HORNBECK OFFSHORE SERVICES INC /LA
Form S-1/A
March 10, 2004
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**As filed with the Securities and Exchange Commission on March 10, 2004**

**Registration No. 333-108943**

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# SECURITIES AND EXCHANGE COMMISSION

**WASHINGTON, D.C. 20549**

# AMENDMENT NO. 1

# TO

# FORM S-1

**REGISTRATION STATEMENT UNDER THE SECURITIES ACT OF 1933**

# Hornbeck Offshore Services, Inc.

**(Exact name of registrant as specified in its charter)**

| Delaware | 72-1375844 | 4424 |
|---|---|---|
| (State or other jurisdiction of incorporation or organization) | (I.R.S. Employer Identification Number) | (Primary Standard Industrial Classification Code Number) |

**103 Northpark Boulevard, Suite 300**

**Covington, Louisiana 70433**

**(985) 727-2000**

**(Address, including zip code, and telephone number, including area code, of registrant s principal executive offices)**

**Todd M. Hornbeck**

**President, Chief Executive Officer and Secretary**

**103 Northpark Boulevard, Suite 300**

**Covington, Louisiana 70433**

**(985) 727-2000**

**(Name, address, including zip code, and telephone number, including area code, of agent for service)**

***Copies to:***

**R. Clyde Parker, Jr., Esq.**
**Mark W. Eisenbraun, Esq.**
**Winstead Sechrest & Minick P.C.**
**2400 Bank One Center**
**910 Travis Street**
**Houston, Texas 77002**
**(713) 650-8400**

**T. Mark Kelly, Esq.**
**Vinson & Elkins L.L.P.**
**1001 Fannin, Suite 2300**
**First City Tower**
**Houston, Texas 77002**
**(713) 758-2222**

**Approximate date of commencement of proposed sale to the public:**

As soon as practicable after this Registration Statement becomes effective.

If any of the securities being registered on this Form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act, check the following box. ¨

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. ¨ ________

If this Form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. ¨ ________

If this Form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. ¨ ________

If delivery of the prospectus is expected to be made pursuant to Rule 434, please check the following box. ¨

**CALCULATION OF REGISTRATION FEE**

| Title of Each Class of Securities to be Registered | Proposed Maximum Aggregate Offering Price(1)(2) | Amount of Registration Fee(4) |
|---|---|---|
| Common Stock, par value $.01 per share(3) | $103,500,000 | $13,114 |

(1) Includes 900,000 shares of common stock that the underwriters may purchase from Hornbeck Offshore to cover over-allotments, if any.
(2) Estimated solely for the purpose of calculating the registration fee pursuant to Rule 457(o) under the Securities Act.
(3) Including associated preferred stock purchase rights. Prior to the occurrence of certain events, the preferred stock purchase rights will not be evidenced or traded separately from our common stock.
(4) Pursuant to Rule 457(p) under the Securities Act, the $13,114 registration fee, which includes the $6,978 registration fee applied to this Registration Statement as filed on September 19, 2003, is permitted to be offset by the $11,638 previously paid for the registration fee relating to our Registration Statement on Form S-1 filed with the Securities and Exchange Commission on July 22, 2002, Registration No. 333-96833,

and subsequently withdrawn before the sale of any securities covered thereby. After application of the $11,638 fee previously paid to the Commission, a balance of $1,476 will be due from Hornbeck Offshore.

**The Registrant hereby amends this Registration Statement on such date or dates as may be necessary to delay its effective date until the Registrant shall file a further amendment which specifically states that this Registration Statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933 or until the Registration Statement shall become effective on such date as the Commission, acting pursuant to said Section 8(a), may determine.**

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**The information in this preliminary prospectus is not complete and may be changed. These securities may not be sold until the registration statement filed with the Securities and Exchange Commission is effective. This preliminary prospectus is not an offer to sell nor does it seek an offer to buy these securities in any jurisdiction where the offer or sale is not permitted.**

**Subject to Completion. Dated March 10, 2004.**

6,000,000 Shares

# Hornbeck Offshore Services, Inc.

Common Stock

This is an initial public offering of shares of common stock of Hornbeck Offshore Services, Inc. All of the 6,000,000 shares are being sold by Hornbeck Offshore.

Prior to this offering, there has been no public market for the common stock. It is currently estimated that the initial public offering price per share will be between $13.00 and $15.00. Hornbeck Offshore intends to list the common stock on the New York Stock Exchange under the symbol HOS.

*See Risk Factors beginning on page 10 to read about factors you should consider before buying shares of our common stock.*

**Neither the Securities and Exchange Commission nor any other regulatory body has approved or disapproved of these securities or passed upon the accuracy or adequacy of this prospectus. Any representation to the contrary is a criminal offense.**

| | Per Share | Total |
|---|---|---|
| Initial public offering price | $ | $ |

| | | |
|---|---|---|
| Underwriting discount | $ | $ |
| Proceeds, before expenses, to Hornbeck Offshore | $ | $ |

To the extent that the underwriters sell more than 6,000,000 shares of common stock, the underwriters have the option to purchase up to an additional 900,000 shares from Hornbeck Offshore at the initial public offering price less the underwriting discount.

The underwriters expect to deliver the shares against payment in New York, New York on , 2004.

**Goldman, Sachs & Co.** **Jefferies & Company, Inc.**

**Simmons & Company**

**International**

**Johnson Rice & Company L.L.C.**

Prospectus dated , 2004.

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This prospectus is part of a registration statement we filed with the Securities and Exchange Commission, or Commission. In making your investment decision, you should rely only on the information contained in this prospectus. We have not authorized any person to provide you with different information. If anyone provides you with different or inconsistent information, you should not rely on it. You should assume the information appearing in this prospectus is accurate as of the date on the front cover of this prospectus only. Our business, financial condition, results of operations and prospects may change after that date.

## WHERE YOU CAN FIND MORE INFORMATION

We have filed with the Commission a registration statement on Form S-1 under the Securities Act of 1933 related to the common stock offered by this prospectus. As allowed by Commission rules, this prospectus does not contain all of the information contained in the registration statement. The complete registration statement and the documents filed as exhibits to the registration statement are available to the public over the Internet at the Commission s website at *http://www.sec.gov*. If you have a question on any contract, agreement or other document filed as an exhibit to the registration statement, please see the exhibits for a more complete description of the matter involved. Under the terms of the indenture governing our 10 $^{5}/8$% senior notes, we have been filing with the Commission annual reports on Form 10-K, quarterly reports on Form 10-Q and current reports on Form 8-K. As a result of this offering we will become subject to the information and reporting requirements of the Securities Exchange Act of 1934 and, in accordance with those requirements, we will continue to file periodic reports, proxy statements and other information with the Commission. The reports that we file with the Commission are available free of charge at the Commission s website named above, as well as at our website at *http://www.hornbeckoffshore.com* under the caption Investors.

You may also read and copy any document we have filed with the Commission at its public reference facilities at 450 Fifth Street, N.W., Washington, D.C. 20549. You may obtain copies of these documents at prescribed rates by writing to the Public Reference Section of the Commission at 450 Fifth Street, N.W., Washington, D.C. 20549. Please call the Commission at 1-800-732-0330 for further information on the operation of the public reference facilities.

## FORWARD-LOOKING STATEMENTS

We make forward-looking statements in this prospectus, including certain information set forth in the sections entitled Prospectus Summary, Business and Management s Discussion and Analysis of Financial Condition and Results of Operations. We have based these forward-looking statements on our current views and assumptions about future events and our future performance. You can generally identify forward-looking statements by the appearance in such a statement of words like anticipate, believe, continue, could, estimate, expect, intend, may, plan, potential, predict, project, should or will or other compar negative of these words. When you consider our forward-looking statements, you should keep in mind the risk factors we describe and other cautionary statements we make in this prospectus.

Among the risks, uncertainties and assumptions to which these forward-looking statements may be subject are:

- activity levels in the energy markets;
- changes in oil and natural gas prices;

increases in supply of new vessels;

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- the effects of competition;
- our ability to complete vessels under construction without significant delays or cost overruns;
- our ability to integrate acquisitions successfully;
- demand for refined petroleum products or in methods of delivery;
- loss of existing customers and our ability to attract new customers;
- changes in laws;
- changes in international economic and political conditions;
- financial stability of our customers;
- retention of skilled employees;
- our ability to finance our operations on acceptable terms and access the debt and equity markets to fund our capital requirements, which may depend on general market conditions and our financial condition at the time;
- our ability to charter our vessels on acceptable terms; and
- our success at managing these risks.

Our forward-looking statements are only predictions based on expectations that we believe are reasonable. Actual events or results may differ materially from those described in any forward-looking statement. We undertake no obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. To the extent these risks, uncertainties and assumptions give rise to events that vary from our expectations, the forward-looking events discussed in this prospectus may not occur.

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## PROSPECTUS SUMMARY

*This summary highlights selected information described more fully elsewhere in this prospectus. This summary does not contain all the information you should consider before investing in our common stock. You should read the entire prospectus, including the financial statements and related notes, before making an investment decision with respect to our common stock. You should pay special attention to the Risk Factors section of this prospectus for a discussion of factors you should consider before investing in our common stock.*

*References in this prospectus to the company, we, us, our, or like terms refer to Hornbeck Offshore Services, Inc. and its subsidiaries, except as otherwise indicated. References in this prospectus to OSVs mean offshore supply vessels; to deepwater mean offshore areas, generally 1,000' to 5,000' in depth, and ultra-deepwater areas, generally more than 5,000' in depth; to deep well mean a well drilled to a true vertical depth of 15,000' or greater; and to new generation, when referring to OSVs, mean modern, deepwater-capable vessels subject to the regulations promulgated under the International Convention on Tonnage Measurement of Ships, 1969, which was adopted by the United States and made effective for all U.S.-flagged vessels in 1992.*

### Hornbeck Offshore Services, Inc.

We are a leading provider of technologically advanced, new generation OSVs serving the offshore oil and gas industry, primarily in the U.S. Gulf of Mexico and in select international markets. The focus of our OSV business is on complex exploration and production activities, which include deepwater, deep well and other logistically demanding projects. We are also a leading transporter of petroleum products through our tug and tank barge segment serving the energy industry, primarily in the northeastern United States and Puerto Rico.

Historically, demand for our OSV services has been primarily driven by the drilling of deep wells, whether in the deepwater or on the U.S. Continental Shelf, and other complex exploration and production projects that require specialized drilling and production equipment. In addition, our new generation OSVs are increasingly in demand by our customers for conventional drilling projects because of the ability of our OSVs to reduce overall offshore logistics costs for the customer through the vessels greater capacities and operating efficiencies.

According to the Minerals Management Service, or MMS, in 2002 the deepwater region accounted for 68% of total U.S. Gulf of Mexico oil production and 38% of total U.S. Gulf of Mexico natural gas production, up substantially from 4% and 1%, respectively, in 1990. In addition, the MMS estimates that deep reservoirs on the Continental Shelf may hold up to 55 tcf of undiscovered natural gas. This potential reserve base compares favorably to the current total of approximately 26 tcf of proven natural gas reserves in the entire U.S. Gulf of Mexico. As the trend toward these deeper, larger and more complex projects emerged in the mid-1990s, we recognized that conventional 180' OSVs were not well-suited to effectively service these projects or to operate in the challenging environments in which they were conducted. Since that time, we have constructed 17 new generation OSVs based on the proprietary designs of our in-house team of naval architects and have acquired six additional new generation OSVs.

All of our OSVs have enhanced capabilities that allow them to more effectively support the premium drilling equipment required for deep drilling and related specialty services. In contrast to conventional 180' OSVs, our vessels have dynamic positioning capability, as well as greater range and storage and off-loading capacity. These features are essential to the efficient servicing of deep well drilling projects given the typical size, depth, complexity and location of such projects. We are capable of providing OSV services to our customers anywhere in the world. Currently, we have three OSVs operating in Trinidad & Tobago and one OSV in Mexico and we are actively pursuing additional contracts in these and other select international markets. In addition, because of the increased capabilities of our new generation OSVs, our customers have begun chartering these vessels at rates higher than those earned by conventional 180' OSVs for conventional drilling projects in the U.S. Gulf of Mexico. Our fleet of 23 OSVs is among the youngest in the industry with an average age of approximately three years. Upon completion of this offering, we will be the only publicly traded company with a significant fleet of U.S.-flagged, new generation OSVs.

