TIDEWATER INC
Form 10-Q
November 13, 2018

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended September 30, 2018

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

6002 Rogerdale Road, Suite 600

Houston, Texas 77072

(Address of principal executive offices) (Zip code)

Registrant's telephone number, including area code: (713) 470-5300

Not Applicable

(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or 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 No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted 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 such files). Yes No

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

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company
Emerging Growth Company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

Indicate by check mark whether the registrant has filed all documents and reports required to be filed by Sections 12, 13 or 15(d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court. Yes No

27,263,262 shares of Tidewater Inc. common stock $0.001 par value per share were outstanding on November 2, 2018. Registrant has no other class of common stock outstanding.

PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS
TIDEWATER INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

(Unaudited)

(In thousands, except share and par value data)

ASSETS	Successor September 30, 2018	December 31, 2017
Current assets:		
Cash and cash equivalents	$461,088	432,035
Restricted cash	7,466	21,300
Trade and other receivables, net	88,013	114,184
Due from affiliates	174,349	230,315
Marine operating supplies	27,591	28,220
Other current assets	9,880	19,130
Total current assets	768,387	845,184
Investments in, at equity, and advances to unconsolidated companies	1,129	29,216
Net properties and equipment	776,640	837,520
Deferred drydocking and survey costs	16,053	3,208
Other assets	28,700	31,052
Total assets	$1,590,909	1,746,180
LIABILITIES AND EQUITY		
Current liabilities:		
Accounts payable	$30,571	38,497
Accrued expenses	46,060	54,806
Due to affiliates	48,064	99,448
Accrued property and liability losses	2,447	2,585
Current portion of long-term debt	7,671	5,103
Other current liabilities	18,894	19,693
Total current liabilities	153,707	220,132
Long-term debt	435,301	443,057
Accrued property and liability losses	4,212	2,471
Other liabilities	53,781	58,576
Commitments and Contingencies (Note 10)		
Equity:		
Successor Common stock of $0.001 par value, 125,000,000 shares	27	22
authorized, 26,815,991 and 22,115,916 shares issued and outstanding		

at September 30, 2018 and December 31, 2017, respectively		
Additional paid-in capital	1,063,603	1,059,120
Retained deficit	(120,274)	(39,266)
Accumulated other comprehensive loss	(403)	(147)
Total stockholders' equity	942,953	1,019,729
Noncontrolling interests	955	2,215
Total equity	943,908	1,021,944
Total liabilities and equity	$1,590,909	1,746,180

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

2

TIDEWATER INC.

CONDENSED CONSOLIDATED STATEMENTS OF EARNINGS (LOSS)

(Unaudited)

(In thousands, except share and per share data)

	Successor		Predecessor
	Three Months Ended September 30, 2018	Period from August 1, 2017 through September 30, 2017	Period from July 1, 2017 through July 31, 2017
Revenues:			
Vessel revenues	$97,011	70,571	34,340
Other operating revenues	2,181	3,729	1,923
	99,192	74,300	36,263
Costs and expenses:			
Vessel operating costs	65,237	52,301	32,665
Costs of other operating revenues	1,681	2,273	763
General and administrative	25,546	16,246	8,773
Vessel operating leases	—	1,124	623
Depreciation and amortization	13,390	8,142	11,160
(Gain) / Loss on asset dispositions, net	1,571	(4)	(372)
Asset impairments	16,853	—	21,325
	124,278	80,082	74,937
Operating loss	(25,086)	(5,782)	(38,674)
Other income (expenses):			
Foreign exchange gain (loss)	1	(58)	(2,024)
Equity in net earnings (losses) of unconsolidated companies	56	1,305	269
Interest income and other, net	2,709	873	704
Reorganization items	—	(1,880)	(1,083,729)
Interest and other debt costs, net	(7,585)	(5,240)	(574)
	(4,819)	(5,000)	(1,085,354)
Loss before income taxes	(29,905)	(10,782)	(1,124,028)
Income tax expense	1,278	4,745	(1,529)
Net loss	$(31,183)	(15,527)	(1,122,499)
Less: Net income (loss) attributable to noncontrolling interests	(287)	166	(24)
Net loss attributable to Tidewater Inc.	$(30,896)	(15,693)	(1,122,475)
Basic loss per common share	$(1.16)	(0.81)	(23.82)
Diluted loss per common share	$(1.16)	(0.81)	(23.82)
Weighted average common shares outstanding	26,614,507	19,389,031	47,121,407
Dilutive effect of stock options and restricted stock	—	—	—
Adjusted weighted average common shares	26,614,507	19,389,031	47,121,407

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

3

TIDEWATER INC.

