

HORNBECK OFFSHORE SERVICES INC /LA

Form 424B1

March 26, 2004

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Filed pursuant to Rule 424(b)(1)

Registration No. 333-108943

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. The common stock has been approved for listing 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
	<hr/>	<hr/>
Initial public offering price	\$ 13.00	\$ 78,000,000
Underwriting discount	\$ 0.91	\$ 5,460,000
Proceeds, before expenses, to Hornbeck Offshore	\$ 12.09	\$ 72,540,000

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 March 31, 2004.

Goldman, Sachs & Co.

Jefferies & Company, Inc.

Simmons & Company

International

Johnson Rice & Company L.L.C.

Prospectus dated March 25, 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 financial 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 comparative 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.

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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

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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

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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 retrofitings. 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 effected 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

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contracted with shipyards for the construction of two double-hulled tank barges and are currently 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.

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 \$71.4 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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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 10⁵/₈% 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;

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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 10⁵/₈% 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

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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;