Our tug and tank barge fleet consists of 12 ocean-going tugs, 16 ocean-going tank barges and one coastwise tanker. We believe our tug and tank barge business complements our OSV business by providing additional revenue and geographic diversification, while allowing us to offer another line of services to integrated oil and gas companies. Demand for our tug and tank barge services is primarily driven by the level of refined petroleum product consumption in the northeastern United States and Puerto Rico. The Energy Information Administration, or EIA, projects that refined petroleum product consumption in the East Coast region of the United States will increase by an average of 1.7% per year from 2002 to 2010. During this time frame, we expect a significant number of the industry s single-hulled vessels operating in this market to be retired from service due to the Oil Pollution Act of 1990, or OPA 90. In order to replace vessels being retired, vessel operators will need to incur significant capital costs to construct replacement double-hulled vessels to maintain their fleet capacity and we believe they will require higher dayrates in order to justify such capital outlays. We believe that this supply and demand environment may favorably impact our operating results.

**Our Competitive Strengths**

*Technologically Advanced Fleet of OSVs.* Our new generation OSVs have significantly more capacity and operate more efficiently than conventional 180' OSVs. Our proprietary vessels incorporate sophisticated technologies and are designed specifically to operate safely in complex and challenging environments. These technologies include dynamic positioning, roll reduction systems and controllable pitch thrusters, which allow our vessels to maintain position within minimal variance, and our unique cargo handling systems, which permit high volume transfer rates of liquid mud and dry bulk. We believe that we earn higher average dayrates and maintain higher utilization rates than our competitors due to the superior capabilities of our OSVs, our six-year track record of safe and reliable performance and the collaborative efforts of our in-house design team in providing marine engineering solutions to our customers.

*Young OSV Fleet.* We believe that we operate the youngest fleet of U.S.-flagged OSVs. While the average age of the industry s conventional 180' U.S.-flagged OSV fleet is approximately 24 years, the average age of our OSV fleet is approximately three years. Newer vessels generally experience less downtime and require significantly less maintenance and scheduled drydocking costs compared to older vessels. We believe that our operation of new, technologically advanced OSVs gives us a competitive advantage in obtaining long-term contracts for our vessels and in attracting and retaining crews.

*Commitment to Safety and Quality.* As part of our commitment to safety and quality, we have voluntarily pursued and received certifications and classifications that are not generally held by other companies in our industry. Safety is an increasingly important consideration for oil and gas operators due to the environmental and regulatory sensitivity associated with offshore drilling and production activity. We believe that customers recognize our commitment to safety and that our strong reputation and performance history provide us with a competitive advantage.

*Leading Presence in Core Target Markets.* Our 23 OSVs comprise the second largest fleet of technologically advanced, new generation OSVs qualified for work in the U.S. Gulf of Mexico. Currently, 19 of our 23 OSVs operate in that area. We also operate one of the largest fleets of tugs and tank barges for the transportation of petroleum products in Puerto Rico and believe that we are the fourth largest tank barge transporter of petroleum products in New York Harbor. We believe that having scale in our selected markets benefits our customers and provides us with operating efficiencies.

*Successful Track Record of Vessel Construction and Acquisitions.* Our management has significant naval architecture, marine engineering and shipyard experience. We believe that our history of designing and constructing 17 new generation OSVs on time and on budget provides us with a competitive advantage in obtaining contracts for our vessels prior to their actual delivery. Our company has designed its operations and management systems in contemplation of additional growth through new vessel construction and acquisitions. To date, we have successfully completed and integrated four acquisitions involving 13 ocean-going tugs and 13 ocean-going tank barges, one acquisition of a coastwise tanker and two acquisitions involving six 220' new generation OSVs. Our financial results for 2003 reflect the operations of an average of 17.3 OSVs. We currently own and operate 23 OSVs, an increase of 32.9% over the 2003 average. We recently commenced construction of two double-hulled tank barges based on a proprietary design developed by our in-house engineering team.

*Favorable OPA 90 Fleet Status.* Data provided by a U.S. Coast Guard report dated September 2001 indicates that 5.5 million barrels of single-hulled tank barge capacity would need to be retired by 2005 and an additional 3.5 million barrels by 2010, as mandated by OPA 90. According to the report, this represented, on a cumulative basis as of each such retirement date, 22% and 36%, respectively, of the total 24.9 million barrel single- and double-hulled tank barge capacity that existed in 2001. Because 10 of our 15 single-hulled tank barges are not required to be replaced or retrofitted with double hulls until 2015, we believe we have a competitive advantage over operators who have a higher percentage of single-hulled tank barges that must be retired or modified to add double hulls before 2010.

*Experienced Management Team with Proven Track Record.* Our executive management team has an average of 20 years of domestic and international marine transportation industry-related experience. We believe that our team has successfully demonstrated its ability to grow our fleet through new construction and strategic acquisitions and to secure profitable contracts for our vessels in both favorable and unfavorable market conditions.

**Our Strategy**

*Apply Existing and Develop New Technologies to Meet our Customers Vessel Needs.* Our new generation OSVs are designed to meet the higher capacity and performance needs of our clients increasingly more complex drilling and production programs. In addition, our proprietary double-hulled tank barges currently under construction are designed to maximize transit speed, improve cargo through-put rates and enhance crew safety features. We are committed to applying existing and developing new technologies to maintain a technologically advanced fleet that will enable us to continue to provide a high level of customer service and meet the developing needs of our customers for OSVs and ocean-going tugs and tank barges.

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*Expand Fleet Through Newbuilds and Strategic Acquisitions.* We plan to expand our fleet through construction of new vessels, including construction of new generation OSVs and double-hulled tank barges as market conditions warrant, retrofitting of certain vessels and through strategic acquisitions. We believe that acquisition opportunities are likely to arise as consolidation continues in our two industry segments. We intend to use our expertise and experience to evaluate and execute strategic acquisitions where the opportunity exists to expand our service offerings in our core markets and create or enhance long-term client relationships.

*Pursue Optimal Mix of Long-Term and Short-Term Contracts.* We seek to balance our portfolio of customer contracts by entering into both long-term and short-term charters. Long-term charters, which contribute to higher utilization rates, provide us with more predictable cash flow. Most of our long-term charters contain annual dayrate escalation provisions. Short-term charters provide the opportunity to benefit from increasing dayrates in favorable market cycles. Currently, seven of our 23 OSVs operate under long-term charters. Substantially all of our tank barges operate under long-term contracts.

*Build Upon Existing Customer Relationships.* We intend to build upon existing customer relationships by expanding the services we offer to those customers with diversified marine transportation needs. Many integrated oil and gas companies require OSVs to support their exploration and production activities and ocean-going tugs and tank barges to support their refining, trading and retail distribution activities. Moreover, many of our customers that conduct operations internationally have expressed interest in chartering our OSVs in such markets. For example, we are currently operating three OSVs in Trinidad & Tobago for a customer with whom we have a long-standing relationship in the U.S. Gulf of Mexico.

*Optimize Tug and Tank Barge Operations*. Due to OPA 90 phase-out requirements of single-hulled barges, the total barrel-carrying capacity of existing tank vessels transporting petroleum products domestically is projected to decline from its current level without a commensurate increase in newbuildings and retrofittings. In addition, the energy industry is increasingly outsourcing its marine transportation requirements and focusing on safety and reliability as a key determinant in awarding new business. We believe that these trends will improve the balance of supply and demand, and result in improved tank barge utilization and dayrates.

**Recent Developments**

*Reverse Stock Split*. On March 5, 2004, we affected a 1-for-2.5 reverse stock split of our common stock that caused the number of our outstanding shares to decrease from 36.3 million to 14.5 million. For all periods, the share amounts and per share data reflected throughout this prospectus have been adjusted to give effect to the reverse stock split.

*Amendment to Revolving Credit Facility*. On February 13, 2004, we amended and restated our revolving credit facility primarily to extend its maturity from December 31, 2004 to February 13, 2009 and to increase its nominal size from $60 million to $100 million. Our current borrowing base under the facility remains unchanged at $60 million. The maturity of this facility will automatically accelerate to March 31, 2008, if by that date we have not redeemed our senior notes or refinanced them with debt having a maturity later than July 31, 2009.

*Double-Hulled Tank Barge Newbuild Program*. In November 2003, we commenced our fourth new vessel construction program, the first such program for our tug and tank barge segment. We contracted with shipyards for the construction of two double-hulled tank barges and are currently

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evaluating our plans with respect to the construction or retrofit of a third tank barge. We expect to take delivery of the two tank barges currently under construction in December 2004. These two vessels are based on a proprietary design developed by our in-house engineering team. We also secured fixed-price options from one of the shipyards to construct up to three additional double-hulled tank barges for delivery after 2004. The primary purpose of our tank barge newbuild and retrofit program is to address our need to replace three of our existing single-hulled tank barges that are required under OPA 90 to be retired from service prior to January 1, 2005. We expect to incur construction and retrofit costs of up to $42 million for the first three tank barges before allocation of construction period interest. We expect to fund these costs with current cash on hand, projected cash flow from operations and available borrowing capacity.

*Expansion of Our OSV Fleet*. During 2003, we delivered three newly constructed 240 ED class OSVs, the *HOS Bluewater*, *HOS Gemstone* and *HOS Greystone*, one in each of the first three quarters. These three vessels were delivered ahead of schedule and on budget. On June 26, 2003, we completed the acquisition of five 220' new generation OSVs from Candy Marine Investment Corporation, an affiliate of Candy Fleet Corporation, or Candy Fleet. Following the completion in July of a private placement of our common stock and satisfaction of certain other conditions, on August 6, 2003, we acquired an additional 220' new generation OSV from Candy Fleet. These six vessels complement our proprietary OSV fleet and have allowed us to expand our service offerings to clients, particularly those drilling wells on the Continental Shelf. In early 2004, we took delivery of the *HOS Silverstar*, our fourth 240 ED class OSV. The HOS Silverstar commenced service on March 3, 2004 as it was mobilized to Trinidad & Tobago.

*International Expansion* In August 2002, we deployed two OSVs to commence service in Trinidad & Tobago. On May 10, 2003, we mobilized a third vessel for service offshore Trinidad & Tobago. On July 11, 2003, we commenced operations with one of our OSVs providing services to PEMEX offshore Mexico. All of these vessels retain their U.S.-flag status and are eligible to return to coastwise service under the Jones Act in the U.S. Gulf of Mexico. In our efforts to take advantage of our vessels capabilities to meet global drilling trends in the energy industry, we continue to explore opportunities in these and other select international markets.

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We were formed as a Delaware corporation in 1997. Our principal executive offices are located at 103 Northpark Boulevard, Suite 300, Covington, Louisiana 70433, and our telephone number is (985) 727-2000. Our website address is *http://www.hornbeckoffshore.com*.

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## The Offering

The following information assumes that the underwriters will not purchase additional shares of common stock from us in this offering to cover over-allotments. Please read Underwriting.

| | |
|---|---|
| Common stock offered by us | 6,000,000 shares |
| Common stock to be outstanding immediately after this offering | 20,527,814 shares |
| Use of proceeds | We estimate that our net proceeds from this offering will be approximately $77.0 million, after deducting our estimated underwriting discounts and commissions and our estimated offering expenses. We plan to use the proceeds to fund a portion of the cost of the construction of ocean-going, double-hulled tank barges, the retrofit of certain existing vessels, possible future acquisitions or additional new vessel construction, and for general corporate purposes. We do not currently have any agreements or understandings with respect to any acquisition targets. Pending these uses, we may repay debt under our revolving credit facility, which can be reborrowed. |
| Proposed ticker symbol | HOS |

The number of shares of common stock to be outstanding immediately after this offering listed above does not take into account 1,280,044 shares of our common stock issuable upon exercise of options previously granted to employees and non-employee directors and 2,168,956 additional shares of our common stock that have been authorized and reserved for issuance under our incentive compensation plan.

