HORNBECK OFFSHORE SERVICES INC /LA
Form 424B5
September 26, 2005
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The information in this preliminary prospectus supplement is not complete and may be changed. This preliminary prospectus supplement 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.

Filed Pursuant to Rule 424(b)(5)

Registration No. 333-128014

Subject to Completion. Dated September 26, 2005.

Prospectus Supplement to Prospectus dated September 15, 2005.

6,750,000 Shares

Hornbeck Offshore Services, Inc.

Common Stock

Hornbeck Offshore Services, Inc. is offering 4,750,000 shares of common stock to be sold in the offering. The selling stockholder identified in this prospectus supplement is offering an additional 2,000,000 shares. We will not receive any proceeds from the sale of the shares being sold by the selling stockholder.

Our common stock is listed on the New York Stock Exchange under the symbol HOS . The last reported sales price of the common stock on September 23, 2005 was $34.20 per share.

See Risk Factors beginning on page S-12 of this prospectus supplement to read about factors you should consider before buying shares of the 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 supplement or the accompanying prospectus.

Any representation to the contrary is a criminal offense.

	Per Share	Total
Initial price to public	$	$
Underwriting discount	$	$
Proceeds, before expenses, to Hornbeck Offshore	$	$
Proceeds, before expenses, to the selling stockholder	$	$

To the extent the underwriters sell more than 6,750,000 shares of common stock, the underwriters have the option to purchase up to an additional 1,012,500 shares from Hornbeck Offshore at the initial price to public, less the underwriting discount.

The underwriters expect to deliver the shares against payment in New York, New York on October , 2005.

Joint Book-Running Managers

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

Lehman Brothers

Bear, Stearns & Co. Inc.

Johnson Rice & Company L.L.C.

Simmons & Company International

Hibernia Southcoast Capital **Pritchard Capital Partners, LLC**

Prospectus Supplement dated September , 2005.

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SUMMARY

This summary highlights selected information from this prospectus supplement or the accompany prospectus and does not contain all the information you need to consider in making your investment decision. This prospectus supplement and the accompanying prospectus include or incorporate by reference about this offering, our business and our financial and operating data. We encourage you to read the entire prospectus supplement and the accompanying prospectus carefully, including the Risk Factors section and the financial statements and the footnotes to those statements and the information incorporated by reference in this document before making an investment decision. You should rely on the information provided or incorporated by reference in this prospectus supplement and the accompanying prospectus. We have not authorized anyone else to provide you with different information. You should not assume that the information in this prospectus supplement and the accompanying prospectus is accurate as of any date other than their respective dates.

References in this prospectus supplement 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 supplement 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 and foreign-flagged equivalent vessels.

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, Trinidad 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. Such other projects include, among others, the construction, maintenance and repair of offshore infrastructure. 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 2004 the deepwater region accounted for 64% of total U.S. Gulf of Mexico oil production and 35% of total U.S. Gulf of

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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 eight additional new generation OSVs.

Our fleet of 25 OSVs is among the youngest in the industry with an average age of approximately five years. We are the only publicly traded company with a significant fleet of U.S.-flagged, 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 eight OSVs operating offshore Trinidad and our fast supply vessel operating 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. In May 2005, we announced a conversion program to retrofit two coastwise sulfur tankers into U.S.-flagged, new generation 370-foot multi-purpose supply vessels, or MPSVs.

Our tug and tank barge fleet consists of 14 ocean-going tugs and 15 active ocean-going tank barges. We currently have three double-hulled tank barges under construction with two previously delivered under our current newbuild program. 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 are incurring 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.

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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, including the MPSVs to be converted, 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 with 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 eight-year track record of safe and reliable performance and the collaborative efforts of our in-house design team in providing marine solutions to our customers.

Young OSV Fleet. We believe that we operate one of the youngest fleets of U.S.-flagged OSVs. While the average age of the industry s conventional 180 U.S.-flagged OSV fleet is approximately 25 years, the average age of our OSV fleet is approximately five 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 U.S.-flagged OSVs comprise the second largest fleet of technologically advanced, new generation OSVs qualified for work in the U.S. Gulf of Mexico. Currently, 17 of our 23 U.S.-flagged OSVs operate in that area. We also operate eight OSVs offshore Trinidad with a 60% market share. In addition, we 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 fifth 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 team 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 multiple acquisitions involving 17 ocean-going tugs and 13 ocean-going tank barges, two coastwise tankers, six 220 new generation OSVs, and a 165 fast supply vessel. In November 2003, we

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commenced construction of five double-hulled tank barges based on a proprietary design developed by our in-house engineering team. Two of these barges have been delivered with the other three expected to be delivered in the fourth quarter of 2005. In addition, we recently announced our fourth OSV newbuild program and our second tug and tank barge newbuild program.

Experienced Management Team with Proven Track Record. Our executive management team has an average of 22 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 and MPSVs 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, MPSVs and ocean-going tugs and tank barges.

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. See Recent Developments for a discussion of two recently announced newbuild programs. 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. We plan our mix of long-term and spot market contracts with respect to our OSVs based on anticipated market conditions. By design, 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

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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 four OSVs offshore Trinidad for service to 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

Recent Hurricane Activity. We experienced no damage to any of our vessels as a result of Hurricanes Katrina and Rita, including those vessels currently under construction or conversion at various Gulf of Mexico shipyards. In addition, the storms had no negative impact on our vessel charters. Our new generation OSV fleet continues to operate at pre-storm levels of 100% utilization, with some vessels earning higher dayrates. Further, no physical damage occurred at our corporate headquarters in Covington, Louisiana and electrical power, Internet connectivity and telecommunications service have been restored. We are now fully operational from our headquarters. While it is premature to gauge the full extent or precise nature of the impact that the storms will have on the energy industry or on our business and operations, historically, we have experienced an increase in demand for our offshore service vessels in the aftermath of storms of this nature.

Upgrade of Tug and Tank Barge Fleet. In connection with our ongoing efforts to upgrade our tug and tank barge fleet over time, we recently sold an older ocean-going tug, the *North Service*, agreed to sell one of our inactive single-hulled tank barges, *the Energy 9501*, and bought two 6,000 horsepower ocean-going tugs that we are currently retrofitting for delivery in the fourth quarter of 2005. These tugs have been renamed the *Eagle Service* and *Patriot Service*. The estimated aggregate cost to acquire and retrofit these two higher horsepower tugs is approximately $16 million. Two of the five new tank barges in the current newbuild program have been delivered, one in March 2005 and the other in July 2005. The other three barges in this newbuild program are expected to be delivered by year-end 2005.

Newly Announced Additional OSV and Double-Hulled Tank Barge Newbuild Programs. On September 26, 2005, we announced two additional vessel newbuild programs. Our latest OSV newbuild program contemplates the construction of high end, technologically advanced OSVs totaling, in the aggregate, approximately 20,000 deadweight tons. Our new ocean-going tug and tank barge newbuild program anticipates the construction of ocean-going tank barges having, in the aggregate, an estimated 400,000 barrels of barrel-carrying capacity, and related ocean-going tugs. The precise vessel numbers and specifications of these OSVs, tank barges and tugs will be finalized as certain milestones are completed, including the negotiation of shipyard contracts.

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Senior Notes Offering. Concurrently with this offering, we are offering $75,000,000 principal amount of our 6.125% senior notes due 2014 in a private placement exempt from registration under the Securities Act of 1933, as amended, or Securities Act. We intend to use the net proceeds of this offering, in addition to the net proceeds from our note offering, to fund a portion of the costs of the construction of OSVs, ocean-going tugs and ocean-going, double-hulled tank barges, the retrofit or conversion of certain existing vessels, including MPSVs, possible future acquisitions and additional new vessel construction, and for general corporate purposes. Pending these uses, we will repay debt under our revolving credit facility, which may be reborrowed. An affiliate of one of the underwriters for this offering is a lender under our revolving credit facility and will be repaid with a portion of the net proceeds from this offering. The offering of our notes will be conducted as a separate private placement pursuant to Rule 144A or Regulation S of the Securities Act by means of a separate offering circular. This prospectus supplement and the accompanying prospectus do not constitute an offer to sell or the solicitation of an offer to buy any of such senior notes. The completion of this offering is not contingent upon the completion of our note offering.

Plans to Renegotiate Revolving Credit Facility. Upon completion of our concurrent common stock offering and private notes offering, we plan to negotiate a new revolving credit facility with our current bank group, and possibly add new lenders. Our goal will be to provide for, among others things, a longer maturity, increased borrowing capacity, lower interest rates and an updated covenant package commensurate with our improved credit standing.

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*. Information on our website does not constitute part of this prospectus supplement.

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Summary of the Offering

Common stock offered by Hornbeck Offshore	4,750,000 shares
Common stock offered by the selling stockholder	2,000,000 shares
Total shares of common stock offered	6,750,000 shares
Shares of common stock outstanding after the offering	25,770,316 shares (a)
Use of proceeds	The net proceeds of the offering are expected to be approximately $154.6 million. We intend to use the proceeds of this offering, in addition to the proceeds from our concurrent note offering, to fund a portion of the costs of the construction of OSVs, ocean-going tugs and ocean-going, double-hulled tank barges, the retrofit or conversion of certain existing vessels, including MPSVs, possible future acquisitions and additional new vessel construction, and for general corporate purposes. Pending these uses, we will repay debt under our revolving credit facility, which may be reborrowed. An affiliate of one of the underwriters for this offering is a lender under our revolving credit facility and will be repaid with a portion of the net proceeds from this offering.
New York Stock Exchange Symbol	HOS

(a) The number of shares of common stock outstanding after the offering excludes up to 3,082,922 shares reserved for issuance under our employee incentive equity plans, pursuant to which options to purchase 1,129,354 shares at a weighted average exercise price of $12.87 per share are outstanding as of September 23, 2005.

Risk Factors

See Risk Factors beginning on page 12 for a discussion of certain factors you should consider before investing in our common stock.

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Hornbeck Offshore Services, Inc.

Summary Financial Information

(In thousands, except 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 supplement. The summary financial information set forth below as of and for the years ended December 31, 2002, 2003 and 2004 has been derived from our audited consolidated financial statements. The summary financial information set forth below as of and for the six months ended June 30, 2004 and 2005 has been derived from our unaudited consolidated financial statements.

	Year Ended December 31,			Six Months Ended June 30,	
	2002	2003	2004	2004	2005
Statement of Operations Data:					
Revenues	$ 92,585	$ 110,813	$ 132,261	$ 61,635	$ 78,986
Operating expenses	36,337	46,805	58,520	28,047	31,468
Depreciation	10,351	14,393	17,408	8,556	9,211
Amortization	1,945	3,197	5,727	2,271	3,396
General and administrative expenses	9,681	10,731	14,759	6,292	8,571
Operating income	34,271	35,687	35,847	16,469	26,340
Interest expense	16,207	18,523	17,698	9,801	5,438
Net income (loss)	11,647	11,190	(2,483)	4,268	12,961
Balance Sheet Data (at period end):					
Cash and cash equivalents	$ 22,228	$ 12,899	$ 54,301	$ 23,734	$ 12,443
Property, plant and equipment, net	226,232	316,715	361,219	343,077	422,363
Total assets	278,290	365,242	460,571	404,231	487,069
Total long-term debt(1)	172,306	212,677	225,000	172,879	241,000
Total stockholders equity	71,876	112,395	182,904	189,699	196,720
Statement of Cash Flows Data:					
Net cash provided by (used in):					
Operating activities	$ 24,955	$ 25,499	$ 21,405	$ 12,907	$ 28,450
Investing activities	(55,771)	(98,166)	(61,378)	(35,307)	(69,393)
Financing activities	(159)	63,322	81,358	33,225	(924)
Other Financial Data (unaudited):					
EBITDA(2)	$ 46,622	$ 53,983	$ 59,117	$ 27,290	$ 40,076
Capital expenditures	55,771	105,816	61,378	35,307	71,434
Other Operating Data (unaudited):					
Offshore Supply Vessels:					
Average number of vessels	11.0	17.3	22.8	22.7	24.2
Average vessel capacity (deadweight tons)	2,208	2,353	2,274	2,270	2,325
Average utilization rate(3)	94.9%	88.6%	87.5%	81.1%	95.5%
Average dayrate(4)	$ 12,176	$ 10,940	$ 10,154	$ 9,636	$ 11,980
Effective dayrate(5)	11,555	9,693	8,885	7,815	11,441
Tugs and Tank Barges:					
Average number of tank barges	16.0	15.9	16.0	16.0	13.7
Average fleet capacity (barrels)	1,130,727	1,145,064	1,156,330	1,156,330	968,002
Average barge size (barrels)	70,670	72,082	72,271	72,271	69,143
Average utilization rate(3)	78.1%	73.6%	82.2%	85.5%	85.5%
Average dayrate(6)	$ 9,499	$ 10,971	$ 11,620	$ 11,181	$ 12,924
Effective dayrate(5)	7,419	8,075	9,552	9,560	11,050

(1) Excludes original issue discount associated with our 10.625% senior notes in the principal amount of $175,000, in the amount of $2,694, $2,323 and $97 as of December 31, 2002, 2003 and 2004, respectively, and $2,121 and $0 for the six months ended June 30, 2004 and 2005, respectively. We repurchased 91% of the 10.625% senior notes in November 2004 and redeemed the remaining 9% of such senior notes in January 2005. Long-term debt as of December 31, 2003 and June 30, 2005 includes $40,000 and $16,000, respectively, outstanding under our revolving credit facility, which was undrawn as of December 31, 2002 and 2004 and June 30, 2004.

