U.S. Gulf Coast resulting in an interruption in oil and gas production in the Gulf of Mexico. Given the damage sustained to the offshore oil and gas infrastructure, management anticipates its vessels to be in high demand in the Gulf of Mexico for the near term while repairs are made to offshore pipelines and platforms. Fiscal 2006 s domestic-based operating costs increased a modest 4% as compared to fiscal 2005. The number of available drilling rigs in the U.S. market will be the primary driver of the company s future profitability in the domestic market. The strength of the international drilling market has attracted offshore rigs from the U.S. market over the past few years. Over the longer term, the company s domestic-based fleet utilization will be influenced more by the active offshore rig count than by any other single outside influence, although the number of available units of competitor companies will also have a significant effect.

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The company s international results of operations are primarily dependent on the demand and supply relationship for crude oil. During fiscal 2006 international-based revenues and operating profit increased approximately $129.3 million and $90.7 million, respectively, as compared to fiscal 2005 due to strong demand for natural resources, and an improved operating environment which in turn resulted in an escalation of vessel dayrates. In addition, fiscal 2006 international-based vessel revenues were slightly offset by higher operating costs and depreciation expense resulting from an increased number of vessels operating in the international market during fiscal 2006 due to new vessel deliveries throughout the current fiscal year. Fiscal 2006 s international-based operating costs increased approximately 8% from fiscal 2005 levels.

During the second quarter of fiscal 2006, the company completed the sale of six of its KMAR 404 class of Anchor Handling Towing Supply vessels to Deep Sea Supply ASA for a total cash price of $188.0 million. The transaction resulted in a $65.9 million pre-tax financial gain, or approximately $42.8 million after tax, or $0.74 per diluted common share. The transaction resulted in an approximate $112.0 million taxable gain, but no cash taxes are due because of the availability of net operating loss carryforwards. The company used a portion of the proceeds of the sale to repay $95.0 million of then outstanding borrowings under the company s revolving credit agreement. The company also sold and/or scrapped an additional 45 vessels which resulted in additional gains on sales of assets of approximately $19.9 million during fiscal 2006.

Fiscal 2006 witnessed the delivery of 18 newly-constructed vessels, which consisted of 10 anchor handling towing supply vessels, one platform supply vessel and seven crewboats. Three of the newly constructed anchor handlers are deepwater class vessels. The remaining newly-built anchor handlers and the platform supply vessels expanded the company s core vessel fleet. To date, the company has funded all of its vessel commitment programs from current cash balances, operating cash flow, and funds provided by its $300 million senior unsecured notes and its revolving credit facility.

The provisions of the American Jobs Creation Act of 2004 (the Act), were effective for the company as of April 1, 2005, and allowed the company to omit recording deferred tax assets or liabilities on future undistributed earnings of most non-U.S. subsidiaries and business ventures that it considers indefinitely reinvested abroad. At March 31, 2005, the company reversed all previously recorded deferred tax assets and liabilities related to timing differences, foreign tax credits, or prior undistributed earnings of these entities whose future and prior earnings are now anticipated to be indefinitely reinvested abroad. This resulted in an approximate $31.8 million reduction of income tax expense in the fourth quarter of fiscal 2005.

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

Key Focus for Fiscal 2006 and Outlook

During fiscal 2006, the company focused on strengthening its balance sheet, improving its domestic profitability, growing its international markets, and regenerating its vessel fleet in order to generate future earnings capacity. The company strengthened its balance sheet by selling its KMAR 404 class of vessels for $188 million in cash that resulted in a $65.9 million pre-tax financial gain. The company used these funds to maintain its financial strength by eliminating an existing $95.0 million outstanding debt under the company s revolving credit agreement, initiating a stock repurchase program and to continue to reinvest in new equipment. In the company s operating business, management focused on improving dayrates and utilization, maintaining disciplined cost control in the sourcing of critical supplies and services, and obtained favorable tax incentives. Fiscal 2006 was a year of strong financial performance with solid improvements in revenue, operating profit and earnings per share, all building the foundation for long-term growth.