Unless specifically indicated otherwise or unless the context otherwise requires, the information in this prospectus (1) gives effect to a 1-for-2.5 reverse stock split of our common stock that occurred on March 5, 2004; and (2) assumes no exercise of the underwriters over-allotment option.

## Risk Factors

See Risk Factors beginning on page 10 for a discussion of certain factors you should consider before investing in our common stock.

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## Summary Financial Information

**(In thousands, except per share and operating data)**

The following table presents summary financial information regarding our company, which should be read in conjunction with, and is qualified in its entirety by reference to, our historical consolidated financial statements, the notes to those statements, and Management s Discussion and Analysis of Financial Condition and Results of Operations included elsewhere in this prospectus. The summary financial information set forth below as of and for the years ended December 31, 2001, 2002 and 2003 has been derived from our audited consolidated financial statements.

| | Year Ended December 31, | | |
|---|---|---|---|
| | **2001** | **2002** | **2003** |
| **Statement of Operations Data:** | | | |
| Revenues | $ 68,791 | $ 92,585 | $ 110,813 |
| Operating expenses | 32,805 | 48,633 | 64,395 |
| General and administrative expenses | 8,039 | 9,681 | 10,731 |
| Operating income | 27,947 | 34,271 | 35,687 |
| Interest income | 1,455 | 667 | 178 |
| Interest expense | 16,646 | 16,207 | 18,523 |
| Other income(1) | | 55 | 706 |
| Income before income taxes | 12,756 | 18,786 | 18,048 |
| Income tax expense | 5,737 | 7,139 | 6,858 |
| Net income | 7,019 | 11,647 | 11,190 |
| **Per Share Data:** | | | |
| Basic net income | $ 0.68 | $ 0.96 | $ 0.84 |
| Diluted net income | $ 0.67 | $ 0.94 | $ 0.82 |
| Weighted-average basic shares outstanding | 10,265 | 12,098 | 13,397 |
| Weighted-average diluted shares outstanding | 10,514 | 12,428 | 13,604 |
| **Balance Sheet Data (at period end):** | | | |
| Cash and cash equivalents | $ 53,203 | $ 22,228 | $ 12,899 |
| Property, plant and equipment, net | 180,781 | 226,232 | 316,715 |
| Total assets | 258,817 | 278,290 | 365,242 |
| Total long-term debt(2) | 171,976 | 172,306 | 212,677 |
| Total stockholders equity | 59,866 | 71,876 | 112,395 |
| **Statement of Cash Flows Data:** | | | |
| Net cash provided by (used in): | | | |
| Operating activities | $ 33,345 | $ 24,955 | $ 25,499 |
| Investing activities | (88,328) | (55,771) | (98,166) |
| Financing activities | 75,198 | (159) | 63,322 |
| **Other Financial Data (unaudited):** | | | |
| EBITDA(3) | $ 37,072 | $ 47,289 | $ 54,161 |

| | | | |
|---|---|---|---|
| **Other Operating Data (unaudited):** | | | |
| *Offshore Supply Vessels:* | | | |
| Average number(4) | 7.8 | 11.0 | 17.3 |
| Average utilization rate(5) | 99.1% | 94.9% | 88.6% |
| Average dayrate(6) | $ 11,872 | $ 12,176 | $ 10,940 |
| *Tugs and Tank Barges:* | | | |
| Average number of tank barges(7) | 12.3 | 16.0 | 15.9 |
| Average fleet capacity (barrels)(7) | 847,780 | 1,130,727 | 1,145,064 |
| Average barge size (barrels)(7) | 68,109 | 70,670 | 72,082 |
| Average utilization rate(5) | 84.4% | 78.1% | 73.6% |
| Average dayrate(8) | $ 8,944 | $ 9,499 | $ 10,971 |

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(1) Represents other operating income and expenses, including gains (or losses) on disposition of assets and equity in income from investments.
(2) Excludes original issue discount associated with our 10$^{5}/_{8}$% senior notes in the amount of $3,024, $2,694, and $2,323 as of December 31, 2001, 2002 and 2003, respectively. The amount as of December 31, 2003 includes $40,000 outstanding under our long-term, revolving credit facility.
(3) See our discussion of EBITDA as a non-GAAP financial measure immediately following these footnotes.
(4) We owned 22 OSVs at December 31, 2003. We took delivery of a newly constructed OSV on January 21, 2004.
(5) Utilization rates are average rates based on a 365-day year. Vessels are considered utilized when they are generating revenues.
(6) Average dayrates represent average revenue per day, which includes charter hire and brokerage revenue, based on the number of days during the period that the OSVs generated revenue.
(7) The averages for the year ended December 31, 2003 give effect to our sale of the *Energy 5502* on January 28, 2003 and our acquisition of the *Energy 8001* on February 28, 2003. As of December 31, 2003, our tank barge fleet consisted of 16 vessels.
(8) Average dayrates represent average revenue per day, including time charters, brokerage revenue, revenues generated on a per-barrel-transported basis, demurrage, shipdocking and fuel surcharge revenue, based on the number of days during the period that the tank barges generated revenue. For purposes of brokerage arrangements, this calculation excludes that portion of revenue that is equal to the cost of in-chartering third-party equipment paid by customers.

**Reconciliation of EBITDA to Net Income**

EBITDA consists of earnings (net income) before interest expense, income tax expense, depreciation and amortization. This term, as we define it, may not be comparable to similarly titled measures employed by other companies and is not a measure of performance calculated in accordance with accounting principles generally accepted in the United States, or GAAP. EBITDA should not be considered in isolation or as a substitute for operating income, net income or loss, cash flows provided by operating, investing and financing activities, or other income or cash flow statement data prepared in accordance with GAAP.

We believe EBITDA is useful to an equity investor in evaluating our operating performance because:

- it is widely used by investors in our industry to measure a company s operating performance without regard to items such as interest expense, depreciation and amortization, which can vary substantially from company to company depending upon accounting methods and book value of assets, capital structure and the method by which assets were acquired; and

- it helps investors more meaningfully evaluate and compare the results of our operations from period to period by removing the impact of our capital structure (primarily interest charges from our outstanding debt) and asset base (primarily depreciation and amortization of our vessels) from our operating results.

Our management uses EBITDA:

- as a measure of operating performance because it assists us in comparing our performance on a consistent basis as it removes the impact of our capital structure and asset base from our operating results;

- in presentations to our board of directors to enable them to have the same consistent measurement basis of operating performance used by management;

as a measure for planning and forecasting overall expectations and for evaluating actual results against such expectations;

as a basis for incentive cash bonuses paid to our executive officers and other shore-based employees;

to assess compliance with financial ratios and covenants included in our revolving credit facility and the indenture governing our senior notes; and

in communications with lenders, senior note holders, rating agencies and others, concerning our financial performance.

In March 2003, the Commission adopted rules regulating the use of non-GAAP financial measures, such as EBITDA, in filings with the Commission, disclosures and press releases. These rules require non-GAAP financial measures to be presented with and reconciled to the most nearly comparable financial measure calculated and presented in accordance with GAAP. The following table reconciles EBITDA with our net income:

| | Year Ended December 31, | | |
|---|---|---|---|
| | **2001** | **2002** | **2003** |
| Net income | $ 7,019 | $ 11,647 | $ 11,190 |
| Interest expense: | | | |
| Debt obligations(1) | 13,694 | 16,207 | 18,523 |
| Put warrants(2) | 2,952 | | |
| Income tax expense | 5,737 | 7,139 | 6,858 |
| Depreciation and amortization | 7,670 | 12,296 | 17,590 |
| EBITDA | $ 37,072 | $ 47,289 | $ 54,161 |

(1) Interest expense from debt obligations includes a loss of $3,029 incurred during 2001 resulting from the early extinguishment of debt. The loss relates to the write-off of deferred financing costs upon the refinancing of all our debt through the issuance of our $10^5/_8$% senior notes in July 2001.

(2) Interest expense from put warrants represents an adjustment to the estimated fair value of the put warrants. According to the Emerging Issues Task Force, or EITF, Issue 88-9, as supplemented by EITF Issue 00-19, which we have adopted, we are required to account for warrants that contain put options at their estimated fair value with the changes reported as interest expense. We repurchased and terminated all of the warrants for $14,500 in October 2001.

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## RISK FACTORS

In considering whether to invest in our common stock, you should carefully read and consider the risks described below, together with all of the information we have included in this prospectus.

### Risks Relating to our Business

***Demand for our OSV services substantially depends on the level of activity in offshore oil and gas exploration, development and production.***

The level of offshore oil and gas exploration, development and production activity has historically been volatile and is likely to continue to be so in the future. The level of activity is subject to large fluctuations in response to relatively minor changes in a variety of factors that are beyond our control, including:

- prevailing oil and natural gas prices and expectations about future prices and price volatility;
- the cost of offshore exploration for, and production and transportation of, oil and natural gas;
- worldwide demand for oil and natural gas;
- consolidation of oil and gas and oil service companies operating offshore;
- availability and rate of discovery of new oil and natural gas reserves in offshore areas;
- local and international political and economic conditions and policies;
- technological advances affecting energy production and consumption;
- weather conditions;
- environmental regulation; and
- the ability of oil and gas companies to generate or otherwise obtain funds for exploration and production.

We expect levels of oil and gas exploration, development and production activity to continue to be volatile and affect the demand for our OSVs.

A prolonged, material downturn in oil and natural gas prices is likely to cause a substantial decline in expenditures for exploration, development and production activity, which would likely result in a corresponding decline in the demand for OSVs and thus decrease the utilization and dayrates of our OSVs. Such decreases could have a material adverse effect on our financial condition and results of operations. Moreover, increases in oil and natural gas prices and higher levels of expenditure by oil and gas companies for exploration, development and production may not result in increased demand for our OSVs.

The current downturn in offshore drilling activity in the U.S. Gulf of Mexico has resulted in an industry-wide decrease in the demand for OSV services and lower dayrates.

***Increases in the supply of new generation OSVs could decrease dayrates.***

Certain of our competitors have announced plans to construct 21 new U.S.-flagged OSVs and seven foreign-flagged OSVs. A remobilization to the U.S. Gulf of Mexico of U.S.-flagged OSVs operating in other regions or a repeal or significant modification of the Jones Act or the administrative erosion of its benefits, permitting OSVs that are either foreign-flagged, foreign-built, foreign-owned or foreign-operated to engage in the U.S. coastwise trade, would also result in an increase in capacity. Any increase in the supply of OSVs, whether through new construction, refurbishment or conversion of vessels from other uses, remobilization or changes in law or its application, could not only increase competition for charters and lower dayrates, which would adversely affect our revenues and profitability, but could also worsen the impact of any downturn in oil and natural gas prices on our results of operations and financial condition.

***Intense competition in our industry could reduce our profitability and market share.***

Contracts for our OSVs and tank barges are generally awarded on an intensely competitive basis. The most important factors determining whether a contract will be awarded include:

- quality and capability of the vessels;
- ability to meet the customer s schedule;
- safety record;
- reputation;
- price; and
- experience.

Some of our competitors, including diversified multinational companies in the OSV segment, have substantially greater financial resources and larger operating staffs than we do. They may be better able to compete in making vessels available more quickly and efficiently, meeting the customer s schedule and withstanding the effect of declines in dayrates and utilization rates. They may also be better able to weather a downturn in the oil and gas industry. As a result, we could lose customers and market share to these competitors.

***The failure to successfully complete construction of our vessels on schedule and on budget and to utilize those and the other vessels in our fleet at profitable levels could adversely affect our financial condition and results of operations.***

We have two double-hulled, ocean-going tank barges under construction. We also plan to construct new generation OSVs and additional double-hulled tank barges as market conditions warrant. Our construction projects are subject to the risks of delay and cost overruns inherent in any large construction project, including shortages of equipment, unforeseen engineering problems, work stoppages, weather interference, unanticipated cost increases, inability to obtain necessary certifications and approvals and shortages of materials or skilled labor. Significant delays could have a material adverse effect on anticipated contract commitments with respect to vessels under construction, while significant cost overruns or delays in general could adversely affect our financial condition and results of operations. Moreover, customer demand for vessels currently under construction may not be as strong as we presently anticipate, and our inability to obtain contracts on anticipated terms or at all may have a material adverse effect on our revenues and profitability. In addition, our OSVs are typically chartered or hired to provide services to a specified drilling rig. A delay in the availability of the drilling rig to our customer may have an adverse impact on our utilization of the contracted vessel and thus on our financial condition and results of operations.

