TORCH OFFSHORE INC
Form S-1/A
May 15, 2001

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AS FILED WITH THE SECURITIES AND EXCHANGE COMMISSION ON MAY 15, 2001

REGISTRATION NO. 333-54120

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

AMENDMENT NO. 2

TO

FORM S-1
REGISTRATION STATEMENT UNDER THE SECURITIES ACT OF 1933

TORCH OFFSHORE, INC.
(Exact name of registrant as specified in its charter)

DELAWARE	1389	74-2982117
(State or other jurisdiction of incorporation or organization)	(Primary Standard Industrial Classification Code Number)	(I.R.S. Employer Identification No.)

401 WHITNEY AVENUE, SUITE 400
GRETNA, LOUISIANA 70056-2596
(504) 367-7030
(Address, including zip code, and telephone number, including area code, of registrant's principal executive offices)

WILLIAM J. BLACKWELL
401 WHITNEY AVENUE, SUITE 400
GRETNA, LOUISIANA 70056-2596
(504) 367-7030
(Name, address, including zip code, and telephone number, including area code, of agent for service)

Copies to:

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APPROXIMATE DATE OF COMMENCEMENT OF PROPOSED SALE TO THE PUBLIC: As soon as practicable after this registration statement becomes effective.

If any of the securities being registered on this Form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, check the following box. [ ]

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

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

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

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

THE REGISTRANT HEREBY AMENDS THIS REGISTRATION STATEMENT ON SUCH DATE OR DATES AS MAY BE NECESSARY TO DELAY ITS EFFECTIVE DATE UNTIL THE REGISTRANT SHALL FILE A FURTHER AMENDMENT WHICH SPECIFICALLY STATES THAT THIS REGISTRATION STATEMENT SHALL THEREAFTER BECOME EFFECTIVE IN ACCORDANCE WITH SECTION 8(a) OF THE SECURITIES ACT OF 1933 OR UNTIL THE REGISTRATION STATEMENT SHALL BECOME EFFECTIVE ON SUCH DATE AS THE SECURITIES AND EXCHANGE COMMISSION, ACTING PURSUANT TO SAID SECTION 8(a), MAY DETERMINE.

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The information in this prospectus is not complete and may be changed. We may not sell these securities until the registration statement filed with the Securities and Exchange Commission is effective. This prospectus is not an offer to sell these securities and it is not soliciting an offer to buy these securities in any state where the offer or sale is not permitted.

PRELIMINARY PROSPECTUS Subject to completion May 15, 2001

5,000,000 SHARES

[TORCH LOGO]

TORCH OFFSHORE, INC.
COMMON STOCK

This is our initial public offering of shares of our common stock. We expect the public offering price to be between $14.00 and $16.00 per share.

Our common stock has been approved for quotation on the Nasdaq National Market under the symbol "TORC," subject to notice of issuance.

BEFORE BUYING ANY SHARES YOU SHOULD READ THE DISCUSSION OF MATERIAL RISKS OF INVESTING IN OUR COMMON STOCK IN "RISK FACTORS" BEGINNING ON PAGE 8.

NEITHER THE SECURITIES AND EXCHANGE COMMISSION NOR ANY STATE SECURITIES COMMISSION HAS APPROVED OR DISAPPROVED OF THESE SECURITIES OR DETERMINED IF THIS PROSPECTUS IS TRUTHFUL OR COMPLETE. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

	PER SHARE	TOTAL
Public offering price	$	$
Underwriting discount and commissions	$	$
Proceeds, before expenses, to Torch Offshore, Inc.	$	$

The underwriters may also purchase up to 750,000 shares of common stock from the selling stockholders and us at the public offering price to cover over-allotments, if any. Delivery of the shares will be made on or about , 2001.

UBS WARBURG

CIBC WORLD MARKETS

HOWARD WEIL
A DIVISION OF LEGG MASON WOOD WALKER, INC.

The date of this prospectus is , 2001

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[Torch Offshore, Inc. logo with caption: "Torch Offshore, Inc."]

[depiction of vessel providing subsea construction services on Gulf of Mexico Shelf with caption: "From the Gulf of Mexico Shelf Today . . ."]

[depiction of vessel providing subsea construction services in deepwater with caption: ". . . To Deepwater Development Tomorrow"]

[photograph of the Midnight Carrier with caption: "The MIDNIGHT CARRIER is a 270 ft. diving support vessel."]

[photograph of the Midnight Brave with caption: "The MIDNIGHT BRAVE is a 275 ft. pipelay/bury barge."]

[photograph of the Midnight Star with caption: "The MIDNIGHT STAR is a 197 ft. diving support vessel."]

[Torch Offshore, Inc. logo]

[photograph of the Midnight Eagle with caption: "The MIDNIGHT EAGLE is a 190 ft. DP-2 pipelay/bury barge."]

[depiction of the Midnight Warrior with caption: "The MIDNIGHT WARRIOR will be a 336 ft. DP-2 pipelay/subsea construction vessel."]

[photograph of the Midnight Dancer with caption: "The MIDNIGHT DANCER is a 195 ft. diving support vessel."]

[photograph of the Midnight Runner with caption: "The MIDNIGHT RUNNER is a 160 ft. pipelay/bury barge."]

[photograph of the Midnight Arrow with caption: "The MIDNIGHT ARROW is a 197 ft. DP-2 diving support/subsea construction vessel."]

[text on middle left of page: "Torch owns and operates a fleet of specialized vessels, ranging from shallow water pipelay barges to dynamically positioned vessels for deepwater installation."]

[photograph of the Midnight Rider with caption: "The MIDNIGHT RIDER is a 260 ft. pipelay/bury barge."]

[photograph of Midnight Fox with caption: "The MIDNIGHT FOX is a 130 ft. 4-point/DP supply/diving support vessel."]

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You should rely only on the information contained in this prospectus. We have not authorized anyone to provide you with different information. We are not making an offer to sell these securities in any state where the offer is not permitted. You should not assume that the information provided by this prospectus is accurate as of any date other than the date on the front of this prospectus.

TABLE OF CONTENTS

Until , 2001, all dealers that buy, sell or trade the common stock, whether or not participating in the offering, may be required to deliver a prospectus. This is in addition to the dealers' obligations to deliver a prospectus when acting as underwriters and with respect to their unsold allotments or subscriptions.

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Prospectus summary

The following summary highlights selected information from this prospectus and may not contain all the information that is important to you. To learn more about the offering and our business, you should read the entire prospectus, including our financial statements and related notes appearing elsewhere in this prospectus. Unless we indicate otherwise, the information contained in this prospectus assumes that the underwriters' over-allotment option is not exercised. If you are not familiar with some of the industry terms used in this prospectus, please read the section of this prospectus entitled "Glossary of certain industry terms."

OUR BUSINESS

We provide subsea construction services in connection with the infield development of offshore oil and natural gas reservoirs. We are a leading service provider in our market niche of installing and maintaining small diameter flowlines and related infrastructure associated with the development of offshore oil and natural gas reserves on the Continental Shelf of the Gulf of Mexico. Our customers are major energy companies as well as independent oil and natural gas operators. The primary services we provide include:

+ installation of flowlines and related infrastructure;

+ pipeline tie-ins and tie-backs;

+ riser installation;

+ pipeline surveys and installation engineering; and

+ integrated construction support.

The majority of our services are performed to facilitate the production of natural gas. We believe we are one of the leading installers of pipelines in water depths of less than 200 feet in the Gulf of Mexico. Based upon an annual survey conducted by Mustang Engineering, Inc. and Offshore Magazine, we increased our market share of all pipeline installation activities in water depths of less than 200 feet in the Gulf of Mexico from 15.99% in 1997 to 31.13% in 1999. Over the last three years, we have expanded our operations, capabilities and management expertise to enable us to provide deepwater services analogous to the services we provide on the Shelf.

Since 1997, we have increased the size of our fleet from three to eight construction and service vessels and upgraded three vessels. We had revenues of $39.0 million in 1997, $39.2 million in 1998, $21.3 million in 1999 and $46.2 million in 2000. We incurred net losses of $10.6 million in 1999 and $1.6 million in 2000. Our earnings or losses before interest, taxes, depreciation and amortization, or EBITDA, was $14.5 million in 1997, $11.8 million in 1998, $(5.0) million in 1999 and $7.5 million in 2000. For the twelve months ended

March 31, 2001, our revenues were $54.0 million and our EBITDA was $10.7 million.

Lyle Stockstill, our chairman and chief executive officer, and Lana Hingle Stockstill, our senior vice president, started our business in 1978. Since inception, they, together with their family trusts, have owned at least 90% of our common stock.

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During the latest downturn in the oil and natural gas industry, we expanded, upgraded and modernized our fleet. Specifically, we:

+ completed the required drydocking of our fleet;

+ increased the maximum water depth in which the Midnight Brave and the Midnight Runner are capable of operating;

+ completed the conversion of the Midnight Carrier into a diving support vessel;

+ completed the construction of a new, fully redundant dynamically positioned pipelay/bury barge, the Midnight Eagle;

+ obtained a new, fully redundant dynamically positioned deepwater subsea construction vessel, the Midnight Arrow, under a long-term charter; and

+ completed the design, negotiated the construction contract and obtained a commitment for a financing guarantee from the U.S. Department of Transportation Maritime Administration, or MARAD, for a new, fully redundant dynamically positioned deepwater pipelay and subsea construction vessel, the Midnight Warrior.

BUSINESS DEVELOPMENTS

Since January 2000, we have reached several milestones, including:

+ In April 2001, we entered into an option to purchase a pipelay/bury barge, the BH-400 (to be renamed the Midnight Rider), which would increase our capabilities on the Shelf.

+ In January 2001, we renewed our alliance agreement with Unocal Corporation under which we provide at least 80% of Unocal's Spirit Energy 76 unit's pipelay, burial and riser installation service demands for its Gulf of Mexico operations in water depths of up to 200 feet. Services performed under this alliance accounted for 7.3% of our revenues for the year ended December 31, 2000.

+ For the year ended December 31, 2000, we installed more miles of pipeline than in any previous year.

+ In November 2000, the Midnight Eagle became the first vessel using dynamic positioning technology to simultaneously lay and bury pipe in the Gulf of Mexico.

+ In August 2000, we completed a pre-route pipeline inspection for a potential deepwater field development. The operations consisted of an inspection and mapping of the seabed floor in approximately 3,700 feet of water in the Gulf of Mexico.

+ In July 2000, the United States Coast Guard presented us with a certificate of appreciation in recognition of our promotion of offshore safety.