CONDENSED CONSOLIDATED STATEMENTS OF EARNINGS (LOSS)

(Unaudited)

(In thousands, except share and per share data)

	Successor		Predecessor
	Nine Months Ended September 30, 2018	Period from August 1, 2017 through September 30, 2017	Period from January 1, 2017 through July 31, 2017
Revenues:			
Vessel revenues	$288,679	70,571	303,501
Other operating revenues	7,607	3,729	8,617
	296,286	74,300	312,118
Costs and expenses:			
Vessel operating costs	194,613	52,301	197,283
Costs of other operating revenues	4,797	2,273	5,037
General and administrative	73,536	16,246	83,559
Vessel operating leases	—	1,124	14,607
Depreciation and amortization	38,192	8,142	85,039
Gain on asset dispositions, net	(1,686)	(4)	(9,625)
Asset impairments	24,254	—	249,606
	333,706	80,082	625,506
Operating loss	(37,420)	(5,782)	(313,388)
Other income (expenses):			
Foreign exchange loss	(1,349)	(58)	(2,516)
Equity in net earnings (losses) of unconsolidated companies	(14,993)	1,305	7,627
Interest income and other, net	5,495	873	3,974
Reorganization items	—	(1,880)	(1,396,905)
Interest and other debt costs, net	(22,731)	(5,240)	(32,188)
	(33,578)	(5,000)	(1,420,008)
Loss before income taxes	(70,998)	(10,782)	(1,733,396)
Income tax expense	10,396	4,745	483
Net loss	$(81,394)	(15,527)	(1,733,879)
Less: Net income (loss) attributable to noncontrolling interests	(386)	166	7,884
Net loss attributable to Tidewater Inc.	$(81,008)	(15,693)	(1,741,763)
Basic loss per common share	$(3.23)	(0.81)	(36.98)
Diluted loss per common share	$(3.23)	(0.81)	(36.98)
Weighted average common shares outstanding	25,073,284	19,389,031	47,104,117
Dilutive effect of stock options and restricted stock	—	—	—
Adjusted weighted average common shares	25,073,284	19,389,031	47,104,117

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

TIDEWATER INC.

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS

(Unaudited)

(In thousands)

	Successor		Predecessor
	Three Months Ended September 30, 2018	Period from August 1, 2017 through September 30, 2017	Period from July 1, 2017 through July 31, 2017
Net loss	$(31,183)	(15,527)	(1,122,499)
Other comprehensive income:			
Unrealized gains (losses) on available for sale securities, net of tax of $0, $0 and $0	—	82	77
Change in loss on derivative contract, net of tax of $0, $0 and $823	—	—	—
Change in supplemental executive retirement plan liability, net of tax of $0, $0 and $0	—	—	(536)
Change in pension plan minimum liability, net of tax of $0, $0 and $0	—	—	(594)
Change in other benefit plan minimum liability, net of tax of $0, $0 and $0	—	—	(1,468)
Total comprehensive loss	$(31,183)	(15,445)	(1,125,020)

	Successor		Predecessor
	Nine Months Ended September 30, 2018	Period from August 1, 2017 through September 30, 2017	Period from January 1, 2017 through July 31, 2017
Net loss	$(81,394)	(15,527)	(1,733,879)
Other comprehensive income:			
Unrealized gains (losses) on available for sale securities, net of tax of $0, $0 and $61	(256)	82	67

Change in loss on derivative contract, net of tax of $0, $0 and $823	—	—	1,317
Change in supplemental executive retirement plan liability, net of tax of $0, $0 and ($927)	—	—	(2,257)
Change in pension plan minimum liability, net of tax of $0, $0 and $215	—	—	(195)
Change in other benefit plan minimum liability, net of tax of $0, $0 and ($2,046)	—	—	(5,267)
Total comprehensive loss	$(81,650)	(15,445)	(1,740,214)

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

TIDEWATER INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

(In thousands)

