

# Industry Research Monitor

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## Industry Headlines

- Inland waterways tonnage declined 8.7% during the first half of 2009 per U.S. Army Corps of Engineers Inland Tonnage Report.** Through June, the nation's inland barge trades experienced a decline in all cargo categories except food and farm product shipments, which were 51% higher over 2008. The largest drop in shipments occurred in the petroleum and chemical liquid tank barge trades followed by other commodities and coal. Barge rates stabilized at lower rates, which generated more interest in shipping agricultural products for the export markets. The supply of available barges exceeded demand due to the soft economy, and fewer northbound cargos. There were also fewer disruptions in barge traffic from weather related high water events which helped keep barges moving and supplies plentiful. Loaded barge down-river movements were running above their 3-year averages. The U.S. Department of Agriculture reported the U.S. 2009 corn plantings used the 2nd largest volume of acreage in 60 years (2007 is record year).
- Gulf of Mexico energy offshore services market declined.** Spot Day rates and utilization for the offshore supply vessel (OSV) market softened in late 2008 and continued to fall through the first half of the year. Operators are reporting slow conditions and pressure to adjust their day rates in response to lower energy prices. The number of contracted mobile offshore rigs in the Gulf of Mexico fell to 52 out of a total fleet of 109 per the ODS Gulf of Mexico Newsletter. The jack up market has suffered the most from low utilization; in contrast the number of semi submersibles working in the deepwater area had declined by only 3 rigs. Uncertainty over the direction of future oil prices impacted exploration and production (E&P) budgets for many companies per the 2009 Barclay's Capital Original E&P Spending Survey. The report projected a 15% decline expected in E&P spending for the Gulf of Mexico this year but is forecasting a growth in spending in 2010.
- Unprecedented Low Cargo loads on the Great Lakes.** Great Lakes cargo tonnages through June 2009 were down by 46% and ore shipments down almost 65% over 2008 per the Lakes Carriers Association. The auto industry experienced the worst downturn in car sales since the 1960's, which severely impacted steel production and ore shipments. YTD Limestone shipments were also down 34% over 2008.
- U.S. Shipyards are working down their backlogs.** The aggregate order book of approximately 300 vessels represents contracts, which had been placed for the most part before 2009. The aggregate backlog is down by 25% from last year's record 400+ vessels. As of July 2009, the majority of the new orders consisted of inland towboats, conventional tugs, and OSV's. Interest in new projects has softened, and some of the yards are dealing with orders being cut back, cancelled or delayed. Several shipyards have begun to reduce operating expenses.



imagination at work

## Current Environment

The 1% decline in the second quarter Gross Domestic Product turned out to be less dramatic than the 6.4% experienced during the first quarter. There is consensus building that the recession may have hit bottom. Different segments of the marine industry can be either a leading or lagging indicator depending on the trades served. The nations ports, which were among the first to feel a drop in container cargos last year, are now reporting that June was the first time in four months that container volumes returned to one million containers nationally. Volume, however, is still down 20% from June 2008. In the Gulf, utilization rates for OSV's working in the deepwater area did not start to soften until late 2008 dropping from 96% to 86% in June. On the inland waterways over capacity from all of the transportation segments (trucking, rail and barge) has forced lower barge rates. However, the inland barge trades experienced strong shipments of downriver grain products which helped the industry deal with a collapse in other cargos tied to the recession. What is uncertain is which segment of the marine industry will be the first to recover or the last to benefit from a recovery.

## Shipbuilding

### U.S. Shipyard Commercial Workboat Order Book

(Units = Vessels)	2009	2010	2011-2013	0/NS*	Total
Articulated Tug & Barge	6	6	2		14
Tugboats	32	14			46
Towboats	61	25	4		90
Ocean Dry Cargo Barge	5	3			8
Ocean Tank Barge	14	5			19
AHTS			1	1	2
OSV/PSV/Utility boats	25	18		2	45
Crewboats	15	4	1		20
Product Carriers	3	6	2		11
Other	17	5			22
<b>Total Projected Deliveries</b>	<b>178</b>	<b>86</b>	<b>10</b>	<b>3</b>	<b>277</b>