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Given the progress the company has made in executing its strategies, the company is poised to continue to grow organically and, given the right opportunity, to grow through targeted and disciplined acquisitions. The company will continue to pursue its long-term growth strategies on a disciplined basis. The company has targeted two additional dimensions within its growth initiatives to include (1) assessing opportunities for its older fleet; and (2) targeted acquisitions. In each case, the company will carefully consider whether proposed transactions have the appropriate risk/reward profile. These areas of opportunity have a common theme which is to leverage the company s existing strengths and capitalize on favorable market conditions to improve operating profit, earnings per share and cash flows.

Vessel Construction Programs and Acquisitions

Current Commitments

The company is constructing five anchor handling towing supply vessels varying in size from 5,000 brake horsepower (BHP) to 10,000 BHP. One international shipyard is constructing two vessels while a different international shipyard is constructing three vessels. Scheduled delivery for the five vessels will begin in July 2006, with the last vessel scheduled for delivery in December 2007. As of March 31, 2006, $32.9 million has been expended on the vessels of the total $80.8 million commitment cost.

The company is also committed to the construction of two 220-foot and three 250-foot supply vessels for approximately $78.7 million. The company s shipyard, Quality Shipyard, LLC, is constructing the two 220-foot vessels while a different U.S. shipyard is constructing the 250-foot vessels. Scheduled delivery of the two 220-foot vessels is expected in August 2006 and July of 2007 while the three 250-foot vessels are expected to be delivered in March 2007, June 2007 and September 2007. As of March 31, 2006, $23.5 million has been expended on these five vessels.

The company is also committed to the construction of one 175-foot, state-of-the-art, fast, crew/supply boat, one water jet crewboat and one tugboat for an approximate total cost of $15.7 million. A U.S. shipyard is constructing the 175-foot crewboat, while one international shipyard is constructing the water jet crewboat and a different international shipyard is constructing the tugboat. Scheduled delivery of the 175-foot crewboat is expected in July 2006. The water jet crewboat was delivered in April 2006 while the tugboat is expected to be delivered in February of 2007. As of March 31, 2006, $4.6 million has been expended on these three vessels.

The company has also contracted for the construction of a new corporate aircraft for a total approximate cost of $27.0 million. As of March 31, 2006, $3.7 million has been spent. The airplane is expected to be available for use in May of 2007.

Current Vessel Commitments Summary

The table below summarizes the various vessel commitments by vessel class and type as of March 31, 2006:

	U. S. Built			International Built		
Vessel class and type	Number of Vessels	Total Cost Commitment (In thousands)	Expended Through 3/31/06	Number of Vessels	Total Cost Commitment (In thousands)	Expended Through 3/31/06
Deepwater vessels:						
Platform supply vessels	3	$ 51,923	$ 15,094			
Replacement fleet:						
Anchor handling towing supply				5	$ 80,841	$ 32,900
Platform supply vessels	2	$ 26,832	$ 8,421			
Crewboats and offshore tugs:						
Crewboats 175-foot	1	$ 7,229	$ 474			
Crewboats water jet				1	$ 1,086	$ 895
Offshore tugs				1	$ 7,401	$ 3,187
Totals	6	$ 85,984	$ 23,989	7	$ 89,328	$ 36,982

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While the company does not have any other commitments for new-build vessel contracts other than what is discussed above, the company anticipates that over the next several years, it will continue to build, acquire or lease newer vessels in order to replace its aging vessels. The majority of the company s supply and towing supply vessels were constructed between 1976 and 1983. As such, most of this vessel class exceeds 22 years of age and will need to be replaced within the next several years. In addition to age, market conditions also help determine when a vessel is no longer economically viable. The company anticipates using future operating cash flows, existing borrowing capacities or new borrowings or lease arrangements to fund over the next few years the continuing replacement of the company s mature fleet of vessels. These vessels would replace the company s core international fleet with fewer, larger and more efficient vessels. The company believes that adequate capital resources will be available to continue its fleet replacement.