***If we are unable to acquire additional vessels or businesses and successfully integrate them into our operations, our ability to grow may be limited.***

We regularly consider possible acquisitions of single vessels, vessel fleets and businesses that complement our existing operations. We can give no assurance that we will be able to identify desirable acquisition candidates or that we will be successful in entering into definitive agreements on satisfactory terms. Even if we consummate an acquisition, we may be unable to integrate it into our

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existing operations successfully or realize the anticipated benefits of the acquisition. The process of integrating acquired operations into our own may result in unforeseen operating difficulties, may require significant management attention and financial resources.

***Revenues from our tug and tank barge business could be adversely affected by a decline in demand for domestic refined petroleum products and crude oil or a change in existing methods of delivery in response to insufficient availability of tug and tank barge services and other conditions.***

A reduction in domestic consumption of refined petroleum products or crude oil may adversely affect the revenues of our tug and tank barge business and, therefore, our financial condition and results of operation. Weather conditions also affect demand for our tug and tank barge services. For example, a mild winter may reduce demand for heating oil in the northeastern United States.

Moreover, alternative methods of delivery of refined petroleum products or crude oil may develop as a result of insufficient availability of tug and tank barge services, the cost of compliance with environmental regulations or increased liabilities connected with the transportation of refined petroleum products and crude oil. For example, long-haul transportation of refined petroleum products and crude oil is generally less costly by pipeline than by tank barge. While there are significant impediments to building new pipelines, such as high capital costs and environmental concerns, entities may propose new pipeline construction to meet demand for petroleum products. To the extent new pipeline segments are built or existing pipelines converted to carry petroleum products, such activity could have an adverse effect on our ability to compete in particular markets.

***The loss of our contract of affreightment with Amerada Hess Corporation or the early termination of contracts on our OSVs could have an adverse effect on our operations.***

The revenues we derived from our long-term contract of affreightment with Amerada Hess for the year ended December 31, 2003, constituted more than 10% of our total revenues for such period. Under the terms of the contract of affreightment, we are required to meet certain performance criteria and, if we fail to meet such criteria, Amerada Hess would be entitled to terminate the contract. Should we fail to fulfill our performance obligations under the contract of affreightment, and Amerada Hess terminates the contract, it would adversely affect our financial condition and results of operations. Our contract of affreightment provides for minimum annual cargo volume to be transported and allows Amerada Hess to reduce its minimum commitment, subject to a significant adjustment penalty. Most of the long-term contracts for our OSVs contain early termination options in favor of the customer; however, some have substantial early termination penalties designed to discourage the customers from exercising such options. We cannot assure that our customers would not choose to exercise their termination rights in spite of such penalties. Any such early termination could adversely affect our financial condition and results of operations.

***We are subject to complex laws and regulations, including environmental regulations, that can adversely affect the cost, manner or feasibility of doing business.***

Increasingly stringent federal, state, local and foreign laws and regulations governing worker health and safety and the manning, construction and operation of vessels significantly affect our operations. Many aspects of the marine industry are subject to extensive governmental regulation by the United States Coast Guard, the National Transportation Safety Board and the United States Customs Service, and their foreign equivalents, and to regulation by private industry organizations such as the American Bureau of Shipping. The Coast Guard and the National Transportation Safety Board set safety standards and are authorized to investigate vessel accidents and recommend improved safety standards, while the Customs Service is authorized to inspect vessels at will. Our

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operations are also subject to federal, state, local and international laws and regulations that control the discharge of pollutants into the environment or otherwise relate to environmental protection. Compliance with such laws, regulations and standards may require installation of costly equipment or operational changes. Failure to comply with applicable laws and regulations may result in administrative and civil penalties, criminal sanctions, imposition of remedial obligations or the suspension or termination of our operations. Some environmental laws impose strict liability for remediation of spills and releases of oil and hazardous substances, which could subject us to liability without regard to whether we were negligent or at fault. These laws and regulations may expose us to liability for the conduct of, or conditions caused by, others, including charterers. Moreover, these laws and regulations could change in ways that substantially increase our costs. Any changes in laws, regulations or standards that would impose additional requirements or restrictions could adversely affect our financial condition and results of operations.

We are also subject to the Merchant Marine Act of 1936, which provides that, upon proclamation by the President of a national emergency or a threat to the security of the national defense, the Secretary of Transportation may requisition or purchase any vessel or other watercraft owned by United States citizens (which includes United States corporations), including vessels under construction in the United States. If one of our OSVs, tugs or tank barges were purchased or requisitioned by the federal government under this law, we would be entitled to be paid the fair market value of the vessel in the case of a purchase or, in the case of a requisition, the fair market value of charter hire. However, if one of our tugs is requisitioned or purchased and its associated tank barge is left idle, we would not be entitled to receive any compensation for the lost revenues resulting from the idled barge. We would also not be entitled to be compensated for any consequential damages we suffer as a result of the requisition or purchase of any of our OSVs, tugs or tank barges. The purchase or the requisition for an extended period of time of one or more of our OSVs, tugs or tank barges could adversely affect our results of operations and financial condition.

Finally, we are subject to the Merchant Marine Act of 1920, commonly referred to as the Jones Act. The Jones Act requires that vessels engaged in coastwise trade to carry cargo between U.S. ports be registered under the laws of the United States and be owned and operated by U.S. citizens. To ensure that we are determined to be a U.S. citizen as defined under these laws, our certificate of incorporation contains certain restrictions on the ownership of our capital stock by non-U.S. citizens and establishes certain mechanisms to maintain compliance with these laws. If we are determined at any time not to be in compliance with these citizenship requirements, our vessels would become ineligible to engage in the coastwise trade in U.S. domestic waters, and our business and operating results would be adversely affected. Recently, the Jones Act provisions restricting coastwise trade have been challenged by interests seeking to facilitate foreign competition for trade reserved for U.S. registered vessels, owned and operated by U.S. citizens. To the extent such efforts are successful and permit foreign competition, such competition could have a material adverse effect on domestic companies in the offshore service vessel industry and on our financial condition and results of operations.

***Our business involves many operating risks that may disrupt our business or otherwise result in substantial losses, and insurance may be unavailable or inadequate to protect us against these risks.***

Tugs, tank barges, tankers and OSVs are subject to operating risks such as catastrophic marine disaster, adverse weather and sea conditions, mechanical failure, collisions, oil and hazardous substance spills, navigation errors, acts of God, war and terrorism. The occurrence of any of these events may result in damage to or loss of our vessels and their tow or cargo or other property and injury to passengers and personnel. If any of these events were to occur, we could be exposed to liability for resulting damages. Affected vessels may also be removed from service and thus be unavailable for income-generating activity. While we believe our insurance coverage is at adequate levels and insures us against risks that are customary in the industry, we may be unable to renew such coverage in the future at commercially reasonable rates. Moreover, existing or future coverage may not be sufficient to cover claims that may arise.

***Our expansion into international markets subjects us to risks inherent in conducting business internationally.***

Over the past 20 months we have derived an increasing portion of our revenues from foreign sources. We therefore face risks inherent in conducting business internationally, such as legal and governmental regulatory requirements, potential vessel seizure or nationalization of assets, import-export quotas or other trade barriers, difficulties in collecting accounts receivable and longer collection periods, political and economic instability, adverse tax consequences, difficulties and costs of staffing international operations, currency exchange rate fluctuations and language and cultural differences. All of these risks are beyond our control. We cannot predict the nature and the likelihood of any such events. If such an event should occur, however, it could have a material adverse effect on our financial condition and results of operations.

***Future results of operations depend on the long-term financial stability of our customers.***

Many of the contracts we enter into for our vessels are full utilization contracts with initial terms ranging from one to five years. We enter into these long-term contracts with our customers based on a credit assessment at the time of execution. Our financial condition in any period may therefore depend on the long-term stability and creditworthiness of our customers. We can provide no assurance that our customers will fulfill their obligations under our long-term contracts and the insolvency or other failure of a customer to fulfill its obligations under such contract could adversely affect our financial condition and results of operations.

***We may be unable to attract and retain qualified, skilled employees necessary to operate our business.***

Our success depends in large part on our ability to attract and retain highly skilled and qualified personnel. Our inability to hire, train and retain a sufficient number of qualified employees could impair our ability to manage and maintain our business.

We require skilled employees who can perform physically demanding work. As a result of the volatility of the oil and gas industry and the demanding nature of the work, potential employees may choose to pursue employment in fields that offer a more desirable work environment at wage rates that are competitive with ours. With a reduced pool of workers, it is possible that we will have to raise wage rates to attract workers from other fields and to retain our current employees. If we are not able to increase our service rates to our customers to compensate for wage-rate increases, our financial condition and results of operations may be adversely affected.

***Our employees are covered by federal laws that may subject us to job-related claims in addition to those provided by state laws.***

Some of our employees are covered by provisions of the Jones Act, the Death on the High Seas Act and general maritime law. These laws preempt state workers compensation laws and permit these employees and their representatives to pursue actions against employers for job-related incidents in federal courts. Because we are not generally protected by the limits imposed by state workers compensation statutes, we may have greater exposure for any claims made by these employees.

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***Our success depends on key members of our management, the loss of whom could disrupt our business operations.***

We depend to a large extent on the efforts and continued employment of our executive officers and key management personnel. We do not maintain key-man insurance. The loss of services of one or more of our executive officers or key management personnel could have a negative impact on our financial condition and results of operations.

***Restrictions contained in the indenture governing our 10 $^{5}/_{8}$% senior notes and in the agreement governing our revolving credit facility may limit our ability to obtain additional financing, to pursue other business opportunities and to pay dividends.***

Covenants contained in the indenture governing our 10 $^{5}/_{8}$% senior notes and in the agreement governing our revolving credit facility require us to meet certain financial tests, which may limit or otherwise restrict:

- our flexibility in operating, planning for, and reacting to changes, in our business;
- our ability to dispose of assets, withstand current or future economic or industry downturns and compete with others in our industry for strategic opportunities;
- our ability to obtain additional financing for working capital, capital expenditures, including our newbuild programs, acquisitions, general corporate and other purposes; and
- our ability to pay dividends, should we choose to do so in the future.

**Risks Relating to this Offering**

***Our management and directors will beneficially own, control or have substantial influence over a significant amount of common stock, giving them a controlling influence over corporate transactions and other matters. Their interests may conflict with yours, and the concentration of ownership of our common stock by such stockholders will limit the influence of public stockholders.***

Upon completion of this offering, our management, directors and their respective affiliates, will beneficially own, control or have substantial influence over approximately 62.2% of our outstanding common stock, and approximately 59.6% if the underwriters exercise their over-allotment option in full. If these stockholders voted together as a group, they would have the ability to exert significant influence over our board of directors and its policies. These stockholders would, acting together, be able to control or substantially influence the outcome of stockholder votes, including votes concerning the election of directors, the adoption or amendment of provisions in our certificate of incorporation or bylaws and possible mergers, corporate control contests and other significant corporate transactions. This concentration of ownership may have the effect of delaying, deferring or preventing a change in control, a merger, consolidation, takeover or other business combination. This concentration of ownership could also discourage a potential acquirer from making a tender offer or otherwise attempting to obtain control of us, which could in turn have an adverse effect on the market price of our common stock.

***Our stock price may fluctuate significantly following this offering, and you could lose all or a part of your investment as a result.***

Prior to this offering there has been no public market for our common stock, and we cannot predict the extent to which investor interest in us will lead to the development or maintenance of an active trading market. You may not be able to resell your shares at or above the initial public offering price, which will be determined through negotiations among us and the underwriters and may not be

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indicative of prices that will prevail in the public trading market. The trading price of our common stock, and the price at which we may sell securities in the future, could be subject to significant fluctuations in response to:

- government regulations;
- the prices of oil and gas;
- our operating results;
- changes in earnings estimates by securities analysts or our ability to meet those estimates;
- news announcements regarding the oil and gas or related industries in general, our customers, our competitors or us; or
- other factors beyond our control.