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(2) See our discussion of EBITDA as a non-GAAP financial measure and related reconciliation immediately following these footnotes.
(3) Utilization rates are average rates based on a 365-day year. Vessels are considered utilized when they are generating revenues.
(4) 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.
(5) Effective dayrates represent the average dayrate multiplied by the average utilization rate.
(6) 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.

Non-GAAP Financial Measures

We disclose and discuss EBITDA as a non-GAAP financial measure in our public releases, including quarterly earnings releases, investor conference calls and other filings with the Commission. We define EBITDA as earnings (net income) before interest, income taxes, depreciation, amortization and losses on early extinguishment of debt. Our measure of EBITDA may not be comparable to similarly titled measures presented by other companies. Other companies may calculate EBITDA differently than we do, which may limit its usefulness as a comparative measure.

We view EBITDA primarily as a liquidity measure and, as such, we believe that the GAAP financial measure most directly comparable to it is cash flows provided by operating activities. Because EBITDA is not a measure of financial performance calculated in accordance with accounting principles generally accepted in the United States, or GAAP, it 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.

EBITDA is widely used by investors and other users of our financial statements as a supplemental financial measure that, when viewed with our GAAP results and the accompanying reconciliation, we believe provides additional information that is useful to gain an understanding of the factors and trends affecting our ability to service debt, pay deferred taxes and fund drydocking charges and other maintenance capital expenditures. We also believe the disclosure of EBITDA helps investors meaningfully evaluate and compare our cash flow generating capacity from quarter to quarter and year to year.

EBITDA is also one of the financial metrics used by management (i) as a supplemental internal measure for planning and forecasting overall expectations and for evaluating actual results against such expectations; (ii) as a significant criteria for annual incentive cash bonuses paid to our executive officers and other shore-based employees; (iii) to compare to the EBITDA of other companies when evaluating potential acquisitions; and (iv) to assess our ability to service existing fixed charges and incur additional indebtedness.

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The following table provides the detailed components of EBITDA, as we define that term, for the following periods (in thousands).

	Year Ended December 31,			Six Months Ended June 30,	
	2002	2003	2004	2004	2005
Components of EBITDA:					
Net income (loss)	$ 11,647	$ 11,190	$ (2,483)	$ 4,268	$ 12,961
Interest expense, net:					
Interest expense	16,207	18,523	17,698	9,801	5,438
Interest income	(667)	(178)	(356)	(106)	(243)
Total interest, net	15,540	18,345	17,342	9,695	5,195
Income tax expense (benefit)	7,139	6,858	(1,320)	2,500	7,615
Depreciation	10,351	14,393	17,408	8,556	9,211
Amortization	1,945	3,197	5,727	2,271	3,396
Loss on early extinguishment of debt(1)			22,443		1,698
EBITDA	$ 46,622	$ 53,983	$ 59,117	$ 27,290	$ 40,076

(1) A loss on early extinguishment of debt was recorded during 2001 resulting from the write-off of deferred financing costs upon the refinancing of all our debt through the issuance of our 10.625% senior notes in July 2001. For the year ended December 31, 2004, the amount includes the repurchase premium, related fees and expenses and the write-off of unamortized original issue discount and deferred financing costs related to the repurchase of 91% the 10.625% senior notes in November 2004. For the six months ended June 30, 2005, we incurred similar costs with respect to the redemption of the remaining 9% of the 10.625% senior notes.

The following table reconciles EBITDA to cash flows provided by operating activities for the following periods (in thousands).

	Year Ended December 31,			Six Months Ended June 30,	
	2002	2003	2004	2004	2005
EBITDA Reconciliation to GAAP:					
EBITDA	$ 46,622	$ 53,983	$ 59,117	$ 27,290	$ 40,076
Cash paid for deferred drydocking charges	(2,409)	(6,100)	(8,530)	(4,523)	(3,687)
Cash paid for interest	(19,075)	(19,718)	(24,023)	(10,308)	(8,202)
Changes in working capital	(460)	(1,993)	(4,960)	515	1,499
Changes in other, net	277	(673)	(199)	(67)	(1,236)
Cash flows provided by operating activities	$ 24,955	$ 25,499	$ 21,405	$ 12,907	$ 28,450

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Set forth below are the material limitations associated with using EBITDA as a non-GAAP financial measure compared to cash flows provided by operating activities.

- EBITDA does not reflect the future capital expenditure requirements that may be necessary to replace our existing vessels as a result of normal wear and tear,
- EBITDA does not reflect the interest, future principal payments and other financing-related charges necessary to service the debt that we have incurred in acquiring and constructing our vessels,
- EBITDA does not reflect the deferred income taxes that we will eventually have to pay once we are no longer in an overall tax net operating loss carryforward position, and
- EBITDA does not reflect changes in our net working capital position.

Management compensates for the above-described limitations in using EBITDA as a non-GAAP financial measure by only using EBITDA to supplement our GAAP results.

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RISK FACTORS

We urge you to carefully consider the risks described below as well as the other information we have provided in this prospectus supplement, the accompanying prospectus and the documents we incorporate by reference, before reaching a decision regarding an investment in our common stock. The risks described below are not the only ones we face. Additional risks not presently known to us or that we currently deem immaterial may also impair our business operations.

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 necessarily result in increased demand for our OSVs.

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Increases in the supply of vessels could decrease dayrates.

Certain of our competitors have announced plans to construct new OSVs to be deployed in domestic and foreign locations. A remobilization to the U.S. Gulf of Mexico of U.S.-flagged OSVs currently operating in other regions would result in an increase in OSV capacity. Additionally, construction of double-hulled, ocean-going tank barges in sufficient size and number to exceed the replacement of the single hulled tank barges that have been or still need to be retired under OPA 90 would create an increase in ocean-going tank barge capacity. Further, a repeal, suspension or significant modification of the Jones Act, or the administrative erosion of its benefits, permitting OSVs or tank barges that are either foreign-flagged, foreign-built, foreign-owned, foreign-controlled 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 utilization and 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. Similarly, any increase in the supply of ocean-going tank barges, could not only increase competition for charters and lower utilization and dayrates, which could negatively affect our revenues and profitability, but could also worsen the impact of any reduction in domestic consumption of refined petroleum products or crude oil 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. Some of our competitors may also be willing to accept lower dayrates in order to maintain utilization, which can have a negative impact upon dayrates and utilization in our OSV segment.

The failure to successfully complete construction or conversion 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.

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We have three double-hulled, ocean-going tank barges currently under construction and two coastwise sulfur tankers currently undergoing conversion into multi-purpose supply vessels. We have also recently announced plans to construct additional new generation OSVs and double-hulled tank barges and may plan to construct other such vessels 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 or conversion, while significant cost overruns or delays not adequately protected by liquidated damages provisions, in general could adversely affect our financial condition and results of operations. Moreover, customer demand for vessels currently under construction or conversion 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 to enable us to grow our business. 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. An inability to acquire additional vessels or businesses may limit our growth potential. Even if we consummate an acquisition, we may be unable to integrate it into our 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 homeland security, environmental regulations or increased liabilities connected with the transportation of refined petroleum products and crude oil. For example,

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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, 2004, 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 or other provisions 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. Unless extended, our contract with Amerada Hess is scheduled to expire on March 31, 2006. Any termination could temporarily disrupt our business or otherwise 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 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, increased manning, 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

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caused by, others, including charterers. Moreover, these laws and regulations could change in ways that substantially increase costs that we may not be able to pass along to our customers. 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, which requires that vessels engaged in coastwise trade to carry cargo between U.S. ports be documented under the laws of the United States and be controlled 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. The Jones Act s provisions restricting coastwise trade to vessels controlled by U.S. citizens have recently been circumvented by foreign interests that seek to engage in trade reserved for vessels controlled by U.S. citizens and otherwise qualifying for coastwise trade. Legal challenges against such actions are difficult, costly to pursue and are of uncertain outcome. 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. In addition, in the interest of national defense, the Secretary of Homeland Security is authorized to suspend the coastwise trading restrictions imposed by the Jones Act on vessels not controlled by U.S. citizens. Such a waiver was issued following Hurricane Katrina and was in effect on a temporary basis for tank vessels that carried petroleum products. A more limited waiver continues in existence for vessels that carry petroleum cargoes from the Strategic Petroleum Reserve.

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.

Our vessels are subject to operating risks such as:

- catastrophic marine disaster;

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adverse weather and sea conditions;

mechanical failure;

collisions;

oil and hazardous substance spills;

navigation errors;

acts of God; and

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 and possible penalties, that pursuant to typical marine indemnity policies, we must pay and then seek reimbursement from our insurer. 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 three years 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.

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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, maintain and grow 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.

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 the notes offered hereby and in the agreement governing our revolving credit facility may limit our ability to obtain additional financing and to pursue other business opportunities.

Covenants contained in the indenture governing the notes offered hereby 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; and

our ability to obtain additional financing for working capital, capital expenditures, including our newbuild programs, acquisitions, general corporate and other purposes.

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We have high levels of fixed costs that will be incurred regardless of our level of business activity.

Our business has high fixed costs, and downtime or low productivity due to reduced demand, weather interruptions or other causes can have a significant negative effect on our operating results and financial condition.

If we are required to retire our existing single-hulled tank barges earlier than anticipated due to either regulatory or other requirements, it could adversely affect our business.

OPA 90 requires that all newly-built tank vessels used in the transport of petroleum products be built with double hulls and provides for a phase-out period for existing single hull vessels. Modifying or replacing existing vessels to provide for double hulls will be required for all tank barges and tankers in the industry by the year 2015. A significant number of vessels in our tank barge fleet measure less than 5,000 gross tons. Under current law, certain of our vessels may continue to operate without double hulls through 2014. However, if there are changes in the law that accelerate the time frame for retirement of such vessels, or if customer policies or preferences that mandate the use of double-hulled vessels become significantly more prevalent, absent our implementation of an aggressive replacement or newbuild program, such changes in law or in customer mandates could adversely affect our results of operations and financial condition.

Risks Related To This Offering

We have no plans to pay dividends on our common stock. You may not receive funds without selling your shares.

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 6.125% 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.

Our management and directors 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, beneficially own, control or have substantial influence over approximately 18% of our outstanding common stock. 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 substantially influence the outcome of

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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 securities.

The price of our shares of common stock may fluctuate significantly in the future, and you could lose all or a part of your investment as a result.

The trading price of our common stock could be subject to significant fluctuations, and may decline. The following factors could affect our stock price:

- government regulations;
- the prices of oil and gas;
- our operating results;
- quarterly variations in the rate of growth of our financial indicators, such as net income per share, net income and revenues;
- changes in earnings estimates by securities analysts or our ability to meet those estimates;
- speculation in the press or investment community;
- general market conditions, including fluctuations in commodity prices;
- 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 stock markets in general have also experienced extreme volatility that has often been unrelated to the operating performance of particular companies. This volatility and the realization of any of the risks described above could cause the market price of our common stock to decline significantly.

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. As of September 23, 2005, there were 21,020,316 shares of our common stock outstanding, which are freely transferable without restriction or further registration under the federal securities laws, except for any shares held by our affiliates, sales of which will be limited by Rule 144 under the Securities Act, absent registration under the Securities Act and for certain limited contractual restrictions applicable to certain shares.

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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 $154.6 million from the sale of 4,750,000 shares of our common stock in this offering at an assumed offering price of $34.20 per share, after deducting the underwriting discounts and commissions and our estimated offering expenses. If the underwriter s option to purchase 1,012,500 additional shares is exercised in full, we estimate that we will receive net proceeds of approximately $187.7 million. We expect to use the net proceeds of this offering, in addition to an estimated $73.6 million of net proceeds from the concurrent private placement of our senior notes, to fund a portion of the costs of the construction of OSVs, ocean-going tugs and ocean-going, double-hulled tank barges, the retrofit or conversion of certain existing vessels, including MPSVs, possible future acquisitions and 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 will repay debt under our revolving credit facility, which may be reborrowed. An affiliate of one of the underwriters for this offering is a lender under our revolving credit facility and will be repaid with a portion of the net proceeds from this offering. Until the net proceeds are used for any of these purposes, we may deposit them in interest-bearing accounts or invest them in short-term marketable securities.