Fiscal 2006 Vessel Deliveries and Acquisitions

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

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

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

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

Fiscal 2005 Vessel Deliveries and Acquisitions

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

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

Fiscal 2004 Vessel Deliveries and Acquisitions

On April 1, 2003, the company paid $79.0 million in cash to ENSCO International Incorporated to purchase its 27-vessel Gulf of Mexico-based marine fleet. The mix of vessels the company acquired consisted of five anchor handling towing supply vessels, six stretched 220-foot platform supply vessels and 16 supply

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vessels. In conjunction with the acquisition of the vessels, it was agreed that, for a two year period and subject to satisfactory performance, the company would provide to ENSCO all of its discretionary vessel requirements in the Gulf of Mexico. The day rates charged under the arrangement were based upon predetermined pricing criteria. The original agreement expired on March 31, 2005 and a one year extension under similar terms was agreed to which expired on March 31, 2006. A second one year extension has been agreed to which will expire on March 31, 2007.

During fiscal 2004, the company took delivery of two large, platform supply vessels (one constructed by a Brazilian shipyard and the other by a shipyard in the Far East). The company also took delivery of nine next generation supply vessels, ranging in size from 205-foot to 220-foot, for approximately $133.2 million. The company s shipyard, Quality Shipyard, LLC, constructed three of the next generation supply vessels and two other U.S. shipyards constructed the remaining six vessels. Although the nine vessels are intermediate in size and are technically capable of working in certain deepwater markets, they were constructed to replace older supply vessels. Also during fiscal 2004, the company purchased two 5,500 BHP anchor handling towing supply vessel for approximately $24.4 million, purchased one offshore tug for approximately $4.3 million and took delivery of three water jet crewboats that were constructed in Holland for approximately $2.7 million.

During fiscal 2004, the company constructed and delivered to the market, for an approximate total cost of $10.6 million, two crewboats whose construction contracts the company assumed from Crewboats, Inc., a privately held, independent provider of crewboat services in the Gulf of Mexico during fiscal 2002.

The company also delivered to the market during fiscal 2004, for an approximate total cost of $19.7 million, three 175-foot, state-of-the-art, fast, crew/supply boats that blend the speed of a crewboat with the capabilities of a supply vessel. All three vessels were constructed at a U.S. shipyard that is currently constructing one additional 175-foot, fast, crew/supply boats as discussed above.

Vessel Deliveries and Acquisitions Summary

The table below summarizes the number of vessels that have been added to the company s fleet, excluding 27 vessels purchased from ENSCO on April 1, 2003, during fiscal 2006, 2005 and 2004 by vessel class and vessel type:

	Number of vessels added		
Vessel class and type	**2006**	**2005**	**2004**
Deepwater vessels:			
Anchor handling towing supply	3	2	
Platform supply vessels			2
Replacement fleet:			
Anchor handling towing supply	7	8	2
Platform supply vessels	1	2	9
Crew/utility:			
Crewboats	7	4	8
Offshore tugs			1
Total number of vessels added to the fleet	18	16	22

Impairment of Long-lived Assets

During fiscal 2004, numerous marine drilling rigs exited the U.S. Gulf of Mexico despite attractive domestic oil and gas commodity pricing for an extended period of time. These departures, combined with the low activity levels of traditional Gulf of Mexico operators, left the active offshore rig count at its lowest level in ten years. By late fiscal 2004, the company concluded, based on mounting extrinsic evidence that low activity levels in the Gulf of Mexico could possibly persist for an extended period of time. Management reviewed the recoverability of the values of its Gulf of Mexico operating assets and recorded in March 2004 a non-cash asset impairment charge of $26.5 million ($17.2 million after tax, or $0.30 per share) relating to 83 older Gulf of Mexico supply vessels. As a result of the prolonged weakness in the Gulf of Mexico drilling market, a majority of the vessels were stacked for as long as several years and were viewed as unlikely to return to service. Due to the average age of the vessels (23.5 years), outdated specifications (low horsepower and cargo capacities) relative to competing equipment, significant costs to repair and return the vessels to service (average approximately $500,000 per vessel) and an anticipation of low customer

demand for the vessels in the future, the company concluded it was unlikely that these vessels would return to active

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service. Based on such factors, and in accordance with Statement of Financial Accounting Standards (SFAS) No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets, the asset impairment charge noted above was taken to adjust the carrying value of the assets to fair value at March 31, 2004. The fair value of the vessels was determined based upon management s estimate of liquidation values that could be realized in sales to unrelated purchasers and included an assumption that a significant number of the vessels (as much as 50%) may have to be scrapped. Disposal of the assets may take an extended period of time due to the vessels outdated specifications. Two vessels from this group of impaired vessels were sold during fiscal 2005 and an additional 22 impaired vessels were sold and/or scrapped during fiscal 2006.