CONDITIONS IN OUR INDUSTRY

The price levels of oil and natural gas are the primary determinants of offshore exploration and development activity. From two year lows in February 1999 to May 9, 2001, NYMEX closing current oil contract prices have increased by 123% and NYMEX closing current natural gas contract prices have increased by 163%. As oil and natural gas prices increase or remain at favorable levels, our customers generally increase their capital budgets for additional offshore exploration and development. Portions of these budgets will be allocated towards the construction of subsea infrastructure for the delivery of oil and natural gas to production facilities or trunk lines.

Another major portion of the capital budgets will be allocated for exploration and production drilling activity. Because capital expenditures on drilling generally increase prior to any spending on construction, we consider the number of active jack-up drilling rigs to be the leading indicator of subsea construction activity on the Shelf. According to OneOffshore, Inc., the number of active jack-up drilling rigs on the Shelf has increased from a low of 76 in April 1999 to 144 in April 2001. Demand for our services on the Shelf generally follows successful drilling activities by three to 12 months. This is consistent with the recent improvement in our subsea construction activity on the Shelf, as evidenced

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by our revenues of $54.0 million in the twelve month period ended March 31, 2001 as compared to our revenues of $22.0 million in the twelve month period ended March 31, 2000.

In the Gulf of Mexico, the number of hydrocarbon prospects in water depths greater than 1,500 feet increased from 93 in 1990, as reported by the Minerals Management Service, to approximately 241 in October 2000, as reported by Offshore Magazine. We have noticed that demand for pipeline installation for deepwater projects exceeding 1,000 feet of water depth generally follows initial exploration drilling activities by at least three years. According to OneOffshore, Inc., as of December 2000, 128 subsea development projects were under contemplation in water depths in excess of 1,000 feet in North America. As these deepwater projects progress, we expect that there will be an increase in the backlogs of companies providing relevant subsea construction services.

Relatively few vessels domiciled in the Gulf of Mexico are equipped to handle these deepwater subsea construction jobs.

OUR STRATEGY

We believe that we are well positioned to benefit from the increased level of activity in the Gulf of Mexico, both on the Shelf and in deepwater regions. We also believe that our greatest long-term future growth opportunities lie in the natural extension of our market niche of installing and maintaining small diameter flowlines and related infrastructure to deepwater.

Our strategy is to add value for our stockholders by continuing to take advantage of opportunities on the Shelf while expanding our niche services into the deepwater markets of the Gulf of Mexico and of the South Atlantic Basin. We intend to execute our deepwater expansion strategy by:

+ focusing on projects involving small diameter infield flowlines and related infrastructure where we have analogous expertise on the Shelf;

+ providing cost effective services through an expanded fleet of specially designed and equipped vessels; and

+ leveraging our customer relationships and alliances.

RISK FACTORS

You should review and consider carefully the matters set forth under the caption "Risk factors," as well as the other information set forth in this prospectus, including that our results will be affected by the volatile nature of oil and gas prices, our plans to expand our services into the deepwater may not be successful, we may have difficulty upgrading our existing vessels and acquiring or constructing new vessels and we have incurred losses from operations in recent years, before deciding whether to invest in our common stock. One or more of these matters could negatively impact our ability to successfully implement our business strategy and the value of your investment in our stock.

OUR FLEET

We operate a diversified fleet of eight construction and service vessels. In April 2001, we entered into an option to purchase a pipelay/bury barge, the BH-400, which terminates on July 31, 2001. We intend to exercise this option following the completion of the offering. In March 2000, we entered into a contract to construct a new generation, fully redundant dynamically positioned vessel, the Midnight Warrior, for deepwater pipelay and subsea construction. Dynamic positioning technology allows a vessel to maintain its position without the use of anchors. Dynamic positioning technology allows vessels to operate in deeper water than would otherwise be possible, lay pipe more quickly and work more efficiently in congested areas like the Shelf. Three of our existing vessels are equipped with dynamic positioning technology. Of these, two are equipped with fully redundant dynamic positioning technology that can hold the vessel in place in the event of multiple problems in the primary dynamic positioning system. In addition, three of our vessels are specifically equipped to simultaneously lay and bury pipelines. Regulations of the Minerals Management Service require that all pipelines installed in water depths of less than 200 feet be buried.

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We also have an option to construct the Midnight Warrior II, a sister ship of the same design as the Midnight Warrior. This option terminates on April 15, 2002. We believe significant advantages and savings can be realized by having two substantially identical vessels in terms of scheduling, spare parts and flexibility regarding optional equipment modules for use on either vessel. We are currently consulting with our customers to determine when there will be sufficient demand for the Midnight Warrior II and exploring the possibility of MARAD-guaranteed financing for the vessel.

Complementing the Midnight Arrow by adding the Midnight Warrior, and potentially the Midnight Warrior II, would facilitate our expansion into deepwater. We designed the Midnight Warrior and the Midnight Warrior II to cost effectively install small diameter infield flowlines and related infrastructure in deepwater. We believe that further increasing our deepwater capabilities by upgrading our existing vessels to use fully redundant dynamic positioning and other advanced technologies and acquiring additional vessels with these technologies will position us to take advantage of increases in deepwater construction activities in the Gulf of Mexico and elsewhere.

STRUCTURE AND OWNERSHIP

Mr. and Mrs. Stockstill formed our predecessor, Torch, Inc., in 1978. In May 2000, Torch, Inc. and funds managed and advised by Lime Rock Partners LLC, or Lime Rock, formed Torch Offshore, L.L.C. to hold substantially all of the assets and liabilities of Torch, Inc. Lime Rock is a private equity firm focusing exclusively on the energy industry. For financial reporting purposes, the contribution of the assets and liabilities of Torch, Inc. to Torch Offshore, L.L.C. was considered a recapitalization of Torch, Inc. All historical share and unit data have been restated to reflect the impact of the recapitalization. In this prospectus, historical share and common unit data are expressed in terms of shares, and references to stockholders include unitholders for all relevant periods.

Torch Offshore, Inc., the issuer of the common stock offered by this prospectus, is a new holding company formed to own our business. Torch, Inc. and Lime Rock collectively hold all of the membership interests in Torch Offshore, L.L.C. Concurrent with the closing of the offering, Torch, Inc. and Lime Rock will contribute their membership interests in Torch Offshore, L.L.C. to Torch Offshore, Inc. in exchange for shares of common stock in Torch Offshore, Inc., a transaction which we refer to as the "Contribution." As a result of the Contribution our business will become a corporation subject to federal and state income taxes, and we will record a charge to operations on the closing date of the Contribution for deferred taxes. For more information regarding this charge, you should read "Unaudited pro forma condensed financial information."

In this prospectus, the terms "we," "us" and "our" refer to Torch Offshore, Inc. and, unless the context otherwise requires, its subsidiaries, including Torch Offshore, L.L.C. (the successor to the historical operations of Torch, Inc.), after giving effect to the Contribution.

Upon completion of the offering, Mr. and Mrs. Stockstill and their family trusts will beneficially own the majority of our outstanding common shares. Accordingly, these stockholders will have the ability to control the election of our directors and the outcome of all other matters submitted to a vote of our stockholders.

COMPANY INFORMATION

Our principal executive offices are located at 401 Whitney Ave., Suite 400, Gretna, Louisiana 70056-2596, and our telephone number at that address is (504) 367-7030.

The offering

Common stock we are offering........	5,000,000 shares
Common stock to be outstanding after the offering.......................	13,333,333 shares
Nasdaq National Market symbol.......	"TORC"
Use of proceeds.....................	We estimate that our net proceeds from the offering will be approximately $69 million. We intend to use these net proceeds as follows: + approximately $9 million to provide the equity investment necessary to build the Midnight Warrior; + approximately $11 million to provide a portion of the interim construction financing for the Midnight Warrior; + approximately $34 million to repay indebtedness outstanding at the time of the offering; + approximately $10 million to purchase the BH-400; + approximately $3 million for construction of a reel base shore facility and miscellaneous equipment upgrades; and + any balance for general corporate purposes. See "Use of proceeds."
Risk factors.......................	Investing in our common stock involves significant risks. See "Risk factors."

Except as otherwise indicated, the information in this prospectus, including the number of shares to be outstanding after the offering, assumes the following:

+ the issuance of 7,505,000 shares (including 1,000 shares previously issued) in consideration for the contribution of all of the outstanding interests in Torch Offshore, L.L.C. held by Torch, Inc.;

+ the issuance of 828,333 shares in consideration for the contribution of all of the outstanding interests in Torch Offshore, L.L.C. held by Lime Rock;

+ no exercise of the underwriters' over-allotment option; and

+ the exclusion of approximately 300,000 shares issuable upon exercise of options to be granted in connection with the offering at an exercise price equal to the initial public offering price.

Summary financial and operating information

The following table presents summary financial and operating data of Torch Offshore, L.L.C. and its predecessor, Torch, Inc., for the periods shown. The information in the following table may not be indicative of our future results. You should read the following data with the more detailed information appearing in "Selected historical financial and operating data," "Management's discussion and analysis of financial condition and results of operations," "Unaudited pro forma condensed financial information" and the financial statements, including the notes thereto, appearing elsewhere in this prospectus.

The unaudited pro forma condensed financial information set forth below gives effect to:

+ the Contribution and our recording of $2.8 million in net deferred income taxes in connection with the Contribution; and

+ the sale of common stock in the offering at an assumed initial public offering price of $15.00 per share and the repayment of debt and the temporary investment of the remaining net proceeds to us pending application thereof as described in "Use of proceeds."

The unaudited pro forma condensed statement of operations data for the year ended December 31, 2000 and the three months ended March 31, 2001 is presented as if such transactions had occurred on January 1, 2000. The unaudited condensed pro forma balance sheet data as of March 31, 2001 is presented as if such transactions occurred on March 31, 2001.