\* O = Option / NS = Non-specified time frame  
 Notes: AHTS = Anchor Handler Towing Supply boat; OSV = Offshore Supply Vessel; PSV = Platform Supply Vessel. Source: www.ShipbuildingHistory.com, July 2009

The current shipyard backlog remains well above historical averages. New orders are still being placed at lower prices with plate steel 15-20% off of its 2008 peak. Some operators have had to cancel or delay their projects. Most of the current backlog is based on shipyard contracts negotiated during the hot 2007 & 2008 markets when demand for new vessels exceeded shipbuilding capacity. The shipbuilding industry is managing expenses more closely as well. The two largest inland barge manufacturers announced plans to cut back production and lay off employees. The combined backlog from the two inland barge manufacturers exceeded \$400 million (legacy and non-legacy based contracts). Even though few orders were placed during the first quarter of 2009, the need to replace the nation's aging workboat fleet remains.

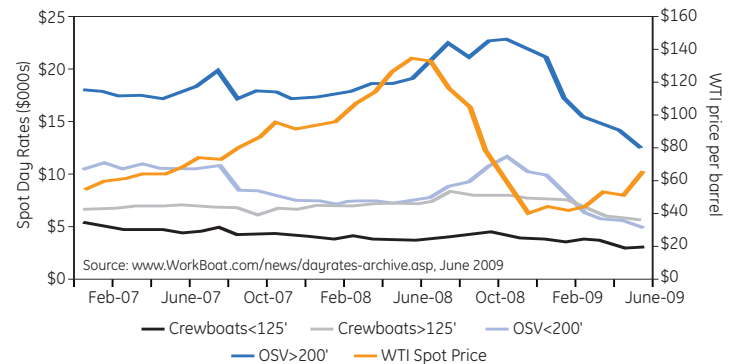
## Offshore Supply Vessels

### Utilization Rates of Offshore Supply Vessels (OSVs).

	June-08	June-09
AHTS > 6,000 hp	99%	80%
Supply Vessels > 200 ft	97%	86%
Supply Vessels < 200 ft	94%	72%
Crewboats > 125 ft	94%	84%
Crewboats < 125 ft	86%	74%

Source: www.WorkBoat.com/news/dayrates.asp, June 2009

### OSV Spot Day Rates.



### Average Workboat Spot Day Rates.

	June 2008	June 2009	YoY Chg	5 Yr Avg CO4-C09
AHTS > 6,000 hp	\$75,000	\$40,691	-46%	\$57,471
Supply Vessels > 200 ft	\$19,175	\$12,420	-35%	\$16,374
Supply Vessels < 200 ft	\$7,375	\$4,800	-35%	\$8,760
Crewboats > 125 ft	\$6,960	\$5,450	-22%	\$6,483
Crewboats < 125 ft	\$3,550	\$3,000	-15%	\$4,030

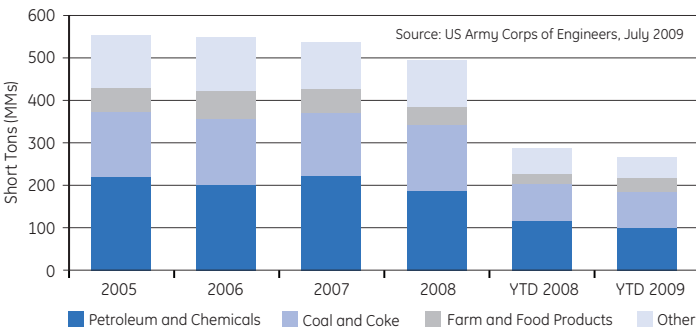
Source: www.WorkBoat.com/news/dayrates.asp, June 2009

Demand for OSV's has fallen from the peak June 2008 levels due to the large drop in active offshore drilling units in the Gulf's shallow waters. The deepwater area remains active with only 3 rigs leaving this year. The number of jack ups tied up or leaving the Gulf has reduced the amount of work for OSV's creating an excess supply of vessels and putting downward pressure on day rates. Near the end of July, just 52 of the region's 109 mobile offshore drilling units were working under contract for a 48% utilization rate according to ODS Petrodata's Gulf of Mexico Newsletter. The shelf has been hit the hardest with 19 jack-ups working under contract compared to 63 a year ago. Utilization for jack ups is 29.6% vs. 93% for semi-submersible units compared to a worldwide offshore rig fleet utilization of 76.1%. ODS reports that the mid year updated Barclay's Capital Original Exploration & Production Spending Survey forecasted a 15% decline in worldwide E&P expenditures this year, but over half of the companies surveyed were expecting growth in their E&P budgets in 2010.