The company has previously disclosed that it is the subject of an informal inquiry by the Securities and Exchange Commission (SEC) related to the $26.5 million impairment charge that it recorded in its fiscal year ended March 31, 2004 that was related to 83 stacked vessels that had been used in the Gulf of Mexico. The company is in discussions with the SEC in an effort to resolve the matters raised by the inquiry. At this time, the company is unable to predict the timing or ultimate outcome of these discussions.

In the fourth quarter of fiscal 2005, the company reviewed, for impairment purposes, all stacked vessels and vessels withdrawn from service and recorded a non-cash impairment charge of $1.7 million ($1.1 million after tax, or $0.02 per share) to reduce the carrying amount of 10 stacked vessels as to which an impairment charge had not been taken in fiscal 2004 but which were subsequently identified as being unlikely to return to active service. An impairment review during fiscal 2006 resulted in a non-cash impairment charge of approximately $3.1 million ($2.0 million after tax, or $0.03 per share) on eight additional vessels that are withdrawn from service as to which an impairment charge had not been taken previously.

General Market Conditions and Results of Operations

Offshore service vessels provide a diverse range of services and equipment to the energy industry. Fleet size, utilization and vessel day rates primarily determine the amount of revenues and operating profit because operating costs and depreciation do not change proportionally when revenue changes. Operating costs primarily consist of crew costs; repair and maintenance; insurance; fuel, lube oil and supplies. Fleet size and utilization are the major factors that affect crew costs. The timing and amount of repair and maintenance costs are influenced by customer demands, vessel age and scheduled drydockings to satisfy safety and inspection requirements mandated by regulatory agencies. Whenever possible, vessel drydockings are scheduled in order to minimize any impact on vessel operations and are only done if economically justified, given the vessel s age and physical condition. The following table compares revenues and operating expenses (excluding general and administrative expenses and depreciation expense) for the company s vessel fleet for the years ended March 31. Vessel revenues and operating costs relate to vessels owned and operated by the company, while other marine services relate to third-

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

(In thousands)	2006	2005	2004
Revenues (A):			
Vessel revenues:			
United States	$ 180,374	118,288	125,344
International	666,608	537,238	500,604
	846,982	655,526	625,948
Other marine revenues	30,635	36,624	26,682
Total revenues	$ 877,617	692,150	652,630
Operating costs:			
Vessel operating costs:			
Crew costs	$ 243,584	226,653	213,687
Repair and maintenance	76,058	70,519	76,975
Insurance	15,820	18,568	20,638
Fuel, lube and supplies	39,617	40,329	38,309
Other	56,402	45,802	45,090
	431,481	401,871	394,699
Costs of other marine revenues	23,836	29,453	21,502
Total operating costs	$ 455,317	431,324	416,201

(A) For fiscal 2006, 2005 and 2004, Chevron Corporation (including its worldwide subsidiaries and affiliates) accounted for 15%, 13.2% and 12.0%, respectively, of revenues while Petroleo Brasileiro SA accounted for 10.2% of revenue during fiscal 2005.

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

(In thousands)	2006	2005	2004
Vessel activity:			
United States	$ 61,227	2,022	(17,715)
International	186,044	95,383	96,316
	247,271	97,405	78,601
Impairment of long-lived assets	(3,050)	(1,733)	(26,456)
Gain on sales of assets	86,337	11,977	7,075
Other marine services	6,511	6,623	4,623
Operating profit	337,069	114,272	63,843
Other income	16,797	7,589	7,634
Corporate expenses	(21,280)	(15,179)	(13,291)
Interest and other debt costs	(9,074)	(6,887)	(3,683)

Earnings before income taxes	$ 323,512	99,795	54,503

As a result of the uncertainty of a certain customer to make payment of vessel charter hire, the company has deferred the recognition of approximately $6.1 million of billings as of March 31, 2006, $1.6 million of billings as of March 31, 2005 and $3.1 million of billings as of March 31, 2004 which would otherwise have been recognized as revenue. The company will recognize the amounts as revenue as cash is collected or at such time as the uncertainty has been resolved.

