

unconventional gas in the market. Prolonged increases in the worldwide supply of natural gas, whether from conventional or unconventional sources, will exert downward pressure on natural gas prices. A prolonged downturn in natural gas pricing would likely have a negative impact on development plans of exploration and production companies, which in turn, may result in a decrease in demand for offshore support vessel services. This consequence could be particularly acute in the company's U.S. operating segment, which is more oriented towards natural gas than crude oil production, and therefore more sensitive to the changes in the market pricing for natural gas than to changes in the market pricing of crude oil.

### **Difficult Economic Market Conditions**

Uncertainty about future global economic market conditions makes it challenging for the company to forecast operating results and to make decisions about future investments. The success of the company's business is both directly and indirectly dependent upon conditions in the global financial and commercial markets that are outside its control and difficult to predict. Uncertain economic conditions may lead our customers to postpone spending in response to tighter credit and reductions in income or asset values, which may lead many financial lenders and institutional investors to reduce, and in some cases, cease to provide funding to borrowers, which, in turn, will adversely affect the liquidity and financial condition of our customers. These factors may also adversely affect the company's liquidity and financial condition. Factors such as interest rates, availability of credit, inflation rates, economic uncertainty, changes in laws (including laws relating to taxation), trade barriers, commodity prices, currency exchange rates and controls, and national and international political circumstances (including wars, terrorist acts or security operations) can have a material negative impact on the company's business and operations, which in turn would reduce its revenues and profitability.

Prolonged material economic downturn in crude oil and natural gas prices can negatively impact the development plans of exploration and production companies. In addition, a prolonged recession may result in a decrease in demand for offshore support vessel services and a reduction in charter rates and/or utilization rates, which would have a material adverse effect on the company's results of operations, cash flows and financial condition. Prior to mid-2008, oil and gas companies had increased their respective exploration and development activities in response to a very favorable pricing environment for oil and gas that existed at that time. Worldwide demand for oil and gas dropped precipitously and energy prices sharply declined during the last half of calendar 2008 as a result of a global economic recession. Over one year later, there are signs that economic improvement is underway; however, the pace of recovery and demand for energy and, in turn, offshore supply vessel services has been slow.

### **The Offshore Marine Service Industry is Highly Competitive**

The company operates in a highly competitive industry, which could depress vessel charter rates and utilization and adversely affect the company's financial performance. We compete for business with our competitors on the basis of price; reputation for quality service; quality, suitability and technical capabilities of vessels; availability of vessels; safety and efficiency; and cost of mobilizing vessels from one market to another. In addition, competition in international markets may be adversely affected by regulations requiring, among other things, the awarding of contracts to local contractors, the employment of local citizens and/or the purchase of supplies from local vendors that favor or require local ownership. In general, declines in the level of offshore drilling and development activity by the energy industry negatively affect the demand for the company's vessels and result in downward pressure on day rates. Extended periods of low vessel demand and/or low day rates reduce the company's revenues.

### **Potential Overcapacity in the Offshore Marine Industry**

Over the past decade, construction of offshore vessels of the types the company operates has increased significantly. Excess offshore supply vessel capacity likewise 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 is committed to the construction of additional 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, which has necessitated the company's new vessel construction programs, appears in the "Vessel Count, Dispositions, Acquisitions and Construction Programs" section of Item 7 in this report. Also, please read "Potential Overcapacity in the Offshore Marine Industry" risk below for further information that can exert downward pricing pressures on charter rates.