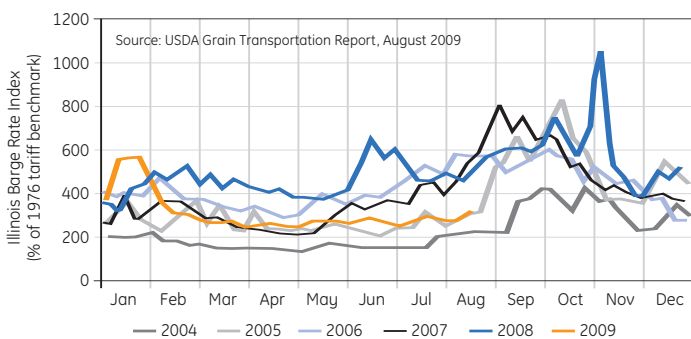
## Inland Waterways

The U.S. Army Corps of Engineers U.S. inland waterway tonnage indicator for all commodities for the first half of 2009 showed a decline of 8.7% over 2008 with the largest drop in volume by tonnage in petroleum and chemical cargos. The first 6 months total inland waterways tonnage of farm and food products is up considerably over last year, and that helped offset declines in other cargos. The high water events that hurt traffic in 2008 on the Mississippi did not materialize to the same degree this year, and river flows have been encouraging. The U.S. Army Corps of Engineers opened up a full length, full navigation season on the Missouri River to barge traffic for the first time since 2002. Below average barge rates have generated more grain movements this year too. Total down river barge movements for corn, soybeans and wheat is above the 3-year historical average. Other cargos tied to construction and manufacturing were down 23% including coal, which is down by 4.6%. The July 23, 2009 U.S. Department of Agriculture (U.S.D.A) Grain Transportation Report was reporting the third consecutive week of strong grain inspections for loaded barges for the export markets. The USDA's mid-August report projects a record grain crop for fall 2009, 3% more than last year, which is expected to generate strong demand for grain transportation later this year and into 2010.

### Inland U.S. Waterways Tonnage Indicator.



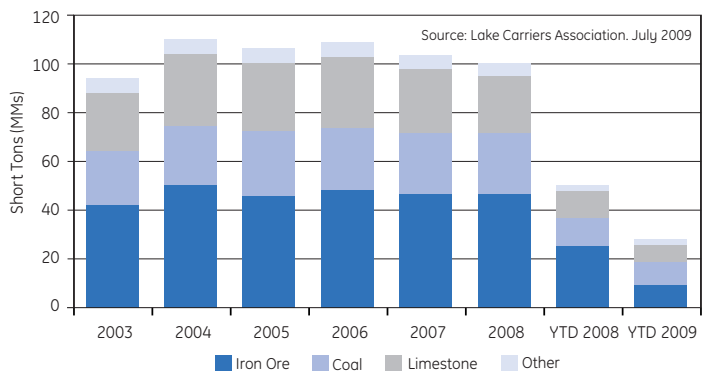
### Illinois Barge Rate Index.



## Great Lakes

The Lakes Carriers' Association for the Great Lakes trades/U.S. Flagged carriers reported a 44% decrease in total bulk dry cargo for the first 7 months of the year. Hardest hit was the ore trades which is down 62% and limestone second, down by 38% over 2008, demonstrating how reliant the Great Lakes Trades are on the production of steel and the U.S. Automobile industry. Cement cargos suffered by 23% due to the downturn in the construction industry. Grain cargos represent a very small part of the total tonnage, but were up by 81% over 2008.

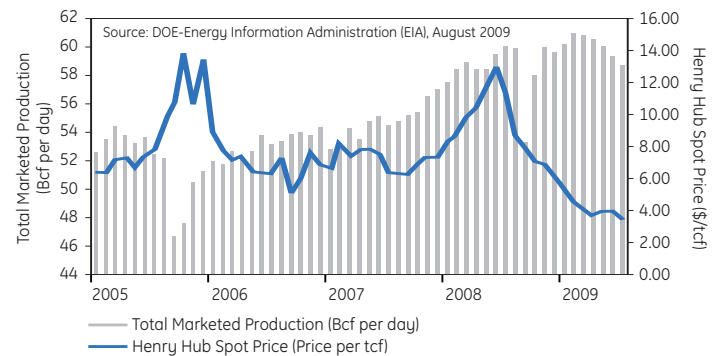
### Great Lakes Tonnage Indicator.