	Successor		Predecessor
	Nine Months Ended September 30, 2018	Period from August 1, 2017 through September 30, 2017	Period from January 1, 2017 through July 31, 2017
Operating activities:			
Net loss	$(81,394)	$(15,527)	(1,733,879)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:			
Reorganization items	—	—	1,368,882
Depreciation and amortization	33,949	8,138	85,039
Amortization of deferred drydocking and survey costs	4,243	4	—
Amortization of debt premium and discounts	(1,371)	(281)	—
Provision for deferred income taxes	—	—	(7,743)
Gain on asset dispositions, net	(1,686)	(4)	(9,625)
Asset impairments	24,254	—	249,606
Changes in investments in, at equity, and advances to unconsolidated companies	28,087	(1,044)	(9,314)
Compensation expense - stock-based	9,967	1,173	819
Excess tax liability on stock option activity	—	—	4,927
Changes in assets and liabilities, net:			
Trade and other receivables	(10,744)	(3,775)	57,337
Changes in due to/from related parties, net	28,290	(3,920)	26,262
Marine operating supplies	(1,411)	1,005	(320)
Other current assets	9,032	5,714	(8,298)
Accounts payable	1,719	(317)	(10,715)
Accrued expenses	(10,719)	(10,555)	24,339
Accrued property and liability losses	(138)	13	(813)
Other current liabilities	5,802	3,753	(7,131)
Other liabilities	(232)	(847)	4,768
Cash paid for deferred drydocking and survey costs	(17,088)	(392)	—
Other, net	1,670	(947)	14,422
Net cash provided by (used in) operating activities	22,230	(17,809)	48,563
Cash flows from investing activities:			
Proceeds from sales of assets	16,499	4,875	4,636
Additions to properties and equipment	(9,116)	(589)	(10,620)
Proceeds related to novated vessel construction contract	—	—	5,272

Net cash provided by (used in) investing activities	7,383	4,286	(712)
Cash flows from financing activities:			
Principal payment on long-term debt	(4,020)	—	(7,856)
Payments to General Unsecured Creditors	(8,377)	(87,366)	(122,806)
Other	(1,997)	1	(6,127)
Net cash used in financing activities	(14,394)	(87,365)	(136,789)
Net change in cash, cash equivalents and restricted cash	15,219	(100,888)	(88,938)
Cash, cash equivalents and restricted cash at beginning of period	453,335	560,866	649,804
Cash, cash equivalents and restricted cash at end of period	$468,554	$459,978	560,866
Supplemental disclosure of cash flow information:			
Cash paid during the period for:			
Interest, net of amounts capitalized	$24,218	$59	9,795
Income taxes	$13,679	$1,392	6,907

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

TIDEWATER INC.

CONDENSED CONSOLIDATED STATEMENTS OF EQUITY

(Unaudited)

(In thousands)

	Common stock	Additional paid-in capital	Retained (deficit) earnings	Accumulated other comprehensive loss	Non controlling interest	Total
Balance at December 31, 2017 (Successor)	$ 22	1,059,120	(39,266)	(147)	2,215	1,021,944
Total comprehensive loss	—	—	(81,008)	(256)	(386)	(81,650)
Issuance of common stock	5	(2)	—	—	—	3
Amortization of restricted stock units	—	5,611	—	—	—	5,611
Acquisition of noncontrolling interest	—	(1,126)	—	—	(874)	(2,000)
Balance at September 30, 2018 (Successor)	$ 27	1,063,603	(120,274)	(403)	955	943,908
Balance at December 31, 2016 (Predecessor)	$ 4,707	171,018	1,570,027	(6,446)	8,258	1,747,564
Total comprehensive loss	—	—	(1,741,764)	(6,333)	7,883	(1,740,214)
Stock option expense	—	659	—	—	—	659
Cancellation/forfeiture or restricted stock units	—	1,254	157	—	—	1,411
Amortization of restricted stock units	5	(6,064)	—	—	—	(6,059)
Cash paid to noncontrolling interests	—	—	—	—	(1,200)	(1,200)
Balance at July 31, 2017 (Predecessor)	$ 4,712	166,867	(171,580)	(12,779)	14,941	2,161
Cancellation of Predecessor equity	(4,712)	(166,867)	171,580	12,779	(13,266)	(486)
Balance at July 31, 2017 (Predecessor)	$ —	—	—	—	1,675	1,675
Issuance of Successor common stock and warrants	$ 18	1,055,391	—	—	—	1,055,409
Balance at August 1, 2017 (Successor)	$ 18	1,055,391	—	—	1,675	1,057,084
Total comprehensive loss	—	—	(15,693)	82	166	(15,445)
Issuance of common stock	3	(1)	—	—	—	2
Amortization of restricted stock units	—	1,173	—	—	—	1,173
Cash paid to noncontrolling interests	—	—	—	—	—	—
Balance at September 30, 2017 (Successor)	$ 21	1,056,563	(15,693)	82	1,841	1,042,814