(in thousands, except per share and operating data)	YEARS ENDED DECEMBER 31,				UNAUDITED THREE MONTHS ENDED MARCH 31,	
STATEMENT OF OPERATIONS DATA	1997	1998	1999	2000	2000	2001

Revenues.........................	$ 38,955	$ 39,224	$ 21,252	46,205	$ 6,661	$ 14,4
Cost of sales....................	22,243	25,198	21,190	34,011	5,862	10,3
Gross profit.....................	16,712	14,026	62	12,194	799	4,1
Depreciation and amortization.....	1,229	2,187	3,469	4,941	1,171	1,4
Income (loss) from operations.....	13,245	9,566	(8,475)	2,540	(1,231)	1,6
Income (loss) before income taxes..........................	11,567	9,075	(9,888)	(1,273)	(2,170)	7
Net income (loss) before extraordinary item..............	11,415	9,032	(9,892)	(1,273)	(2,170)	7
Net income (loss) attributable to common stockholders.............	11,415	9,032	(10,568)	(1,578)(1)	(2,170)	
Diluted income (loss) per share...	5.68	4.48	(5.50)	(0.82)(1)	(1.13)	0
Diluted income (loss) per share, as adjusted(3)..................	1.45	1.15	(1.41)	(0.21)	(0.29)	0.
OTHER FINANCIAL DATA						
EBITDA(4)........................	$ 14,474	$ 11,753	$ (5,006)	$ 7,481	$ (60)	$ 3,1
Net cash provided by (used in):						
Operating activities............	8,195	9,997	(4,206)	1,746	474	(2,7
Investing activities............	(13,968)	(22,047)	(6,451)	(2,538)	(71)	(1
Financing activities............	6,455	11,467	11,557	463	(1,618)	1,9
BALANCE SHEET DATA (AT END OF PERIOD)						
Working capital..................	$ 2,825	$ (663)	$ (7,772)	$(10,103)	$(10,259)	$ (9,7
Property, net....................	10,971	31,702	41,120	40,202	40,324	39,4
Total assets.....................	28,802	47,586	54,069	57,988	51,363	60,2
Long-term debt, excluding current portion.........................	6,540	17,915	29,522	23,957	28,167	22,3
Mandatorily redeemable convertible preferred units(5)..............	--	--	--	4,678	--	4,6
Stockholders' equity.............	13,590	18,723	7,889	6,311	5,719	6,9
OPERATING DATA						
Available revenue days(6).........	959	1,521	1,953	2,603	647	7
Revenue days worked..............	847	1,092	981	1,820	292	4
Total pipelay mileage............	122	137	125	186	29	
Average revenue per mile of pipe laid............................	$319,303	$236,482	$145,632	$218,300	$228,600	$213,7
Average miles per pipelay job.....	2.7	3.1	4.0	2.9	4.1	4
Total vessels in operation (at end of period)......................	3	6	6	8	8	
AVERAGE PRICE(7)						
Crude oil (per barrel)...........	$ 20.61	$ 14.40	$ 19.32	$ 30.28	$ 28.77	$ 28.
Natural gas (per thousand cubic feet)...........................	2.47	2.16	2.31	4.31	2.61	6.

(See footnotes on next page)

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(1) On a pro forma basis, as if we had been subject to income taxes, for the year ended December 31, 2000 and the three months ended March 31, 2001, net income (loss) attributable to common stockholders would have been $(1,002) and $416,

respectively, and diluted income per share would have been $(0.52) and $0.22, respectively.

(2) On a pro forma basis, assuming that the offering is limited to only that number of shares required to generate sufficient net proceeds to repay debt outstanding at March 31, 2001, our diluted income per share for the year ended December 31, 2000 and the three months ended March 31, 2001 would have been $0.15 and $0.10, respectively.

(3) Represents historical diluted income (loss) per share adjusted for the assumed recapitalization resulting from the contribution of 1,920,000 common membership units to us in exchange for 7,505,000 shares of our common stock. Does not reflect the contribution of 212,000 preferred membership units to us in exchange for 828,333 shares of our common stock.

(4) EBITDA represents earnings before net interest, income taxes, depreciation and amortization. EBITDA is presented here to provide additional information about our operations. EBITDA is not a calculation based on generally accepted accounting principles and should not be considered as an alternative to net income, as an indicator of our operating performance or as an alternative to cash flow as a better measure of liquidity. In addition, our EBITDA calculation may not be comparable to similarly titled measures of other companies.

(5) Represents $4.7 million of mandatorily redeemable convertible preferred membership units that will be exchanged for common stock as part of the Contribution.

(6) Represents total calendar days for each vessel less any days a vessel was non-operational.

(7) Based on the monthly average closing current contract prices posted by the NYMEX.

Risk factors

You should consider carefully the following risk factors and all other information in this prospectus before you decide to purchase our common stock. Investing in our common stock is speculative and involves significant risk. Any of the following risks could impair our business, financial condition and operating results, could cause the trading price of our common stock to decline and could result in a partial or total loss of your investment.

RISKS RELATED TO OUR BUSINESS AND OPERATIONS

A SUBSTANTIAL OR EXTENDED DECLINE IN OIL OR NATURAL GAS PRICES COULD RESULT IN LOWER EXPENDITURES BY THE OIL AND NATURAL GAS INDUSTRY, THEREBY REDUCING OUR REVENUE.

Demand for our services is greatly influenced by oil and natural gas prices. Because of the volatility of these prices, demand for our services may vary significantly. The capital expenditure programs of our customers, which include major energy companies and independent oil and natural gas operators, are primarily influenced by the level of oil and natural gas prices and the availability of funds.

Oil and natural gas prices and the level of offshore drilling and exploration activity have varied substantially in recent years, resulting in significant fluctuations in demand for our services. Significant downturns in the oil and natural gas industry in the past have adversely impacted our financial performance, resulting in operating losses. A significant or prolonged reduction in oil or natural gas prices in the future would likely depress offshore drilling and development activity. A substantial reduction in such activity would reduce demand for our services and have a material adverse effect on our financial condition and results of operations.

OUR PLANS TO EXPAND OUR SERVICES INTO THE DEEPWATER MAY NOT BE SUCCESSFUL.

An important part of our growth strategy is our ability to successfully expand our current services into the deepwater market. We are devoting significant resources to this strategy. Specifically, we recently expanded our deepwater capabilities by upgrading an existing vessel and chartering a new vessel. We also have entered into a contract to construct a new generation, specially designed and equipped, deepwater pipelay and subsea construction vessel. We may not be successful in obtaining or executing contracts to provide deepwater services.

WE MAY HAVE DIFFICULTY UPGRADING OUR EXISTING VESSELS AND ACQUIRING OR CONSTRUCTING NEW VESSELS ON ACCEPTABLE TERMS, WHICH COULD ADVERSELY AFFECT OUR STRATEGY TO GROW AND EXPAND OUR DEEPWATER SERVICES.

Upgrading our existing vessels and acquiring or constructing new vessels are key elements of our strategy to initiate and expand our deepwater services. We intend to use a portion of the net proceeds of the offering to construct an additional vessel, and we may pursue the acquisition of existing vessels for modification or the acquisition of other companies with operations related to or complementary with our current operations and our deepwater expansion strategy. We may not be able to identify and acquire acceptable marine equipment or complementary companies on financial or other terms acceptable to us. Additionally, we may not be able to obtain financing for the acquisitions on acceptable terms. A significant or prolonged reduction in oil or natural gas prices in the future would depress offshore drilling and development activity and adversely affect our ability to obtain financing for acquisitions. The construction and refurbishment of marine equipment involves potential delays and increased costs due to unanticipated delays in equipment deliveries, scheduling of service providers, equipment condition problems and unforeseen difficulties with assembly or construction. Any inability on our part to purchase additional marine equipment or other complementary vessels on acceptable financial or other terms could have a material adverse effect on our strategy to grow and expand our deepwater services business.

DELAYS OR COST OVERRUNS IN THE CONSTRUCTION OF THE MIDNIGHT WARRIOR COULD ADVERSELY AFFECT OUR BUSINESS, AND EXPECTED CASH FLOWS FROM THE MIDNIGHT WARRIOR UPON COMPLETION MAY NOT BE IMMEDIATE OR AS HIGH AS EXPECTED.

In the second quarter of 2001, we expect to begin construction of the Midnight Warrior at an estimated cost of $70 million. The Midnight Warrior is currently scheduled to be placed into service by mid-2003. Any delay in finalizing the financing of the cost of the Midnight Warrior or in obtaining the required interim financing could delay construction. Additionally, we may not be able to obtain the required interim financing on acceptable terms. This project is subject to the risks of delays or cost overruns inherent in vessel construction projects. These risks include:

+ unforeseen quality or engineering problems;

+ work stoppages;

+ weather interference;

+ unanticipated cost increases;

+ delays in receipt of necessary equipment; and

+ inability to obtain the requisite permits or approvals.

Significant delays could have a material adverse effect on expected contract commitments for this vessel and our future revenues and cash flows. We will not receive any revenues or cash flow from the Midnight Warrior until it is placed in service and customers enter into binding arrangements with us, potentially several months or more after the vessel is completed. Furthermore, customer demand for the Midnight Warrior may not be as high as we currently anticipate, and, as a result, our future cash flows may be adversely affected.

AFTER NOVEMBER 6, 2001, MARAD WILL HAVE THE OPTION TO TERMINATE ITS COMMITMENT TO GUARANTEE FINANCING FOR THE MIDNIGHT WARRIOR.

MARAD will have the option to terminate its commitment to guarantee the long-term financing of up to 87.5% of the cost of the Midnight Warrior if we have not placed a portion of the permanent long-term financing, as authorized by MARAD, by November 6, 2001. If we are unable to place a portion of the long-term financing by that time and MARAD elects to terminate its commitment, we will be required to obtain the long-term financing without the benefit of MARAD's guarantee. We may not be able to obtain the long-term financing without MARAD's guarantee, and any long-term financing that we are able to obtain will be on terms less favorable than MARAD guaranteed financing.

WE HAVE INCURRED LOSSES IN RECENT PERIODS AND MAY INCUR ADDITIONAL LOSSES IN THE FUTURE.

We have, from time to time, incurred losses from operations, particularly during periods of low industry-wide demand for marine construction services. We incurred net losses of $10.6 million in 1999 and $1.6 million in 2000, primarily because of weaker demand for our services. We may not be profitable in the future. If we do achieve profitability in any period, we may not be able to sustain or increase such profitability on a quarterly or annual basis. We have had little cash flow during several recent periods. Insufficient cash flow may adversely affect our ability to fund anticipated capital expenditures required to achieve profitability.

THE SEASONAL NATURE OF THE OFFSHORE CONSTRUCTION INDUSTRY MAY CAUSE OUR QUARTERLY RESULTS TO FLUCTUATE.
The offshore construction industry in the Gulf of Mexico is seasonal as a result of weather conditions and the timing of capital expenditures by our customers. Typically, the greatest demand for offshore construction services is during the period from May through September. Because of the seasonal nature of the business, our quarterly results may fluctuate. In addition, the results of any particular quarter are not necessarily indicative of annual results or continuing trends.