The realization of any of the risks described in this section could cause the market price of our common stock to decline significantly.

***Investors in this offering will suffer immediate and substantial dilution and are subject to potential future dilution.***

The initial public offering price of our common stock will be substantially higher than the net tangible book value per share of the common stock outstanding immediately after this offering. Therefore, if you purchase shares in this offering, you will incur immediate and substantial dilution based on net tangible book value per share. You will incur further dilution if outstanding options to purchase common stock are exercised. In addition, our certificate of incorporation allows us to issue significant numbers of additional shares. Any such issuance may significantly reduce your proportionate interest in our stock. See Dilution.

***Future sales of our common stock could adversely affect its market price.***

Following this offering, we will have a large number of shares of common stock outstanding and available for resale beginning at various points in time in the future. Sales of a substantial number of shares of our common stock in the public market after this offering, or the possibility that these sales may occur, could cause the market price for our common stock to decline. These sales, or the possibility that these sales may occur, could also make it more difficult for us to sell our common stock or other equity securities in the future at a time and at a price that we deem appropriate. Our directors, executive officers and principal stockholders, who collectively will hold a total of 12,348,703 shares of common stock before the completion of this offering, have agreed not to dispose of any shares of common stock, subject to limited exceptions, for a period of 180 days after the date of this prospectus, without the consent of the underwriters. See Shares Eligible for Future Sale.

***Provisions of our certificate of incorporation, bylaws, stockholder rights plan and Delaware law could deter takeover attempts.***

Our certificate of incorporation and bylaws, Delaware corporations law, and our stockholder rights plan contain provisions that could have the effect of making it more difficult for a third party to acquire, or discourage a third party from attempting to acquire, control of us. These provisions could limit the price that investors might be willing to pay in the future for shares of our common stock.

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## USE OF PROCEEDS

We estimate that we will receive net proceeds of approximately $77.0 million from the sale of 6,000,000 shares in this offering, after deducting our estimated underwriting discounts and commissions and our estimated offering expenses. If the underwriter s over-allotment option is exercised in full, we estimate that we will receive an additional $11.7 million. We intend to use the proceeds of this offering to fund a portion of the costs of the construction of ocean-going, double-hulled tank barges, the retrofit of certain existing vessels, possible future acquisitions or additional new vessel construction, and for general corporate purposes. We do not currently have any agreements or understandings with respect to any acquisition targets. Pending these uses, we may repay debt under our revolving credit facility, which can be reborrowed.

## DIVIDEND POLICY

We currently intend to retain any future earnings to finance the growth, development and expansion of our business. Accordingly, we do not intend to declare or pay any dividends on our common stock for the foreseeable future. The declaration, payment and amount of future dividends, if any, will be at the sole discretion of our board of directors after taking into account various factors, including our financial condition, results of operations, cash flow from operations, current and anticipated capital requirements and expansion plans, the income tax laws then in effect and the requirements of Delaware law. In addition, the indenture governing our 10 $^{5}/8$% senior notes and the agreement governing our revolving credit facility include restrictions on our ability to pay cash dividends without meeting certain financial ratios and obtaining the consent of the lenders.

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## CAPITALIZATION

The following table sets forth our consolidated cash and cash equivalents and capitalization as of December 31, 2003:

- on a historical basis; and
- on a pro forma basis to reflect the sale of 6,000,000 shares of common stock in this offering at an assumed initial public offering price of $14.00 per share, after deducting $7.0 million for estimated underwriting discounts and commissions and estimated offering expenses.

The information in this table is unaudited. This table should be read in conjunction with our historical consolidated financial statements and the notes to those statements included in this prospectus.

| | As of December 31, 2003 | |
|---|---|---|
| | Actual | Pro Forma |
| | (In thousands) | |
| Cash and cash equivalents | $ 12,899 | $ 49,899 |
| Long-term credit obligations: | | |
| Revolving credit facility | $ 40,000 | $ |
| 10 5/8% senior notes due 2008 (net of original issue discount of $2,323) | 172,677 | 172,677 |
| Total long-term credit obligations | 212,677 | 172,677 |
| Stockholders equity: | | |
| Preferred stock, $0.01 par value, 5,000 shares authorized; no shares issued and outstanding | | |
| Common stock, $0.01 par value, 100,000 shares authorized, 14,528 and 20,528 issued and outstanding, historical and on a pro forma basis, respectively | 145 | 205 |
| Additional paid-in capital | 90,351 | 167,291 |
| Retained earnings | 21,883 | 21,883 |
| Accumulated other comprehensive income | 16 | 16 |
| Total stockholders equity | 112,395 | 189,395 |
| Total capitalization | $ 325,072 | $ 362,072 |

The information set forth above does not include 925,244 shares of our common stock issuable as of December 31, 2003, upon exercise of options previously granted to employees and non-employee directors at a weighted average price of $7.45 and 2,523,756 additional shares of our common stock reserved as of December 31, 2003, for grants and awards under our Incentive

Compensation Plan, and also assumes that the underwriters do not purchase additional shares of common stock from us in this offering to cover over-allotments.

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## DILUTION

Our net tangible book value as of December 31, 2003, was approximately $109.8 million, or $7.56 per share. Net tangible book value per share represents our tangible net worth (tangible assets less total liabilities) divided by the total number of outstanding shares of our common stock. Dilution in net tangible book value per share represents the difference between the amount per share that investors will pay in this offering and the net tangible book value per share immediately afterwards.

After giving effect to the receipt of $77.0 million of estimated net proceeds from the sale of shares of our common stock in this offering at an assumed price of $14.00 per share after deducting our estimated underwriting discounts and commissions and our estimated expenses of this offering, our adjusted net tangible book value as of December 31, 2003 would have been $186.8 million or $9.10 per share. This represents an immediate increase in our net tangible book value of $1.54 per share to existing shareholders and an immediate dilution of $4.90 per share to new investors purchasing our common stock in this offering. The following table illustrates this per share dilution to new investors purchasing our common stock in this offering:

| | | |
|---|---|---|
| Assumed public offering price per share | | $ 14.00 |
| Net tangible book value per share as of December 31, 2003 | $ 7.56 | |
| Increase per share attributable to new investors | 1.54 | |
| Adjusted net tangible book value per share after this offering | | 9.10 |
| Dilution per share to new investors | | $ 4.90 |

The table above also assumes no issuance of shares under options outstanding as of December 31, 2003. Upon completion of this offering, 1,280,044 shares of our common stock will be issuable upon the exercise of options granted under our Incentive Compensation Plan at exercise prices ranging from $4.63 to $13.83 per share. Of these shares, 730,444 will be issuable under options that will be exercisable upon completion of this offering, with the remaining 549,600 becoming issuable at various intervals in the future based on remaining option vesting schedules. Please read Management Option Grants and Principal Stockholders for more information regarding outstanding options to purchase our common stock. If the 730,444 shares subject to options that will be exercisable upon completion of this offering were included in the above calculations, the dilution per share to new investors would be $4.90, and if all 1,280,044 shares subject to options outstanding upon completion of this offering were included in the above calculations, the dilution per share to new investors would be $4.80.

The following table illustrates, on an as adjusted basis as of December 31, 2003, the difference between the number of shares of common stock purchased from us, the total cash consideration paid to us net of expenses and the average price paid by existing shareholders and by the new investors purchasing shares of common stock in this offering, after deduction of estimated underwriting discounts and commissions and estimated expenses of this offering payable by us (in thousands).

| | Shares Purchased | | Total Cash Consideration | | Average Price Per Share |
|---|---|---|---|---|---|
| | Number | Percent | Amount | Percent | |

| | | | | | |
|---|---|---|---|---|---|
| Existing shareholders | 14,528 | 71% | $ 90,496 | 54% | $ 6.23 |
| New investors | 6,000 | 29 | 77,000 | 46 | 12.83 |
| Total | 20,528 | 100% | $ 167,496 | 100% | 8.16 |

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## SELECTED HISTORICAL CONSOLIDATED FINANCIAL INFORMATION

**(In thousands, except per share and operating data)**

Our selected historical consolidated financial information as of and for the periods ended December 31, 1999, 2000, 2001, 2002 and 2003 was derived from our audited historical consolidated financial statements. The data should be read in conjunction with and is qualified in its entirety by reference to Management s Discussion and Analysis of Financial Condition and Results of Operations, Capitalization and our historical consolidated financial statements and the notes to those statements included elsewhere in this prospectus.

| | Year Ended December 31, | | | | |
|---|---|---|---|---|---|
| | 1999 | 2000 | 2001 | 2002 | 2003 |
| **Statement of Operations Data:** | | | | | |
| Revenues | $ 25,723 | $ 36,102 | $ 68,791 | $ 92,585 | $ 110,813 |
| Operating expenses | 17,125 | 20,687 | 32,805 | 48,633 | 64,395 |
| General and administrative expenses | 2,617 | 3,078 | 8,039 | 9,681 | 10,731 |
| Operating income | 5,981 | 12,337 | 27,947 | 34,271 | 35,687 |
| Interest income | 170 | 305 | 1,455 | 667 | 178 |
| Interest expense | 7,524 | 15,478 | 16,646 | 16,207 | 18,523 |
| Other income (expense)(1) | (20) | (138) | | 55 | 706 |
| Income (loss) before income taxes | (1,393) | (2,974) | 12,756 | 18,786 | 18,048 |
| Income tax expense | (341) | (1,550) | (5,737) | (7,139) | (6,858) |
| Net income (loss)(2)(3) | (1,734) | (4,524) | 7,019 | 11,647 | 11,190 |
| **Per Share Data:** | | | | | |
| Basic net income (loss)(3) | $ (0.38) | $ (0.90) | $ 0.68 | $ 0.96 | $ 0.84 |
| Diluted net income (loss)(3) | $ (0.38) | $ (0.90) | $ 0.67 | $ 0.94 | $ 0.82 |
| Weighted average basic shares outstanding | 4,547 | 5,038 | 10,265 | 12,098 | 13,397 |
| Weighted average diluted shares outstanding | 4,547 | 5,038 | 10,514 | 12,428 | 13,604 |
| **Balance Sheet Data (at period end):** | | | | | |
| Cash and cash equivalents | $ 6,144 | $ 32,988 | $ 53,203 | $ 22,228 | $ 12,899 |
| Working capital | (2,429) | 29,524 | 48,516 | 22,265 | 17,698 |
| Property, plant and equipment, net | 85,700 | 98,935 | 180,781 | 226,232 | 316,715 |
| Total assets | 103,486 | 147,148 | 258,817 | 278,290 | 365,242 |
| Total long-term debt(4) | 79,076 | 82,557 | 171,976 | 172,306 | 212,677 |
| Total stockholders equity | 9,194 | 38,197 | 59,866 | 71,876 | 112,395 |
| **Statement of Cash Flows Data:** | | | | | |
| Net cash provided by (used in): | | | | | |
| Operating activities | $ 1,915 | $ 5,741 | $ 33,345 | $ 24,955 | $ 25,499 |
| Investing activities | (42,313) | (15,324) | (88,328) | (55,771) | (98,166) |
| Financing activities | 43,359 | 36,427 | 75,198 | (159) | 63,322 |
| **Other Financial Data (unaudited):** | | | | | |
| EBITDA(5) | $ 9,263 | $ 17,667 | $ 37,072 | $ 47,289 | $ 54,161 |
| **Other Operating Data (unaudited):** | | | | | |
| *Offshore Supply Vessels:* | | | | | |

| | | | | | |
|---|---|---|---|---|---|
| Average number(6) | 4.1 | 6.8 | 7.8 | 11.0 | 17.3 |
| Average utilization rate(7) | 93.1% | 93.4% | 99.1% | 94.9% | 88.6% |
| Average dayrate(8) | $ 6,724 | $ 8,435 | $ 11,872 | $ 12,176 | $ 10,940 |
| *Tugs and Tank Barges:* | | | | | |
| Average number of tank barges(9) | 7.1 | 7.0 | 12.3 | 16.0 | 15.9 |
| Average fleet capacity (barrels)(9) | 434,861 | 451,655 | 847,780 | 1,130,727 | 1,145,064 |
| Average barge size (barrels)(9) | 61,464 | 64,522 | 68,109 | 70,670 | 72,082 |
| Average utilization rate(7) | 73.9% | 71.4% | 84.4% | 78.1% | 73.6% |
| Average dayrate(10) | $ 8,482 | $ 8,982 | $ 8,944 | $ 9,499 | $ 10,971 |

