TIDEWATER INC
Form 10-K
May 21, 2014
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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, 2014

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

For the transition period from to .

Commission file number: 1-6311

Tidewater Inc.

(Exact name of registrant as specified in its charter)

Delaware	**72-048776**
(State of incorporation)	**(I.R.S. Employer Identification No.)**

601 Poydras St., Suite 1500

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

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

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

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

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

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

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

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

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405 of this chapter) 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. ¨

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

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

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

As of September 30, 2013, the aggregate market value of the registrant s common stock held by non-affiliates of the registrant was $2,907,095,275 based on the closing sales price as reported on the New York Stock Exchange of $59.36.

As of April 30, 2014, 49,730,442 shares of the registrant s common stock $0.10 par value per share were outstanding. Registrant has no other class of common stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Registrant s definitive proxy statement for its 2014 Annual Meeting of Stockholders to be filed with the Securities and Exchange Commission within 120 days after the end of the Registrant s last fiscal year are incorporated by reference into Part III of this Annual Report on Form 10-K.

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FORM 10-K

FOR THE FISCAL YEAR ENDED MARCH 31, 2014

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FORWARD-LOOKING 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 future financial performance. All such forward-looking statements are subject to risks and uncertainties, and the company s future results of operations could differ materially from its historical results or current expectations reflected by such forward-looking statements. Some of these risks are discussed in this Annual Report on Form 10-K including in Item 1A. Risk Factors and include, without limitation, volatility in worldwide energy demand and oil and gas prices; consolidation of our customer base: fleet additions by competitors and industry overcapacity; changes in capital spending by customers in the energy industry for offshore exploration, field development and production; loss of a major customer: changing customer demands for vessel specifications, which may make some of our older vessels technologically obsolete for certain customer projects or in certain markets; delays and other problems associated with vessel construction and maintenance: uncertainty of global financial market conditions and difficulty in accessing credit or capital; acts of terrorism and piracy; integration of acquired businesses and entry into new lines of business; disagreements with our joint venture partners; significant weather conditions; unsettled political conditions, war, civil unrest and governmental actions, such as expropriation or enforcement of customs or other laws that are not well developed or consistently enforced, or requirements that services provided locally be paid in local currency, in each case especially in higher political risk countries where we operate; foreign currency fluctuations; labor changes proposed by international conventions; increased regulatory burdens and oversight; changes in laws governing the taxation of foreign source income; retention of skilled workers; and enforcement of laws related to the environment, labor and foreign corrupt practices.

Forward-looking statements, which can generally be identified by the use of such terminology as may, can, potential, expect, project, anticipate, estimate, forecast, believe, think, could, continue, intend, seek, plan, and similar expressions contained in this Ann 10-K, are not guarantees of future performance or events. Any forward-looking statements are based on the company s assessment of current industry, financial and economic information, which by its nature is dynamic and subject to rapid and possibly abrupt changes, which the company may or may not be able to control. Further, the company may make changes to its business plans that could or will affect its results. While management believes that these forward-looking statements are reasonable when made, there can be no assurance that future developments that affect us will be those that we anticipate and have identified. The forward-looking statements should be considered in the context of the risk factors listed above and discussed in greater detail elsewhere in this Annual Report on Form 10-K. Investors and prospective investors are cautioned not to rely unduly on such forward-looking statements, which speak only as of the date hereof. Management disclaims any obligation to update or revise any forward-looking statements contained herein to reflect new information, future events or developments.

In certain places in this Annual Report on Form 10-K, the company may refer to reports published by third parties that purport to describe trends or developments in energy production and drilling and exploration activity. The company does so for the convenience of its investors and potential investors and in an effort to provide information available in the market that will lead to a better understanding of the market environment in which the company operates. The company specifically disclaims any responsibility for the accuracy and completeness of such information and undertakes no obligation to update such information.