OUR ORIGINAL ESTIMATES OF COSTS ASSOCIATED WITH OUR LUMP-SUM FIXED-PRICED CONTRACTS MAY BE INCORRECT AND RESULT IN LOSSES ON PROJECTS AND, THEREFORE, ADVERSELY EFFECT OUR OPERATING RESULTS.
Because of the nature of the offshore construction industry, the majority of our projects are performed on a lump-sum fixed-price basis. Changes in offshore job conditions and variations in labor and equipment productivity may adversely affect the costs and gross profit realized on a lump-sum fixed-price contract and may cause variations from the original estimates of those items. Since we expect that our deepwater contracts may extend over several quarters, variations from the original estimates of these items on our deepwater contracts may result in a reduction or elimination of previously reported profits. In addition, we typically bear the risk of delays caused by adverse weather conditions, excluding hurricanes and named tropical storms. The risks inherent in the offshore construction industry may result in the profits we realize on projects differing from those originally estimated and may result in reduced profitability or losses on our projects.

WE DEPEND ON SEVERAL SIGNIFICANT CUSTOMERS, AND A LOSS OF ONE OR MORE SIGNIFICANT CUSTOMERS COULD ADVERSELY AFFECT OUR OPERATING RESULTS.
Our customers consist primarily of major energy companies and independent oil and natural gas operators. In recent years, single customers have accounted for 10% or more of our revenues. In 2000, our two largest customers accounted for 15.5% and 11.1%, respectively, of our revenues. The loss of any one of our largest customers or a sustained decrease in demand by our customers could result in a substantial loss of revenues and could have a material adverse effect on our operating performance.

THE LOSS OF ANY MEMBER OF OUR SENIOR MANAGEMENT COULD ADVERSELY AFFECT OUR RESULTS OF OPERATIONS.
Our success depends heavily on the continued services of our senior management. Our senior management consists of a small number of individuals relative to other comparable or larger companies. These individuals are Lyle G. Stockstill, our Chief Executive Officer, Lana J. Hingle Stockstill, our Senior Vice President -- Administration, Eric N. Smith, our Executive Vice President and William J. Blackwell, our Chief Financial Officer. If we lost or suffered an extended interruption in the services of one or more of our senior officers, our results of operations could be adversely affected. Moreover, we may not be able to attract and retain qualified personnel to succeed members of our senior management. See "Management."

WE MAY BE UNABLE TO COMPETE SUCCESSFULLY WITH OTHER COMPANIES IN OUR INDUSTRY.
The industry in which we operate is highly competitive. Several of our competitors are substantially larger than we are and have greater financial and

other resources. Price is the primary factor in determining which qualified contractor is awarded the job. Customers also consider the availability and capabilities of equipment and the reputation and experience of the contractor in awarding jobs. Competitors with greater financial resources may be willing to sustain losses on projects to prevent further market entry by competitors, to cover the fixed costs of their fleets or to avoid the expense of temporarily idling vessels. Marine construction vessels have few alternative uses and relatively high maintenance costs whether or not they are in operation. As we increase the portion of our operations conducted in deepwater, we will face additional competitors, many of which have more vessels and

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greater experience in deepwater operations. As large international companies relocate vessels to the Gulf of Mexico, levels of competition may increase and our business involving deepwater projects could be adversely affected.

OFFSHORE CONSTRUCTION IS SUBJECT TO VARIOUS OPERATING RISKS, AND WE MAY LACK ADEQUATE INSURANCE TO COVER THESE OPERATING RISKS.

Offshore construction involves a high degree of operational risk. Hazards, such as vessels capsizing, sinking, grounding, colliding and sustaining damage from severe weather conditions, are inherent in marine operations. In addition, vessels engaged in pipeline operations can disrupt existing pipelines. These hazards can cause personal injury or loss of life, severe damage to and destruction of property and equipment, pollution or environmental damage and the suspension of production operations. The failure of offshore pipelines and structural components during and after installation can also result in similar injuries and damages. Our insurance may not be sufficient or effective to protect us from these operating risks. A successful claim for damages resulting from a hazard for which we are not fully insured could have a material adverse effect on us. Moreover, we may not be able to maintain adequate insurance in the future at rates that we consider reasonable.

REGULATORY AND ENVIRONMENTAL COMPLIANCE COSTS AND LIABILITIES COULD ADVERSELY AFFECT OUR BUSINESS.

Our operations are subject to and affected by various types of governmental regulation, including numerous federal, state and local environmental protection laws and regulations. Compliance with these laws and regulations may be difficult and expensive. In addition, significant fines and penalties may be imposed for noncompliance. Some environmental laws impose strict liability for remediation of spills and releases of oil and hazardous substances, rendering a party liable for environmental damages without regard to its negligence or fault. Sanctions for noncompliance with these laws and regulations may include revocation of permits, corrective action orders, administrative or civil penalties and criminal prosecutions. These laws and regulations may expose us to liability for the conduct of or conditions caused by others, including our subcontractors, or for our acts that were in compliance with all applicable laws at the time these acts were performed. The adoption of laws or regulations curtailing exploration and development drilling for oil and natural gas for economic, environmental or other policy reasons could adversely affect our operations by limiting demand for our services. In addition, new legislation or regulations or changes in existing regulations may adversely affect our future operations and earnings.

IF WE ARE UNABLE TO ATTRACT AND RETAIN SKILLED WORKERS OUR BUSINESS WILL BE ADVERSELY AFFECTED.

Our ability to remain productive and profitable depends substantially upon our ability to continue to retain and attract project managers, project engineers and skilled construction workers such as divers, welders, pipefitters and equipment operators. Our ability to expand our operations is impacted by our ability to increase our labor force. The demand for skilled workers is currently high and the supply is limited. A significant increase in the wages paid or benefits offered by competing employers could result in a reduction in our skilled labor force, increases in our employee costs, or both. If either of these events occur, our capacity and profitability could be diminished and our growth potential could be impaired.

RISKS RELATED TO OWNERSHIP OF OUR COMMON STOCK

WE HAVE A LIMITED CALL RIGHT ON SHARES OF OUR COMMON STOCK OWNED BY NON-UNITED STATES CITIZENS THAT MAY REQUIRE THEM TO SELL THEIR SHARES AT AN UNDESIRABLE TIME OR PRICE.

Our certificate of incorporation contains limitations on the percentage of our outstanding common stock and other classes of voting securities that can be owned by persons who are not United States

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citizens within the meaning of statutes relating to the ownership of United States flagged vessels. At present, our certificate of incorporation provides that no more than 23% of our outstanding common stock may be owned by persons other than United States citizens. The restrictions imposed by our certificate of incorporation will in some cases allow us to, among other things, redeem shares owned by non-United States citizens at a price based on the then-current market price of the shares. As a result, non-United States citizens may be required to sell their shares at an undesirable time or price.

THE OWNERSHIP OF OUR COMMON STOCK BY OUR PRINCIPAL STOCKHOLDERS WILL LIMIT THE INFLUENCE OF PUBLIC STOCKHOLDERS.

Upon completion of the offering, Mr. and Mrs. Stockstill and their family trusts will beneficially own approximately 56.3% of our outstanding shares of common stock, or 52.0% if the over-allotment option is exercised in full and the selling stockholders sell the maximum number of shares that they are entitled to sell in the over-allotment option. Accordingly, these stockholders will have the ability to control the election of our directors and the outcome of all other matters submitted to a vote of our stockholders, which may have the effect of delaying or preventing a change in control. The interests of these stockholders may differ from yours, and these stockholders may vote their common stock in a manner that may adversely affect you.

THE CONTROLLING OWNERSHIP POSITION OF MR. AND MRS. STOCKSTILL AND THEIR FAMILY TRUSTS AND PROVISIONS OF OUR CERTIFICATE OF INCORPORATION AND BYLAWS MAY DISCOURAGE ACQUISITION BIDS, WHICH MAY REDUCE OR ELIMINATE THE LIKELIHOOD OF A CHANGE OF CONTROL TRANSACTION AND, THEREFORE, YOUR ABILITY TO SELL YOUR SHARES FOR A PREMIUM.

In addition to the controlling ownership position of Mr. and Mrs. Stockstill and their family trusts, provisions of our certificate of incorporation and bylaws may discourage acquisition bids and may make it more difficult for a third party to acquire control of our company, including in transactions that a stockholder might consider in his or her best interests or that might result in a premium over the market price of the common stock. Our certificate of incorporation and bylaws:

+ limit stockholder proposals at stockholder meetings;

+ prohibit our stockholders from calling special meetings of stockholders; and

+ limit our stockholders' ability to act by written consent in lieu of a meeting.

Our board of directors has the authority to issue up to 10,000,000 shares of preferred stock. The board of directors can fix the terms of the preferred stock without any action on the part of our stockholders. The issuance of shares of preferred stock may delay or prevent a change in control transaction or could be used to put in place a "poison pill." This may adversely affect the market price and interfere with the voting and other rights of the holders of our common stock.

These provisions could discourage potential acquisition proposals and could delay or prevent a change in control transaction. As a result, they may limit the price that some investors might be willing to pay in the future for shares of our common stock. These provisions may also impede changes in our management.

THE AVAILABILITY OF SHARES OF OUR COMMON STOCK FOR FUTURE SALE COULD DEPRESS OUR STOCK PRICE.
Sales by Mr. and Mrs. Stockstill, their family trusts or Lime Rock of a substantial number of shares of our common stock in the public markets following the offering and after the expiration of applicable lock-up restrictions, or the perception that such sales might occur, could have a material adverse affect on the price of our common stock or could impair our ability to obtain capital through an offering of equity securities. See "Shares eligible for future sale."

OUR DEBT AGREEMENT RESTRICTIONS MAY LIMIT OUR ABILITY TO OBTAIN ADDITIONAL FINANCING, TO PURSUE OTHER BUSINESS OPPORTUNITIES AND TO PAY DIVIDENDS.
Covenants contained in our debt arrangements require us to meet certain financial tests, which may limit:

+ our flexibility in planning for, and reacting to, changes in our business;

+ our ability to dispose of assets, withstand current or future economic or industry downturns and compete with others in our industry for strategic opportunities;

+ our ability to obtain additional financing for working capital, capital expenditures, acquisitions, general corporate and other purposes may be limited; and

+ our ability to pay dividends.

YOU WILL EXPERIENCE IMMEDIATE AND SUBSTANTIAL DILUTION.

