



8 | Executive Achievement
Jose Luis Rice Jr.
 President, Rice Propulsion
 BY NICHOLE WILLIAMSON

12 | Washington Insider
Congress Passes Maritime Legislation Despite Gridlock
 BY LARRY KIERN

16 | MarEx OP-ED
OPEC at 50
 BY MICHAEL J. ECONOMIDES

20 | MarEx Exclusive
A Conversation With Thad Allen
 BY TONY MUNOZ

24 | Upgrades & Downgrades
The Outlook for Workboat Stocks
 BY JACK O'CONNELL

28
**Swimming Upstream:
 The Struggle to Expand
 America's Marine Highway**
 BY BARBARA SAUNDERS

46
**Report from Down Under:
 The World Leader in
 High-Speed Watercraft**
 BY ROBERT C. SPICER

52
**Wiring the Oceans:
 SatCom Comes of Age**
 BY ART GARCIA

60
The Shipbroker's Art
 BY BARRY PARKER

66
**Advances in Clean
 Marine Propulsion**
 BY RICHARD CARRANZA

72
SatCom Directory

34 Case Study:

Hornbeck Offshore Services

In just 13 years the company has become a leader in the deepwater Gulf of Mexico with an enterprise value in excess of \$1 billion.

BY TONY MUNOZ

40 Executive Interview:

Todd Hornbeck

The dynamic young leader discusses his vision for the future and staying "one step ahead."

BY TONY MUNOZ

The Shipbroker's Art

By Barry Parker



“FIXED ASSETS” ARE NOT ALWAYS FIXED. Unlike most capital equipment listed on company balance sheets, ships and boats can be easily moved geographically in search of better financial returns. Their mobile nature makes them likely to change hands more often and between parties who are unrelated and geographically distant. Moreover, because the maritime business is so fragmented, with hundreds if not thousands of participants in the major sectors, it’s impossible for one person to know what everybody else is doing.

Into this vacuum of insufficient information flow and geographic distance steps the intermediary, more colloquially called a shipbroker, or vessel sale and purchase (S&P) broker. The international network of S&P brokers provides the glue that enables buyers and sellers to transact their deals – sometimes locally, but more often globally.



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Reaching across the globe to bring buyer and seller together, today's shipbroker has a lot to offer.

Marcon International (based outside Seattle) and Ocean Marine Brokerage (based in Schriever, Louisiana), for example, connect their clients with worldwide markets. In conversations with Marcon's Bob Beegle and Ocean Marine's Steve Kokinos, both were quick to dispel the notion that their shops served only narrow interests. Kokinos said that Ocean Marine handled everything from oilfield and fishing vessels to passenger and cargo ships. He told *MarEx*, "We've been reselling vessels in the non-domestic market for the past 18 years and have a wide network of foreign buyers throughout the world." Beegle, who founded Marcon in 1981, covers the towing, offshore petroleum, research and marine construction markets, supplemented by "a dabble here and a dabble there as the market requires."

Part Broker, Part Seer

Brokers wear many hats. The Baltic and International Maritime Council (BIMCO), an international trade association which

provides educational services (along with contractual forms for handling actual sales), offered the following: "Thousands of ships change hands every year, although their prices are hugely governed by the laws of supply and demand. The S&P broker has a good idea of the current position in the trade cycle and whether prices are likely to harden or to fall in the short term. This is notoriously difficult to establish, and a good S&P broker is a successful analyst, researcher, valuer and shipping market 'futurolgist.'"

Among listed companies, workboat behemoth Tidewater (NYSE: TDW) proudly points to its strategy of "continually acquiring new, and disposing of mature, vessels." Such strategic vessel sales have generated \$665 million in proceeds (and \$276 million of pretax profits) for Tidewater over the past decade. Executive Vice President Stephen Dick, who is responsible for vessel sales at Tidewater, told *MarEx*, "When we sell vessels, it's at the end of the useful life that we have for the vessel; the vessels may well have remaining economic life. Almost without exception, they are sold out of the offshore business — for example, for use as towing vessels. Recently we sold boats to Nigeria, which are now used as security vessels."

Technology vs. the Human Factor

Communications and computers have advanced dramatically in the past three decades. Yet despite changing technologies, the sale of vessels remains a very personal business. Marcon's Beegle put it very succinctly, "Personal relationships are the key and still the

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most important factor in business.” His thoughts were echoed by Ocean Marine’s Kokinos, a one-time commercial fisherman: “Interpersonal relationships with both buyers and sellers are a must to be both competitive and successful.”

Technology does play an important role. “It’s helpful in getting our message out – what kinds of equipment we have for sale, who we are – and in communicating with clients we might not otherwise be able to reach,” Kokinos explained. Beegle acknowledged technology’s importance but cautioned, “It’s only a tool to be used as a convenience for both the broker and the client.”