## North America Natural Gas

The average price of Natural Gas for the first 7 months of 2009 was \$4.16 per thousand cubic feet and 53% below the \$9.13 Henry Hub 2008 average spot price. Weak demand has impacted drilling activity on the shelf area in the Gulf of Mexico. In addition, the drop in natural gas prices may influence users of other energy sources such as coal to switch over to natural gas. Henry Hub spot prices, per the Energy Information Administration, are expected to average \$3.60 per thousand cubic feet during the remainder of 2009.

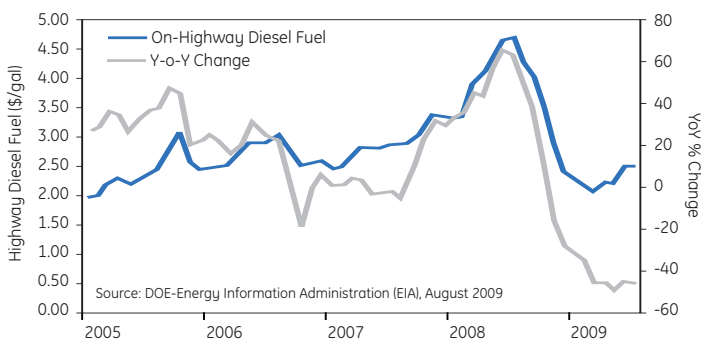
### Natural Gas Production and Price.



## North America Diesel Fuel

The price of No 2 Highway Diesel averaged \$2.30 gallon YTD as of July 2009 at \$2.54 a gallon, down from the \$3.80 average price of 2008. However, as of publication date of this report, diesel prices had already increased to \$2.65, with the EIA projecting \$2.76 by end of 2009, and \$2.90 in 2010. As fuel prices dropped, fuel escalators and surcharges that helped operators during 2007 and 2008 to cover rising fuel costs are no longer being applied which cut into operator profit margins even more. The EIA's (Energy Information Administration) current estimate for the second half of 2009 for WTI Crude Oil stands at \$67 a barrel. However, the large drop in fuel prices is one of the few bright spots for operators during 2009.

### No. 2 Diesel Fuel.



## Recent M&A and Financial Activity:

- **OSG** announced its plans to buy back all outstanding 4+ million shares of **OSG America** at \$8 per share.
- **K-SEA Transportation Partners LP** announced plans to conduct a public offering at 2.9 million shares at \$19.15 per common unit.
- **Hornbeck Offshore Services, Inc.** closed a private placement of \$250 million principal amount senior notes at 8% due 2017. Pricing was at 97.123% of principal to yield 8.5%.
- **Teppco Partners LP** said it purchased 19 tugs and 28 tank barges from **TransMontaigne Product Services, Inc.**, for \$50 million. In addition, **Teppco Partners LP** and **Enterprise Products Partners LP** entered into an agreement in July to merge to form the reportedly largest publicly traded energy partnership with a \$26 billion enterprise value.
- **Bee Mar, LLC**, a new operator was formed in the offshore energy service industry beginning with a fleet of five new

Bollinger Shipyards 210-foot and three 234-foot platform supply vessels with DP-2 capability.

- **Commercial Barge Line Company (CBLC)**, a direct wholly owned subsidiary of **American Commercial Lines (ACL)**, announced that CBLC completed a private placement of \$200 million senior secured second lien notes at 12.5% due in 2017. Pricing was at 95.181% of principal to yield 13.5%.
- **J.F. Lehman & Co.**, purchased **Drew Marine**, a long established manufacturer/provider of industrial products used in the marine industry, for \$140 million.
- **Fincantieri Marine Group Holdings, Inc.**, purchased **Manitowoc's** shipyard business for \$120 million.

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All transactions subject to credit approval by GE.