The initial public offering price is substantially higher than the pre-offering pro forma net tangible book value per share of our common stock. If you buy our common stock in the offering, you will incur immediate and substantial dilution. The dilution will be approximately $9.25 per share in pro forma net book value, based on an assumed initial public offering price of $15.00 per share. See "Dilution."

Cautionary statement about forward-looking statements

This prospectus, including the sections entitled "Prospectus summary," "Risk factors," "Management's discussion and analysis of financial condition and results of operations" and "Business," contains forward-looking statements. These statements relate to future events or our future financial performance, including our business strategy, and involve known and unknown risks and uncertainties. These factors may cause our company's or our industry's actual results, levels of activity, performance or achievements to be materially different from those expressed or implied by the forward-looking statements. These risks and other factors include those listed under "Risk factors" and elsewhere in this prospectus. In some cases, you can identify forward-looking statements by terminology such as "may," "will," "should," "could," "expects," "intends," "plans," "anticipates," "believes," "estimates," "predicts," "potential," "continue," or the negative of these terms or other comparable terminology.

These statements are only predictions. Although we believe that the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee future results, levels of activity, performance or achievements. When considering these forward-looking statements, you should keep in mind the risk factors and other cautionary statements in this prospectus.

Use of proceeds

We estimate that the net proceeds to us from the offering, based upon an assumed initial public offering price of $15.00 per share, will be approximately $69 million, or $74 million if the underwriters exercise their over-allotment option in full and the selling stockholders sell the maximum number of shares they are entitled to sell in the over-allotment option, after deducting underwriting discounts and commissions and estimated offering expenses. We will not receive any proceeds from the sale of common stock by the selling stockholders in the over-allotment option. We intend to use the net proceeds to us as follows:

+ approximately $9 million to provide the equity investment necessary to build the Midnight Warrior;

+ approximately $11 million to provide a portion of the interim construction financing for the Midnight Warrior;

+ approximately $34 million to repay indebtedness under a loan with Transamerica Equipment Financial Services Corporation and loans with Regions Bank;

+ approximately $10 million to purchase the BH-400;

+ approximately $3 million for construction of a reel base shore facility and miscellaneous equipment upgrades; and

+ any balance for general corporate purposes.

Pending these uses, we intend to invest the net proceeds in short-term, interest-bearing, investment-grade securities or government obligations.

The Transamerica loan matures in August 2005 and bears interest at a fixed rate of 10.56% per year. At April 30, 2001, approximately $25.8 million was outstanding under the Transamerica loan. In addition, we will pay a prepayment penalty of approximately $0.8 million to Transamerica in connection with the repayment of the loan. We have an $8.0 million revolving line of credit and an equipment loan with Regions Bank. The revolving line of credit matures in November 2001 and bears interest at a variable annual rate equal to 3.0% plus the 30-day LIBOR rate. The equipment loan matures in August 2002 and bears interest at a fixed rate of 8.5% per year. At April 30, 2001, approximately $6.1 million was outstanding under the revolving line of credit and approximately $1.2 million was outstanding under the equipment loan.

The amount required to build the Midnight Warrior will be approximately $70 million, including MARAD's guarantee fee and interest costs incurred during construction. We have a written commitment from MARAD to provide a government guarantee supporting the long-term financing of up to 87.5% of the cost of the Midnight Warrior when it is delivered. The balance of the funding requirements are represented by the approximately $9 million in equity we will provide from the proceeds of the offering. We expect the interest rate on this long-term financing will be comparable to United States agency financing at the time. We expect that we will be required to provide approximately $11 million of interim construction financing for the Midnight Warrior, with additional interim construction funds of approximately $50 million to be provided by commercial lenders pending completion of the vessel and long-term financing. We are currently in discussions with lenders to provide this interim construction financing for the vessel. MARAD has the option to terminate the commitment if we have not placed a portion of the permanent long-term financing, as authorized by MARAD, by November 6, 2001. The commitment is also subject to customary conditions. In the past, MARAD has not terminated commitments where the applicant was making demonstrable progress towards a closing. We cannot assure you that we will be able to demonstrate sufficient progress or that MARAD will continue to honor the commitment beyond November 6, 2001.

Dividend policy

We do not plan to declare or pay any cash dividends in the foreseeable future. Instead, we intend to retain any future earnings for use in our business.

Capitalization

The following table sets forth our capitalization as of March 31, 2001:

+ on an actual basis;

+ on a pro forma basis giving effect to the Contribution and our recording of $2.8 million in net deferred income taxes in connection with the Contribution; and

+ on a pro forma basis as adjusted for the sale of common stock in the offering at an assumed initial public offering price of $15.00 per share and the repayment of debt and the temporary investment of the remaining net proceeds to us pending application thereof as described in "Use of proceeds."

You should read the information below in conjunction with "Use of proceeds," "Management's discussion and analysis of financial condition and results of operations," our financial statements and related notes included elsewhere in this prospectus.

(IN THOUSANDS)	ACTUAL	PRO FORMA FOR THE CONTRIBUTION	PRO FORMA FOR THE CONTRIBUTI AND THE OFFERING
Cash and cash equivalents	$ 2	$ 2	$31,298
Short-term borrowings and current portion of long-term debt	$14,242	$14,242	$ --
Long-term debt (excluding current portion)	$22,340	$22,340	$ --
Mandatorily redeemable convertible preferred units	4,699	--	--
Stockholders' equity:			
Preferred stock; par value $0.01 per share, 10,000,000 shares authorized; none issued and outstanding actual, pro forma and as adjusted	--	--	--
Common stock; par value $0.01 per share, 100,000,000 shares authorized; 1,000 shares issued and outstanding actual, 8,333,333 shares issued and outstanding pro forma and 13,333,333 shares issued and outstanding as adjusted(1)	--	83	133
Additional paid-in capital	239	8,782	77,382
Retained earnings	6,727	--	(800)
Total stockholders' equity	6,966	8,865	76,715
Total capitalization	$48,247	$45,447	$76,715

(1) Does not include approximately 300,000 shares issuable upon exercise of options to be granted in connection with the offering at an exercise price equal to the initial public offering price.

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Dilution

Our net tangible book value at March 31, 2001 after giving effect to the Contribution, was approximately $8.9 million, or $1.06 per share of our common stock. Net tangible book value per share represents our total tangible assets reduced by our total liabilities and divided by the number of shares of common stock outstanding. Dilution in net tangible book value per share represents the difference between the amount per share that you pay in the offering and the net tangible book value per share immediately after the offering.

After giving further effect to the receipt of the estimated net proceeds from the sale by us of 5,000,000 shares of our common stock at an assumed initial public offering price of $15.00 per share, our net tangible book value at March 31, 2001, would have been approximately $76.7 million, or $5.75 per share of common stock. This represents an immediate increase in net tangible book value per share of $4.69 to existing holders who will receive shares in the Contribution and an immediate decrease in net tangible book value per share of $9.25 to you. The following table illustrates this dilution.

Assumed initial public offering price per share.............		$ 15.00
Net tangible book value per share at March 31, 2001.......	$ 1.06	
Increase per share attributable to new investors..........	4.69	
Net tangible book value per share after the offering........		5.75
Dilution per share to new investors.......................		$ 9.25

The following table sets forth, as of March 31, 2001, the differences between the amounts paid or to be paid by the groups set forth in the table with respect to the aggregate number of shares of our common stock acquired or to be acquired by each group.

	SHARES PURCHASED		TOTAL CONSIDERATION		AVERAGE
	NUMBER	%	AMOUNT	%	PER SHAR
Mr. and Mrs. Stockstill and their family trusts(1)..............................	7,505,000	56.3	$ 3,565,000	4.3	$ 0.48
Lime Rock.................................	828,333	6.2	5,300,000	6.3	6.40
New investors(2).........................	5,000,000	37.5	75,000,000	89.4	15.00

Total............................	13,333,333	100.0	$83,865,000	100.0
	===========	=====	===========	=====

(1) Represents their interest in the book value of Torch Offshore, L.L.C. at the time of the Contribution.
(2) Before underwriters' commissions and our expenses.

If the underwriters fully exercise their over-allotment option and the selling stockholders sell the maximum number of shares that they are entitled to sell in the over-allotment option, the number of shares of common stock held by existing holders will be reduced to 7,958,333, or 58.1% of the aggregate number of shares of common stock outstanding after the offering, and the number of shares of common stock held by new investors will be increased to 5,750,000, or 41.9% of the aggregate number of shares of common stock outstanding after the offering.

Selected historical financial and operating data

The following table presents selected financial and operating data of Torch Offshore, L.L.C. and its predecessor, Torch, Inc., for the periods shown. You should read the following data with the more detailed information appearing in "Management's discussion and analysis of financial condition and results of operations" and our financial statements, including the notes thereto, appearing elsewhere in this prospectus. The information set forth below for the three months ended March 31, 2000 and 2001 is derived from our unaudited financial statements that include, in our opinion, all adjustments, consisting solely of normal recurring adjustments, necessary for a fair presentation in all material respects of the financial position and the results for the interim periods when read in connection with our annual financial statements and the notes to our annual financial statements appearing elsewhere in this prospectus. The results of operations for the three months ended March 31, 2001 are not necessarily indicative of the results to be expected for the full year.