PART I

ITEM 1. BUSINESS

Tidewater Inc., a Delaware corporation that is a listed company on the New York Stock Exchange under the symbol TDW , provides offshore service vessels and marine support services to the global offshore energy industry through the operation of a diversified fleet of marine service vessels. The company was incorporated in 1956 and conducts its operations through wholly-owned United States (U.S.) and international subsidiaries, as well as through joint ventures in which Tidewater has majority and sometimes non-controlling interests (generally where required to satisfy local ownership or local content requirements). Unless otherwise required by the context, the term company as used herein refers to Tidewater Inc. and its consolidated subsidiaries.

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About Tidewater

The company s vessels and associated vessel services provide support of all phases of offshore exploration, field development and production. These services include towing of, and anchor handling for, mobile offshore drilling units; transporting supplies and personnel necessary to sustain drilling, workover and production activities; offshore construction, remotely operated vehicle (ROV) operations, and seismic and subsea support; and a variety of specialized services such as pipe and cable laying. The company s offshore support vessel fleet includes vessels that are operated under joint ventures, as well as vessels that have been stacked or withdrawn from service.

The company has one of the broadest geographic operating footprints in the offshore energy industry with operations in most of the world s significant offshore crude oil and natural gas exploration and production offshore regions. Our global operating footprint allows us to react quickly to changing local market conditions and to respond to the changing requirements of the many customers with which we believe we have strong relationships. The company is also one of the most experienced international operators in the offshore energy industry with over five decades of international experience.

At March 31, 2014, the company owned or chartered 294 vessels (of which 11 were owned by joint ventures and 15 were stacked) and six ROVs available to serve the global energy industry. Please refer to Note (1) of Notes to Consolidated Financial Statements included in Item 8 of this Annual Report on Form 10-K for additional information regarding our stacked vessels and vessels withdrawn from service.

Historically, the company operated two shipyards that performed repairs and new construction work for third-party customers, as well as the construction, repair and modification of the company s own vessels. However, one of the two shipyards was sold during fiscal 2013 and the remaining shipyard was sold during the first quarter of fiscal 2014.

Our revenues, net earnings and cash flows from operations are largely dependent upon the activity level of our offshore support vessel fleet. As is the case with other energy service companies, our business activity is largely dependent on the level of crude oil and natural gas and exploration, field development and production activity by our customers. Our customers business activity, in turn, is dependent on crude oil and natural gas prices, which fluctuate depending on expected future levels of supply and demand for crude oil and natural gas, and on estimates of the cost to find, develop and produce reserves.

Offices and Facilities

The company s worldwide headquarters and principal executive offices are located at 601 Poydras Street, Suite 1500, New Orleans, Louisiana 70130, and its telephone number is (504) 568-1010. The company s U.S. marine operations are based in Amelia, Louisiana; Oxnard, California; and Houston, Texas. We conduct our international operations through facilities and offices located in over 30 countries. Our principal international offices and/or warehouse facilities, most of which are leased, are located in Rio de Janeiro and Macae, Brazil; Ciudad Del Carmen, Mexico; Port of Spain, Trinidad; Aberdeen, Scotland; Cairo, Egypt; Luanda and Cabinda, Angola; Lagos and Onne Port, Nigeria; Douala, Cameroon; Singapore; Perth, Australia; Shenzhen, China; Port Moresby, Papua New Guinea; Al Khobar, Kingdom of Saudi Arabia; Dubai, United Arab Emirates, and Oslo and Tromso, Norway. The company s operations generally do not require highly specialized facilities, and suitable facilities are generally available on a lease basis as required.

Business Segments

We manage and measure our business performance in four distinct operating segments which are based on our geographical organization: Americas, Asia/Pacific, Middle East/North Africa, and Sub-Saharan Africa/Europe. These segments are consistent with how the company s chief operating decision maker (CODM) reviews operating results for the purposes of allocating resources and assessing performance. The company s CODM is its Chief Executive Officer.