Our revolving credit facility, which matures on February 13, 2009, had an outstanding balance of $21 million as of September 23, 2005, and accrues interest, at our option, at either (1) the prime rate announced by Citibank, N.A. in New York, plus a margin of up to 1.0%, or (2) the London Interbank Offered Rate, plus a margin of 1.5% to 3.5%.

The completion of our concurrent note offering is contingent upon the completion of this common stock offering, but this common stock offering is not contingent upon the completion of the note offering.

We will not receive any of the proceeds from the sale of shares of common stock by the selling stockholder identified in this prospectus supplement.

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CAPITALIZATION

The following table sets forth our consolidated cash and cash equivalents and capitalization at June 30, 2005:

- on a historical basis;
- as adjusted to reflect the consummation of this offering of 4,750,000 shares of our common stock (assuming no exercise of the underwriters option to purchase up to 1,012,500 additional shares and assuming a public offering price of $34.20 per share based on the last reported sales price on September 23, 2005); and
- as further adjusted to reflect the consummation of the concurrent private offering in the principal amount of $75,000,000 of 6.125% senior notes due 2014, assuming an issue price of 100% of principal amount.

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

	As of June 30, 2005		
	Actual	As Adjusted	As Further Adjusted
		(In thousands)	
Cash and cash equivalents(1)	$ 12,443	$ 151,083	$ 224,708
Debt:			
Revolving credit facility(2)	$ 16,000	$	$
6.125% senior notes due 2014	225,000	225,000	300,000
Total debt	241,000	225,000	300,000
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, 20,875, 25,625, and 25,625 issued and outstanding, actual, as adjusted and as further adjusted, respectively	209	256	256
Additional paid-in capital	164,109	318,701	318,701
Retained earnings	32,361	32,361	32,361
Accumulated other comprehensive income	41	41	41
Total stockholders equity	196,720	351,359	351,359
Total capitalization	$ 437,720	$ 576,359	$ 651,359

(1)

Includes other available funds in addition to proceeds of this offering and the concurrent private offering of $75 million of 6.125% senior notes due 2014.

(2) The outstanding balance under the revolver on September 21, 2005 was $21,000.

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PRICE RANGE OF COMMON STOCK AND DIVIDEND POLICY

Our common stock has been traded on the New York Stock Exchange under the symbol HOS since our initial public offering on March 26, 2004. The following table shows the high and low sales prices for our common stock for the periods presented.

	High	Low
Year Ended December 31, 2004		
First Quarter (from March 26, 2004 to March 31, 2004)	$ 13.55	$ 13.00
Second Quarter	13.75	10.15
Third Quarter	17.00	11.12
Fourth Quarter	21.50	14.44
Year Ended December 31, 2005		
First Quarter	$ 26.14	$ 18.10
Second Quarter	27.73	20.10
Third Quarter (through September 23, 2005)	36.90	26.81

On September 23, 2005, the last sales price of our common stock as reported on the New York Stock Exchange was $34.20 per share.

As of September 23, 2005, there were 71 stockholders of record and approximately 3,000 beneficial owners of our common stock.

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 6.125% 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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SELECTED HISTORICAL CONSOLIDATED FINANCIAL INFORMATION

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

Our selected historical consolidated financial information as of and for the periods ended December 31, 2000, 2001, 2002, 2003 and 2004 was derived from our audited historical consolidated financial statements. Our selected historical financial information as of and for the six-month periods ended June 30, 2004 and 2005 is derived from our unaudited 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 supplement.

	Year Ended December 31,					Six Months Ended June 30,	
	2000	2001	2002	2003	2004	2004	2005
Statement of Operations Data:							
Revenues	$ 36,102	$ 68,791	$ 92,585	$ 110,813	$ 132,261	$ 61,635	$ 78,986
Operating expenses	13,542	25,135	36,337	46,805	58,520	28,047	31,468
Depreciation	4,250	6,501	10,351	14,393	17,408	8,556	9,211
Amortization	913	1,169	1,945	3,197	5,727	2,271	3,396
General and administrative expenses	3,078	8,039	9,681	10,731	14,759	6,292	8,571
Operating income	12,337	27,947	34,271	35,687	35,847	16,469	26,340
Loss on early extinguishment of debt(1)		3,029			22,443		1,698
Interest income	305	1,455	667	178	356	106	243
Interest expense	15,478	13,617	16,207	18,523	17,698	9,801	5,438
Other income (expense)(2)	(138)		55	706	135	(6)	1,129
Income (loss) before income taxes	(2,974)	12,756	18,786	18,048	(3,803)	6,768	20,576
Income tax expense (benefit)	1,550	5,737	7,139	6,858	(1,320)	2,500	7,615
Net income (loss)(3)	(4,524)	7,019	11,647	11,190	(2,483)	4,268	12,961
Per Share Data:							
Basic earnings (loss) per share	$ (0.90)	$ 0.68	$ 0.96	$ 0.84	$ (0.13)	$ 0.24	$ 0.62
Diluted earnings (loss) per share	$ (0.90)	$ 0.67	$ 0.94	$ 0.82	$ (0.13)	$ 0.23	$ 0.61
Weighted average basic shares outstanding	5,038	10,265	12,098	13,397	19,330	17,838	20,839
Weighted average diluted shares outstanding	5,038	10,514	12,428	13,604	19,330	18,317	21,274
Balance Sheet Data (at period end):							
Cash and cash equivalents	$ 32,988	$ 53,203	$ 22,228	$ 12,899	$ 54,301	$ 23,734	$ 12,443
Working capital	29,524	48,516	22,265	17,698	52,556	30,532	27,832
Property, plant and equipment, net	98,935	180,781	226,232	316,715	361,219	343,077	422,363
Total assets	147,148	258,817	278,290	365,242	460,571	404,231	487,069
Total long-term debt(4)	82,557	171,976	172,306	212,677	225,000	172,379	241,000
Total stockholders equity	38,197	59,866	71,876	112,395	182,904	189,699	196,720
Statement of Cash Flows Data:							
Net cash provided by (used in):							
Operating activities	$ 5,741	$ 33,345	$ 24,955	$ 25,499	$ 21,405	$ 12,907	$ 28,450
Investing activities	(15,324)	(88,328)	(55,771)	(98,166)	(61,378)	(35,307)	(69,393)
Financing activities	36,427	75,198	(159)	63,322	81,358	33,225	(924)
Other Financial Data (unaudited):							
EBITDA(5)	$ 17,362	$ 35,617	$ 46,622	$ 53,983	$ 59,117	$ 27,290	$ 40,076
Capital expenditures	15,324	88,328	55,771	105,816	61,378	35,307	71,434
Ratio of EBITDA to cash interest paid(6)	1.1x	2.3x	2.9x	2.9x	3.3x	2.8x	7.4x
Ratio of earnings to fixed charges(7)		1.5x	1.7x	1.7x	0.7x	1.5x	3.4x

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	Year Ended December 31,					Six Months Ended June 30,	
	2000	2001	2002	2003	2004	2004	2005
Other Operating Data (unaudited):							
Offshore Supply Vessels:							
Average number of vessels	6.8	7.8	11.0	17.3	22.8	22.7	24.2
Average vessel capacity (deadweight tons)	1,900	1,947	2,208	2,353	2,274	2,270	2,325
Average utilization rate(8)	93.4%	99.1%	94.9%	88.6%	87.5%	81.1%	95.5%
Average dayrate(9)	$ 8,435	$ 11,872	$ 12,176	$ 10,940	$ 10,154	$ 9,636	$ 11,980
Effective dayrate(10)	7,878	11,765	11,555	9,693	8,885	7,815	11,441
Tugs and Tank Barges:							
Average number of tank barges	7.0	12.3	16.0	15.9	16.0	16.0	13.7
Average fleet capacity (barrels)	451,655	847,780	1,130,727	1,145,064	1,156,330	1,156,330	968,002
Average barge size (barrels)	64,522	68,109	70,670	72,082	72,271	72,271	69,143
Average utilization rate(8)	71.4%	84.4%	78.1%	73.6%	82.2%	85.8%	85.5%
Average dayrate(11)	$ 8,982	$ 8,944	$ 9,499	$ 10,971	$ 11,620	$ 11,181	$ 12,924
Effective dayrate(10)	6,413	7,549	7,419	8,075	9,552	9,560	11,050

(1) A loss on early extinguishment of debt was recorded during 2001 resulting from the write-off of deferred financing costs upon the refinancing of all our debt through the issuance of our 10.625% senior notes in July 2001. For the year ended December 31, 2004, the amount includes the repurchase premium, related fees and expenses and the write-off of unamortized original issue discount and deferred financing costs related to the repurchase of 91% of the 10.625% senior notes in November 2004. For the six-month period ended June 30, 2005, we incurred similar costs with respect to the redemption of the remaining 9% of the 10.625% senior notes.

(2) Represents other operating income and expenses, including gains (losses) on the disposition of assets and equity in income from investments.

(3) Includes goodwill amortization of $126 for each of the two 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 $(4,398) and $7,145 for the years ended December 31, 2000 and 2001, respectively, if SFAS 142 had been in effect on January 1, 2000.

(4) Excludes original issue discount associated with our 10.625% senior notes in the principal amount of $175,000, in the amount of $2,694, $2,323 and $97 as of December 31, 2002, 2003 and 2004, respectively, and $2,121 and $0 for the six months ended June 30, 2004 and 2005, respectively. We repurchased 91% of the 10.625% senior notes in November 2004 and redeemed the remaining 9% of such senior notes in January 2005. Long-term debt as of December 31, 2003 and June 30, 2005 includes $40,000 and $16,000, respectively, outstanding under our revolving credit facility, which was undrawn as of December 31, 2002 and 2004 and June 30, 2004.

(5) See our discussion of EBITDA as a non-GAAP financial measure and related reconciliation immediately following these footnotes.

(6) Calculated as EBITDA divided by interest expense. For purposes of calculating the ratio of EBITDA to interest expense, EBITDA consists of the components described in our discussion of EBITDA immediately following these footnotes.

(7) Calculated as earnings divided by fixed charges. For the purpose of computing the ratio of earnings to fixed charges, earnings consist of income from continuing operations plus fixed charges, excluding capitalized interest. Fixed charges consist of interest whether expensed or capitalized and amortization of loan costs. In fiscal year 2000, our earnings were insufficient to cover fixed charges by approximately $3.3 million.

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

(9) 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.

(10) Effective dayrates represent the average dayrate multiplied by the average utilization rate.

(11) 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.

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Non-GAAP Financial Measures

We disclose and discuss EBITDA as a non-GAAP financial measure in our public releases, including quarterly earnings releases, investor conference calls and other filings with the Commission. We define EBITDA as earnings (net income) before interest, income taxes, depreciation, amortization and losses on early extinguishment of debt. Our measure of EBITDA may not be comparable to similarly titled measures presented by other companies. Other companies may calculate EBITDA differently than we do, which may limit its usefulness as a comparative measure.

We view EBITDA primarily as a liquidity measure and, as such, we believe that the GAAP financial measure most directly comparable to it is cash flows provided by operating activities. Because EBITDA is not a measure of financial performance calculated in accordance with GAAP, it 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.

EBITDA is widely used by investors and other users of our financial statements as a supplemental financial measure that, when viewed with our GAAP results and the accompanying reconciliation, we believe provides additional information that is useful to gain an understanding of the factors and trends affecting our ability to service debt, pay deferred taxes and fund drydocking charges and other maintenance capital expenditures. We also believe the disclosure of EBITDA helps investors meaningfully evaluate and compare our cash flow generating capacity from quarter to quarter and year to year.

EBITDA is also one of the financial metrics used by management (i) as a supplemental internal measure for planning and forecasting overall expectations and for evaluating actual results against such expectations; (ii) as a significant criteria for annual incentive cash bonuses paid to our executive officers and other shore-based employees; (iii) to compare to the EBITDA of other companies when evaluating potential acquisitions; and (iv) to assess our ability to service existing fixed charges and incur additional indebtedness.

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The following table provides the detailed components of EBITDA, as we define that term, for the following periods (in thousands).

	Year Ended December 31,					Six Months Ended June 30,	
	2000	2001	2002	2003	2004	2004	2005
Components of EBITDA:							
Net income (loss)	$ (4,524)	$ 7,019	$ 11,647	$ 11,190	$ (2,483)	$ 4,268	$ 12,961
Interest expense, net:							
Debt obligations	8,216	10,665	16,207	18,523	17,698	9,801	5,438
Put warrants(1)	7,262	2,952					
Interest income	(305)	(1,455)	(667)	(178)	(356)	(106)	(243)
Total interest, net	15,173	12,162	15,540	18,345	17,342	9,695	5,195
Income tax expense (benefit)	1,550	5,737	7,139	6,858	(1,320)	2,500	7,615
Depreciation	4,250	6,501	10,351	14,393	17,408	8,556	9,211
Amortization	913	1,169	1,945	3,197	5,727	2,271	3,396
Loss on early extinguishment of debt(2)		3,029			22,443		1,698
EBITDA	$ 17,362	$ 35,617	$ 46,622	$ 53,983	$ 59,117	$ 27,290	$ 40,076

(1) 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. We repurchased and terminated all of the warrants for $14,500 in October 2001.