(IN THOUSANDS, EXCEPT PER SHARE AND OPERATING DATA)	YEARS ENDED DECEMBER 31,					
STATEMENT OF OPERATIONS DATA	1996	1997	1998	1999	2000	
Revenues............................	$ 20,873	$ 38,955	$ 39,224	$ 21,252	$ 46,205	$
Cost of sales.......................	13,602	22,243	25,198	21,190	34,011	
	--------	--------	--------	--------	--------	-
Gross profit(1).....................	7,271	16,712	14,026	62	12,194	
Depreciation and amortization........	681	1,229	2,187	3,469	4,941	
General and administrative...........	3,147	2,126	2,275	3,327	3,759	
Other operating (income) expense.....	(252)	112	(2)	1,741	954	
	--------	--------	--------	--------	--------	-
Operating income (loss).............	$ 3,695	$ 13,245	$ 9,566	$ (8,475)	$ 2,540	$

Interest expense, net	(748)	(637)	(491)	(1,413)	(3,813)	
Extraordinary loss on early extinguishment of debt	--	--	--	(676)	--	
Net income (loss) attributable to common stockholders	$ 1,876	$ 11,415	$ 9,032	$(10,568)	$ (1,578)(2)	$
Earnings per share:						
Basic	$ 0.98	$ 5.95	$ 4.70	$ (5.50)	$ (0.82)	$
Diluted	$ 0.95	$ 5.68	$ 4.48	$ (5.50)	$ (0.82)(2)	$
Common equivalent shares:						
Basic	1,920	1,920	1,920	1,920	1,920	
Diluted	1,975	2,010	2,017	1,920	1,920	
Cash dividends per common share	$ --	$ 0.37	$ 2.06	$ 0.14	$ --	$

OTHER FINANCIAL DATA

EBITDA(3)	$ 4,376	$ 14,474	$ 11,753	$ (5,006)	$ 7,481	$
Net cash provided by (used in):						
Operating activities	3,550	8,195	9,997	(4,206)	1,746	
Investing activities	(449)	(13,968)	(22,047)	(6,451)	(2,538)	
Financing activities	(2,900)	6,455	11,467	11,557	463	

BALANCE SHEET DATA (AT END OF PERIOD)

Working capital	$ (671)	$ 2,825	$ (663)	$ (7,772)	$(10,103)	$
Property, net	3,010	10,971	31,702	41,120	40,202	
Total assets	10,821	28,802	47,586	54,069	57,988	
Long-term debt, excluding current portion	1,281	6,540	17,915	29,522	23,957	
Mandatorily redeemable convertible preferred units(4)	--	--	--	--	4,678	
Stockholders' equity	2,072	13,590	18,723	7,889	6,311	

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SELECTED HISTORICAL FINANCIAL AND OPERATING DATA

(IN THOUSANDS, EXCEPT PER SHARE AND OPERATING DATA) OPERATING DATA	YEARS ENDED DECEMBER 31, 1996	1997	1998	1999	2000	
Available revenue days(5)	1,095	959	1,521	1,953	2,603	
Revenue days worked(6)	615	847	1,092	981	1,820	
Total pipelay mileage	111	122	137	125	186	
Average revenue per mile of pipe laid	$188,288	$319,303	$236,482	$145,632	$218,300	$
Average miles per pipelay job	3.3	2.7	3.1	4.0	2.9	

Total vessels in operation (at end of period)	3	3	6	6	8	
AVERAGE PRICE(7)						
Crude oil (per barrel)	$ 20.02	$ 20.61	$ 14.40	$ 19.32	$ 30.28	$
Natural gas (per thousand cubic feet)	2.52	2.47	2.16	2.31	4.31	

(1) Gross profit is revenues less cost of sales.

(2) On a pro forma basis, as if we had been subject to income taxes, for the year ended December 31, 2000 and the three months ended March 31, 2001, net income (loss) attributable to common stockholders would have been $(1,002) and $416, respectively, and diluted income per share would have been $(0.52) and $0.22, respectively.

(3) EBITDA represents earnings before net interest, income taxes, depreciation and amortization. EBITDA is presented here to provide additional information about our operations. EBITDA is not a calculation based on generally accepted accounting principles and should not be considered as an alternative to net income, as an indicator of our operating performance or as an alternative to cash flow as a better measure of liquidity. In addition, our EBITDA calculation may not be comparable to similarly titled measures of other companies.

(4) Represents mandatorily redeemable convertible preferred membership units that will be exchanged for common stock as part of the Contribution.

(5) Represents total calendar days for each vessel less any days a vessel was nonoperational.

(6) Number of days vessels are offshore performing services, in transit or waiting on inclement weather, while under contract.

(7) Based on the monthly average closing current contract prices posted by the NYMEX.

Unaudited pro forma condensed financial information

The following unaudited pro forma condensed financial information for our company gives effect to:

+ the Contribution and our recording of $2.8 million in net deferred income taxes in connection with the Contribution; and

+ the sale of common stock in the offering at an assumed initial public offering price of $15.00 per share and the repayment of debt and the temporary investment of the remaining net proceeds to us pending application thereof as described in "Use of proceeds."

The information presented is derived from, should be read in conjunction with, and is qualified in its entirety by reference to our historical financial statements and notes thereto appearing elsewhere in this prospectus.

The unaudited pro forma condensed balance sheet was prepared as if these transactions had occurred on March 31, 2001. The unaudited pro forma condensed statements of operations for the year ended December 31, 2000 and the three months ended March 31, 2001 were prepared as if these transactions had occurred on January 1, 2000.

The pro forma adjustments are based upon currently available information and certain estimates and assumptions, and therefore the actual adjustments may differ from the unaudited pro forma adjustments. However, we believe that the assumptions provide a reasonable basis for presenting the significant effects of these transactions as contemplated and that the unaudited pro forma adjustments give appropriate effect to those assumptions and are properly applied in the unaudited pro forma financial statements. The unaudited pro forma condensed balance sheet and statements of operations are not necessarily indicative of our financial position or results of operations as they might have been if these transactions had actually occurred on the dates indicated above. In addition, the unaudited pro forma information is not necessarily indicative of our future financial position or future results of operations.

UNAUDITED PRO FORMA CONDENSED FINANCIAL INFORMATION

UNAUDITED PRO FORMA CONDENSED BALANCE SHEET

AS OF MARCH 31, 2001

(IN THOUSANDS)	HISTORICAL	PRO FORMA ADJUSTMENTS FOR THE CONTRIBUTION	PRO FORMA ADJUSTMENTS FOR THE OFFERING
ASSETS			
Current assets:			
Cash..	$ 2	$ --	$ 31,296(f)
Accounts receivable.........................	11,766	--	--
Deferred taxes..............................	--	672(a)	--
Other current assets........................	4,700	--	--
Total current assets..........................	16,468	672	31,296
Property and equipment, net...................	39,418	--	--
Deferred drydocking charges...................	3,979	--	--
Other assets..................................	376	--	(28)(g)
Total assets..................................	$60,241	$ 672	$ 31,268

LIABILITIES AND STOCKHOLDERS' EQUITY			
Current liabilities:			
Accounts payable -- trade	$ 6,578	$ --	$ --
Other accrued expenses	5,416	--	--
Current portion of long-term debt	7,031	--	(7,031)(h)
Revolving line of credit	7,211	--	(7,211)(h)
Total current liabilities	26,236	--	(14,242)
Deferred taxes	--	3,472(a)	--
Long-term debt, less current portion	22,340	--	(22,340)(h)
Mandatorily redeemable convertible preferred units	4,699	(4,699)(b)	--
Stockholders' equity:			
Common stock	--	83(c)	50(i)
Additional paid-in-capital	239	(2,800)(a) (83)(c) 4,699(d) 6,727(e)	68,600(j)
Retained earnings	6,727	(6,727)(e)	(800)(k)
Total stockholders' equity	6,966	1,899	67,850
Total liabilities and stockholders' equity	$60,241	$ 672	$ 31,268

See accompanying notes to unaudited pro forma condensed balance sheet.

UNAUDITED PRO FORMA CONDENSED FINANCIAL INFORMATION

NOTES TO UNAUDITED PRO FORMA CONDENSED BALANCE SHEET

(a) We have operated as a non-taxable entity since 1997. However, following the Contribution we will be subject to federal and state income taxation. Accordingly, pro forma adjustments to record the deferred income tax impact associated with the Contribution as of March 31, 2001 include the following:

(IN THOUSANDS)	DEFERRED TAX ASSET/(LIABILITY)
Differences between book and tax bases of property and equipment and other	$(1,168)
Deferred drydocking charges	(1,452)
Reserves for doubtful accounts	222
Prepaid expenses	(852)
Accrued severance	450
Net deferred tax liability	$(2,800)

The net deferred tax impact that is expected to be recorded as a charge to operations in 2001 will be calculated based on the book and tax differences on the closing date of the Contribution.

(b) Reflects the contribution of 212,000 preferred membership units of Torch Offshore, L.L.C. for 828,333 shares of our common stock.

(c) Reflects the issuance of 7,505,000 and 828,333 shares of our common stock in exchange for 1,920,000 common membership units and 212,000 preferred membership units, respectively, of Torch Offshore, L.L.C.

(d) Reflects the impact to additional paid-in capital from the issuance of 828,333 shares of our common stock in exchange for 212,000 preferred membership units of Torch Offshore, L.L.C.

(e) Represents the reclassification of retained earnings to additional paid-in-capital to reflect a constructive distribution to our stockholders followed by a contribution of capital to our company related to the issuance of 7,505,000 shares of our common stock in exchange for 1,920,000 common membership units in Torch Offshore, L.L.C.

(f) Represents cash proceeds of $31.3 million from the sale of 5,000,000 shares of our common stock at an offering price of $15.00 per share, after deducting underwriting discounts and commissions and estimated offering expenses of $6.4 million, and net of the application of $37.3 million of the offering proceeds to retire existing debt (including prepayment penalties). See "Use of proceeds" regarding our intended application of the remaining proceeds.

(g) Reflects the write-off of previously deferred financing costs associated with the early retirement of existing debt.

(h) Reflects the repayment of $36.6 million of existing debt.

(i) Reflects the issuance of 5,000,000 shares of our common stock in the offering.

(j) Reflects the impact to additional paid-in-capital from the proceeds (in excess of par value) of the issuance of 5,000,000 shares of common stock in the offering, net of underwriting discounts and commissions and other offering expenses.

(k) Represents estimated prepayment penalties and the write-off of previously deferred financing costs associated with the early retirement of existing debt.

UNAUDITED PRO FORMA CONDENSED STATEMENT OF OPERATIONS

FOR THE THREE MONTHS ENDED MARCH 31, 2001

(IN THOUSANDS, EXCEPT PER SHARE DATA)	HISTORICAL	PRO FORMA ADJUSTMENTS	PRO FORM
Revenues	$14,491	$ --	$14,491
Cost of revenues:			
Cost of sales	10,383	--	10,383
Depreciation and amortization	1,469	--	1,469
General and administrative expenses	959	--	959
Other operating (income) expense	--	--	--
Total cost of revenues	12,811	--	12,811
Operating income	1,680	--	1,680
Other income (expense):			
Interest expense	(911)	911(b)	--
Interest income	--	--	--
Total other income (expense)	(911)	911	--
Income before income taxes	769	911	1,680
Income taxes	--	(613)(c)	(613
Net income	769	298	1,067
Preferred unit dividends and accretion	(114)	114(d)	--
Net income attributable to common stockholders	$ 655	$ 412	$ 1,067
Basic income per share	$ 0.34		$ 0.08
Diluted income per share	$ 0.34		$ 0.08
Weighted average shares:			
Basic	1,920		13,333
Diluted	1,920		13,333
Unaudited pro forma data:			
Net income attributable to common stockholders reported above	$ 655		
Pro forma income taxes	(239)(a)		
Pro forma net income attributable to common stockholders	$ 416		
Pro forma basic and diluted income per share	$ 0.22		

See accompanying notes to unaudited pro forma condensed statement of operations.