## In the Focus: Stimulus and Marine

Midway through the year, it appeared the marine industry (directly and indirectly) was benefiting from stimulus funding from the \$787 Billion American Recovery and Reinvestment Act of 2009 (ARRA). ARRA projects receiving funding were those identified as “shovel ready” and could be completed in a short time span. The ARRA is being administered through a variety of government agencies (see below). For example, the nations aging inland waterways system will be receiving \$403 million for some much needed repair and modernization work. Unfortunately, many of the inland waterways projects identified by the U.S. Army Corps of Engineers’ civil works programs involving lock and dam maintenance, repair, and replacement require more appropriations from Congress, and a long term funding solution that the stimulus package won’t solve.

### Environmental Protection Agency

**\$300 million** is provided to the Environmental Protection Agency (EPA) for Diesel Engine Emission Reduction (DERA) programs ([www.epa.gov/diesel](http://www.epa.gov/diesel)). The EPA started administering ARRA funds last spring with **\$156 million** for the National Clean Diesel Funding Assistance Program to help bring certified diesel emission reduction technologies to market. The program was closed to applications in April, and grant awards were announced. Marine was among those applications receiving EPA grant awards. They include the repowering of two Great Lakes bulk carriers, the purchase and replacement of 104 marine engines for the Port of Houston, the repowering of workboats, tugs and ferries qualifying under the Northeast States (ME, NH, VT) Coordinated Air Use Management program, the repowering workboats at the Chesapeake Bay Foundation, and upgrading the diesel engines in a variety of cargo handling equipment used at the Ports of Los Angeles and Long Beach. More information regarding the awards can be found at [www.epa.gov/otaq/diesel/projnational-aara.htm](http://www.epa.gov/otaq/diesel/projnational-aara.htm). The EPA will be providing funding for other programs including **\$20 million** for the National Clean Diesel Emerging Technology Program to support emerging clean diesel technologies and bringing them into the market, **\$30 million** for national, state and local SmartWay Clean Diesel Financing programs and **\$88 million** for State administered clean diesel grant programs.

### USDOT/Federal Maritime Administration

**\$98 million** was added to the MARAD to help strengthen small shipyards with funding for capital improvements and infrastructure improvement projects. On August 18th, MARAD announced the final list of Small Shipyards who will be

receiving the Small Shipyard Grant program, which will provide 75 percent of project costs, with the remaining 25 percent to be picked up by the shipyard. A total of 70 grants will be awarded to 70 shipyards with the highest grant exceeding \$3.9 million for equipment ranging from new drydocks to plasma cutting panel lines. This follows on the heels of **\$17.1 million** in shipyard grants announced by MARAD on July 9th. In addition, MARAD awarded **\$9.8 million** in total grants for shipyards back in April. More info can be found at the [www.marad.dot.gov/about\\_us\\_landing\\_page/marad\\_recovery\\_act/recovery.htm](http://www.marad.dot.gov/about_us_landing_page/marad_recovery_act/recovery.htm) website.

### Federal Highway Administration

**\$60 million** was made available for the construction of ferry boats and ferry terminal facilities by the Federal Highway Administration on May 15th ([www.fhwa.dot.gov/discretionary/090330.cfm](http://www.fhwa.dot.gov/discretionary/090330.cfm)) under the Department of Transportation Ferry Boat Discretionary Program for “ready to go” projects. Grant recipients included 19 different projects ranging from the building of new passenger ferries to ferry terminal improvements. The list of projects can be found at [www.fhwa.dot.gov/discretionary/fbawrd09\\_arra.pdf](http://www.fhwa.dot.gov/discretionary/fbawrd09_arra.pdf). The State of Washington, which operates the largest fleet of ferries in the U.S., secured an additional **\$7.6 million** shortly thereafter to help two municipalities purchase a couple of fast passenger ferries and **\$3.8 MM** for ferry terminal improvement projects.

### National Oceanic and Atmospheric Administration

**\$230 million** was provided to the National Oceanic and Atmospheric Administration (NOAA) for operations, research in habitat restoration work in coastal areas provided those projects generate significant economic benefits. **\$167 million** was set aside for mid and large scale habitat restoration projects. NOAA received a total **\$830 million** and will use the other **\$600 million** to invest in the construction and repair of NOAA facilities, ships and equipment. More information can be found at [www.noaa.gov/recovery/](http://www.noaa.gov/recovery/).