(2) A loss on early extinguishment of debt was recorded during 2001 resulting from the write-off of deferred financing costs upon the refinancing of all our debt through the issuance of our 10.625% senior notes in July 2001. For the year ended December 31, 2004, the amount includes the repurchase premium, related fees and expenses and the write-off of unamortized original issue discount and deferred financing costs related to the repurchase of 91% the 10.625% senior notes in November 2004. For the six months ended June 30, 2005, we incurred similar costs with respect to the redemption of the remaining 9% of the 10.625% senior notes.

The following table reconciles EBITDA to cash flows provided by operating activities for the following periods (in thousands).

	Year Ended December 31,					Six Months Ended June 30,	
	2000	2001	2002	2003	2004	2004	2005
EBITDA Reconciliation to GAAP:							
EBITDA	$ 17,362	$ 35,617	$ 46,622	$ 53,983	$ 59,117	$ 27,290	$ 40,076
Cash paid for deferred drydocking charges	(1,491)	(1,745)	(2,409)	(6,100)	(8,530)	(4,523)	(3,687)
Cash paid for interest	(7,145)	(5,577)	(19,075)	(19,718)	(24,023)	(10,308)	(8,202)
Changes in working capital	(2,908)	4,972	(460)	(1,993)	(4,960)	515	1,499
Changes in other, net	(77)	78	277	(673)	(199)	(67)	(1,236)
Cash flows provided by operating activities	$ 5,741	$ 33,345	$ 24,955	$ 25,499	$ 21,405	$ 12,907	$ 28,450

Set forth below are the material limitations associated with using EBITDA as a non-GAAP financial measure compared to cash flows provided by operating activities.

- EBITDA does not reflect the future capital expenditure requirements that may be necessary to replace our existing vessels as a result of normal wear and tear,
- EBITDA does not reflect the interest, future principal payments and other financing-related charges necessary to service the debt that we have incurred in acquiring and constructing our vessels,
- EBITDA does not reflect the deferred income taxes that we will eventually have to pay once we are no longer in an overall tax net operating loss carryforward position, and
- EBITDA does not reflect changes in our net working capital position.

Management compensates for the above-described limitations in using EBITDA as a non-GAAP financial measure by only using EBITDA to supplement our GAAP results.

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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 supplement. 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 supplement.

General

We own a fleet of 25 technologically advanced, new generation OSVs, which include two foreign-flagged anchor-handling towing supply vessels, or AHTS, that primarily operate as supply vessels and for towing jack-up rigs. We also own and operate one fast supply vessel and own two former coastwise sulfur tankers that are to be converted into MPSVs. Currently, 17 of our OSVs are operating in the U.S. Gulf of Mexico, eight of our OSVs are operating offshore Trinidad, and a fast supply vessel is working offshore Mexico. We also own 14 ocean-going tugs and 15 active ocean-going tank barges, three of which are double-hulled. Currently, 13 of our tank barges are operating in the northeastern United States, primarily New York Harbor, and two are operating in Puerto Rico. By the end of calendar 2005, our tug and tank barge segment is expected to consist of 14 ocean-going tugs and 18 ocean-going tank barges, six of which will be double-hulled. This projected fleet count reflects three double-hulled tank barges under construction and is net of the retirement of three single-hulled tank barges at the end of 2004, two of which are currently inactive and unavailable to transport petroleum products in navigable waters of the United States. The third inactive vessel, the *Energy 9801*, was sold in April 2005. Upon completion of this current newbuild program and our recently announced second tug and tank barge newbuild program, 58% of our tank barge fleet barrel capacity is expected to be double-hulled, up from 29% today.

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 term or spot time charters. A fixed term time charter is a contract for a fixed period with a specified dayrate, generally paid monthly. Spot time charters in the OSV industry are generally charter contracts with either relatively short fixed or indefinite terms. In all time charters, spot or fixed, the vessel owner absorbs crew, insurance and repair and maintenance costs in connection with the operation of the vessel, while customers absorb all other direct operating costs. In addition, in a typical time charter, the charterer obtains the right to direct the movements and utilization of the vessel while the vessel owner retains operational control over the vessel.

All of our OSVs and our fast supply vessel operate under time charters, including ten that are chartered under long-term contracts with expiration dates ranging from October 2005 through April 2007. The long-term contracts for our supply vessels are consistent with those used in the industry and are typically either fixed for a term of one or more 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.

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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 compared to conventional shelf projects.

We have developed, through a series of newbuild programs, a proprietary fleet of 200, 240, and 265 class new generation OSVs to meet the diverse needs of our customers. Through acquisitions, we have broadened the mix of our fleet to include additional 200 class vessels that are well suited for deep shelf gas exploration and other complex shelf drilling applications and to fill the increasing demand for modern equipment for conventional drilling on the Continental Shelf. We have continued our efforts to expand the services that we offer our customers with the acquisition of two AHTS vessels, which will primarily serve as 240 class supply vessels and for towing jack-up rigs, and the recent announcement of the conversion of two coastwise sulfur tankers for use as 370 class MPSVs, and our fourth OSV newbuild program that will add, in the aggregate, approximately 20,000 deadweight tons of capacity to our OSV fleet.

Although the demand for new generation equipment has historically been driven by deepwater, deep shelf and highly complex projects, we are experiencing increased demand for our vessels for all types of projects, including transition zone and shelf activity, irrespective of water depth, drilling depth or project type, and non-oil and gas production activities. Notably, this prevailing shift in customer preference does not appear to be limited to the U.S. Gulf of Mexico, as we have also observed this preference in foreign areas such as Mexico, Trinidad, Brazil and West Africa.

Soft market conditions for OSVs in the U.S. Gulf of Mexico persisted from the second half of 2002 through the first half of 2004. Since the second half of 2004, OSV market conditions in the U.S. Gulf of Mexico have improved substantially. Our average dayrates have risen approximately $3,600 since April 2004 to an average of approximately $13,200 per day for the third quarter 2005, to date, while our fleetwide OSV utilization has risen from roughly 70% to 97% over the same time span. This combination of increased dayrates and utilization has resulted in an increase in our effective, or utilization-adjusted, OSV dayrate of approximately 90% since April 2004.

Market conditions in the U.S. Gulf of Mexico continue to show positive trends such as the increased level of approved applications to drill deepwater wells and certain operators construction commitments for new deepwater floating rigs, deep shelf jack-up rigs, floating production units, subsea tie-backs and other deepwater production infrastructure and the additional demand for vessels in connection with rehabilitating infrastructure damaged by Hurricanes Katrina and Rita. Another indication of the encouraging visible demand is rising dayrates and utilization for all classes of offshore rigs, which in the past has been a barometer for OSV dayrates. The supply fundamentals for new generation OSVs could further impact market conditions. The average age of conventional 180 class OSVs is approximately 25 years; therefore, we expect that there will be a continued and accelerated attrition rate for such vessels working in the U.S. Gulf of Mexico and abroad. Although OSVs have been recently constructed to replace the worldwide conventional 180 class tonnage being removed

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from service, several U.S.-flagged new generation OSVs have left the U.S. Gulf of Mexico for foreign markets, which is a trend that we expect to continue. Additionally, there are signs that the improved market conditions in the U.S. Gulf of Mexico could be a long-term trend. For example, in the offshore oil and natural gas lease sale held in August 2004 by the Minerals Management Service, interest in acquiring leases was the highest it had been in the prior six years, a 22% increase from 2003, with 44% of the leases bid on being located in ultra-deep water. Additional evidence of a strengthening OSV market in the U.S. Gulf of Mexico is an increase in offshore rig fleet utilization. According to ODS-Petrodata, offshore rig fleet utilization is up to 84% from the year-ago level of 77%.

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 time charters, contracts of affreightment and consecutive voyage contracts. A fixed term time charter is a contract for a fixed period of time with a specified day rate, generally paid monthly. Spot time charters in the tug and tank barge industry are generally single-voyage contracts of affreightment, consecutive voyage contracts, or time charter contracts with either relatively short fixed or indefinite terms. 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 voyages. We may also charter vessels to a third party under a bareboat charter. 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. We also provide tug services to third party vessels on a periodic basis. Typically, these services include vessel docking and towage assistance.

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 winter-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 our tug and tank barge fleet for peak demand periods by performing our regulatory drydocking and maintenance programs during the second and third quarters. In addition, we regularly evaluate our customers needs and often elect to accelerate scheduled drydockings to take advantage of certain market opportunities.

As the most recent major OPA 90 milestone approached on January 1, 2005 and since that date, 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 double-hulled tank barge newbuild program to replace some of our existing single-hulled tank barges that we anticipated retiring from service in accordance with OPA 90. This newbuild program is replacing about 270,000 barrels of single-hulled capacity that we retired from service at the end of 2004 pursuant to OPA 90

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with approximately 600,000 barrels of new double-hulled capacity. Our first two new double- hulled tank barges, the *Energy 13501* and *Energy 11103*, were delivered on March 11, 2005 and July 10, 2005, respectively, and replaced the capacity of the *Energy 9801*, *Energy 9501*, and *Energy 8701*, all of which were retired from service at the end of 2004 as required by OPA 90. The remaining three newbuild tank barges are expected to be delivered during the fourth quarter of 2005.

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 are incurred 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 supplement 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

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additional information to refine the original allocation becomes available during the allocation period, 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 25 years and 20 to 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

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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 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. The table does not include the results of operations of the *HOS Hotshot*, a 165-ft. fast supply vessel that we had been operating under a bareboat charter since it was delivered in April 2003. We exercised our option to purchase that vessel in May 2004.

	Year Ended December 31,			Six Months Ended June 30,	
	2002	2003	2004	2004	2005
Offshore Supply Vessels:					
Average number of vessels	11.0	17.3	22.8	22.7	24.2
Average vessel capacity (deadweight tons)	2,208	2,353	2,274	2,270	2,325
Average utilization rate(1)	94.9%	88.6%	87.5%	81.1%	95.5%
Average dayrate(2)	$ 12,176	$ 10,940	$ 10,154	$ 9,636	$ 11,980
Effective dayrate(4)	11,555	9,693	8,885	7,815	11,441
Tugs and Tank Barges:					
Average number of tank barges	16.0	15.9	16.0	16.0	13.3
Average fleet capacity (barrels)	1,130,727	1,145,064	1,156,330	1,156,330	968,002
Average barge size (barrels)	70,670	72,082	72,271	72,271	69,143
Average utilization rate(1)	78.1%	73.6%	82.2%	85.5%	85.5%

Average dayrate(3)	$ 9,499	$ 10,971	$ 11,620	$ 11,181	$ 12,904
Effective dayrate(4)	7,419	8,075	9,552	9,560	11,050

(1) Utilization rates are average rates based on a 365-day year. Vessels are considered utilized when they are generating revenues.
(2) 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.

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(3) 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.
(4) Effective dayrates represent the average dayrate multiplied by the average utilization rate.

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

	Year Ended December 31,			Six Months Ended June 30,	
	2002	2003	2004	2004	2005
Revenues by segment:					
Offshore supply vessels(1)					
Domestic	$ 43,702	$ 50,044	$ 59,886	$ 26,269	$ 37,955
Foreign	2,676	12,358	15,407	6,650	12,459
	46,378	62,402	75,293	32,919	50,414
Tugs and tank barges					
Domestic	36,020	43,206	50,465	25,631	24,841
Foreign(2)	10,187	5,205	6,503	3,085	3,731
	46,207	48,411	56,968	28,716	28,572
	$ 92,585	$ 110,813	$ 132,261	$ 61,635	$ 78,986
Operating expenses by segment:					
Offshore supply vessels	$ 14,367	$ 22,786	$ 29,724	$ 13,562	$ 16,616
Tugs and tank barges	21,970	24,019	28,796	14,485	14,852
	$ 36,337	$ 46,805	$ 58,520	$ 28,047	$ 31,468
Depreciation and amortization:					
Offshore supply vessels	$ 5,830	$ 9,381	$ 12,876	$ 6,192	$ 7,177
Tugs and tank barges	6,466	8,209	10,259	4,635	5,430
	$ 12,296	$ 17,590	$ 23,135	$ 10,827	$ 12,607
Loss on early extinguishment of debt	$	$	$ 22,443	$	$ 1,698
General and administrative expenses	$ 9,681	$ 10,731	$ 14,759	$ 6,292	$ 8,571
Interest expense	16,207	18,523	17,698	9,801	5,438
Interest income	667	178	356	106	243

Income tax expense (benefit)	7,139	6,858	(1,320)	2,500	7,615

(1) Included in OSV revenues are amounts applicable to our fast supply vessel, the *HOS Hotshot*, that we acquired in May 2004 along with the *HOS Saylor* and *HOS Navegante*, our AHTS vessels that we acquired in January and March 2005, respectively.