UNAUDITED PRO FORMA CONDENSED FINANCIAL INFORMATION

UNAUDITED PRO FORMA CONDENSED STATEMENT OF OPERATIONS
FOR THE YEAR ENDED DECEMBER 31, 2000

(IN THOUSANDS, EXCEPT PER SHARE DATA)	HISTORICAL	PRO FORMA ADJUSTMENTS	PRO FORM
Revenues	$46,205	$ --	$46,205
Cost of revenues:			
Cost of sales	34,011	--	34,011
Depreciation and amortization	4,941	--	4,941
General and administrative expenses	3,759	--	3,759
Other operating (income) expense	954	--	954
Total cost of revenues	43,665	--	43,665
Operating income	2,540	--	2,540
Other income (expense):			
Interest expense	(3,814)	3,814(b)	--
Interest income	1	--	1
Total other income (expense)	(3,813)	3,814	1
Income (loss) before income taxes	(1,273)	3,814	2,541
Income taxes	--	(927)(c)	(927
Net income (loss)	(1,273)	2,887	1,614
Preferred unit dividends and accretion	(305)	305(d)	--
Net income (loss) attributable to common stockholders	$(1,578)	$ 3,192	$ 1,614
Basic income (loss) per share	$ (0.82)		$ 0.12
Diluted income (loss) per share	$ (0.82)		$ 0.12
Weighted average shares:			
Basic	1,920		13,333
Diluted	1,920		13,333

Unaudited pro forma data:	
Net loss attributable to common stockholders reported above	$(1,578)
Pro forma income taxes	576(a)
Pro forma net loss attributable to common stockholders	$(1,002)

Pro forma basic and diluted loss per share................	$ (0.52)
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See accompanying notes to unaudited pro forma condensed statement of operations.

UNAUDITED PRO FORMA CONDENSED FINANCIAL INFORMATION

NOTES TO UNAUDITED PRO FORMA CONDENSED STATEMENTS OF OPERATIONS

(a) Represents an income tax benefit (expense) for federal and state income taxes at an effective tax rate of 36.5% as if we had operated as a taxable entity throughout the periods presented.

(b) Represents the elimination of interest expense to reflect the repayment of existing debt with a portion of the proceeds from the offering. We will incur significant new debt associated with the construction of the Midnight Warrior, discussed elsewhere in this prospectus. However, until the Midnight Warrior is placed into service, expected by mid-2003, associated interest costs will be capitalized for accounting purposes.

(c) Reflects the income tax effect (36.5% effective rate) of the adjustments discussed in (b) and (d) combined with the pro forma income tax adjustment discussed in (a).

(d) Represents the elimination of preferred membership unit dividends and accretion to reflect the issuance of our common stock in exchange for the preferred membership units.

(e) The pro forma net income amounts do not include an extraordinary charge of approximately $0.8 million related to a prepayment penalty for the early retirement of existing debt. This charge will be reflected as an extraordinary loss associated with the early retirement of debt included in earnings in the period in which such debt is repaid.

(f) Reflects the issuance of 7,505,000 and 828,333 shares of our common stock in exchange for 1,920,000 common membership units and 212,000 preferred membership units, respectively, of Torch Offshore, L.L.C., and the issuance of 5,000,000 shares of our common stock pursuant to the offering.

(g) On a pro forma basis, assuming that the offering is limited to only that number of shares required to generate sufficient net proceeds to repay debt outstanding at March 31, 2001, our diluted income per share for the year ended December 31, 2000 and the three months ended March 31, 2001 would have been $0.15 and $0.10, respectively.

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Management's discussion and analysis of financial condition and results of operations

The following discussion and analysis should be read in conjunction with our financial statements and related notes included elsewhere in this prospectus. The discussion below contains forward looking statements that involve risks and uncertainties. Our actual results may differ materially from those expressed or implied in this prospectus. Factors that could cause or contribute to such differences include, but are not limited to, those discussed under the caption "Risk factors."

OVERVIEW

We provide subsea construction services in connection with the infield development of offshore oil and natural gas reservoirs. We are a leading service provider in our market niche of installing and maintaining small diameter flowlines and related infrastructure associated with the development of offshore oil and natural gas reserves on the Continental Shelf of the Gulf of Mexico. Over the last three years, we have expanded our operations, capabilities and management expertise to enable us to provide deepwater services analogous to the services we provide on the Shelf.

Since 1997, we have increased the size of our fleet from three to eight construction and service vessels. In 1998, we added two diving support vessels and one supply/diving support vessel. In the first quarter of 2000, we added one fully redundant dynamically positioned, or DP-2, pipelay/bury barge and one DP-2 subsea construction vessel. In April 2000, we entered into an option to purchase a pipelay/bury barge, the BH-400, which would increase our capabilities on the Shelf. We also have entered into a contract to construct a new generation DP-2 vessel for deepwater pipelay and subsea construction. As part of that construction contract, we have an option from the shipyard to construct a sister vessel. We continue to actively seek opportunities to expand our fleet either through construction or acquisition of vessels.

FACTORS AFFECTING RESULTS OF OPERATIONS

The demand for subsea construction services primarily depends on the prices of oil and natural gas. These prices reflect the general condition of the industry and influence our customers' willingness to spend capital to develop oil and natural gas reservoirs. In addition to the prices of oil and natural gas, we use the following leading indicators, among others, to forecast the demand for our services:

+ the offshore mobile rig count and jack-up rig count;

+ forecasts of capital expenditures by major and independent oil and gas companies;

+ the recent lease sale activity levels; and

+ the expiration dates of existing Gulf of Mexico leases.

Even when demand for subsea construction services is strong, several factors may affect our profitability, including the following:

+ competition;

+ equipment and labor productivity;

+ weather conditions;

+ contract estimating uncertainties; and

+ other risks inherent in marine construction.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Although greatly influenced by overall market conditions, our fleet-wide utilization is generally lower during the first half of the year because of winter weather conditions in the Gulf of Mexico. Accordingly, we endeavor to schedule our drydock inspections and routine and preventative maintenance during this period. Additionally, during the first quarter, a substantial number of our customers finalize capital budgets and solicit bids for construction projects. For this reason, individual quarterly results are not necessarily indicative of the expected results for any given year.

In the life of an offshore field, capital is allocated to the development of a well following successful drilling activities. The time that elapses between a successfully drilled well and the development phase in which we participate varies depending on the water depth of the field. On the Shelf, demand for our services generally follows successful drilling activities by three to 12 months. We have noticed that demand for pipeline installation for deepwater projects exceeding 1,000 feet of water depth generally follows initial exploration drilling activities by at least three years. These deepwater installations typically require much more engineering design work than Shelf installations.

OUTLOOK

The pronounced decline in oil prices experienced during 1998 and part of 1999 led to a dramatic cutback in industry-wide offshore exploration and development expenditure levels. The reduced offshore activity levels, combined with our fleet expansion, significantly lowered fleet utilization and revenue levels, resulting in a net loss for 1999 and 2000. However, oil and natural gas price improvements which began in 1999 prompted limited increases in exploration and development expenditure levels in the year 2000 and the first part of 2001, resulting in recent increases in the demand for our services. Although operators were initially hesitant to significantly raise their overall expenditure levels, this increase in activity has facilitated higher utilization of our fleet and increases in prices for our services, resulting in improved revenues and increased margins. We believe that our future financial and operating results will continue to be highly dependent on overall market conditions in the oil and natural gas industry.

We anticipate that the Gulf of Mexico offshore construction industry in general and our position in particular will benefit from improved industry fundamentals. We base our expectation on several factors, including the following:

ENERGY DEMAND IS EXPECTED TO INCREASE

+ The International Energy Agency forecasts that world natural gas consumption should increase at an annual rate of approximately 3% through

2020.

+ According to the Energy Information Administration of the U.S. Department of Energy, natural gas is the fuel source for virtually all new power generation capacity. From 2000 to 2020, natural gas-fired power generation capacity is expected to grow from 11.3% of total generation capacity to 32.6%.

+ The International Energy Agency forecasts that world oil consumption should increase at an annual rate of approximately 2% through 2020.

+ Our management believes that significant capital must be continually invested in order to maintain existing energy production levels.

SHELF TRENDS ARE POSITIVE

+ Our management believes that increased demand for natural gas and the dominant role of independent oil and natural gas companies on the Shelf should allow the Gulf of Mexico to maintain and even increase its position as a major source of North American natural gas supplies.

+ According to OneOffshore, Inc., the Shelf jack-up rig count increased from a low of 76 in April 1999 to 144 in April 2001.

+ According to OneOffshore, Inc., rig day rates for conventional 300 foot, independent leg jack-ups increased from $16,500 in April 1999 to $56,000 in April 2001, while utilization has risen from 67% to 96% over the same period.

+ According to OneOffshore, Inc., standard supply vessel day rates increased from $2,300 in April 1999 to $8,000 in April 2001, while utilization has risen from 60% to 84% over the same period. These vessels are used to support offshore drilling and production programs.

+ Our management believes that technological advances have enabled oil and natural gas companies to improve exploration success rates.

+ Our management believes that improved technology and higher natural gas prices now permit the exploration for and development of marginal prospects, resulting in increased activity on the natural gas-rich Shelf where we have a strong market position.

+ The Minerals Management Service has proposed to offer royalty relief for deep gas subsalt wells on the Shelf in the near term.

DEEPWATER TRENDS ARE POSITIVE

+ According to Simmons & Company International, deepwater basins are one of the few non-OPEC areas to have major reserve potential, with numerous individual discoveries expected to produce more than one billion barrels each.

+ According to Infield Systems Limited and Douglas-Westwood Limited, deepwater expenditures are estimated at over $20 billion per year through 2004. This expenditure level is estimated to require the drilling and completion of approximately 1,400 wells and the supply of approximately 1,000 subsea trees, 300 templates and manifolds, 6,100 miles of subsea control lines, 7,400 miles of flowlines and risers and more than 100 fixed or floating platforms.

+ According to Infield Systems Limited, identified fields and announced discoveries worldwide in water depths greater than 1,000 feet now exceed 44.2 billion BOE. This compares to total U.S. proved reserves of 57.6 billion BOE, according to the Energy Information Administration.

+ According to OneOffshore, Inc., as of December 2000, 128 subsea development projects were under contemplation in water depths in excess of 1,000 feet in North America.