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(1) Represents other operating income and expenses, including gains (or loses) on disposition of assets and equity in income from investments.
(2) Includes goodwill amortization of $126 for each of the three years in the period ended December 31, 2001. Effective January 1, 2002, SFAS No. 142 Goodwill and Other Intangible Assets required that goodwill and other indefinite-lived assets no longer be amortized, but instead be reviewed for impairment annually or more frequently if circumstances indicate potential impairment. Net income (loss) would have been $(1,608), $(4,398) and $7,145 for the years ended December 31, 1999, 2000 and 2001, respectively, if SFAS 142 had been in effect on January 1, 1999.
(3) Excludes a net write-off of $108 ($0.02 basic and diluted per share of common stock) related to a cumulative effect of change in accounting principle for start-up costs in 1999.
(4) Excludes original issue discount associated with our 10 5/8% senior notes in the amount of $3,024, $2,694, and $2,323 as of December 31, 2001, 2002 and 2003, respectively. The amount as of December 31, 2003 includes $40,000 outstanding under our long-term, revolving credit facility.
(5) See our discussion of EBITDA as a non-GAAP financial measure immediately following these footnotes.
(6) We owned 22 OSVs at December 31, 2003. We took delivery of a newly constructed OSV on January 21, 2004.
(7) Utilization rates are average rates based on a 365-day year. Vessels are considered utilized when they are generating revenues.
(8) Average dayrates represent average revenue per day, which includes charter hire and brokerage revenue, based on the number of days during the period that the OSVs generated revenue.
(9) The averages for the year ended December 31, 2003 give effect to our sale of the *Energy 5502* on January 28, 2003 and our acquisition of the *Energy 8001* on February 28, 2003. As of December 31, 2003, our tank barge fleet consisted of 16 vessels.
(10) Average dayrates represent average revenue per day, including time charters, brokerage revenue, revenues generated on a per-barrel-transported basis, demurrage, shipdocking and fuel surcharge revenue, based on the number of days during the period that the tank barges generated revenue. For purposes of brokerage arrangements, this calculation excludes that portion of revenue that is equal to the cost of in-chartering third-party equipment paid by customers.

**Reconciliation of EBITDA to Net Income**

EBITDA consists of earnings (net income) before interest expense, income tax expense, depreciation and amortization. This term, as we define it, may not be comparable to similarly titled measures employed by other companies and is not a measure of performance calculated in accordance with accounting principles generally accepted in the United States, or GAAP. EBITDA should not be considered in isolation or as a substitute for operating income, net income or loss, cash flows provided by operating, investing and financing activities, or other income or cash flow statement data prepared in accordance with GAAP.

We believe EBITDA is useful to an equity investor in evaluating our operating performance because:

- it is widely used by investors in our industry to measure a company s operating performance without regard to items such as interest expense, depreciation and amortization, which can vary substantially from company to company depending upon accounting methods and book value of assets, capital structure and the method by which assets were acquired; and

- it helps investors more meaningfully evaluate and compare the results of our operations from period to period by removing the impact of our capital structure (primarily interest charges from our outstanding debt) and asset base (primarily depreciation and amortization of our vessels) from our operating results.

Our management uses EBITDA:

- as a measure of operating performance because it assists us in comparing our performance on a consistent basis as it removes the impact of our capital structure and asset base from our operating results;

in presentations to our board of directors to enable them to have the same consistent measurement basis of operating performance used by management;

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as a measure for planning and forecasting overall expectations and for evaluating actual results against such expectations;

as a basis for incentive cash bonuses paid to our executive officers and other shore-based employees;

to assess compliance with financial ratios and covenants included in our revolving credit facility and the indenture governing our senior notes; and

in communications with lenders, senior note holders, rating agencies and others, concerning our financial performance.

In March 2003, the Commission adopted rules regulating the use of non-GAAP financial measures, such as EBITDA, in filings with the Commission, disclosures and press releases. These rules require non-GAAP financial measures to be presented with and reconciled to the most nearly comparable financial measure calculated and presented in accordance with GAAP. The following table reconciles EBITDA with our net income (loss):

| | Year Ended December 31, | | | | |
|---|---|---|---|---|---|
| | 1999 | 2000 | 2001 | 2002 | 2003 |
| Net income (loss) | $ (1,734) | $ (4,524) | $ 7,019 | $ 11,647 | $ 11,190 |
| Interest expense: | | | | | |
| Debt obligations(1) | 5,262 | 8,216 | 13,694 | 16,207 | 18,523 |
| Put warrants(2) | 2,262 | 7,262 | 2,952 | | |
| Income tax expense | 341 | 1,550 | 5,737 | 7,139 | 6,858 |
| Depreciation and amortization | 3,132 | 5,163 | 7,670 | 12,296 | 17,590 |
| EBITDA | $ 9,263 | $ 17,667 | $ 37,072 | $ 47,289 | $ 54,161 |

(1) Interest expense from debt obligations includes a loss of $3,029 incurred during 2001 resulting from the early extinguishment of debt. The loss relates to the write-off of deferred financing costs upon the refinancing of all our debt through the issuance of our 10 5/8% senior notes in July 2001.

(2) Interest expense from put warrants represents an adjustment to the estimated fair value of the put warrants. According to EITF Issue 88-9, as supplemented by EITF Issue 00-19, which we have adopted, we are required to account for warrants that contain put options at their estimated fair value with the changes reported as interest expense. We repurchased and terminated all of the warrants for $14,500 in October 2001.

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## MANAGEMENT S DISCUSSION AND ANALYSIS

## OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

*The following management s discussion and analysis should be read in conjunction with our historical consolidated financial statements and their notes included elsewhere in this prospectus. This discussion contains forward-looking statements that reflect our current views with respect to future events and financial performance. Our actual results may differ materially from those anticipated in these forward-looking statements as a result of certain factors, such as those set forth under Risk Factors and elsewhere in this prospectus.*

### General

We own and operate a fleet of 23 technologically advanced, new generation OSVs. Currently, 19 of our OSVs are operating in the U.S. Gulf of Mexico, three of our OSVs are operating offshore Trinidad & Tobago and one is working offshore Mexico. We also operate 12 ocean-going tugs and 16 ocean-going tank barges in the northeastern United States, primarily New York Harbor, in Puerto Rico and in the U.S. Gulf of Mexico.

We charter our OSVs on a dayrate basis, under which the customer pays us a specified dollar amount for each day during the term of the contract, pursuant to either fixed time charters or spot market charters. A fixed time charter is a contract with a term of at least one year in which the charterer obtains the right to direct the movements and utilization of the vessel in exchange for payment of a specified dayrate, generally paid monthly, but the vessel owner retains operational control over the vessel. Typically, the owner fully equips the vessel and is responsible for normal operating expenses, repairs, wages and insurance, while the charterer is responsible for voyage expenses, such as fuel, port and stevedoring expenses. Spot market charters in the OSV industry are generally time charter contracts with either relatively short, indefinite terms or fixed terms of less than one year. Generally, the vessel owner absorbs crew, insurance and repair and maintenance costs in connection with the operation of OSVs pursuant to spot market charters, while customers absorb all other direct operating costs.

All of our OSVs operate under time charters, including seven that are chartered under long-term contracts with expiration dates ranging from July 2004 through November 2007. The long-term contracts for our OSVs are consistent with those used in the industry and are either fixed for a term of months or years or are tied to the duration of a long-term contract for a drilling rig for which the vessel provides services. These contracts generally contain, among others, provisions governing insurance, reciprocal indemnifications, performance requirements and, in certain instances, dayrate escalation terms and renewal options.

While OSVs service existing oil and gas production platforms as well as exploration and development activities, incremental OSV demand depends primarily upon the level of drilling activity, which can be influenced by a number of factors, including oil and natural gas prices and drilling budgets of exploration and production companies. As a result, utilization rates have historically been tied to oil and natural gas prices and drilling activity. However, the relatively large capital commitments, longer lead times and investment horizons associated with deepwater and deep well projects have diminished the significance of these factors. Soft market conditions for OSVs in the U.S. Gulf of Mexico persisted since the second half of 2002. We added six new generation OSVs to our fleet in mid-2003, three of which were cold-stacked by the seller at the time of acquisition. Despite market weakness, we were able to place in service all six of the acquired Candy Fleet vessels and to achieve a fleetwide OSV utilization of approximately 87% in the second half of 2003.

We have developed five different classes of proprietary, new generation OSVs to meet the diverse needs of our customers. The recent acquisition of six 220' OSVs from Candy Fleet broadened

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the mix of equipment in our fleet, adding a sixth class of vessels well suited for deep shelf gas exploration and other complex shelf drilling applications. In addition, these new generation vessels are available to fill the increasing demand for modern equipment for conventional drilling on the Continental Shelf. Because the recently acquired vessels were 220 class OSVs, our complement of OSVs smaller in size than the 240 class increased from 33% to 50% of our fleet, resulting in a commensurate decrease in our fleetwide average dayrates beginning in mid-2003. However, we have achieved a comparable reduction in both our fleetwide average capital costs and our daily operating expense per vessel.

Our average dayrate was positively impacted during 2003 by the partial contribution from the first three of our four new 240 ED class OSVs. These vessels were delivered in March, June and September. Each of these three new vessels were delivered two weeks ahead of schedule. The delivery of the *HOS Greystone* in September 2003 marked the eighth consecutive quarter that we had placed a newly constructed OSV in service. The fourth vessel of this newbuild program, the *HOS Silverstar*, was ready for early delivery in December; however, we elected to make various vessel enhancements that resulted in delivery of the vessel on January 21, 2004.

Although current U.S. Gulf of Mexico market conditions remain challenging, we believe certain events could have a favorable impact on the long-term market outlook. Deepwater properties continue to change ownership, and several of the new operators have publicly stated their intentions to develop these properties over the next several quarters. Additionally, certain operators have recently reaffirmed their commitments to continue developing large projects in the U.S. Gulf of Mexico. In response to U.S. Gulf of Mexico conditions, we elected to expand our operations within the western hemisphere in mid-2002. We currently have three vessels operating in Trinidad & Tobago and one in Mexico. We will continue to take advantage of our vessels capabilities to meet emerging market trends, both in the U.S. Gulf of Mexico and in select international markets.

Generally, we operate an ocean-going tug and tank barge together as a tow to transport petroleum products between U.S. ports and along the coast of Puerto Rico. We operate our tugs and tank barges under fixed time charters, spot market charters, contracts of affreightment and consecutive voyage contracts. Spot market charters in the tug and tank barge industry are generally single-voyage contracts of affreightment or time charter contracts with terms of less than one year. A consecutive voyage contract is a contract for the transportation of cargo for a specified number of voyages between designated ports over a fixed period of time under which we are paid based on the volume of products we deliver per voyage. Under consecutive voyage contracts, in addition to earning revenues for volumes delivered, we earn a standby hourly rate between charters. One of our tank barges was chartered to a third party under a bareboat charter from January 2000 until it was sold to the third party on January 28, 2003. A bareboat charter is a net lease in which the charterer takes full operational control over the vessel for a specified period of time for a specified daily rate that is generally paid monthly to the vessel owner. The bareboat charterer is solely responsible for the operation and management of the vessel and must provide its own crew and pay all operating and voyage expenses.

The primary demand drivers for our tug and tank barge services are population growth, the strength of the U.S. economy, changes in weather, oil prices and competition from alternate energy sources. The tug and tank barge market, in general, is marked by steady demand over time. Results for the first and fourth quarters of a given year are typically higher due to normal seasonal weather patterns that typically result in a drop-off of activity during the second and third quarters. We generally take advantage of this seasonality to prepare the tug and tank barge fleet for peak demand periods by performing our regulatory drydocking and maintenance programs during these off-peak periods. In addition, we continuously evaluate our customers needs and often elect to accelerate scheduled drydockings to take advantage of certain market opportunities. As expected, activity during the fourth quarter of 2003 was seasonally higher during the early stages of winter, with normal winter conditions extending into early 2004.