(2) Included are amounts applicable to our Puerto Rico tug and tank barge operations. Puerto Rico is considered a possession of the United States and the Jones Act and U.S. environmental laws and regulations apply to vessels operating in Puerto Rican waters.

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Six Months Ended June 30, 2005 Compared to Six Months Ended June 30, 2004

Revenues. Revenues were $79.0 million for the six months ended June 30, 2004, compared to $61.6 million for the same period in 2004, an increase of $17.4 million or 28.2%. Although our average operating fleet remained relatively flat since the second quarter of 2004, revenues primarily increased as a result of the strengthening market conditions in our OSV business segment. Our average operating fleet was 53 vessels at the end of the second quarter of 2005 compared to 51 vessels at the end of the second quarter of 2004.

Revenues from our OSV segment increased to $50.4 million for the six months ended June 30, 2005, compared to $32.9 million for the same period of 2004, an increase of $17.5 million or 53.2%. Our revenue growth is primarily attributable to the increases in OSV utilization and dayrates compared to the prior year period and the addition of two AHTS vessels during 2005. Our utilization rate was 95.5% for the first six months of 2005 compared to 81.1% for the same period of 2004. Our OSV average dayrate was $11,980 for the first six months of 2005 compared to $9,636 for the same period of 2004, an increase of $2,344 or 24.3%. The increase in dayrates and utilization is primarily related to the significant improvement in the U.S. Gulf of Mexico market. Domestic revenues for our OSV segment were $38.0 million for the six months ended June 30, 2005, an increase of $11.7 million or 44.5%, compared to $26.3 million for the same period of 2004 due to the recovery of the OSV market in the U.S. Gulf of Mexico. Foreign revenues for our OSV segment increased to $12.5 million for the six months ended June 30, 2005, compared to $6.7 million for the same period of 2004, an increase of $5.8 million or 86.6% due to having an average of 3.7 more vessels operating internationally during the first six months of 2005.

Revenues from our tug and tank barge segment were $28.6 million for the six months ended June 30, 2005, which was roughly equal to the $28.7 million in revenues for the same period of 2004, even though our barrel capacity was approximately 188,000 barrels lower during the 2005 period compared to the 2004 period. Our utilization rate of 85.5% remained flat for the first six months of 2005 compared to the same period in 2004. Our average dayrate of $12,924 for the first six months of 2005 increased $1,743 or 15.6% from the average dayrate of $11,181 for the same period of 2004. The increase in dayrates is primarily attributed to higher demand for our equipment in the northeastern United States and the ability of the *Energy 13501* to command higher rates as a newbuild double-hulled tank barge with higher barrel-carrying capacity compared to our fleetwide average barrel-carrying capacity.

Operating Expense. Our operating expense increased to $31.5 million for the six months ended June 30, 2005, compared to $28.0 million for the same period of 2004, an increase of $3.5 million or 12.5%. The increase in operating expense during 2005 is primarily due to the net effect of recent vessel acquisitions, newbuild deliveries and vessel retirements at the end of 2004 due to OPA 90.

Operating expense for our OSV segment increased $3.0 million or 22.1% for the six months ended June 30, 2005 to $16.6 million compared to $13.6 million for the same period in 2004. This increase was related to significantly higher utilization and the addition of two AHTS vessels and one fast supply vessel to our fleet.

Operating expense for our tug and tank barge segment was $14.9 million for the six months ended June 30, 2005, compared to $14.5 million for the same period of 2004, an

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increase of $0.4 million or 2.8%. Operating expenses remained relatively consistent between the two periods as a result of the net effect of removing three single-hulled tank barges from service as required by OPA 90 and the addition of two higher horsepower ocean-going tugs and one double-hulled newbuild tank barge.

Depreciation and Amortization. Our depreciation and amortization expense of $12.6 million for the six months ended June 30, 2005 increased $1.8 million or 16.7% compared to $10.8 million for the same period of 2004. This increase is primarily related to the net impact of having two AHTS vessels, one 135,000-barrel barge, and two 6,000 horsepower tugs added to our fleet since the end of the second quarter of 2004.

General and Administrative Expense. Our general and administrative expense was $8.6 million for the six months ended June 30, 2005, compared to $6.3 million for the same period of 2004, an increase of $2.3 million or 36.5%. We expected this increase due to our continued growth via vessel acquisitions, our newbuild and conversion programs and our increased reporting obligations under federal securities and corporate governance laws and stock exchange requirements.

Interest Expense. Interest expense was $5.4 million for the six months ended June 30, 2005, compared to $9.8 million for the same period of 2004, a decrease of $4.4 million or 44.9%. The decrease in interest expense is attributed to the refinancing of our old 10.625% senior notes with our new 6.125% senior notes at the end of 2004. Capitalization of interest costs relating to new construction of vessels was approximately $2.1 million and $0.9 million for the six months ended June 30, 2005 and 2004, respectively.

Interest Income. Interest income was $0.2 million in the six months ended June 30, 2005, an increase of $0.1 million or 100%, compared to $0.1 million for the same period of 2004. The increase in interest income is due to a higher average cash balance of $33.4 million for the first six months of 2005 compared to $18.3 million for the same period of 2004.

Income Tax Expense. Our effective tax rate was 37.0% and 36.9% for the six months ended June 30, 2005 and 2004, respectively. Our income tax expense primarily consists of deferred taxes due to our federal net operating loss carryforwards. 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, 2004 Compared To Year Ended December 31, 2003

Revenues. Revenues were $132.3 million in 2004, compared to $110.8 million in 2003, an increase of $21.5 million or 19.4%. 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 45 vessels during 2003 to an average of 51 vessels during 2004. The additional revenues generated by newly constructed or acquired vessels that were not in operation during all of 2003 and 2004 accounted for $15.8 million of the increase in our revenues. We also experienced a $5.7 million increase in revenues from our 45 vessels that were in service during each of the years ended December 31, 2004 and 2003 due to improving market conditions in both of our business segments.

Revenues from our OSV segment increased to $75.3 million in 2004, compared to $62.4 million for 2003, an increase of $12.9 million or 20.7%. Our average OSV fleet size grew by

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5.5 vessels during 2004 compared to 2003. The average utilization rate was 87.5% for 2004, compared to 88.6% for 2003. Although there was a 1.1% decrease in utilization for 2004, the early stages of 2004 were marked with utilization in the mid to low-80 s while the latter part of 2004 had utilization in the low to mid-90 s. Our OSV average dayrate was $10,154 for 2004, compared to $10,940 for 2003, a decrease of $786 or 7.2%. The decrease in average dayrates primarily reflected the change in our average vessel size as 2004 was the first full year of operating results for the six 220 class vessels that were acquired in mid-2003. While our annual average dayrates were lower in 2004 compared to 2003, average dayrates for the fourth quarter of 2004 have returned to annual 2003 levels. Domestic revenues were also higher in 2004 than the prior year due mainly to the recovery of the OSV market in the U.S. Gulf of Mexico. Foreign revenues were positively impacted by having two additional vessels working internationally during 2004. Based on current market trends, we anticipate that our OSV utilization and average dayrates for each vessel class will remain at least above fourth quarter 2004 levels for 2005 and 2006.

Revenues from our tug and tank barge segment totaled $57.0 million in 2004, compared to $48.4 million in 2003, an increase of $8.6 million or 17.8%. Our utilization rate increased to 82.2% for 2004, compared to 73.6% for 2003, primarily due to extended cold weather in the spring of 2004, fewer days out of service for drydockings and repairs in 2004 compared to 2003, and increased movements of diesel and unleaded gasoline barrels as gasoline inventories during the summer of 2004 were at 30-year seasonal record lows. Our average dayrates were $649 higher in 2004 than the prior year as a tightening tank barge market in the northeastern United States contributed to higher freight rates and fuel shortages during the summer of 2004 that caused higher barrel movements for gasoline and diesel fuel.

Operating Expenses. Our operating expenses increased to $58.5 million for 2004, compared to $46.8 million in 2003, an increase of $11.7 million or 25.0%. The increase in operating expenses was the result of having more vessels in service during 2004 compared to 2003 and increasing costs related to newly instituted Homeland Security measures, training, repair and maintenance, and insurance.

Operating expenses for our OSV segment increased $6.9 million, or 30.3%, in 2004 to $29.7 million, compared to $22.8 million in 2003. This increase was primarily the result of having an average of six more new OSVs in service during 2004 compared to 2003. Daily operating costs per vessel in the OSV segment decreased over the same period in 2003, commensurate with the change in our fleet complement with the addition of six 220 vessels in mid-2003.

Operating expenses for our tug and tank barge segment was $28.8 million for 2004, compared to $24.0 million in 2003, an increase of $4.8 million or 20.0%. The increase in operating expenses was primarily the result of higher fuel, insurance and personnel costs along with the increased cost of compliance of newly instituted Homeland Security measures. Average daily operating costs per vessel for 2004 increased over 2003 commensurately with the overall increase in operating expenses discussed above.

Depreciation and Amortization. Our depreciation and amortization expense of $23.1 million for the year ended December 31, 2004 increased $5.5 million or 31.3% compared to $17.6 million for the same period in 2003. Depreciation and amortization were higher in 2004

as a result of having an average of six additional vessels in our fleet and increased drydocking activity compared to the same period in 2003. These expenses are expected to increase further with the recent acquisition of two ocean-going tugs, one AHTS vessel and the construction of five double-hulled tank barges, and when these and any other recently acquired and newly constructed vessels undergo their initial 30 and 60 month recertifications.

Loss on Early Extinguishment of Debt. On November 3, 2004, we commenced a cash tender offer for all of the $175 million in aggregate principal amount of our 10.625% senior notes. Senior notes totaling approximately $159.5 million, or 91% of such notes outstanding, were validly tendered during the designated tender period. The remaining $15.5 million of our 10.625% senior notes were redeemed on January 14, 2005. A loss on early extinguishment of debt of approximately $22.4 million was recorded during the fourth quarter of 2004 and includes the tender offer costs and an allocable portion of the write off of unamortized financing costs and original issue discount, and a bond redemption premium. A loss on early extinguishment of debt of approximately $1.7 million will be recorded for the first quarter of 2005 for those costs allocable to the $15.5 million of our 10.625% senior notes redeemed on January 14, 2005.

General and Administrative Expenses. Our general and administrative expenses were $14.8 million for 2004, compared to $10.7 million in 2003, an increase of $4.1 million or 38.3%. This increase primarily resulted from increased overhead relating to the additional vessels purchased, the increased costs of operating as a public company and, during the fourth quarter 2004, several discrete charges related to increased employee bonuses, insurance and legal fees. General and administrative expenses are expected to trend higher in 2005 to accommodate our continued growth via vessel acquisitions, the construction of five double-hulled tank barges, and our increased reporting obligations under federal securities and corporate governance laws and stock exchange requirements. However, we expect the ratio of general and administrative expenses to revenues to remain at our historical levels at approximately 11% of revenues.

Interest Expense. Interest expense from debt obligations was $17.7 million in 2004, compared to $18.5 million in 2003, a decrease of $0.8 million or 4.3%. The decrease in interest expense primarily relates to having an average balance outstanding under our revolving credit facility of $12.0 million during 2004 compared to $20.0 million during 2003 and having outstanding balances on such facility during only three months of 2004 compared to 11 months of 2003. Other factors causing a decrease in interest expense are continued increases in our capitalized interest due to the construction of double-hulled tank barges and the November 2004 issuance of 6.125% senior notes to repurchase a portion of our outstanding 10.625% senior notes. See Liquidity and Capital Resources for further discussion. Capitalization of interest costs relating to new construction of vessels was approximately $3.0 million for 2004 compared to $2.7 million for 2003.

Interest Income. Interest income was $0.4 million in 2004, compared to $0.2 million in 2003, an increase of $0.2 million or 100%. The increase in interest income resulted from increased interest rates along with higher average cash balances invested during 2004 compared to 2003. Average cash balances were $33.6 million and $17.6 million for the years ended December 31, 2004 and 2003, respectively.

Income Tax Expense. We recorded an income tax benefit for 2004, compared to an income tax provision for 2003, due to a pre-tax loss attributable to an early extinguishment of

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debt. See Liquidity and Capital Resources for further discussion. We also recorded deferred taxes due to our federal tax net operating loss carryforwards primarily generated by accelerated depreciation for tax purposes of approximately $95 million as of December 31, 2004. These loss carryforwards 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, 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. 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. 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.

Operating Expenses. Our operating expenses increased to $46.8 million for 2003, compared to $36.3 million for 2002, an increase of $10.5 million or 28.9%. 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 $8.4 million or 58.3% for 2003 to $22.8 million, compared to $14.4 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

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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 $24.0 million for 2003, compared to $22.0 million for 2002, an increase of $2.0 million or 9.1%. 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.