### U.S. Army Corps of Engineers

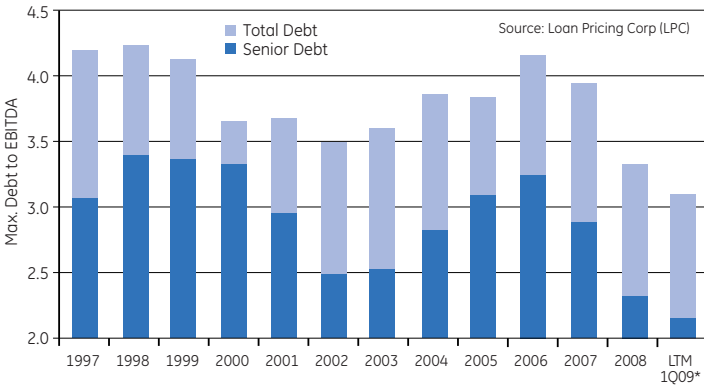
**\$4.6 billion** funding for the U.S. Army Corps of Engineers Civil Works programs which includes **\$1.7 billion** for navigation work, **\$1.4 billion** for flood damage reduction jobs and **\$400 million** for environmental projects. Harbor maintenance projects received **\$230 million**, with dredging as a priority for 40 coastal and Great Lakes harbors. As of August, the Corps’ work package list covered 4,800 projects with **\$2.1 billion** scheduled for letting by month end. For a complete list of projects, see Army Corps Civil works website at [www.usace.army.mil/recovery/Pages/Projects.aspx](http://www.usace.army.mil/recovery/Pages/Projects.aspx).

# Loan Market Trends

## Middle Market – All Industries

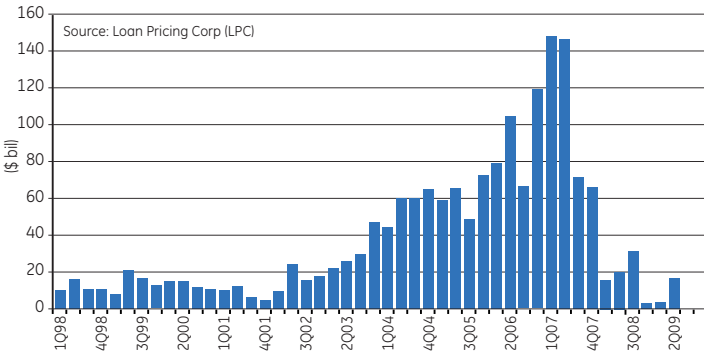
Middle market covenant levels continued to tighten in 1Q 2009 in the wake of continued deterioration in the economy and rising default rates. The average debt to EBITDA level fell to 3.1 times in LTM 1Q 2009 on an LTM basis, down significantly from 2008's 3.3 times and 3.9 times in 2007. Most of the data comprising the LTM 1Q 2009 figures come from 2008 deals, given the very low level of deal volume in 1Q 2009.

### All Industry Average Middle Market Maximum Debt to EBITDA Covenants.



Institutional term loan issuance of \$16 billion in H1 2009 dropped 55% vs. H1 2008, with 2Q 2009 volume of \$14 billion off 31% YoY.

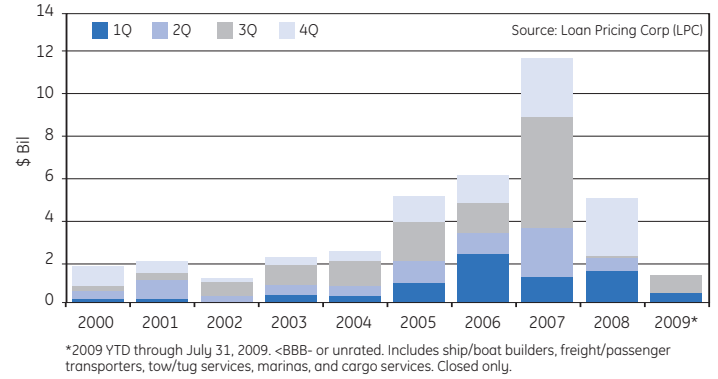
### U.S. Quarterly Institutional Term Loan Issuance.