Our Americas segment includes the activities of our North American operations, which include the U.S. Gulf of Mexico (GOM) and U.S. and Canadian coastal waters of the Pacific and Atlantic oceans, Mexico, Trinidad and Brazilian operations. The Asia/Pacific segment includes our Australian and Southeast Asian and Western Pacific operations. Middle East/North Africa includes our operations in the Mediterranean and Red Seas, the

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Arabian Gulf and offshore India. Lastly, our Sub-Saharan Africa/Europe segment includes operations conducted along the East and West Coasts of Africa as well as operations in and around the Caspian Sea, the North Sea and certain arctic/cold water markets.

Our principal customers in each of these business segments are the large, international oil and natural gas exploration, field development and production companies (IOCs); select independent exploration and production (E&P) companies; foreign government-owned or government-controlled organizations and other companies that explore and produce oil and natural gas (NOCs); drilling contractors; and other companies that provide various services to the offshore energy industry, including but not limited to, offshore construction companies, diving companies and well stimulation companies.

The company s vessels are dispersed throughout the major offshore crude oil and natural gas exploration, field development and production areas of the world. Although the company considers, among other things, mobilization costs and the availability of suitable vessels in its fleet deployment decisions, and cabotage rules in certain international countries occasionally restrict the ability of the company to move vessels between markets, the company s diverse, mobile asset base and the wide geographic distribution of its vessel assets generally enable the company to respond relatively quickly to changing market conditions and customer requirements.

Revenues in each of our segments are derived primarily from vessel time charter or similar contracts that are generally three months to three years in duration as determined by customer requirements, and, to a lesser extent, from vessel time charter contracts on a spot basis, which is a short-term (one day to three months) agreement to provide offshore marine services to a customer for a specific short-term job. The base rate of hire for a term contract is generally a fixed rate, though some charter arrangements allow the company to recover specific additional costs.

In each of our business segments, and depending on vessel capabilities and availability, our vessels operate in the shallow, intermediate and deepwater offshore markets of the respective regions. In recent years, the deepwater offshore market has been a growing sector in the offshore crude oil and natural gas markets due to technological developments that have made deepwater exploration and development feasible. It is the one sector that did not experience significant negative effects from the 2008-2009 global economic recession, largely because deepwater exploration and development projects involve significant capital investment and multi-year development plans. Such projects are generally underwritten by the participating exploration, development and production companies using relatively conservative assumptions in regards to crude oil and natural gas prices and therefore are not as susceptible to short-term fluctuations in the price of crude oil and natural gas. However, the 2010 *Deepwater Horizon* incident did negatively affect the level of drilling activity of the U.S. GOM while the U.S. Department of the Interior, through the Bureau of Ocean Energy Management Regulation and Enforcement (BOEMRE), evaluated the causes of the incident and announced plans for enhanced regulatory and safety oversight as a condition to granting additional drilling and exploration permits. The BOEMRE resumed deepwater exploration and drilling permitting by February 2011, although the pace of permitting was initially slow. Within our Americas segment, in recent years, drilling activity in the shallow and intermediate waters of the U.S. GOM has also been negatively impacted by low natural gas prices.

As of March 31, 2014, there were approximately 250 deepwater offshore rigs under construction, however, there is some uncertainty as to how many of those rigs, most of which are expected to enter service within the next two years, will increase the working fleet and how many of those rigs will replace older, less productive drilling units. Although some older units will likely be stacked as new equipment is delivered, we believe that the deepwater drilling fleet as a whole, will experience a net increase over the next few years. The dayrates and the overall utilization of the worldwide deepwater offshore supply vessel fleet, which is also expected to increase in size, will, at least in part, depend upon the overall net growth in the number of deepwater rigs.

Please refer to Item 7 of this Annual Report on Form 10-K for a greater discussion of the company s segments, including the macroeconomic environment in which we operate. In addition, please refer to Note (15) of Notes to Consolidated Financial Statements included in Item 8 of this Annual Report on Form 10-K for segment, geographical data and major customer information.