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

7

(1) INTERIM FINANCIAL STATEMENTS

The unaudited condensed consolidated financial statements for the interim periods presented herein have been prepared in conformity with United States generally accepted accounting principles and, in the opinion of management, include all adjustments (consisting only of normal recurring adjustments) necessary for a fair presentation of the unaudited condensed consolidated financial statements at the dates and for the periods indicated as required by Rule 10-01 of Regulation S X of the Securities and Exchange Commission (SEC). Results of operations for interim periods are not necessarily indicative of results of operations for the respective full years. These unaudited condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto in the Tidewater Inc. (the company) Transition Report on Form 10-K for the nine month period ended December 31, 2017, filed with the SEC on March 15, 2018.

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

Reorganization and Fresh Start Accounting

References to "Successor" or "Successor Company" relate to the financial position and results of operations of the reorganized company subsequent to July 31, 2017. References to "Predecessor" or "Predecessor Company" relate to the financial position and results of operations of the company through July 31, 2017.

On July 31, 2017, the company and certain of its subsidiaries that had been named as additional debtors in the Chapter 11 proceedings emerged from bankruptcy after successfully completing its reorganization pursuant to the Second Amended Joint Prepackaged Chapter 11 Plan of Reorganization of the company and its Affiliated Debtors (the “Plan”). Upon the company's emergence from Chapter 11 bankruptcy, the company qualified for and adopted fresh-start accounting in accordance with the provisions set forth in ASC 852, which requires the company to present its assets, liabilities, and equity as if it were a new entity upon emergence from bankruptcy. The implementation of the Plan and the application of fresh-start accounting materially changed the carrying amounts and classifications reported in the company’s consolidated financial statements and resulted in the company becoming a new entity for financial reporting purposes. As a result of the application of fresh-start accounting and the effects of the implementation of the Plan, the financial statements after July 31, 2017 are not comparable with the financial statements prior to July 31, 2017. Therefore, "black-line" financial statements are presented to distinguish between the Predecessor and Successor companies.

(2) ACCOUNTING PRONOUNCEMENTS

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

In March 2017, the FASB issued ASU 2017-7, Compensation – Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Costs and Net Periodic Postretirement Benefit Costs. This new guidance amends the requirements related to the income statement presentation of the components of net periodic benefit cost for an entity's sponsored defined benefit pension and other postretirement plans. This new guidance was effective for the company in January 2018. The adoption of this guidance required a retrospective approach and did not have a material effect on the company's consolidated financial statements.

In October 2016, the FASB issued ASU 2016-16, Income Taxes (Topic 740): Intra-Entity Transfers of Assets Other Than Inventory, which removes the prohibition in ASC 740 against the immediate recognition of the current and deferred income tax effects of intra-entity transfers of assets other than inventory. This new guidance was effective for the company in January 2018. The adoption of this guidance required a modified retrospective approach and did not have a material effect on the company's consolidated financial statements.

In August 2016, the FASB issued ASU 2016-15, Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments, which amends ASC 230 to add or clarify guidance on the classification of certain specific types of cash receipts in the statement of cash flows with the intent of reducing diversity in practice. This new guidance was effective for the company in January 2018. The adoption of this guidance required a retrospective approach and did not have a material effect on the company’s consolidated financial statements.

In February 2016, the FASB issued ASU 2016-02, Leases, which amended guidance for lease arrangements in order to increase transparency and comparability by providing additional information to users of financial statements regarding an entity's leasing activities. The revised guidance requires lessees to recognize lease assets and lease liabilities on the balance sheet for substantially all lease arrangements. In July 2018, the FASB finalized the targeted improvements to ASU 2016-02, which provided for an optional transition method whereby entities may prospectively adopt the ASU with cumulative catch-up upon adoption and provided lessors with a practical expedient that would allow lessors to account for the combined lease and non-lease components under ASU 2014-09 when the non-lease component is the predominant element of the combined component. The new guidance will be effective for the company in January 2019. Upon adoption of the new lease accounting standard the company will record right of use assets and corresponding lease liabilities that are not expected to be material to the consolidated financial statements.