Comparison of Fiscal 2006 to Fiscal 2005

Fiscal 2006 domestic results of operations benefited from strong industry fundamentals which translated into higher utilization and average day rates for the company s domestic-based vessel fleet. Prospects for growth in the offshore market in the Gulf of Mexico have shown significant improvement during the past year. However, Hurricanes Katrina and Rita have caused extensive damage to the energy industry infrastructure in the Gulf of Mexico and along the U.S. Gulf Coast resulting in an interruption in oil and gas production in the Gulf of Mexico. The U.S. Minerals Management Service (MMS) statistical report on production shut-ins due to Hurricanes Katrina and Rita dated March 22, 2006 reported that total shut-in oil production, for the period of September 26, 2005 to March 22, 2006, totaled approximately 25% of the yearly U.S. Gulf oil production. During this same period of time, natural gas shut-in totaled approximately 19% of the yearly U.S. Gulf gas production as reported by MMS. Pre-storm offshore rig demand improved greatly and drilling activity was forecast to remain at improved levels well into 2006. The exploration and production (E&P) companies have contracted offshore drilling rigs for longer durations than in past periods due to concerns over rig availability in the domestic market. The market for offshore support vessels

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tightened as drilling operators discovered that offshore vessels currently in service are in short supply. The Gulf of Mexico supply boat market still has a significant number of vessels stacked that could resume active status, but only after expenditures to drydock to re-certify the vessels. The company did not experience any injuries to its personnel or damage or interruption of service to its fleet of vessels serving the offshore oil and gas industry in the Gulf of Mexico due to Hurricanes Katrina and Rita. The aftermath of the storms did not have any material impact on the company s ability to respond to customer needs or its ability to fulfill contract commitments. Demand for the company s available domestic-based vessels prior to the two storms was strong and business has been brisk since the storms, with charter rates exceeding levels that were achieved in prior industry upturns in 1997 and 2001.

Domestic results of operations are primarily driven by natural gas exploration and production and, given the damage sustained to the offshore oil and gas infrastructure, management anticipates its vessels to be in high demand in the Gulf of Mexico for the near term while repairs are made to offshore pipelines and platforms. While the repair work in the Gulf of Mexico is expected to keep domestic-based vessel demand high for the near term, the offshore rig count in the Gulf of Mexico remains relatively depressed as compared to past up cycles. The uptick in domestic-based business during the second half of fiscal 2006 is related to the repair work resulting from damage caused by Hurricanes Katrina and Rita. Upon completion of the needed repair work in the U.S. Gulf of Mexico, and assuming no significant damage from any hurricanes during 2006, the number of available drilling rigs in the U.S. market will be the primary driver of the company s future profitability in the domestic market. The strength of the international drilling market has attracted offshore rigs from the U.S. market over the past few years. This capacity constraint is forcing some E&P companies to delay drilling programs. Over the longer term, the company s domestic-based fleet will be influenced more by the active offshore rig count than by any other single outside influence. Recent analysts reports indicate that over the next 4 years offshore drilling rig count will increase as the newbuild order books for jackup rigs currently stand at approximately 62 rigs. Nine of these rigs are scheduled to be delivered in calendar 2006 while calendar years 2007, 2008 and 2009 expect to have 21, 26 and 6 rig deliveries, respectively.

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

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

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

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

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

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

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

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

Due to an improved safety record and lower claim costs and loss reserves, the company s insurance and loss reserve costs decreased approximately 15% during fiscal 2006 as compared to fiscal 2005.

Other marine services operating profit which consist of operating profit on the company s shipyard operations, brokered vessel and other marine services lines of business were comparable to fiscal 2005 levels.

Fiscal 2006 gain on sales of assets increased significantly as compared to fiscal 2005 due primarily to the July 26, 2005 sale of six KMAR 404 class of Anchor Handling Towing Supply vessels to Deep Sea Supply ASA for a total cash price of $188.0 million. The transaction resulted in a $65.9 million pre-tax financial gain,

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or approximately $42.8 million after tax, or $0.74 per diluted common share. The company also sold and/or scrapped an additional 45 vessels which resulted in additional gains on sales of assets of approximately $19.9 million during fiscal 2006.