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As the next major OPA 90 milestone approaches on January 1, 2005, customer demand for double-hulled equipment has led to increases in dayrates for this equipment, particularly for tank barges in black oil service. We are actively working to ensure that our fleet is well positioned to take advantage of these opportunities as they develop. In November 2003, we commenced a new double-hulled tank barge newbuild construction program to address our need to replace three single-hulled tank barges that are required under OPA 90 to be retired from service prior to January 1, 2005. Our recent newbuild program is based on a proprietary new design that we have developed to replace and expand our existing fleet of ocean-going tank barges. The design of these vessels is intended to maximize transit speed, improve cargo through-put rates and enhance crew safety features.

Our operating costs are primarily a function of fleet size and utilization levels. The most significant direct operating costs are wages paid to vessel crews, maintenance and repairs and marine insurance. Because most of these expenses remain payable regardless of vessel utilization, our direct operating costs as a percentage of revenues may fluctuate considerably with changes in dayrates and utilization.

In addition to the operating costs described above, we incur fixed charges related to the depreciation of our fleet and costs for routine drydock inspections and maintenance and repairs necessary to ensure compliance with applicable regulations and to maintain certifications for our vessels with the U.S. Coast Guard and various classification societies. The aggregate number of drydockings and other repairs undertaken in a given period determines the level of maintenance and repair expenses and marine inspection amortization charges. We generally capitalize costs incurred for drydock inspection and regulatory compliance and amortize such costs over the period between such drydockings, typically 30 or 60 months.

Applicable maritime regulations require us to drydock our vessels twice in a five-year period for inspection and routine maintenance and repair. If we undertake a large number of drydockings in a particular fiscal period, comparative results may be affected.

**Critical Accounting Policies**

Our consolidated financial statements included in this prospectus have been prepared in accordance with accounting principles generally accepted in the United States. In many cases, the accounting treatment of a particular transaction is specifically dictated by generally accepted accounting principles. In other circumstances, we are required to make estimates, judgments and assumptions that we believe are reasonable based upon available information. We base our estimates and judgments on historical experience and various other factors that we believe are reasonable based upon the information available. Actual results may differ from these estimates under different assumptions and conditions. We believe that of our significant accounting policies discussed in note 2 to our consolidated financial statements, the following may involve estimates that are inherently more subjective.

*Purchase Accounting.* Purchase accounting requires extensive use of estimates and judgments to allocate the cost of an acquired enterprise to the assets acquired and liabilities assumed. The cost of each acquired operation is allocated to the assets acquired and liabilities assumed based on their estimated fair values. These estimates are revised during an allocation period as necessary when, and if, information becomes available to further define and quantify the value of the assets acquired and liabilities assumed. For example, costs related to the recertification of acquired vessels that are drydocked within the allocation period immediately following the acquisition of such vessels are reflected as an adjustment to the value of the vessels acquired and the liabilities assumed related to the drydocking. The adjusted basis of the vessel is depreciated over the estimated useful lives of the vessel. The allocation period does not exceed one year from the date of the acquisition. To the extent additional information to refine the original allocation becomes available during the allocation period,

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the allocation of the purchase price is adjusted. For example, if an acquired vessel was subsequently disposed of within the allocation period, the sales price of the vessel would be used to adjust the original assigned value to the vessel at the date of acquisition such that no gain or loss would be recognized upon disposition during the allocation period. If information becomes available after the allocation period, those items are reflected in operating results.

*Carrying Value of Vessels.* We depreciate our tugs, tank barges, and OSVs over estimated useful lives of 14 to 25 years, three to 18 years and 25 years, respectively. The useful lives used for single-hulled tank barges is based on their classification under OPA 90, and for double-hulled tank barges it is 25 years. In assigning depreciable lives to these assets, we have considered the effects of both physical deterioration largely caused by wear and tear due to operating use and other economic and regulatory factors that could impact commercial viability. To date, our experience confirms that these policies are reasonable, although there may be events or changes in circumstances in the future that indicate the recoverability of the carrying amount of a vessel might not be possible. Examples of events or changes in circumstances that could indicate that the recoverability of a vessel s carrying amount should be assessed might include a change in regulations such as OPA 90, a significant decrease in the market value of a vessel and current period operating or cash flow losses combined with a history of operating or cash flow losses or a projection or forecast that demonstrates continuing losses associated with a vessel. If events or changes in circumstances as set forth above indicate that a vessel s carrying amount may not be recoverable, we would then be required to estimate the undiscounted future cash flows expected to result from the use of the vessel and its eventual disposition. If the sum of the expected future cash flows is less than the carrying amount of the vessel, we would be required to recognize an impairment loss.

*Recertification Costs.* Our tugs, tank barges and OSVs are required by regulation to be recertified after certain periods of time. These recertification costs are incurred while the vessel is in drydock where other routine repairs and maintenance are performed and, at times, major replacements and improvements are performed. We expense routine repairs and maintenance as they are incurred. Recertification costs can be accounted for in one of three ways: (1) defer and amortize, (2) accrue in advance, or (3) expense as incurred. Companies in our industry use either the defer and amortize or the expense as incurred accounting method. We defer and amortize recertification costs over the length of time in which the recertification is expected to last, which is generally 30 or 60 months. Major replacements and improvements, which extend the vessel s economic useful life or functional operating capability, are capitalized and depreciated over the vessel s remaining economic useful life. Inherent in this process are estimates we make regarding the specific cost incurred and the period that the incurred cost will benefit.

*Revenue Recognition*. We charter our OSVs to customers under time charters based on a daily rate of hire and recognize revenue as earned on a daily basis during the contract period of the specific vessel. Tugs and tank barges are contracted to customers primarily under contracts of affreightment, under which revenue is recognized based on the number of days incurred for the voyage as a percentage of total estimated days applied to total estimated revenues. Voyage related costs are expensed as incurred. Substantially all voyages under these contracts are less than 10 days in length. We also contract our tugs and tank barges under time charters based on a daily rate of hire. Revenue is recognized on such contracts as earned on a daily basis during the contract period of the specific vessel.

*Allowance for Doubtful Accounts*. Our customers are primarily major and independent, domestic and international, oil and oil service companies. Our customers are granted credit on a short-term basis and related credit risks are considered minimal. We usually do not require collateral. We provide an estimate for uncollectible accounts based primarily on management s judgment. Management uses historical losses, current economic conditions and individual evaluations of each customer to make

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adjustments to the allowance for doubtful accounts. Our historical losses have not been significant. However, because amounts due from individual customers can be significant, future adjustments to the allowance can be material if one or more individual customers balances are deemed uncollectible.

*Income Taxes*. We follow SFAS No. 109, Accounting for Income Taxes. SFAS 109 requires the use of the liability method of computing deferred income taxes. Under this method, deferred income taxes are provided for the temporary differences between the financial reporting basis and the tax basis of our assets and liabilities. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The assessment of the realization of deferred tax assets, particularly those related to tax operating loss carryforwards, involves the use of management s judgment to determine whether it is more likely than not that we will realize such tax benefits in the future.

**Results of Operations**

The tables below set forth, by segment, the average dayrates and utilization rates for our vessels and the average number of vessels owned during the periods indicated. These OSVs and tug and tank barges generate substantially all of our revenues and operating profit.

| | Years Ended December 31, | | |
|---|---|---|---|
| | **2001(1)** | **2002(2)** | **2003(3)** |
| **Offshore Supply Vessels:** | | | |
| Average number of vessels(4) | 7.8 | 11.0 | 17.3 |
| Average utilization rate(5) | 99.1% | 94.9% | 88.6% |
| Average dayrate(6) | $ 11,872 | $ 12,176 | $ 10,940 |
| **Tugs and Tank Barges:** | | | |
| Average number of tank barges | 12.3 | 16.0 | 15.9 |
| Average fleet capacity (barrels) | 847,780 | 1,130,727 | 1,145,064 |
| Average barge size (barrels) | 68,109 | 70,670 | 72,082 |
| Average utilization rate(5) | 84.4% | 78.1% | 73.6% |
| Average dayrate(7) | $ 8,944 | $ 9,499 | $ 10,971 |

(1) The tug and tank barge averages include 7.0 months of operations from the nine tugs and nine tank barges acquired from the Spentonbush/Red Star Group effective May 31, 2001 and the OSV averages include 8.0 months of operations from the *HOS Innovator*, delivered April 28, 2001, and 2.0 months of operations from the *BJ Blue Ray*, delivered November 6, 2001.

(2) The OSV averages include 10.0 months of operations from the *HOS Dominator*, delivered February 28, 2002, 6.5 months of operations from the *HOS Brimstone* delivered June 13, 2002, 4.5 months of operations from the *HOS Stormridge*, delivered August 11, 2002, and 2.5 months of operations from the *HOS Sandstorm* delivered October 20, 2002.

(3) The tug and tank barge averages give effect to our sale of the *Energy 5502* on January 28, 2003 and our acquisition of the *Energy 8001* on February 28, 2003. As of December 31, 2003, our tank barge fleet consisted of 16 vessels. The OSV averages include 9.5 months of operations from the *HOS Bluewater*, delivered on March 17, 2003, 6.5 months of operations from the *HOS Gemstone*, delivered on June 19, 2003 and 2.5 months of operations from the *HOS Greystone*, delivered on September 17, 2003.

(4) We owned 22 OSVs at December 31, 2003, and placed in service a newly constructed OSV, the *HOS Silverstar*, on March 3, 2004.

(5) Utilization rates are average rates based on a 365-day year. Vessels are considered utilized when they are generating revenues.

(6) Average dayrates represent average revenue per day, which includes charter hire and brokerage revenue, based on the number of days during the period that the OSVs generated revenue.

(7) Average dayrates represent average revenue per day, including time charters, brokerage revenue, revenues generated on a per-barrel-transported basis, demurrage, shipdocking and fuel surcharge revenue, based on the number of days during the period that the tank barges generated revenue. For purposes of brokerage arrangements, this calculation excludes that portion of revenue that is equal to the cost

paid by customers of in-chartering third-party equipment.

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Summarized financial information concerning our reportable segments is shown below in the following table (dollars in thousands):

| | Year Ended December 31, | | |
|---|---|---|---|
| | 2001 | 2002 | 2003 |
| **Revenues by segment:** | | | |
| Offshore supply vessels | $ 33,610 | $ 46,378 | $ 62,402 |
| Tugs and tank barges | 35,181 | 46,207 | 48,411 |
| | $ 68,791 | $ 92,585 | $ 110,813 |
| **Operating expenses by segment:** | | | |
| Offshore supply vessels | $ 11,672 | $ 20,197 | $ 32,167 |
| Tugs and tank barges | 21,133 | 28,436 | 32,228 |
| | $ 32,805 | $ 48,633 | $ 64,395 |
| General and administrative expenses | $ 8,039 | $ 9,681 | $ 10,731 |
| Interest expense | $ 16,646 | $ 16,207 | $ 18,523 |
| Interest income | $ 1,445 | $ 667 | $ 178 |
| Income tax expense | $ 5,737 | $ 7,139 | $ 6,858 |

**YEAR ENDED DECEMBER 31, 2003 COMPARED TO YEAR ENDED DECEMBER 31, 2002**

*Revenues.* Revenues were $110.8 million for 2003, compared to $92.6 million for 2002, an increase of $18.2 million or 19.7%. This increase in revenues is primarily the result of the year-over-year growth of our fleet. Our operating fleet grew from an average of 39 vessels during 2002 to an average of 45 vessels during 2003. The additional revenues generated by these six vessels accounted for $14.5 million of the increase in our revenues. We also experienced a $3.7 million increase in revenues from our 39 vessels that were in service during each of the years ended December 31, 2003 and 2002.