Depreciation and Amortization. Our depreciation and amortization expense of $17.6 million in 2003 increased $5.3 million or 43.1% compared to $12.3 million for the same period in 2002. Depreciation and amortization was higher in 2003 as a result of having an average of six additional vessels in our fleet and increased drydocking activity compared to the same period in 2003. These expenses were expected to increase further with the delivery of one OSV in early 2004 and once other recently acquired or newly constructed vessels underwent their initial 30 and 60 month recertifications.

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 primarily generated by accelerated depreciation for tax purposes, 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.

Liquidity and Capital Resources

Our capital requirements have historically been financed with cash flow from operations, proceeds from issuances of our debt and common equity securities, and borrowings under

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our credit facilities. We require capital to fund ongoing operations, construction of new vessels, conversion or retrofit of existing 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 change significantly for the foreseeable future.

On June 30, 2005, we had a cash balance of $12.4 million. We also have a five-year $100 million senior secured revolving credit facility with a current borrowing base of $60 million. As of June 30, 2005, we had $16.0 million outstanding under the facility and $44.0 million of credit immediately available thereunder. We intend to use the net proceeds of this offering and the concurrent private placement of our senior notes to pay down our revolving credit facility and for other uses described under Use of Proceeds . 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 for 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 of new vessels, retrofit of existing vessels or acquisition of additional vessels, including OSVs, MPSVs, AHTS vessels, fast supply vessels, ocean-going tugs, tank barges and tankers, as needed to take advantage of the demand for such vessels.

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 foreseeable future and, together with the proceeds of the concurrent note offering and this common stock offering, will fund the recently announced OSV and tug and tank barge newbuild programs. 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. 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. On August 31 and September 1, 2005, respectively, we filed with the Commission registration statements on Form S-3 and Form S-4 in connection with a $350.0 million universal shelf and a $150.0 million acquisition shelf. On September 15, 2005 each of these registration statements were declared effective by the Commission. On September 26, 2005, we announced this offering and the $75.0 million offering of 6.125% senior notes.

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 $25.0 million in 2002, $25.5 million in 2003, and $21.4 million in 2004. The decrease in operating cash flows from 2003 to 2004 was due to increased cash outlays associated with OSV drydocking activity and the timing of interest payments resulting from the early extinguishment of debt in November 2004.

Cash flows from operating activities totaled $28.5 million for the six months ended June 30, 2005, compared to $12.9 million for the same period of 2004. The increase in operating cash flows during these periods was primarily related to substantially improved market conditions, the growth of our fleet and the net effect of the bond refinancing that we commenced in November 2004, which resulted in a lower interest rate and a change in the

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timing of our interest payments. Our cash flow from operations for the six months ended June 30, 2005 reflects a full period of revenue contribution from one OSV and one fast supply vessel added to our fleet during 2004 and partial period contributions from two AHTS vessels and one new double-hulled tank barge placed in service during 2005.

As of December 31, 2004, we had federal tax net operating loss carryforwards of approximately $95 million available through 2018 to offset future federal taxable income. These federal tax net operating losses were generated primarily through accelerated tax depreciation applied to our vessels. Our use of these tax net operating losses and additional tax benefits may be limited due to U.S. tax laws. Based on the age and composition of our projected fleet, we expect to continue generating federal tax net operating losses over the near term.

In 2005, we expect to drydock a total of eight OSVs, two tugs, and four tank barges for recertification and/or discretionary vessel enhancements, which together with non-vessel capital expenditures related primarily to information technology initiatives, is estimated to cost in the range of $13.0 million to $14.0 million.

Investing Activities. Investing activities for 2004 were approximately $61.4 million, primarily for the construction of new double-hulled tank barges, acquisition of a fast supply vessel and the acquisition and retrofitting of two ocean-going tugs, and miscellaneous capital expenditures. During 2003 investing activities were approximately $99.8 million, primarily for the construction of new vessels, acquisitions of six OSVs and a double-hulled tank barge, and miscellaneous capital expenditures. These 2003 expenditures were offset by $1.7 million in cash proceeds from the sale of one tank barge. During 2002, investing activities were $56.1 million for new construction of vessels offset by $0.3 million in cash proceeds from the sale of a tug.

Net cash used in investing activities was $69.4 million for the six months ended June 30, 2005, compared to $35.3 million for the same period of 2004. Cash utilized in investing activities for both periods was primarily for construction costs incurred for our current tank barge newbuild program and the acquisitions of vessels. During the 2005 period, we acquired two foreign-flagged AHTS vessels and one coastwise tanker, the latter of which will be retrofitted under the MPSV conversion program described below. The *HOS Saylor* and *HOS Navegante* were purchased in January and March 2005, respectively. The aggregate purchase price and estimated retrofit costs for these two AHTS vessels is expected to be in the range of $28 million and $30 million, of which $27.5 million was incurred during the first six months of 2005. We also took delivery of our first two double-hulled newbuild tank barges, the *Energy 13501 and Energy 11103*, in March and July 2005, respectively. The cash utilized for investing activities during the 2005 period was partially offset by approximately $2.0 million of cash inflows from the sale of the *Energy 9801*, a retired single-hulled tank barge, and the *Yabucoa Service*, a 3,000 horsepower tug. The 2004 second quarter reflects the acquisition of two tugs that were retrofitted and renamed the *Freedom Service* and *Liberty Service* and one fast supply vessel, the *HOS Hotshot*. For the remainder of 2005, investing activities are anticipated to include costs to complete construction of our three remaining double-hulled tank barges, the recently announced acquisition and retrofit of two additional higher horsepower tugs, the conversion of two MPSVs, the acquisition, retrofit or conversion of additional vessels, proceeds from the sale of a single-hulled tank barge and one tug, and

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other capital expenditures, including discretionary vessel modifications and corporate projects.

Upon completion of the current tank barge newbuild program, the five new double-hulled tank barges will replace the three single-hulled vessels that were retired from service pursuant to OPA 90 and increase the barrel-carrying capacity of our fleet by approximately 600,000 barrels for a net increase of 28% over our fleet size as of December 31, 2004. See Contractual Obligations for a brief overview of anticipated vessel construction commitments in 2005.

In May 2005, we announced a conversion program to retrofit two coastwise sulfur tankers into U.S.-flagged, new generation 370 class MPSVs. The total project cost to acquire and convert the two vessels is expected to cost approximately $65 million in the aggregate. While we are not yet contractually committed to a shipyard for the conversion costs associated with this conversion program, approximately 40% of the total project cost is expected to be incurred by the end of 2005, with the remaining 60% expected to be incurred during 2006 and early 2007. We plan to fund the project from current cash on-hand, projected cash flow from operations and a portion of the net proceeds from this offering and the concurrent private placement of senior notes. We anticipate delivery of the converted vessels at the beginning of 2007. The *Energy Service 9001*, which we acquired in 2001, and the *Benno Schmidt*, which is the sister vessel to the *Energy Service 9001* acquired on May 12, 2005, are the two coastwise tankers that will undergo retrofitting under the MPSV conversion program.

In August 2005, we announced the planned purchase and retrofit of two additional 6,000 horsepower tugs for an aggregate cost of approximately $16.0 million. These tugs are expected to be placed in service during the fourth quarter of 2005 to service the three newbuild tank barges expected to be delivered at that time.

In September 2005, we announced new vessel construction programs for each of our two business segments. This will be our fourth OSV newbuild program and second tug and tank barge newbuild program. We are currently seeking bids from domestic shipyards for the two programs. Based on internal estimates, the incremental cost of these two programs is expected to be approximately $265 million in the aggregate. The precise number of vessels to be constructed and their specifications will be finalized as certain milestones are completed, including the negotiation of shipyard contracts. Construction costs related to these two programs will be funded, in part, with a portion of the proceeds from this common stock offering and the concurrent note offering and cash flow from operations. We plan to build an additional 20,000 deadweight tons of new generation OSV vessel capacity with an estimated incremental cost of approximately $170 million. All of the new OSVs to be constructed under this latest OSV newbuild program are expected to be delivered by mid-2008, with the first vessel due in mid-2007. We also plan to build an additional 400,000 barrels of double-hulled tank barge barrel-carrying capacity and, unlike our first tank barge newbuild program, we plan to construct the related ocean-going tugs to be used as power units for the new barges. The estimated incremental cost of the new ocean-going tugs and ocean-going tank barges will be approximately $95 million. All of the new vessels to be constructed under the second tug and tank barge newbuild program are expected to be delivered during 2007.

Financing Activities. Financing activities during 2004 generated $81.4 million and consisted of cash inflows generated by the November 2004 issuance of 6.125% senior notes

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and the initial public offering of our common stock, which was completed in March 2004. These cash inflows were offset by the repurchase of 91% of our outstanding 10.625% senior notes and the repayment of amounts then outstanding on our revolving credit facility in March 2004. Financing activities during 2003 consisted primarily of the private placement of approximately 1.9 million shares of our common stock, raising net cash proceeds of approximately $23.3 million that were used in part, together with borrowings under our revolving credit facility of $40 million, to fund certain vessel purchases. In 2002, financing activities consisted primarily of the incurrence of variable rate debt financing under our revolving credit facility for asset purchases.

On November 3, 2004, we commenced a tender offer and solicitation of consents relating to the repurchase of our existing 10.625% senior notes. The tender offer expired on December 3, 2004. On November 23, 2004, we completed the private placement of our 6.125% Series A senior notes, resulting in offering proceeds of approximately $219 million, net of estimated transaction costs. In connection with the tender offer and related consent solicitation, we used $181 million, plus accrued interest, of such proceeds to repurchase approximately 91% of our outstanding $175 million aggregate principal amount of 10.625% senior notes. In addition, approximately $17 million, plus accrued interest, of the offering proceeds was used to redeem the remaining 10.625% senior notes on January 14, 2005.

As a result of the repurchase of 91% of the 10.625% senior notes, in the fourth quarter of 2004 we recorded a charge for a pre-tax loss on early extinguishment of debt of approximately $22.4 million. The per share impact of this loss is $0.75 per diluted share for the year ended December 31, 2004 and $0.70 per diluted share for the fourth quarter 2004. Net cash used by financing activities was $0.9 million for the six months ended June 30, 2005, which is primarily the result of the redemption of the $15.5 million non-tendered 10.625% senior notes in January 2005 and the borrowing of $16.0 million under the revolving credit facility during 2005.

For the six months ended June 30, 2004, net cash provided by financing activities was $33.2 million, which primarily resulted from our initial public offering of common stock that was completed on March 31, 2004, net of the repayment of our then outstanding borrowings under our revolving credit facility. For the remainder of 2005, we expect to generate cash from borrowings under our revolving credit facility and to receive proceeds of this note offering and the concurrent common stock offering.

The issuance of 6.125% senior notes in the principal amount of $225 million and the repurchase and redemption of the then outstanding 10.625% senior notes resulted in pre-tax savings, before allocation of construction period interest, of approximately $5.2 million in annualized net interest expense, even though our long-term debt increased by $50 million. The November 2004 bond refinancing lowered the effective interest rate on our long-term fixed rate debt obligations from 11.18% to 6.38%.

Concurrently with this offering of common stock, we are offering $75 million of our 6.125% senior notes in a private placement. We expect to receive approximately $73.6 million in connection with the concurrent note offering and $154.6 million in connection with this common stock offering, or $187.7 million if the underwriters option to purchase additional shares of common stock is exercised. See Use of Proceeds .

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Contractual Obligations

The following table sets forth our aggregate contractual obligations as of December 31, 2004 (in thousands).

Contractual Obligations	Total	Less than 1 Year	1-3 Years	3-5 Years	Thereafter
Senior notes(1)	$ 240,449	$ 15,449	$	$	$ 225,000
Operating leases(2)	2,130	1,074	797	259	
Vessel construction commitments(3)	53,224	53,224			
Interest payments on senior notes	137,813	13,781	41,344	41,344	41,344
Total	$ 433,616	$ 83,528	$ 42,141	$ 41,603	$ 266,344

(1) The current portion of the outstanding senior notes represents the remaining balance of our 10.625% senior notes that were not repurchased in November 2004 and includes original issue discount of $97. The current portion of debt was redeemed in January 2005. The long-term portion of the senior notes represents the outstanding balance of our 6.125% senior notes.

(2) Included in operating leases are commitments for office space, vessel rentals, office equipment, and vehicles. On June 30, 2003, we entered into a lease for our principal executive offices in Covington, Louisiana. The lease covers 23,756 sq. ft. and has an initial term of five years, which commenced September 1, 2003, with two optional five-year renewal periods. The cost of leasing this new facility is included in the table.

(3) The timing of the incurrence of these costs is subject to change among periods based on the achievement of shipyard milestones; however, the amounts are not expected to change materially in the aggregate.

We have a $100 million revolving credit facility with a current borrowing base of $60 million. As of December 31, 2004, we had no outstanding balance thereunder, as we used a portion of the net proceeds from our March 2004 initial public offering of our common stock to re-pay all borrowings thereunder. As of June 30, 2005, we had an outstanding balance of $16.0 million and $44.0 million of borrowing capacity immediately available under the facility. As of June 30, 2005, the weighted average interest rate under such facility was 5.63%.