In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers. ASU 2014-09 supersedes prior revenue recognition guidance and provides a five step recognition framework that requires entities to recognize the amount of revenue to which it expects to be entitled for the transfer of goods and services. This new revenue standard was effective for the company in January 2018 and was adopted using the modified retrospective approach. The company adopted this standard on January 1, 2018, and did not adjust the beginning accumulated deficit. The necessary changes to the company’s business processes, systems and controls to support recognition and disclosure of this ASU upon adoption on January 1, 2018, have been implemented. Prior to the adoption of this ASU, the company recognized mobilization fees as revenue in the period earned. Customer reimbursed vessel modifications were not reflected in the statement of earnings. Refer to Note (3) for further details.

(3) REVENUE RECOGNITION

The company’s primary source of revenue is derived from time charter contracts for which the company provides a vessel and crew on a rate per day of service basis. Services provided under respective charter contracts represent a single performance obligation satisfied over time and are comprised of a series of time increments; therefore, vessel revenues are recognized on a daily basis throughout the contract period. These vessel time charter contracts are generally either on a “term” basis (ranging from three months to three years) or on a “spot” basis. Spot contract terms generally range from one day to three months. There are no material differences in the cost structure of the company’s contracts based on whether the contracts are spot or term since the operating costs are generally the same without regard to the length of a contract. Customers are typically billed on a monthly basis for dayrate services and payment terms are generally 30 to 45 days.

Occasionally, customers pay additional lump-sum fees to the company in order to either mobilize a vessel to a new location prior to the start of a charter contract or demobilize the vessel at the end of a charter contract. Mobilizations are not considered to be a separate performance obligation; thus, the company has determined that mobilization fees are a component of the vessel's charter contract. As such, the company defers lump-sum mobilization fees as a liability and recognizes such fees as revenue consistent with the pattern of revenue recognition (primarily on a straight-line basis) over the term of the vessel's respective charter. Lump-sum demobilization revenue expected to be received upon contract termination is deferred as an asset and recognized ratably as revenue but only in circumstances where the receipt of the demobilization fee at the end of the contract is estimable and there is a high degree of certainty that collection will occur. Costs associated with mobilizations and demobilizations are recognized in vessel operating expense.

Customers also occasionally reimburse the company for modifications to vessels in order to meet contractual requirements. These vessel modifications are not considered to be a separate performance obligation of the vessel's charter; thus, the company records a liability for lump-sum payments made by customers for vessel modification and recognizes it as revenue consistent with the pattern of revenue recognition (primarily on a straight-line basis) over the term of the vessel's respective charter.

Total revenue is determined for each individual contract by estimating both fixed (mobilization, demobilization and vessels modifications) and variable (dayrate services) consideration expected to be earned over the contract term. The company has applied the optional exemption under the revenue standard and has not disclosed the estimated transaction price related to the variable portion of the unsatisfied performance obligation at the end of the reporting period.

Prior to the adoption of ASU 2014-09, the company recognized mobilization fees as revenue in the period earned and customer reimbursed vessel modifications were not reflected in earnings.

Costs associated with customer-directed mobilizations and reimbursed modifications to vessels are considered costs of fulfilling a charter contract and are expected to be recovered. Mobilization costs such as crew, travel, fuel, port fees, temporary importation fees and other costs are deferred as an asset and amortized as other vessel operating expenses consistent with the pattern of revenue recognition (primarily on a straight-line basis) over the term of such vessel's charter. Costs incurred for modifications to vessels in order to meet contractual requirements are capitalized as a fixed asset and depreciated either over the term of the respective charter contract or over the remaining estimated useful life of the vessel in instances where the modification is a permanent upgrade to the vessel and enhances its usefulness.

The following tables disclose the amount of revenue by segment and in total for the worldwide fleet:

	Successor		Predecessor
(In thousands)	Three Months Ended September 30, 2018	Period from August 1, 2017 through September 30, 2017	Period from July 1, 2017 through July 31, 2017
Vessel revenues:			
Americas	$28,039	17,449	8,961
Middle East/Asia Pacific	19,927	16,669	8,547