Comparison of Fiscal 2005 to Fiscal 2004

Persistent weakness in the natural gas drilling market in the U.S. Gulf of Mexico continued to negatively impact the company s domestic results of operations during fiscal 2005; however, prospects for growth in the offshore drilling market in the Gulf of Mexico did show promise because of several positive developments that occurred during fiscal 2005. In August 2004, the Western Gulf of Mexico lease sale received solid bids. Bids for shallow water tracts were up and high bids for deepwater tracts increased from the previous year s sale. The Texas State Lease Sale, which was held in January 2005, reported to have had its best showing in six years and the independent exploration and production (E&P) companies were dominant bidders at the Central Gulf of Mexico lease sales held in March 2005. Analysts forecast that worldwide E&P expenditures would increase in calendar year 2005 due to continuing strong demand for natural resources despite historically high crude oil prices and lofty natural gas prices. Sizeable portions of the increase in capital spending was expected to be spent in North America. Industry analysts reported that many companies planned on increasing their calendar year 2005 E&P budgets on deepwater activities in the Gulf of Mexico. Offshore rig demand was showing signs of strengthening and drilling activity was likely to improve. The E&P companies began to contract offshore drilling rigs for longer durations than in past periods due to concerns over rig availability in the domestic market. The market for offshore support vessels tightened during fiscal 2005 as drilling operators discovered that offshore vessels then in service were in short supply. During fiscal 2005, the Gulf of Mexico supply boat market still had a significant number of vessels stacked that could have resumed active status, but only after significant expenditures to drydock and re-certify the vessels.

Natural gas pricing is a critical factor in E&P companies development of capital spending budgets. Weather was a major driver of natural gas pricing during calendar year 2004. The latter half of calendar 2004 witnessed natural gas inventories exceed five-year inventory averages due to mild summer and winter weather. Disappointing storage withdrawals due to the mild weather applied downward pressure on natural gas commodity prices. The downward pricing trend appeared to reverse during the first quarter of calendar year 2005 as inventories for natural gas began decreasing. Management was pleased by the strength that developed in the offshore drilling market during fiscal 2005 despite the challenge presented in predicting how domestic-based vessel demand would be affected in the upcoming quarters.

The company s international results of operations for fiscal 2005 benefited from higher utilization and average day rates and an increase in the number of vessels operating internationally. Industry analysts forecast that demand for crude oil would remain strong throughout calendar year 2005 and beyond and expected future crude oil prices to remain at attractive levels due to high consumer demand, a tightening of crude inventory supplies and concerns over possible supply interruptions caused by geopolitical risk in certain members of the Organization of Petroleum Exporting Countries (OPEC) countries. During fiscal 2005, analysts estimated that profitable international offshore markets would receive notable increases in exploration and production spending in 2005 due to strong demand for crude oil and higher commodity prices for the resource. Management anticipated international vessel demand to improve along with the market conditions.

Domestic-based vessel revenues decreased approximately 6%, or $7.1 million, as compared to fiscal 2004 due to a decrease in the number of vessels operating in the domestic market resulting from the redeployment of vessels to international growth areas, an increase in vessel sales (specifically crewboats and offshore tugs) and lower utilization and average day rates on the company s offshore tugs. Revenues generated by the towing supply/supply vessel class, the company s major income producing vessel class in the domestic market, increased approximately 5% compared to fiscal 2004 due to a 26.6% increase in utilization and a 5% increase in average day rates.

International-based vessel revenues for fiscal 2005 increased approximately 7%, or $36.6 million, as compared to fiscal 2004 due to an increase in the number of vessels operating in international markets and due to higher utilization and average day rates on the company s deepwater class of vessels, which contributed 56% of the increase in revenue growth for fiscal 2005 as compared to fiscal 2004. The

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company s towing supply/supply vessels operating in the international markets contributed 42% to fiscal 2005 s international revenue growth as compared to the previous fiscal year.