As of June 30, 2005, we had outstanding debt of $225.0 million under our 6.125% senior unsecured notes, or senior notes. The effective interest rate on the senior notes is 6.38%. Semi-annual cash interest payments of $6.9 million are payable each June 1 and December 1. The senior notes do not require any payments of principal prior to their stated maturity on December 1, 2014, but pursuant to the indenture under which the senior notes are issued, we would be required to make offers to purchase the senior notes upon the occurrence of specified events, such as certain asset sales or a change in control.

Upon completion of our common stock offering and the concurrent note offering, we plan to negotiate a new revolving credit facility with our current bank group, and possibly new lenders. Our goal will be to provide for, among others things, a longer maturity, increased borrowing capacity, lower interest rates and an updated covenant package commensurate with our improved credit standing.

For additional information with respect to our revolving credit facility and our senior notes, please refer to Note 6 of our consolidated financial statements included herein.

For the year ended December 31, 2004, we expended $41.8 million for acquisitions and new vessel construction, before allocation of construction period interest, which was comprised of a final construction draw of $1.5 million for an OSV and $40.3 million for our tank barge newbuild program and the acquisition and retrofit of two ocean-going tugs.

As of June 30, 2005, we were committed under vessel construction contracts with two shipyards for a total of four double-hulled tank barges one 135,000-barrel barge and three

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110,000-barrel barges. Under our current newbuild program, the *Energy 13501*, the first of two 135,000-barrel double-hulled tank barges, was placed in service on March 11, 2005 and the *Energy 11103*, the first of three 110,000-barrel barges to be built, was placed in service on July 10, 2005. For the three and six months ended June 30, 2005, we incurred $13.5 million and $34.5 million, respectively, for our tank barge newbuild program and the acquisition and retrofit of two ocean-going tugs. The construction of five barges under our newbuild program, along with the purchase and retrofit of two higher horsepower, ocean-going tugs are expected to cost approximately $105 million in the aggregate, of which approximately $86.0 million had been incurred and paid from October 2003 through June 2005. We expect to incur the remaining balance of $19.0 million as follows: $13.1 million in the third quarter of 2005 and $5.9 million in the fourth quarter of 2005. The timing of the incurrence of these costs is subject to change among periods based on the achievement of shipyard milestones. However, the amounts are not expected to change materially in the aggregate.

We expect to drydock a total of eight supply vessels, two tugs, and four tank barges for recertification and/or discretionary vessel enhancements during calendar 2005, at an estimated aggregate cost of approximately $13 to $14 million, which includes approximately $5.0 to $5.5 million for deferred drydocking charges. During the three months ended June 30, 2005, we expended approximately $3.0 million for our vessel capital maintenance program, of which $1.7 million was accounted for as deferred drydocking charges and $1.3 million for other vessel capital improvements. During the six months ended June 30, 2005, we expended approximately $6.0 million for our vessel capital maintenance program, of which $3.7 million was accounted for as deferred drydocking charges and $2.3 million for other vessel capital improvements. During the three months and six moths ended June 30, 2005, we also expended approximately $0.8 million and $1.6 million, respectively, for miscellaneous non-vessel related additions to property, plant and equipment and information technology initiatives.

Inflation

To date, general inflationary trends have not had a material effect on our operating revenues or expenses.

Recent Accounting Pronouncements

On December 16, 2004, the Financial Accounting Standards Board (FASB) issued FASB Statement No. 123 (revised 2004), Share-Based Payment (SFAS 123R), which is a revision of FASB Statement No. 123, Accounting for Stock-Based Compensation (SFAS 123). SFAS 123R supersedes Accounting Principles Board Opinion No. 25 (APB 25), Accounting for Stock Issued to Employees, and amends FASB Statement No. 95, Statement of Cash Flows. Generally, the approach in SFAS 123R is similar to the approach described in SFAS 123. However, SFAS 123R requires all share-based payments to employees, including grants of employee stock options, to be recognized in the income statement based on their fair values. Accordingly, the adoption of SFAS 123R s fair value method will have a significant impact on our results of operations, although it will have no impact on our overall financial position. The impact of adoption of SFAS 123R cannot be predicted at this time because it will depend on levels of share-based payments granted in the future. However, had we adopted SFAS 123R in prior periods, the impact of that standard would have approximated the impact of SFAS 123 as described in the disclosure of pro forma net income (loss) and earnings (loss)

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per share in Note 8 to our consolidated financial statements. SFAS 123R also requires the benefits of tax deductions in excess of recognized compensation cost to be reported as a financing cash flow, rather than as an operating cash flow as required under current literature. This requirement will reduce net operating cash flows and increase net financing cash flows in periods after adoption. While we cannot estimate what those amounts will be in the future because they depend on, among other things, when employees exercise stock options, the amount of operating cash flows recognized for such excess tax deductions was $0.4 million in 2004 and $0.2 and $0.3 million for the three months and six months ended June 30, 2005, respectively. On April 14, 2005, the Commission announced amended compliance dates for SFAS 123R. The Commission previously required companies to adopt this standard no later than July 1, 2005, but the new rule allows companies to implement SFAS 123R at the beginning of their next fiscal year, that begins after June 15, 2005. We will not be required to comply with SFAS 123R until the quarter ended March 31, 2006 and we do not currently intend to adopt this standard prior to such time.

Quantitative and Qualitative Disclosures About Market Risk

We have not entered into any derivative financial instrument transactions to manage or reduce market risk or for speculative purposes.

Changes in interest rates may result in changes in the fair market value of our financial instruments, interest income and interest expense. Our financial instruments that are exposed to interest rate risk are cash equivalents and long-term borrowings. Due to the short duration and conservative nature of our cash equivalent investment portfolio, we do not expect any material loss with respect to our investments. The book value for cash equivalents is considered to be representative of its fair value.

We are subject to interest rate risk on our long-term fixed interest rate senior notes. In general, the fair market value of debt with a fixed interest rate will increase as interest rates fall. Conversely, the fair market value of debt will decrease as interest rates rise. The currently outstanding senior notes accrue interest at the rate of 6.125% per annum and mature on December 1, 2014. There are no scheduled principal payments under the senior notes prior to the maturity date.

Our revolving credit facility has a variable interest rate and, therefore, is not subject to interest rate risk. At December 31, 2004, the weighted average interest rate under our revolving credit facility, had we had outstanding borrowings under such facility, would have been approximately 4.5%. Assuming a 200 basis point increase in market interest rates during the year ended December 31, 2004, our interest expense, net of capitalization, would have increased approximately $0.2 million, net of taxes, resulting in a $0.01 per diluted share reduction in earnings.

Our operations are primarily conducted between U.S. ports, including along the coast of Puerto Rico, and historically we have not been exposed to foreign currency fluctuation. However, as we expand our operations to international markets, we may become exposed to certain risks typically associated with foreign currency fluctuation. We currently have time charters for eight of our OSVs for service offshore Trinidad. Although such contracts are denominated and will be paid in U.S. Dollars, value added tax, or VAT, payments are paid in

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Trinidad dollars which creates an exchange risk related to currency fluctuations. In addition, we are currently operating under a fixed time charter with our fast supply vessel for service offshore Mexico. Although we are paid in U.S. Dollars, there is an exchange risk to foreign currency fluctuations related to the payment terms of such time charters. To date, we have not hedged against any foreign currency rate fluctuations associated with foreign currency VAT payments or other foreign currency denominated transactions arising in the normal course of business. We continually monitor the currency exchange risks associated with conducting international operations. As of June 30, 2005, there were no material changes in our market or interest rate risk or material gains or losses associated with such fluctuations since last reported on our Annual Report on Form 10-K for the period ended December 31, 2004.

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BUSINESS

General

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, Trinidad 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. Such other projects include, among others, the construction, maintenance and repair of offshore infrastructure. 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.

In the mid-1990s, oil and gas producers began seeking large hydrocarbon reserves at deeper well depths using new, specialized drilling and production equipment. We recognized that the existing fleet of conventional 180 OSVs operating in the U.S. Gulf of Mexico was not designed to support these more complex projects or to operate in the challenging environments in which they were conducted. Therefore, in 1997, we began a program to construct new generation OSVs based upon our proprietary designs. Since that time, we have constructed 17 new generation OSVs using these proprietary designs, and expanded our fleet with the acquisitions of a total of six additional new generation OSVs, one fast supply vessel, two AHTS vessels, and two coastwise sulfur tankers currently undergoing conversions into MPSVs. In addition, we recently announced our fourth OSV newbuild program that is expected to add, in the aggregate, approximately 20,000 deadweight tons of additional OSV capacity to our OSV fleet. Our OSV fleet is among the youngest in the industry with an average age of approximately five years. We are the only publicly traded company with a significant fleet of U.S.-flagged, new generation OSVs.

Our OSVs were purposefully designed with the flexibility to meet the diverse needs of our clients in all stages of their exploration and production activities. As a result, all of our OSVs have enhanced capabilities that allow them to more effectively support 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 storage and off-loading capacity. We are capable of providing OSV services to our customers anywhere in the world and we are actively pursuing additional contracts in select international markets.

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 2004 the deepwater region accounted for 64% of total U.S. Gulf of Mexico oil production and 35% 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.

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Our new generation OSVs are also well suited for drilling in logistically demanding projects and frontier areas, where support infrastructure is severely limited.

Our tug and tank barge fleet consists of 14 ocean-going tugs and 15 active ocean-going tank barges. During 2005, we expect to deliver five double-hulled tank barges under our current newbuild program, two of which were delivered on March 11 and July 10, 2005, respectively. The three remaining vessels in this newbuild program are expected to be delivered during the fourth quarter of 2005. These vessels will add new barrel-carrying capacity and replace barrel-carrying capacity lost when we retired three of our single-hulled tank barges from service at the end of 2004 as mandated by OPA 90. In addition, we recently announced a second tug and tank barge newbuild program that is expected to add, in the aggregate, approximately 400,000 barrels of double-hulled capacity to the tug and tank barge fleet and related tugs. 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, our core operating markets. 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. Demand for refined petroleum products is primarily driven by population growth, the strength of the U.S. economy, seasonal weather patterns, oil prices and competition from alternate energy sources.

Offshore Supply Vessels

The OSV Industry

OSVs primarily serve exploratory and developmental drilling rigs and production facilities and support offshore construction and subsea maintenance activities. OSVs differ from other types of marine vessels in their cargo carrying flexibility and capacity. In addition to transporting deck cargo, such as pipe or drummed material and equipment, OSVs also transport liquid mud, potable and drilling water, diesel fuel, dry bulk cement and personnel between shore bases and offshore rigs and facilities. In general, demand for OSVs, as evidenced by dayrates and utilization rates, is primarily related to offshore oil and natural gas exploration, development and production activity, which in turn is influenced by a number of factors, including oil and natural gas prices and the drilling budgets of offshore exploration and production companies.

OSVs operate worldwide, but are generally concentrated in relatively few offshore regions with high levels of exploration and development activity such as the Gulf of Mexico, the North Sea, Southeast Asia, West Africa, Latin America and the Middle East. While there is some vessel migration between regions, key factors such as mobilization costs, vessel suitability and government statutes prohibiting foreign-flagged vessels from operating in certain waters generally limit such migration.

According to the MMS, the U.S. Gulf of Mexico is a critical oil and natural gas supply basin for the United States, and it predicts that new incentives offered to energy companies to explore and develop hard-to-reach areas of the U.S. Gulf of Mexico may boost peak oil and natural gas production by 43% and 13%, respectively, over the next decade. Offshore oil and

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natural gas drilling and production in the U.S. Gulf of Mexico occurs on the Continental Shelf and in the deepwater. Drilling activity on the Continental Shelf has historically been limited to shallow wells, or wells with true vertical depths of less than 15,000 . However, with the advent of improved technology and higher oil and gas prices, operators have begun to increasingly focus exploratory efforts on deep wells and natural gas reserves located below 15,000 . These deep prospects are largely undeveloped, but are believed to contain significant reserves.

While the shallow waters of the Continental Shelf have been actively explored for decades, relatively few deep wells have been drilled historically due to the high cost associated with these wells. The dry hole cost of a typical Continental Shelf well drilled from 8,000 to 12,000 generally ranges from $4 million to $8 million, while the dry hole cost for a deep well drilled in a similar location but to 15,000 or more can range from $10 million to $75 million. The higher costs associated with the drilling of deep wells can be attributed to, among other things, the need for specialized, high-end drilling rigs and related equipment, greater volumes of downhole materials such as liquid mud, tubular products and cement, and longer drilling times.