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Geographic Areas of Operation

The company s fleet is deployed in the major global offshore oil and gas areas of the world. The principal areas of the company s operations include the U.S. GOM, the Arabian Gulf, the Mediterranean Sea and areas offshore Australia, Brazil, India, Malaysia, Mexico, Norway, the United Kingdom, Thailand, Trinidad, and West and East Africa. The company regularly evaluates the deployment of its assets and repositions its vessels based on customer demand, relative market conditions, and other considerations.

Revenues and operating profit derived from our operations along with total marine assets for our segments for the fiscal years ended March 31 are summarized below:

(In thousands)

		2014	2013	2012
Revenues:				
Vessel revenues:				
Americas	$	410,731	327,059	324,529
Asia/Pacific		154,618	184,014	153,752
Middle East/North Africa		186,524	149,412	109,489
Sub-Saharan Africa/Europe		666,588	569,513	472,698
Other operating revenues		16,642	14,167	6,539
	$	1,435,103	1,244,165	1,067,007
Operating profit:				
Vessel activity:				
Americas	$	90,936	40,318	56,003
Asia/Pacific		29,044	43,704	16,125
Middle East/North Africa		42,736	39,069	805
Sub-Saharan Africa/Europe		136,092	129,460	97,142
		298,808	252,551	170,075
Other operating profit		(1,930)	(833)	(2,867)
		296,878	251,718	167,208
Corporate general and administrative expenses		(47,703)	(48,704)	(36,665)
Corporate depreciation		(3,073)	(3,391)	(3,714)
Corporate expenses		(50,776)	(52,095)	(40,379)
Gain on asset dispositions, net		11,722	6,609	17,657
Goodwill impairment		(56,283)		(30,932)
Operating income	$	201,541	206,232	113,554
Total marine assets:				
Americas	$	1,017,736	880,368	1,025,327
Asia/Pacific		421,379	607,546	654,357
Middle East/North Africa		613,303	507,124	405,625
Sub-Saharan Africa/Europe		2,383,507	1,706,355	1,565,260
Other		31,545	5,102	6,576
Total marine assets	$	4,467,470	3,706,495	3,657,145

Please refer to Item 7 of this Annual Report on Form 10-K and Note (15) of Notes to Consolidated Financial Statements included in Item 8 of this Annual Report on Form 10-K for further disclosure of segment revenues, operating profits, and total assets by geographical areas in which the company operates.

Our Global Vessel Fleet

The company continues a vessel construction, acquisition and replacement program, with an intent of being able to operate in nearly all major oil and gas producing regions of the world. In recent years our focus has been on replacing older vessels in the company s fleet with larger, more technologically sophisticated vessels. Since calendar 2000, the company has purchased and/or constructed 271 vessels at a total cost of approximately $4.4 billion (including 26 vessels at a cost of $270.8 million which were subsequently sold in transactions other than sale/lease

transactions). At March 31, 2014, the company had an additional 30 vessels under construction for a total cost of approximately $833 million. To date, the company has generally funded its vessel programs from its operating cash flows: funds provided by four private debt placements of senior unsecured notes and borrowings under bank credit facilities, proceeds from the disposition of (generally older) vessels, and various vessel sale-leaseback arrangements.

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The company s strategy contemplates both organic growth through the construction of vessels at a variety of shipyards worldwide and possible strategic acquisitions of recently built vessels and/or other vessel owners and operators. The company has the largest number of new offshore support vessels among its competitors in the industry. The company intends to pursue its long-term fleet replenishment and modernization strategy on a disciplined basis and, in each case, will carefully consider whether proposed investments and transactions have the appropriate risk/return-on-investment profile.

The average age of the company s 283 owned or chartered vessels (excluding joint-venture vessels) at March 31, 2014 is approximately 9.9 years. The average age of 245 newer vessels in the fleet (defined as those that have been acquired or constructed since calendar year 2000 as part of the company s new build and acquisition program as discussed below) is approximately 6.9 years. The remaining 38 vessels have an average age of 28.8 years. Of the company s 283 vessels, 92 are deepwater platform supply vessels (PSVs) or deepwater anchor handling towing supply (AHTS) vessels and 126 vessels are non-deepwater towing-supply vessels, which include both smaller PSVs and smaller AHTS vessels that primarily serve the jackup drilling market. Sixty-five vessels are included within our other vessel class, which is primarily comprised of crew boats and offshore tugs.