Revenues from our OSV segment increased to $62.4 million for 2003, compared to $46.4 million for 2002, an increase of $16.0 million or 34.5%. Our utilization rate was 88.6% for 2003, compared to 94.9% in 2002. The increase in revenues was primarily the result of the year-over-year increase in the size of our fleet. The decrease in utilization was due to having fewer OSVs on long-term contracts and an increased proportion of vessels operating in the spot market, which is more susceptible to market fluctuations. The soft OSV spot market that began in mid-2002 continued throughout 2003, and is continuing in 2004. Our OSV average dayrate was $10,940 for 2003, compared to $12,176 in 2002, a decrease of $1,236 or 10.2%. The decrease in average dayrates primarily reflects the addition of six 220 class OSVs, which typically experience lower dayrates, regardless of market conditions, than our 240 or 265 class vessels and continued dayrate weakness in the U.S. Gulf of Mexico. Our average dayrate for the fourth quarter of 2003 was $9,769, which we believe is more indicative of our expectations for early 2004 than our annual average dayrate of $10,940 for 2003. The fourth quarter of 2003 was the first quarter that reflected a full contribution of the operating results from all six of the new 220 class OSVs we acquired in mid-2003, causing a shift in our OSV vessel mix.

Revenues from our tug and tank barge segment totaled $48.4 million for 2003 compared to $46.2 million for 2002, an increase of $2.2 million or 4.8%. The segment revenue increase was primarily due to the acquisition of one 80,000-barrel double-hulled tank barge on February 28, 2003. Our utilization rate decreased to 73.6% for 2003, compared to 78.1% for the same period of 2002 primarily due to more drydocking days occurring in 2003 and an increase in vessels operating under contracts of affreightment during the 2003 period. Our average dayrate increased $1,472, or 15.5%, to $10,971 for 2003 compared to $9,499 for 2002. The increased dayrates were primarily driven by higher average barge capacities and a bareboat charter contract that was replaced by a time charter contract, the latter of which commands a higher dayrate.

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*Operating Expenses.* Our operating expenses, including depreciation and amortization, increased to $64.4 million for 2003, compared to $48.6 million for 2002, an increase of $15.8 million or 32.5%. The increase in operating expenses was primarily the result of having more vessels in service in 2003 compared to 2002.

Operating expenses for our OSV segment increased $12.0 million or 59.4% for 2003 to $32.2 million, compared to $20.2 million for 2002. This increase was primarily the result of five newly constructed, larger class OSVs being in service for substantially more days during 2003 compared to 2002, and the acquisition of six 220 class OSVs in mid-2003. Daily operating costs per vessel for 2003 decreased over 2002, primarily due to a change in the OSV fleet complement in the second half of 2003.

Operating expenses for our tug and tank barge segment were $32.2 million for 2003, compared to $28.4 million for 2002, an increase of $3.8 million or 13.4%. The operating expense increase was primarily due to the acquisition of the *Energy 8001* in February 2003. Average daily operating expenses per vessel in the tug and tank barge segment remained fairly constant.

*General and Administrative Expenses.* Our general and administrative expenses were $10.7 million for 2003, compared to $9.7 million for 2002, an increase of $1.0 million or 10.3%. This increase primarily resulted from increased overhead relating to the costs associated with increased reporting obligations under federal securities laws incurred during 2003 but not in 2002 and the expansion of our fleet during 2003.

*Interest Expense.* Interest expense was $18.5 million in 2003, compared to $16.2 million in 2002, an increase of $2.3 million or 14.2%. The increase in interest expense resulted from lower capitalized interest in 2003 of $2.7 million related to the construction in progress of four vessels compared to $3.9 million related to the construction of eight vessels in progress during 2002. In addition, the net increase in interest expense was impacted by an average balance outstanding under our revolving credit facility during calendar 2003 of $20.0 million compared to 2002, when the facility was undrawn all year.

*Interest Income.* Interest income was $0.2 million in 2003 compared to $0.7 million in 2002, a decrease of $0.5 million or 71.4%. Average cash balances were $17.6 million and $37.7 million for the years ended December 31, 2003 and 2002, respectively, which substantially contributed to the decrease in interest income during the year ended December 31, 2003.

*Income Tax Expense.* Our effective tax rate was 38.0% for 2003 and 2002. Our income tax expense primarily consists of deferred taxes due to our federal tax net operating loss carryforwards of approximately $37.4 million as of December 31, 2003, that are available through 2018 to offset future taxable income. Our income tax rate is higher than the federal statutory rate due primarily to expected state and foreign tax liabilities and items not deductible for federal income tax purposes.

**YEAR ENDED DECEMBER 31, 2002 COMPARED TO YEAR ENDED DECEMBER 31, 2001**

*Revenues*. Revenues were $92.6 million for 2002, compared to $68.8 million in 2001, an increase of $23.8 million or 34.6%. The increase in revenues was primarily the result of the year-over-year increase in the size of our fleet. Our operating fleet grew from an average of 28 vessels during 2001 to an average of 39 during 2002.

Revenues from our OSV segment increased to $46.4 million in 2002, compared to $33.6 million for 2001, an increase of $12.8 million or 38.1%. Our average OSV fleet size grew by 3.2 vessels during 2002 compared to 2001. The average utilization rate was 94.9% for 2002, compared to 99.1% for

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2001. The 4.2% decrease in utilization for 2002 resulted from a reduced number of long-term contracts and an increased proportion of vessels operating in the spot market, which is more susceptible to market fluctuations. The spot OSV market was softer in 2002 and we experienced more drydocking days in 2002 than in 2001. Our OSV average dayrate was $12,176 for 2002, compared to $11,872 for 2001, an increase of $304 or 2.6%. The increase in average dayrates primarily reflected the addition of larger, newly constructed 240 and 265 class OSVs, which experience higher dayrates than our 200 class OSVs.

Revenues from our tug and tank barge segment totaled $46.2 million for 2002, compared to $35.2 million in 2001, an increase of $11.0 million or 31.3%. This increase in revenue was primarily due to the acquisition of nine tugs and nine tank barges on May 31, 2001, which increased average fleet capacity in barrels from 451,655 to 1,130,727. Revenues for 2002 included $2.9 million that was equal to the cost of in-chartering third party equipment paid by customers, compared to $1.4 million for 2001. Our utilization rate decreased 6.3% to 78.1% for 2002, compared to 84.4% for 2001, primarily due to a significant increase in vessels operating under contracts of affreightment during 2002, and the adverse impact of the warm winter season and weak economic conditions experienced in the northeastern United States since the third quarter of 2001. More barrels moved under contracts of affreightment also contributed to our average dayrate increasing by $555 to $9,499 for 2002, compared to $8,944 for 2001.

*Operating Expenses*. Our operating expenses, including depreciation and amortization, increased to $48.6 million for 2002, compared to $32.8 million in 2001, an increase of $15.8 million or 48.2%. The increase in operating expenses was the result of an average of 10.7 more vessels in service during 2002 compared to 2001.

Operating expenses for our OSV segment increased $8.5 million, or 72.6%, in 2002 to $20.2 million, compared to $11.7 million in 2001. This increase was primarily the result of an average of 3.2 more new OSVs being in service during 2002 compared to 2001. Daily operating costs per vessel for 2002 increased slightly over 2001, primarily due to the higher costs of operating larger vessels, including increased manning requirements.

Operating expenses for our tug and tank barge segment was $28.4 million for 2002, compared to $21.1 million in 2001, an increase of $7.3 million or 34.6%. The increase in operating expenses was primarily the result of the addition of nine tugs and nine tank barges on May 31, 2001. Daily operating expenses per vessel in the tug and tank barge segment remained fairly constant.

As discussed in note 2 to the audited consolidated financial statements contained herein, we adopted SFAS 142 effective January 1, 2002 and, accordingly, we have ceased amortizing goodwill. Operating expenses for 2001 included goodwill amortization of $0.1 million.

*General and Administrative Expenses*. Our general and administrative expenses were $9.7 million for 2002, compared to $8.0 million in 2001, an increase of $1.7 million or 21.3%. This increase primarily resulted from increased overhead relating to the nine tugs and nine tank barges acquired on May 31, 2001 and increased costs associated with reporting obligations under federal securities laws that we were subject to during all of 2002 but during only a portion of 2001.

*Interest Expense*. Interest expense from debt obligations was $16.2 million in 2002, compared to $13.7 million in 2001, an increase of $2.5 million or 18.2%. The increase in interest expense from debt obligations resulted from the refinancing of our conventional floating rate debt through the issuance of $175.0 million of 10 $^{5}/8$% senior notes in July 2001 with a higher fixed rate and average balance of debt outstanding for 2002. This increase was offset in part by the capitalization of interest costs of $3.9 million and $3.1 million for 2002 and 2001, respectively. Higher capitalized interest in

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2002 was related to the construction in progress of seven offshore supply vessels compared to six vessels during 2001. Included in interest expense was a loss of approximately $3.0 million incurred during 2001 resulting from the early extinguishment of debt. This loss related to the write-off of deferred financing costs upon the refinancing of our debt through the issuance of our senior notes. For more information, please read Recent Accounting Pronouncements below.

Interest expense also includes the results of fair value adjustments to warrants having put options. There was no such adjustment for 2002 compared to an adjustment for 2001 of $3.0 million as the warrants were repurchased and terminated during October 2001.

*Interest Income*. Interest income was $0.7 million in 2002, compared to $1.5 million in 2001, a decrease of $0.8 million or 53.3%. The decrease in interest income resulted from substantially lower interest rates earned on lower average cash balances invested during 2002 compared to 2001.

*Income Tax Expense*. Our effective income tax provision for 2002, compared to 2001 was higher primarily due to foreign and state income taxes and the impact of non-deductible interest expense resulting from fair value adjustments for warrants with put options, which was $3.0 million lower in 2002 than in 2001. Our income tax expense primarily consists of deferred taxes due to our federal tax net operating loss carryforwards. Our income tax rate is higher than the federal statutory rate due primarily to expected state tax liabilities, foreign taxes and items not deductible for federal income tax purposes.

**Liquidity and Capital Resources**

Our capital requirements have historically been financed with cash flow from operations, issuances of our common equity and debt securities, and borrowings under our credit facilities. We require capital to fund ongoing operations, the construction of new vessels, acquisitions, vessel recertifications, discretionary capital expenditures and debt service. The nature of our capital requirements and the types of our financing sources are not expected to significantly change during 2004.

Pursuant to an amendment and restatement of our revolving credit facility on February 13, 2004, we have a five-year $100 million senior secured revolving credit facility with a borrowing base of $60 million. As of December 31, 2003, we had $40 million outstanding and $20 million of available borrowing capacity under the then-existing facility. We have made, and may make additional, short-term draws on our revolving credit facility from time to time to satisfy scheduled capital expenditure requirements or other corporate purposes. Any liquidity in excess of our planned capital expenditures will be utilized to repay debt or finance the implementation of our growth strategy, which includes expanding our fleet through the construction, retrofit or acquisition of additional vessels, including OSVs and ocean-going tugs and tank barges, as needed to take advantage of the demand for such vessels. The two double-hulled tank barges currently being constructed will replace two single-hulled vessels that are required to be retired under OPA 90 prior to January 1, 2005.

We believe that our current working capital, projected cash flow from operations and available capacity under our revolving credit facility, will be sufficient to meet our cash requirements for the forseeable future. Although we expect to continue generating positive working capital through our operations, events beyond our control, such as mild winter conditions, a reduction in domestic consumption of refined petroleum products, or declines in expenditures for exploration, development and production activity may affect our financial condition or results of operations. The proceeds of this offering will allow us to further implement our growth strategy, as contemplated under our Use of Proceeds described above. However, depending on the market demand for OSVs, tugs and tank barges and other growth opportunities that may arise, we may require additional debt or equity financing.

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*Operating Activities.* We rely primarily on cash flows from operations to provide working capital for current and future operations. Cash flows from operating activities totaled $33.3 million in 2001, $25.0 million in 2002 and $25.5 million in 2003. The increase in operating cash flows in 2003 over 2002 was primarily due to the growth of our fleet and the decrease from 2001 to 2002 was primarily related to increased cash interest paid. Our cash flow from operations is expected to trend higher as we will have a full year of revenue contribution from the nine vessels we added to our fleet in 2003 and nine months of activity for one OSV added in 2004. However, continued soft market conditions in the U.S. Gulf of Mexico