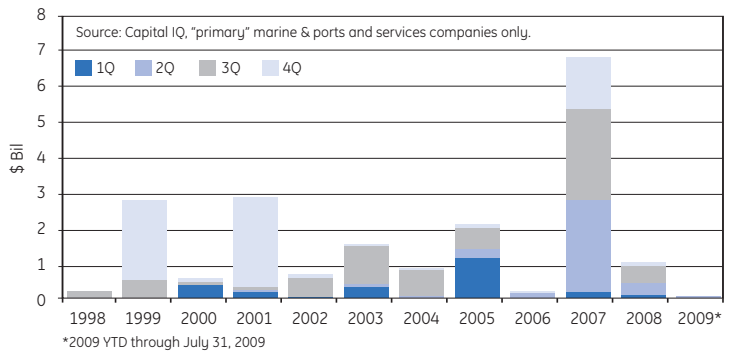
## Marine

In the Marine Transportation sector, U.S. syndicated loan volume for BB+ and lower or unrated credits dropped 78% in H1 2009 vs. the same period a year ago, but recovered enough in July so that YTD 2009 is only down 42% vs. 2008, according to Loan Pricing Corp. Merger and acquisition activity has been almost non-existent in 2009, according to Capital IQ.

### North American Marine Syndicated Loan Volume.



### North American Marine M&A Deal Volume.



## Spotlight Transaction



### Southern Towing Company

Construction Financing and \$5 million Vessel Term Loans

#### Background

GE Capital provided a \$12 million credit line for the construction financing needed to build four new Z-Drive towboats, and term debt financing totaling \$10 million for the first two boats for a long established operator, Southern Towing Company. Southern Towing is a Memphis based inland towing company celebrating their 50th year of operation in 2009. The credit line and term debt transactions allowed Southern Towing to build a new fleet of innovative double hull, no overboard discharge, Z-Drive towboats for their aggregate and chemical towing operations. The transactions were structured to help Southern conserve working capital and finance their new building program.

#### Investment Rationale for GE

The Southern Towing relationship meets many of GE's critical criteria for investing such as:

- Southern's strong customer relationships with the manufacturers and end users for nitrogen fertilizers in the U.S. agriculture industry.
- Southern's reputation and 50 year operating history.
- Southern's demonstrated expertise in the movement of specialty chemicals and dry bulk products, and strong maintenance program for their fleet.

#### GE Value-Added Differentiators

The following were highlighted as competitive differentiators and the reasons for GE being awarded the transactions:

- GE's expertise in marine, and familiarity with Z-Drive towboats.
- GE's structuring expertise and capacity to provide construction financing for Southern's multiple new towboat building program.

## GE Financing Highlights

**\$19,200,000**

Refinance of an ocean 800-ton capacity heavy lift barge and an ocean construction support barge

Provided term financing for recent fleet expansion that enabled the new owner to free up operating line capacity with the primary bank group

**\$12,400,000**

Term loan for new inland double hull tank barges

Helped a shipyard free up their operating line by terming out the debt tied to the building of several new double hull tank barges for the inland petroleum trades

**\$7,000,000**

Construction and term loan for new crewboat

Provided turnkey construction and term financing for a new generation crewboat and helped the operator conserve its cash for future fleet expansion

**\$11,100,000**

Sale and leaseback financing for a new ocean heavy deck barge using GE's Capital Construction Funds

Provided favorable long term lease financing on a new ocean deck barge to an operator using the tax-deferred benefits of GE's Capital Construction Funds

**\$14,800,000**

Provided term financing for fleet expansion

Helped a commercial passenger boat operator expand their business by acquiring the business of a local competitor and providing term financing for a fleet of tour and ferry boats

**\$24,000,000**

Refinance of double hull tank barges for a fleet operator

Helped the operator reduce their fixed interest costs and obtain favorable pricing using GE's Capital Markets team. This lowered their monthly cash outlay for term debt creating additional working capital

**\$18,000,000**

Sale and leaseback transaction on three tractor tugs

Enabled the operator to acquire a fleet of tractor tugs and maintain their borrowing covenants. GE provided a long-term structure that will help conserve the operator's working capital

**\$3,000,000**

Sale and leaseback of a Jones Act coastwise commercial landing craft for lightering work

Provided operator a lease that helped the customer expand their fleet capabilities and conserve working capital

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