At March 31, 2014, the company had commitments to build 30 vessels at a number of different shipyards around the world at a total cost, including contract costs and other incidental costs, of approximately $833 million. At March 31, 2014, the company had invested approximately $260 million in progress payments towards the construction of the 30 vessels, and the remaining expenditures necessary to complete construction was estimated at $573 million. Of the 30 new construction commitment vessels, 23 are PSVs ranging between 3,000 and 6,360 deadweight tons of cargo capacity, six are non-deepwater towing supply class vessels with 7,145 brake horsepower (BHP) and one is a fast supply vessel. Scheduled delivery for these newbuild vessels will begin in June 2014, with delivery of the final vessel expected in June 2016. Additionally, the company has one partially constructed fast supply boat under construction in Brazil that is experiencing substantial delay. This fast supply boat was originally scheduled to be delivered in September of 2009. A discussion of this matter is disclosed in the Vessel Count, Dispositions, Acquisitions and Construction Programs section of Item 7 and Note (12) of Notes to Consolidated Financial Statements included in Item 8 of this Annual Report on Form 10-K.

A discussion of the company s capital commitments, scheduled delivery dates and vessel sales is disclosed in the Vessel Count, Dispositions, Acquisitions and Construction Programs section of Item 7 and Note (12) of Notes to Consolidated Financial Statements included in Item 8 of this Annual report on Form 10-K. The Vessel Count, Dispositions, Acquisitions and Construction Programs section of Item 7 also contains a table comparing the actual March 31, 2014 vessel count and the average number of vessels by class and geographic distribution during the three years ended March 31, 2014, 2013 and 2012.

Between April 1999 and March 2014, the company also disposed of 683 vessels. Most of the vessels were sold at prices that exceeded their carrying values. In aggregate, proceeds from, and pre-tax gains on, vessel dispositions during this period approximated $776 million and $324 million, respectively.

Our Vessel Classifications

Our vessels routinely move from one geographic region and reporting segment to another, and from one operating area to another operating area within the geographic regions and reporting segments. We disclose our vessel statistical information, including revenue, utilization and average day rates, by vessel class. Listed below are our three major vessel classes along with a description of the type of vessels categorized in each class and the services the respective vessels typically perform. 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 Annual Report on Form 10-K.

Deepwater Vessels

Deepwater vessels, in the aggregate, are currently the company s largest contributor to consolidated vessel revenue and vessel operating margin. Included in this vessel class are large (typically greater than 230-feet and/or with greater than 2,800 tons in dead weight cargo carrying capacity) PSVs and large, higher-horsepower (generally greater than 10,000 horsepower) AHTS vessels. These vessels are generally chartered to customers for use in transporting supplies and equipment from shore bases to deepwater and intermediate water depth

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offshore drilling rigs and production platforms and for otherwise supporting intermediate and deepwater drilling, production, construction and maintenance operations. Deepwater PSVs generally have large cargo capacities, both below deck (liquid mud tanks and dry bulk tanks) and above deck. Deepwater AHTS vessels are equipped to tow drilling rigs and other marine equipment, as well as to set anchors for the positioning and mooring of drilling rigs. Many of our deepwater PSVs and AHTS vessels are outfitted with dynamic positioning capabilities, which allow the vessel to maintain an absolute or relative position when mooring to an installation, rig or another vessel is deemed unsafe, impractical or undesirable. Many of our deepwater vessels also have oil recovery, firefighting, standby rescue and/or other specialized equipment. Our customers demand a high level of safety and technological advancements to meet the more stringent regulatory standards, especially in the wake of the 2010 *Deepwater Horizon* incident.