Though BIMCO and broker organizations focus on the mechanical aspects of the shipbrokers’ art, what separates a technically competent broker from the consummate professional is a good feel for psychology along with insight into the buyer’s and seller’s real motivations. Marcon’s Beegle elaborated, “In some of the sales that we handled, the rewards to the buyer or seller were not just revenue but also keeping a valuable asset outside the hands of a competitor.” He cited company prestige as another motivator which has fueled deals. When asked about the use of brokers, Tidewater’s Stephen Dick stated, “We have no problem dealing with brokers. If we know the other party well, we may deal directly. Many times the sellers will prefer to put their equipment in the hands of a broker.”

The intermediary can facilitate deals in ways that go far beyond passing offers back and forth. Beegle said that brokers can provide “distance and diplomacy between the buyers and sellers” and






recounted a story about Marcon’s role as a buffer. He said two principals started on a direct deal but in midstream came to Marcon. “They found that they would not, or could not, talk to each other.” He explained that the deal was done, “but otherwise it would have been dead.” He described a similar negotiation where the buyer and seller were “just across the river from each other, and they knew the equipment that the other always had for sale.” He joked, “Even though we regularly inspected and appraised it, they probably knew more about it than we did. We were asked to act as the broker in the purchase, which we did successfully.”

Asset Player or Growth Player?

Companies in the deepsea shipping trades are continuously buying and selling tankers, bulk carriers and containerships – much like Tidewater’s transactions. International tanker giant Tsakos Energy Navigation (NYSE:TNP), listed since the early 1990s, is quick to acknowledge that vessel sales are a regular contributor to its profits. It reckoned, as of mid-2010, that “total capital gains since 2004 have been close to \$260 million.” Dale Ploughman, CEO of Seanergy Maritime Corp. (Nasdaq: SHIP), told *MarEx*: “The buying of ships for a fledgling company like Seanergy is very important and, being in the public sector, the price-to-EBITDA ratio is important to the investor and becomes one of the focal points when analyzing the acquisition of a particular target.” Ploughman, with decades of top management experience, added, “The selling of a ship depends on the com-

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pany's overall strategy: Is it an asset player or is it a long-term growth player?"

Shipbrokers' access to capital markets and private institutional money has helped facilitate asset transactions. Ploughman offered a principal's viewpoint, where financial considerations influence company strategies: "Seanergy is a long-term growth player and as such will hold on to its ships and generate its profits through trading. However, Seanergy will also keep close watch on the S&P market, and if the market is such that it can make a substantial profit by selling a particular unit and reinvesting the money at a higher return, then this opportunity will be taken." Tidewater's Stephen Dick added, "In addition to the selling that we discussed, we are also buyers of equipment. It must be the vintage, style and specification that can fit into our portfolio. If we see a good deal, then we will try to make the acquisition, but it must meet our needs."

Full-Service Shops

Traditionally, the major broker groups have been headquartered in London or Oslo; these days they have outposts in shipping centers across the globe. Two of the biggest brokers in the world, Clarksons and Braemar Seascope, are part of shipping service providers listed in London, while a third, EA Gibson, is part of the listed Hunting Group (with a business in oil well services). London-headquartered SSY, established in 1880, is privately held, as are the Norwegian stalwarts Fearnleys and R.S. Platou.

Fearnleys, based in Oslo, provides an example of how ship brokerage is integrated into multiple business units conducted through a full-service worldwide office network. When it was founded in 1869, its competitive advantage came from an "earlier adopter" strategy: utilizing the new Oslo-to-London telegraph cable. A century and half later, its ship sales professionals sit alongside tanker, gas carrier and dry cargo brokers, whose market coverage will include interaction with its far-flung offices. Fearnleys is also active in the North Sea exploration, production and supply markets, brokering both charters and equipment sales.

As finance has grown in importance, a number of the ship sale brokers (including Fearnleys, Platou, Clarksons and SSY, along with Poten and McQuilling in the U.S.) have hired in-house teams of bankers. Stephen Dick noted this trend but observed, "Some of the bigger brokers try to get their finance arms involved. For us, we generally do our own finance." Communications tools, worldwide breadth and money sources notwithstanding, the personal relationships stressed by both Marcon and Ocean Marine are vital. Seanergy's Ploughman told *MarEx*: "Deals are done both directly and through brokers. It depends very much on the circumstances and the deal relationship that the parties have. A broker can facilitate a deal tremendously if the negotiations start to get a little sticky."

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Barry Parker is a frequent contributor to the magazine.

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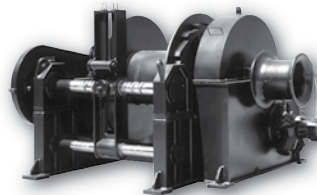
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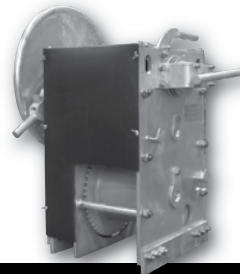
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