

ITEM 1A. RISK FACTORS

The company operates globally in many challenging and highly competitive markets. Listed below are some of the more critical or unique risk factors that we have identified as affecting or potentially affecting the company and the offshore marine service industry. You should consider these risks when evaluating any of the company's forward-looking statements. 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 statements made in this Annual Report on 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 respective supply/demand relationship for crude oil and natural gas. High demand for crude oil and natural gas and/or low inventory levels for these resources as well as any perceptions about future supply interruptions can cause prices for crude oil and natural gas to rise, while generally, low demand for crude oil and natural gas and/or increases in crude oil and natural gas supplies cause prices for crude oil and natural gas to decrease.

Factors that affect the supply of crude oil and natural gas include, but are not limited to, the following: global demand for the natural resources; 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 (including wars, terrorist acts or security operations); advances in exploration and field development technologies; significant weather conditions; and governmental restrictions placed on exploration and production of natural resources.

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.

Changes in the Level of Capital Spending by Our Customers

The company's principal customers are major and independent 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; drilling contractors; and companies that provide other services to the offshore energy industry, such as, offshore construction companies, diving companies and well stimulation companies. The company's results of operations are highly dependent on the level of capital spending for exploration and field development by the companies that operate in the energy industry. The energy industry's level of capital spending is substantially related to the demand for natural resources and prevailing commodity prices of natural gas and crude oil. When commodity prices are low, the company's customers generally reduce their capital spending budgets for onshore and offshore drilling, exploration and development. The level of offshore oil and natural gas exploration, development and production activity has historically been volatile, and that volatility is likely to continue.

Other factors that influence the level of capital spending by our customers that are beyond the control of the company include: worldwide demand for crude oil and natural gas; the cost of exploring and producing oil and natural gas, which can be affected by environmental regulations; significant weather conditions; technological advances that affect energy production and consumption; local and international economic and political environment; and the availability and cost of financing.

Unconventional Natural Gas Sources are Exerting Downward Pricing Pressures on the Price of Natural Gas

The rise in production of unconventional gas resources in North America and the commissioning of a number of new large Liquefied Natural Gas (LNG) export facilities around the world are contributing to an over-supplied natural gas market. While production of natural gas from unconventional sources is a relatively small portion of the worldwide natural gas production, it is expected to grow in the future. There is a significant oversupply of natural gas inventories in the United States in part due to the increase of