Our deepwater class of vessel also includes specialty vessels that can support offshore well stimulation, construction work, subsea services and/or serve as remote accommodation facilities. These vessels are generally available for routine supply and towing services, but these vessels are also outfitted, and primarily intended, for specialty services. For example, these vessels can be equipped with a variety of lifting and deployment systems, including large capacity cranes, winches or reel systems. Included in the specialty vessel category is the company s one multi-purpose platform supply vessel (MPSV). Our MPSV is approximately 311 feet in length, has a 100-ton active heave compensating crane, a moonpool and a helideck and is designed for subsea service and light construction support activities. This vessel is significantly larger in size, more versatile, and more specialized than the PSVs discussed above. The MPSV typically commands a higher day rate because the vessel has more capabilities, and because the vessel has a higher construction cost and higher operating costs.

Towing-Supply Vessels

This is currently the company s largest fleet class by number of vessels. Included in this class are non-deepwater towing-supply vessels with horsepower below 10,000 BHP, and non-deepwater PSVs that are generally less than 230 feet. The vessels in this class perform the same functions and services as their deepwater vessel class counterparts except they are generally chartered to customers for use in intermediate and shallow waters.

Other Vessels

The company s Other vessels include crew boats, utility vessels and offshore tugs. Crew boats and utility vessels are chartered to customers for use in transporting personnel and supplies from shore bases to offshore drilling rigs, platforms and other installations. These vessels are also often equipped for oil field security missions in markets where piracy, kidnapping or other potential violence presents a concern. Offshore tugs are used to tow floating drilling rigs and barges; to assist in the docking of tankers; and to assist pipe laying, cable laying and construction barges.

Revenue Contribution of Main Classes of Vessels

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

	Year Ended March 31,		
	2014	2013	2012
Deepwater	55.2%	49.2%	44.2%
Towing supply	37.1%	42.4%	44.9%
Other	7.7%	8.4%	10.9%

Subsea Services

Historically, the company s subsea services were composed primarily of seismic and subsea vessel support. During fiscal 2014 the company expanded its subsea services capabilities by hiring a dedicated group of employees with substantial ROV and subsea expertise and by purchasing six work-class remotely operated vehicles (ROVs). Each ROV is capable of being deployed and redeployed worldwide on a variety of vessels and platforms and we expect to begin ROV deployment and operations in fiscal 2015. Our expanded subsea services capabilities include services and engineering solutions in all phases of the life of

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a subsea well, including exploration; construction and installation; and maintenance, repair and inspection, in water depths of up to 13,000 feet. In connection with the purchase of ROVs, the company has developed a proprietary operations management system customized for the operation of ROVs. Tidewater intends to continue expanding its subsea services capabilities to meet customer demand, and that expansion may include organic growth through the commissioning of the construction of additional ROVs or acquisitions of recently built ROVs and/or other ROV owners and operators.

Shipyard Operations

Quality Shipyards, L.L.C., a wholly-owned subsidiary of the company, operated two shipyards in Houma, Louisiana, that constructed, upgraded and repaired vessels. The shipyards performed repair work and new construction work for third-party customers, as well as the construction, repair and modification of the company s own vessels. One of the two shipyards was sold during fiscal 2013, and the remaining shipyard was sold during the first quarter of fiscal 2014. During fiscal 2013, one partially constructed, deepwater PSV was transferred to another unaffiliated U.S. shipyard for completion. That vessel is expected to be delivered into the company s owned and operated offshore support vessel fleet in August 2014.

Customers and Contracting

The company s operations are materially dependent upon the levels of activity in offshore crude oil and natural gas exploration, field development and production throughout the world, which is affected by trends in global crude oil and natural gas pricing, including expectations of future commodity pricing, which is ultimately influenced by the supply and demand relationship for these natural resources. The activity levels of our customers are also influenced by the cost of exploring for and producing crude oil and natural gas, which can be affected by environmental regulations, technological advances that affect energy production and consumption, significant weather conditions, the ability of our customers to raise capital, and local and international economic and political environments, including government mandated moratoriums. A discussion of current market conditions and trends appears under Macroeconomic Environment and Outlook in Item 7 of this Annual Report on Form 10-K.