Despite the higher costs associated with deep well Continental Shelf drilling, operators, especially those in search of natural gas, have continued to demonstrate interest. This interest is driven by, among other things, the potential for the discovery of significant natural gas reserves. The MMS estimates that there may be up to 55 tcf of undiscovered, conventionally recoverable, deep well natural gas on the Continental Shelf. Moreover, the abundance of existing platforms, production facilities and pipelines on the Continental Shelf allow new deep gas to flow quickly to market. In addition, MMS data indicates that higher natural gas production rates can be expected from wells drilled on the Continental Shelf below 16,000 . Furthermore, the MMS royalty relief programs enacted in 2001, and expanded in August 2003 and again in January 2004, have stimulated interest by reducing the development costs of these deep wells. The combination of these factors partly compensates for the higher drilling costs of deep wells on the Continental Shelf and can allow operators to commercially produce discovered reserves in this market. While overall drilling on the Continental Shelf has declined from 2001 levels, gas production data from 2000 to 2003 provided by IHS Energy, an energy research company, suggests an increasing focus on deep wells in shallow waters. From 2000 to 2003, gas production from deep wells as a percentage of total wells on the Continental Shelf increased from 22% to 30%.

Recent discoveries of large hydrocarbon reserves in deepwater fields in the Gulf of Mexico and at deeper well depths on the Continental Shelf have resulted in increased developmental and exploratory drilling activities in these areas. The deepwater region of the U.S. Gulf of Mexico is an increasingly important source of oil and natural gas production with many unexplored areas of potential oil and natural gas reserves. According to the 2004 Deepwater and Ultra Deepwater Report of Infield Systems Limited, an international energy research firm, the U.S. Gulf of Mexico had 58 deepwater projects developed between 1999 and 2003, and an additional 79 deepwater projects have been identified for development between 2004 and 2008.

Because oil and natural gas exploration, development and production costs in the shallow well Continental Shelf market are generally lower than those in the deepwater or deep well environments, shallow well drilling activity on the Continental Shelf is typically more

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sensitive to fluctuations in commodity prices, particularly the price of natural gas. Accordingly, actual or anticipated decreases in oil and natural gas prices generally result in reduced offshore drilling activity and correspondingly lower demand for the conventional 180 OSVs serving the shallow well Continental Shelf market. This causes a corresponding decline in OSV dayrates and utilization rates in that market. In contrast, the relatively larger capital commitments and longer lead times and investment horizons associated with deepwater, particularly ultra-deepwater, and deep well developments make it less likely that an operator will abandon such projects in response to a short-term decline in oil or natural gas prices. Dayrates and utilization rates for new generation OSVs that serve the deepwater and deep well markets are, therefore, generally less sensitive to short-term commodity price fluctuations and tend to be more stable than dayrates and utilization rates for OSVs serving the shallow well Continental Shelf market.

According to our analysis of the industry and data compiled from various industry sources, including the U.S. Coast Guard, we estimate that the U.S.-flagged OSV fleet currently totals 414 vessels, substantially all of which are located in the Gulf of Mexico. Of this total, 249, or 60% are conventional 180 OSVs that primarily operate on the Continental Shelf. The remaining 165 vessels are U.S. flagged, new generation OSVs, with 127 currently operating in the U.S. Gulf of Mexico. However, during soft markets conditions in the deepwater, these modern vessels have increasingly migrated at premium dayrates to conventional drilling environments, such as the U.S. Continental Shelf, Mexico and Trinidad. Of the conventional OSV fleet, a significant number are currently cold-stacked. Vessels that are cold-stacked have generally been removed from active service by the operator due to lack of demand. In contrast, we believe there are currently no new generation OSVs cold-stacked.

The Market for New Generation OSVs

Complex exploration and production projects require specialized equipment and higher volumes of supplies to meet the more difficult operating environment associated with such offshore developments. In order to better serve these projects and meet customer demands, new generation OSVs, including our entire OSV fleet, are designed with larger capacities, including greater liquid mud and dry bulk cement capacities, as well as larger areas of open deck space than conventional 180 OSVs. These features are essential to the effective servicing of deepwater drilling projects, which are often distant from shore-based support infrastructure, because they allow a vessel to make fewer trips to supply the liquid mud, drilling water, dry bulk cement and other needs of the customer. In addition, OSVs operating in deepwater environments generally require dynamic positioning, or anchorless station-keeping capability, primarily because customers safety procedures preclude OSVs from tying up to deepwater installations, and to enable continued operation in adverse weather conditions. We believe that conventional 180 OSVs, substantially all of which lack dynamic positioning capability and sufficient on-deck or below-deck cargo capacity, are not capable of operating effectively or economically in the deepwater market. In addition, certain ports have draft or other logistical impediments, which limit the pool of new generation vessels capable of servicing such ports. Our proprietary vessels were designed to work under these shallow draft and logistically demanding conditions.

As a result of recent deepwater and deep well drilling activity, utilization rates for new generation OSVs in the U.S. Gulf of Mexico have averaged approximately 86% over the last

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two years while the average utilization rate for the conventional 180 OSV fleet over the same period has been approximately 72%, not taking into account cold-stacked conventional 180 OSVs. Taking such cold-stacked vessels into account, we believe that the average utilization rate for U.S. flagged conventional 180 OSVs is less than 50%. Additional utilization for new generation OSVs has come from increasing demand for these vessels in support of conventional shelf drilling projects. Moreover, during the same two-year period, average dayrates for new generation OSVs were generally more than double the average dayrates of conventional 180 OSVs. We believe that demand is beginning to outpace the supply of new generation OSVs in the U.S. Gulf of Mexico. We base our belief on the recent and expected drilling activity in all sectors of the U.S. Gulf of Mexico and the departure of certain new generation OSVs to foreign markets, after taking into account vessels currently available and vessels being constructed under announced construction plans. Furthermore, although U.S.-flagged vessels operating in overseas locations may be remobilized to the U.S. Gulf of Mexico, historically such re-mobilization has been limited. In addition to the traditional energy-related market for our OSVs, we have experienced increased demand for specialized non-energy-related uses, which may afford us the opportunity to diversify the market for our vessels.

Our OSV Business

We currently own and operate a fleet of 25 new generation OSVs, which includes two AHTS vessels that are primarily operating as a supply vessel and towing jack-up rigs. We also own two coastwise sulfur tankers that are currently undergoing conversion into MPSVs, and we own and operate one fast supply vessel. We engineered and supervised the construction of 17 of our OSVs expressly to meet the demands of deepwater regions and other complex drilling projects, based on our proprietary designs. Drawing from the vessel operating experience of our in-house engineers, we work closely with potential charterers to design vessels specifically to meet their anticipated needs. This is particularly the case when the charterer will operate a project that could have a duration of more than 20 years and require expenditures exceeding $1 billion. Our 17 proprietary OSVs have up to three times the dry bulk capacity and deck space, two to ten times the liquid mud capacity and two to four times the deck tonnage compared to conventional 180 OSVs. The advanced cargo handling systems of our proprietary OSVs allow for dry bulk and liquid cargos to be loaded and unloaded three times faster than conventional 180 OSVs, while the solid state controls of their engines typically result in a 20% greater fuel efficiency than vessels powered by conventional engines. In addition, our larger classes of proprietary OSV designs, designated by us as our 240 ED and 265 classes, were designed, in part, to supply the substantially greater liquid mud volume and other cargo capacity required for ultra-deepwater drilling. We believe that our customers recognition of the superior capabilities of our proprietary OSVs has contributed to our ability to achieve higher dayrates and utilization rates and increased overall operating cost efficiencies than our competitors.

All of our new generation OSVs are equipped with dynamic positioning systems and controllable pitch thrusters, which allow our vessels to maintain position with minimal variance, and state-of-the-art safety, emergency power, fire alarm and fire suppression systems and systems monitoring equipment. The unique hull design and integrated rudder and thruster system of our 17 proprietary OSVs provide for a more maneuverable vessel. These proprietary vessels also have double-bottomed and double-sided hulls that minimize

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environmental impact in the event of vessel collisions or groundings, solid state controls that minimize visible soot and polluting gases and zero discharge sewage and waste systems that minimize the impact on marine environments. In addition, these 17 vessels are either fully SOLAS (Safety of Life at Sea) certified or SOLAS ready. SOLAS is the international convention that regulates the technical characteristics of vessels for purposes of ensuring international standards of safety for vessels engaged in commerce between international ports. These features allow us to market our proprietary OSVs for service in international waters.

Our technologically advanced, new generation OSVs are also capable of providing specialty services in support of certain of our customers, including well stimulation, remotely operated vehicles, or ROVs, used in oilfield subsea construction and maintenance, underwater inspections, marine seismic operations, and certain non-energy applications such as fiber optics cable installation, military work and containerized cargo transportation. Compared to conventional 180 OSVs, our OSVs have more dead weight capacity, deck space, and berthing accommodations, improved maneuverability and greater fuel efficiency. We believe these characteristics strengthen demand for our OSVs in specialty situations. Two of our vessels, the *HOS Innovator* and the *HOS Dominator*, currently provide ROV subsea construction and maintenance support for a large oilfield service company. The *BJ Blue Ray* provides deepwater well stimulation support services for another large oilfield service company. This vessel was the first U.S.-flagged well stimulation vessel to receive the American Bureau of Shipping WS and DPS2 class notations. We believe the *BJ Blue Ray* is one of the most technologically sophisticated well stimulation vessels in the world.

On June 26, 2003, we acquired five 220 new generation OSVs from Candy Marine Investment Corporation, an affiliate of Candy Fleet Corporation, or Candy Fleet. Following the completion in July 2003 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 existing OSV fleet and have allowed us to expand our service offerings to clients, particularly those drilling wells on the Continental Shelf.

In January 2005, we acquired a new generation AHTS vessel from a private owner. This vessel, renamed the *HOS Saylor*, was our first foreign-flagged vessel. Upon acquisition, we immediately deployed the *HOS Saylor* on a time charter with one of our OSV customers in Trinidad. In March 2005, we acquired the *HOS Navegante*, the sister vessel to the *HOS Saylor*, from an affiliate of the private owner from which the *HOS Saylor* was acquired. The *HOS Navegante*, which is also foreign-flagged, was placed in service in June 2005. These strategic vessel acquisitions complement our growing market presence in international waters. While these vessels have anchor-handling capabilities and may be used for that purpose, we currently are using them primarily as supply vessels and for towing jack-up rigs.

We purchased the *Energy Service 9001*, formerly known as the *M/V W.K. McWilliams, Jr.*, from Freeport-McMoRan Sulphur in November 2001. In the second quarter of 2005, we acquired a coastwise sulfur tanker, the *M/V Benno C. Schmidt*. We are converting these two vessels into 370 class MPSVs. The total project cost to acquire and convert the two vessels is expected to be $65 million in the aggregate. We anticipate delivery of the converted vessels by the first quarter of 2007. We believe that the MPSVs will be the largest OSVs in the world, each with cargo carrying capacities of over 10,000 deadweight tons and a minimum of 30,000

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barrels of liquid mud. Each MPSV will have nearly three times the deadweight and liquid mud capacity of one of our 265 class new generation OSVs and more than eight times the liquid mud capacity of one of our 200 class new generation OSVs. The MPSVs represent the culmination of a three-year effort by our in-house engineering team to design a multi-purpose supply vessel. The resulting plan to convert the *Energy Service 9001* and the *Benno C. Schmidt* is based on recent customer feedback and expressed demand for a larger, more versatile, DP-2 vessel capable of meeting the evolving needs of the exploration, development and production life-cycle of an ultra-deepwater field. The hulls of these sister vessels, which were purpose-built for the specific gravity of molten sulfur as a cargo, make them uniquely suited to be converted into large liquid mud carriers. This is especially important given the ever-increasing volumes of liquid mud necessary to spud a deep well today, with some projects requiring as many as 100,000 barrels of drilling fluid per spud.

We expect to convert these vessels into MPSVs for roughly the same cost that we would have to pay to construct a UT-745 or 280 class OSV, which are the largest OSVs that are currently in service. Unlike those vessels, however, the MPSVs will offer our customers multiple capabilities that we believe are well beyond those of any OSV offered or under construction today. With these MPSVs, we have designed a single vessel that can perform a variety of specialty services for which customers must currently use several different types of vessels. In addition to traditional offshore supply vessel capabilities, these MPSVs can support offshore construction, subsea well intervention, ROV operations, pipeline commissioning, pipe-hauling and flotel services, to name a few. We estimate that the cost to construct two comparable newbuild vessels, with the same capacities and all of the capabilities of these MPSVs, would be over $120 million, or about twice our expected level of investment.

In September 2005, we announced our fourth OSV newbuild program. We are currently seeking bids from domestic shipyards for this new program. We plan to build an additional 20,000 deadweight tons of new generation OSV vessel capacity with an estimated incremental cost of approximately $170 million in the aggregate. The precise number of vessels to be constructed and their specifications will be finalized as certain milestones are completed, including the negotiation of shipyard contracts. Construction costs related to this program will be funded, in part, with a portion of the proceeds from our public common stock offering and the concurrent private note offering and cash flow from operations. All of the new OSVs to be constructed under this latest OSV newbuild program are expected to be delivered by mid-2008, with the first vessel due in mid-2007.

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The following table provides information, as of September 15, 2005, regarding