+ According to OneOffshore, Inc., as of April 2001, the number of deepwater drilling rigs in operation or under construction which are capable of drilling in water depths greater than 3,000 feet has increased from 38 in 1993 to 94. Of these 94 deepwater rigs, 15 are currently under construction and are scheduled for delivery by year-end 2001. We believe the increase in deepwater drilling assets should serve to accelerate the pace of deepwater field developments and increase the subsequent demand for deepwater construction and pipelay vessels.

OUR COMPETITIVE MARKET POSITION

+ We expanded our fleet from three to eight vessels during a time of weak market conditions and are now positioned to take advantage of improved conditions.

+ The common contracting practice, by majors in the deepwater Gulf of Mexico, of dividing large development projects into discrete segments and selecting the "best in class" contractor for each segment favors our deepwater market niche strategy. See "Business -- Our Strategy."

+ The extensive transportation infrastructure present in the Gulf of Mexico facilitates the development of incremental fields that can be tied into existing trunk lines originally constructed to service fields that are now in the process of decline, favoring our Shelf market niche strategy.

Although we have based our expectations on the factors listed above, in the past the energy industry has been extremely volatile, and we cannot assure you that these factors will be correct or that they will have the effects that we expect.

STRUCTURE AND OWNERSHIP

In May 2000, we formed Torch Offshore, L.L.C. to hold the assets and liabilities of Torch, Inc. At that time, Lime Rock purchased preferred membership units in Torch Offshore, L.L.C. representing approximately 10% of the total membership units outstanding for $5.3 million. These preferred membership units are entitled to cumulative distributions at a rate of 7% per year.

Torch Offshore, Inc. is a new holding company that we formed to hold all of the membership interests of Torch Offshore, L.L.C. In connection with the offering and as part of the Contribution:

+ Lime Rock will contribute its preferred membership units in Torch Offshore, L.L.C. to us in exchange for 828,333 shares of our common stock and will be paid accrued distributions of approximately $0.1 million; and

+ Torch, Inc. will contribute its common membership units in Torch Offshore, L.L.C. to us in exchange for 7,505,000 shares of our common stock.

RESULTS OF OPERATIONS

COMPARISON OF THE THREE MONTHS ENDED MARCH 31, 2001 TO THREE MONTHS ENDED MARCH 31, 2000

Revenues. Revenues were $14.5 million for the three months ended March 31, 2001 compared to $6.7 million for the three months ended March 31, 2000, an increase of 118%. We were able to increase our fleet-wide working days 57% primarily because of strengthening in the offshore construction market allowing us to achieve an average vessel utilization of 68.9%, up from 45.1% achieved for the first quarter of 2000. This increased activity level allowed average pricing levels for our services to rise 33% over average levels for the three months ended March 31, 2000 (up 21% and 11% from average pricing levels for the year 2000 and the fourth quarter of 2000, respectively).

Gross Profit. Gross profit, which is revenues less cost of sales, was $4.1 million (28.3% of revenues) for the three months ended March 31, 2001 compared to $0.8 million (12.0% of revenues) for the three months ended March 31, 2000, an increase of 414%. This increase resulted from the expanded revenue base and the improving pricing levels for our services.

Depreciation and Amortization. Depreciation and amortization expense was $1.5 million for the three months ended March 31, 2001 compared to $1.2 million for the three months ended March 31, 2000, an increase of 25%. This increase reflects the amortization of the two drydockings incurred during 2000.

General and Administrative Expenses. General and administrative expenses totaled $1.0 million (6.6% of revenues) for the three months ended March 31, 2001 compared to $0.9 million (13.1% of revenues) for the three months ended March 31, 2000, an increase of 10%. This increase was primarily caused by greater sales and related promotional costs and the introduction of two additional vessels during the year 2000. We anticipate that total general and administrative expenses will continue to be impacted by costs related to our fleet expansion, our efforts to strengthen our deepwater activity levels and the additional costs associated with being a public entity.

Net Income (Loss) Attributable to Common Stockholders. Net income to common stockholders for the three months ended March 31, 2001 was $0.7 million, including a $0.1 million charge for preferred dividends associated with the Lime Rock investment, compared with a net loss of $2.2 million for the three months ended March 31, 2000.

Since 1997, we have not been subject to, and there has been no provision for, income taxes. If we had been subject to payment of income taxes, we would have recorded an additional charge of $0.2 million for the three months ended March 31, 2001 and a credit of $0.8 million for the three months ended March 31, 2000. Upon completion of the offering, we will become subject to corporate level taxation and will record a charge in 2001 calculated based upon the book and tax basis differences on the closing date of the Contribution (estimated on a pro forma basis as of March 31, 2001 to be approximately $2.8 million).

COMPARISON OF THE YEAR ENDED DECEMBER 31, 2000 TO THE YEAR ENDED DECEMBER 31, 1999

Revenues. Revenues were $46.2 million for the year ended December 31, 2000 compared to $21.3 million for the year ended December 31, 1999, an increase of 117%. This increase was primarily caused by an 86% improvement in our fleet-wide working days resulting from strengthening in the overall offshore construction market activity levels and the introduction into service of the Midnight Eagle pipelay/bury barge and the Midnight Arrow subsea construction vessel in early 2000. Additionally, we benefited from incurring fewer scheduled drydock days in 2000, as the Midnight Brave and Midnight Dancer underwent longer required "5-year" surveys in 1999, while the Midnight Runner and the Midnight Carrier underwent shorter drydock inspections in 2000. These combined factors allowed us to achieve an average vessel utilization of 70.4%, up from 52.5% achieved in 1999. In addition, although market conditions remained extremely price sensitive throughout 2000, the improved offshore construction activity level allowed average pricing levels for our services to strengthen 11% over 1999 average levels, with the improvement coming during the second half of 2000.

Gross Profit. Gross profit was $12.2 million (26.4% of revenues) for the year ended December 31, 2000 compared to $0.1 million for the year ended December 31, 1999. This increase resulted from the expanded revenue base and the improving pricing levels received for our services.

Depreciation and Amortization. Depreciation and amortization expense was $4.9 million for the year ended December 31, 2000 compared to $3.5 million for the year ended December 31, 1999, an increase of 42%. This increase reflects the amortization of the two drydockings during the year ended December 31, 1999 and the Midnight Eagle being introduced into service in 2000.

General and Administrative Expenses. General and administrative expenses were $3.8 million (8.1% of revenues) for the year ended December 31, 2000 compared to $3.3 million (15.7% of revenues) for the year ended December 31, 1999, an increase of 13%. This increase was primarily caused by expanded sales efforts and related promotional costs. The continued competitive market situation experienced during the year ended December 31, 2000 and the introduction of two additional vessels during this year contributed to these costs. We anticipate that total general and administrative

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expenses will continue to be impacted by costs related to our fleet expansion, our efforts to strengthen our deepwater activity levels and the additional costs associated with being a public entity.

Other Operating (Income) Expense. Other operating expense was $1.0 million for the year ended December 31, 2000 compared to $1.7 million for the year ended December 31, 1999, a decrease of 45%. Other operating expense for the year ended December 31, 2000 primarily related to severance costs associated with a former employee and the provision for doubtful trade receivables. During the year ended December 31, 1999, in an effort to facilitate certain improvements to our overall operating capabilities and to eliminate the duplicate costs of operating two separate offices, we consolidated our corporate and operations offices. As part of this process, we incurred certain one-time employee severance, office closure and relocation costs totaling approximately $0.2 million. In addition, because of this consolidation process, we recognized a charge of approximately $1.5 million for the termination agreement associated with one employee (see Notes 11 and 12 to the financial statements).

Interest Expense, Net. Net interest expense was $3.8 million for the year ended December 31, 2000 compared to $1.4 million for the year ended December 31, 1999, an increase of 170%. This increase was attributable to higher overall debt levels incurred in connection with our August 1999 refinancing of our fleet. During the year ended December 31, 1999, we capitalized $1.4 million of interest costs associated with construction of the Midnight Eagle, which we placed into service in 2000.

Extraordinary Loss. In August 1999, we refinanced our fleet, resulting in a longer repayment schedule and additional borrowings. In connection with this debt refinancing, we recognized a $0.7 million charge on the early extinguishment of debt (see Note 7 to the financial statements).

Net Income (Loss) Attributable to Common Stockholders. Net loss to common stockholders for the year ended December 31, 2000 was $1.6 million, including a $0.3 million charge for preferred dividends associated with the Lime Rock investment, compared with a net loss of $10.6 million for the year ended December 31, 1999.

If we had been subject to payment of income taxes, we would have recorded a credit of $0.6 million for the year ended December 31, 2000 and a credit of $3.9

million in the year ended December 31, 1999.

COMPARISON OF THE YEAR ENDED DECEMBER 31, 1999 TO THE YEAR ENDED DECEMBER 31, 1998

Revenues. Revenues were $21.3 million for the year ended December 31, 1999 compared to $39.2 million for the year ended December 31, 1998, a decrease of 46%. The decrease in revenues during 1999, despite the additional capacity generated as a result of the three vessel additions occurring throughout 1998, was caused by the significant reduction in industry-wide offshore construction activity levels in late 1998. Consequently, our average vessel utilization fell from 75.4% in 1998 to 52.5% in 1999. These factors contributed to an extremely price sensitive market environment, causing pricing levels for our services to decline over 30% from 1998 levels.

Gross Profit. Gross profit was $0.1 million for the year ended December 31, 1999 compared to $14.0 million (35.8% of revenues) for the year ended December 31, 1998. The decrease was a result of lower offshore construction activity levels and the decline in average pricing for our services.

Depreciation and Amortization. Depreciation and amortization expense was $3.5 million for the year ended December 31, 1999 compared to $2.2 million for the year ended December 31, 1998, an increase of 59%. The increase was attributable to vessel additions occurring throughout 1998.

General and Administrative Expenses. General and administrative expenses were $3.3 million (15.7% of revenues) for the year ended December 31, 1999 compared to $2.3 million (5.8% of revenues) for the year ended December 31, 1998, an increase of 46%. This increase in general and administrative expenses was primarily attributable to the additional management and related administration costs to

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support a doubling of our fleet from 1997 to 1998. Additionally, we increased our sales force and substantially increased our marketing efforts associated with our then current fleet, as well as contemplated fleet additions for the year ended December 31, 2000.

Other Operating (Income) Expense. Other operating expense was $1.7 million for the year ended December 31, 1999. The other operating expens