The company s principal customers are IOCs; select independent E&P companies; NOCs; drilling contractors; and other companies that provide various services to the offshore energy industry, including but not limited to, offshore construction companies, diving companies and well stimulation companies.

Our primary source of revenue is derived from time charter contracts on our vessels on a rate per day of service basis; therefore, vessel revenues are recognized on a daily basis throughout the contract period. As noted above, these time charter contracts are generally either on a term or spot basis. There are no material differences in the cost structure of the company s contracts based on whether the contracts are spot or term because the operating costs are generally the same without regard to the length of a contract.

The following table discloses our customers that accounted for 10% or more of total revenues during any of our last three fiscal years:

	2014	2013	2012
Chevron Corporation (including its worldwide subsidiaries and affiliates)	18.1%	17.8%	17.4%
Petroleo Brasileiro SA	8.6%	8.6%	14.6%

While it is normal for our customer base to change over time as our vessel time charter contracts turn over, the unexpected loss of either or both of these two significant customers could, at least in the short term, have a material adverse effect on the company s vessel utilization and its results of operations. Our five largest customers in aggregate accounted for approximately 45% of our fiscal 2014 total revenues, while the 10 largest customers in aggregate accounted for approximately 62% of the company s fiscal 2014 total revenues.

Consolidation activity amongst exploration, development, and production companies can reduce the number of customers for the company s vessels and services and may negatively affect exploration, field development and production activity as consolidated companies generally focus, at least initially, on increasing efficiency and reducing costs and delay or abandon exploration activity with less promise. Such activity can adversely affect demand for our vessels, and reduce the company s revenues.

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Competition

The principal competitive factors for the offshore vessel service industry are the suitability and availability of vessel equipment, price and quality of service. In addition, the ability to demonstrate a strong safety record and attract and retain qualified and skilled personnel are also important competitive factors. The company has numerous competitors in all areas in which it operates around the world, and the business environment in all of these markets is highly competitive.

The company s diverse, mobile asset base and the wide geographic distribution of its assets generally enable the company to respond relatively quickly to changes in market conditions and to provide a broad range of vessel services to its customers around the world. We believe the company has a competitive advantage because of the size, diversity and geographic distribution of our vessel fleet. Economies of scale and experience level in the many areas of the world in which we operate are also considered competitive advantages as is the company s strong financial position.

An increase in worldwide vessel capacity could have the effect of lowering charter rates, particularly when there are lower levels of exploration, field development and production activity. According to IHS-Petrodata, the global offshore support vessel market at the end of March 2014 had approximately 430 new-build offshore support vessels (PSVs and AHTS vessels only) under construction that are expected to be delivered into the worldwide offshore vessel market primarily over the next three years. The current worldwide fleet of these classes of vessels is estimated at approximately 3,100 vessels, of which Tidewater estimates more than 10% are stacked or are not being actively marketed by the vessels owners. The worldwide offshore marine vessel industry, however, also has a large number of aged vessels, including approximately 700 vessels, or 22%, of the worldwide offshore fleet, that are at least 25 years old and nearing or exceeding original expectations of their estimated economic lives. These older vessels, of which Tidewater estimates 40% to 50% are either already stacked or are not being actively marketed by the vessels owners, could potentially be removed from the market within the next few years as the cost of extending these vessels lives may not be economically justifiable. Although the future attrition rate of these aging vessels cannot be determined with absolute certainty, the company believes that the retirement of a sizeable portion of these aged vessels could mitigate the potential negative effects of new-build vessels on vessel utilization and vessel pricing. Additional vessel demand, which could mitigate the possible negative effects of the new-build vessels being added to the offshore support vessel fleet, could also be created by the delivery of new drilling rigs and floating production units to the extent such new drilling rigs and/or floating production units both become operational and are not offset by the idling or retirement of existing active drilling rigs and floating production units.

Challenges We Confront as an International Offshore Vessel Company

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