Other marine service revenues which consist of revenues earned on the company s shipyard operations, brokered vessel and other marine services lines of business increased approximately 37%, or $9.9 million as compared to fiscal 2004. The company s shipyard, Quality Shipyards, LLC generated 86% of the increase, or approximately $8.5 million as they performed more third party vessel construction, repair and refurbishments during fiscal 2005 than in fiscal 2004.

Fiscal 2005 s U.S.-based operating profit increased approximately $19.7 million as compared to fiscal 2004 due to a decrease in vessel operating costs, specifically crew costs and fuel, lube and supplies, and a reduction in depreciation expense primarily related to 83 older domestic-based towing supply/supply vessels that were determined impaired at March 31, 2004. Depreciation expense ceased on these 83 vessels when the carrying values of the vessels were written down to estimated current fair market value. The 83 vessels were determined impaired as a result of the prolonged weakness in the Gulf of Mexico drilling market and due to the vessels average age (23.5 years), their outdated specifications (low horsepower and cargo capacities) relative to competing equipment, the significant costs to repair and return these vessels to service (average approximately $500,000 per vessel), the anticipation of lower customer demand for the vessels in the future, and management s conclusion that it was unlikely that the vessels would return to active service. Based on this determination, and in accordance with SFAS No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*, an asset impairment charge of $26.5 million was recorded to write down the carrying value of these assets to fair value at March 31, 2004. An impairment charge of $1.7 million was recorded in fiscal 2005 to reduce the carrying amount of 10 stacked vessels that are unlikely to return to active service.

International-based vessel operating profit was comparable to fiscal 2004 despite higher revenues due to increases in international vessel operating costs, specifically crew costs, fuel, lube and supplies, and depreciation expense resulting from an increase in the number of vessels (including vessels moved by the company from the Gulf of Mexico) operating in the international market.

Due to the level of vessel activity experienced and to a positive safety performance on a year to date basis, marine results of operations for fiscal 2005 includes $6.7 million of net insurance premium rebates as provided for in our insurance program. The company has an opportunity to obtain additional insurance premium rebates in the future should the positive safety performance continue. The company recorded $10.5 million of premium rebates during fiscal 2004.

Fiscal 2005 s gain on sales of assets increased approximately 69% compared to fiscal 2004 due to an increase in the number of vessels sold.

Vessel Class Statistics

Vessel utilization is determined primarily by market conditions and to a lesser extent by drydocking requirements. Vessel day rates are determined by the demand created through the level of offshore exploration, development and production spending by energy companies relative to the supply of offshore service vessels. Suitability of equipment and the degree of service provided also influence vessel day rates. Vessel utilization rates are calculated by dividing the number of days a vessel works during a reporting period by the number of days the vessel is available to work in the reporting period. Average day rates are calculated by dividing the revenue a vessel earns during a reporting period by the number of days the vessel worked in the reporting period. Vessel utilization and average day rates are calculated on active vessels only and, as such, do not include vessel withdrawn from active service or joint venture vessels.

Effective April 1, 2004, the company excluded from its utilization statistics the domestic-based towing supply/supply vessels determined impaired in March 2004 as disclosed in the Impairment of Long-lived Assets section of Item 7 and Note 3 of Notes to Consolidated Financial Statements. Had the impaired vessels been removed from the company s utilization statistics for the quarter periods ended June 30, 2003, September 30, 2003, December 31, 2003, and March 31, 2004, domestic-based towing supply/supply utilization would have been 52.6%, 48.2%, 52.2% and 46.2%, respectively. The company s towing supply/supply vessels utilization for the year ended March 31, 2004 would have been 49.8%. The following

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tables compare day-based utilization percentages and average day rates by vessel class and in total for each of the quarters in the years ended March 31:

UTILIZATION:

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

Fiscal Year 2005	First	Second	Third	Fourth	Year
Domestic-based fleet:					
Deepwater vessels	74.9%	94.1	91.7	91.6	87.2
Towing-supply/supply	50.7	54.6	57.6	57.1	55.0
Crew/utility	68.1	80.3	77.1	80.0	76.0
Offshore tugs	28.6	29.3	24.6	25.1	27.1
Total	51.2%	57.4	57.2	58.0	55.8
International-based fleet:					
Deepwater vessels	72.6%	87.9	91.8	84.8	84.5
Towing-supply/supply	68.7	68.5	72.2	70.9	70.1
Crew/utility	75.1	74.0	77.0	75.7	75.5
Offshore tugs	64.1	68.3	62.2	61.6	64.0
Other	55.5	49.4	45.4	47.3	49.4
Total	69.2%	70.6	72.8	71.2	71.0
Worldwide fleet:					
Deepwater vessels	73.1%	89.0	91.8	85.7	84.9
Towing-supply/supply	65.0	65.7	69.3	68.3	67.1
Crew/utility	73.2	75.6	77.0	76.7	75.6
Offshore tugs	50.2	55.6	50.8	51.3	52.0
Other	55.5	49.4	45.4	47.3	49.4
Total	64.9%	67.7	69.5	68.5	67.7

Fiscal Year 2004	First	Second	Third	Fourth	Year
Domestic-based fleet:					
Deepwater vessels	68.0%	84.3	89.1	81.6	80.8
Towing-supply/supply	24.1	20.6	21.9	19.2	21.5

Crew/utility	71.5	76.2	71.8	57.8	69.6
Offshore tugs	31.2	39.7	43.7	34.8	37.4
Total	34.2%	34.0	34.9	29.1	33.1
International-based fleet:					
Deepwater vessels	80.8%	78.2	82.3	72.5	78.4
Towing-supply/supply	73.2	69.3	69.3	64.8	69.1
Crew/utility	78.1	69.9	74.3	73.4	73.9
Offshore tugs	66.6	63.7	69.8	59.6	64.9
Other	48.6	40.1	42.3	42.7	43.5
Total	72.5%	67.8	70.0	65.5	68.9
Worldwide fleet:					
Deepwater vessels	78.3%	79.3	83.6	74.2	78.9
Towing-supply/supply	53.4	49.6	50.6	46.7	50.1
Crew/utility	75.9	71.9	73.5	68.9	72.5
Offshore tugs	53.3	54.7	59.9	50.3	54.6
Other	48.6	40.1	42.3	42.7	43.5
Total	58.7%	55.8	57.8	52.8	56.3

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AVERAGE DAY RATES:

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

Fiscal Year 2005	First	Second	Third	Fourth	Year
Domestic-based fleet:					
Deepwater vessels	$ 12,678	12,577	13,289	14,009	13,087
Towing-supply/supply	5,569	5,794	6,194	6,741	6,080
Crew/utility	3,035	3,357	3,477	3,689	3,382
Offshore tugs	7,385	7,566	7,388	9,648	7,874
Total	$ 5,736	5,909	6,136	6,735	6,117
International-based fleet:					
Deepwater vessels	$ 12,680	11,847	12,553	13,165	12,552
Towing-supply/supply	6,050	6,202	6,288	6,561	6,279
Crew/utility	2,838	2,742	2,950	3,184	2,930
Offshore tugs	4,371	4,559	4,347	5,057	4,585
Other	1,579	1,262	1,201	1,418	1,375
Total	$ 5,723	5,874	6,064	6,372	6,013
Worldwide fleet:					
Deepwater vessels	$ 12,680	11,959	12,648	13,279	12,636
Towing-supply/supply	5,972	6,134	6,273	6,591	6,246
Crew/utility	2,889	2,904	3,073	3,303	3,042
Offshore tugs	5,045	5,074	4,793	5,691	5,145
Other	1,579	1,262	1,201	1,418	1,375
Total	$ 5,726	5,881	6,076	6,433	6,032

Fiscal Year 2004	First	Second	Third	Fourth	Year
Domestic-based fleet:					
Deepwater vessels	$ 13,303	12,652	12,328	13,505	12,918
Towing-supply/supply	5,469	6,124	5,763	5,901	5,800
Crew/utility	2,827	2,879	2,897	3,108	2,914
Offshore tugs	7,015	7,306	6,089	5,791	6,539
Total	$ 5,354	5,786	5,553	5,913	5,640

International-based fleet:					
Deepwater vessels	$ 11,578	11,825	12,481	12,434	12,082
Towing-supply/supply	6,544	6,448	6,286	6,134	6,358
Crew/utility	2,945	3,135	3,040	2,927	3,010
Offshore tugs					