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Joseph S. **Compofelice**
Chairman & CEO

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Photo courtesy Trico Marine

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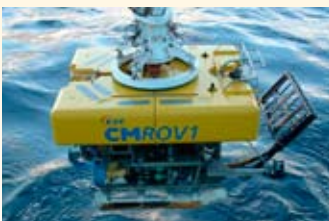
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Executive
Interview:A portrait of Joseph S. Compofelice, a middle-aged man with short, graying hair, wearing a dark suit jacket, a light blue dress shirt, and a red patterned tie. He is smiling slightly and looking directly at the camera. The background is a plain, light-colored wall.

Joseph S. Compofelice

Chairman and CEO, Trico Marine

In today's maritime business climate, there very well may be no more compelling story than the one Joseph S. Compofelice, Chairman and CEO of Trico Marine Services, tells people on a daily basis. This story is about business models – successful ones, as it turns out – and, perhaps, the most financially adept CEO in this marketplace. Without a doubt, the Trico business model is pure Joe Compofelice. Follow along as Trico's CEO turns the tables on some commonly held business assumptions while outpacing the field in other ways as well.

MarEx: Let's start by bringing the readers up to speed on Trico Marine and how you came to be a part of this exciting company.

Joseph Compofelice (JC): Trico was founded in the early 1990s and went public not too long after that. I was asked to join the Trico board by the then-Chairman in mid-2003 during a really difficult time. They were having serious financial issues and they wanted more independent thinking on the board. Six months later I was asked by the Board to become the Chairman to help them through a restructuring, which the company endured, eventually exiting Chapter 11. At that time, March 2005, I agreed to stay on as Chairman. Gradually, over the period from mid-2003 to mid-2007, Trico turned around so much that we had completely repositioned our fleet. Formerly, it had been an older domestic OSV fleet, but now we were into growing international markets where supply and demand were in balance, rates were good, multi-year contracts and markets were growing. Of course, commodity prices started to increase as well. So we went from exiting Chapter 11 to having a substantial war chest - several hundred million dollars. It was quite dramatic. It was at that time, in 2007, that the Board of Directors asked me to become CEO.

MarEx: How did you come up with "several hundred million dollars" in such a short period of time from bankruptcy to mid-2007?

JC: It came in three different parts. Let me explain: About \$100 million came from operating cash flow - improving the business through better practices and improving prices. Secondly, we did an equity offering of about \$100 million. Then, in the beginning of 2007, I recommended to the board that we do a convertible debt offering because, in my opinion, the times when you need to raise money rarely coincide with the times when there is opportunity to spend it effectively. At that time, the convertible markets were exceptionally favorable, and we raised \$150 million in convertible debt at three percent. By that summer, we had about \$400 million in cash.

MarEx: Let's talk about your journey through this fascinating business.

JC: Sure. I started directly in the business in 1976 as controller of a privately owned valve company that happened to produce the first subsea "chokes" for the Ekofisk Fields in the North Sea. That company was purchased by Smith International, a very large oilfield services company. Between Smith and the predecessor company, I spent 11 years there, ending up as President of their MWD ("measurement while drilling") Division and

of Smith Drilling Systems. I next went to NL Baroid, where I served as President of the Oilfield Services Group. That company changed and split over the years, but I ended up as CFO for about five years. After we sold Baroid to Dresser, which was eventually merged with Haliburton, I continued to work for NL Industries, its affiliates and its parent company. Along the way,

I served as Chairman and CEO of a company called COMPX - nothing to do with my name - and I took it public in 1998.

MarEx: You clearly have deep roots in the offshore and drilling industries and similar experience in the financial and executive management areas. The combination of those two things probably serves you very well in your current role - yes or no?

JC: Absolutely - that's my background. Over the years, I've done perhaps as many as 90 acquisitions and divestitures, several IPOs, and dozens of private and public financing transactions. People always ask me, "What do you want Trico to be?" And I say, "I want Trico to be a company that produces the highest return on capital employed that it possibly can."

MarEx: You transitioned Trico from a U.S. GOM/North Sea, spot-market OSV company to a worldwide

subsea services outfit. Explain the logic behind the move and some of the biggest challenges in doing so.

JC: The first step was to figure out what we should not do. The characteristics of the OSV business are that its growth per year going forward is probably around five percent. It has far too many competitors and doesn't have the ability to differentiate technologically or on any other basis. And we were behind the large OSV companies in terms of investing in the fleet.

MarEx: It certainly looks like a big part of your effort and transformation is centered on the move away from GOM-based tonnage and into different disciplines in a wider geographic area. Why?

JC: I think the Gulf of Mexico is an important market - depending, though, on how you slice it. I guess the first slice is shallow versus deep, and we know from looking at the jackup rig count that shallow water activity is pretty flat. We don't think that's going to increase much. Now you do get some periods of pretty strong activity, for example, the current period of "post-Hurricane Ike" work. It has been a profitable business for us, but the real growth has been in deep water. You have to separate deep water into two separate parts as well. In the deep water OSV business, we made a conscious decision not to invest in that sector. We think the field is getting crowded: Tidewater, Seacor, Chouest, Hornbeck, etc. Boy, that's a lot of competition

Gradually, over the period from mid-2003 to mid-2007, Trico turned around so much that we had completely repositioned our fleet. Formerly, it had been an older domestic OSV fleet, but now we were into growing international markets where supply and demand were in balance, rates were good, multi-year contracts and markets were growing.

We're not big subscribers to the "build the bigger, newer, shinier OSV" philosophy. On the OSV side, we say the opposite: A 225-foot, DP-1 vessel in the Gulf of Mexico, if it is 12 years old, gets the same day rate as one that is 12 days old.

work is what will grow quickly in the future?

JC: Yes, not only that, but what's coming next is the whole array of subsea decommissioning work. We've just finished a huge project of this nature in the North Sea. The number of structures that are going to require being moved in an environmentally safe manner is a growing segment in both the Gulf of Mexico and the North Sea. The future market for new subsea installations in places like Angola and Brazil are customers spending capex dollars. In the North Sea and the GOM,

you've got customers spending capex and opex dollars – and the opex spending tends to be far more immune to fluctuations in commodity prices. If the price of oil is \$20 in the North Sea, Statoil's responsibility to inspect, maintain and repair its own installations is the same as it would be if oil were \$100 per barrel.

MarEx: You've said that, in today's markets, it would be difficult for anyone else to duplicate what you have done, especially in the harrowing credit climate now developing. Talk about the magnitude of the credit necessary for this change-of-business model.

for that level of activity in deep water.
MarEx: That tonnage is brand new, for the most part, too, isn't it? And your OSV fleet is, relative to the market, old. Yes or no?

JC: Yes. That told us what NOT to do. We couldn't catch up and make that bet. On the other hand, we do have a great marine and offshore history – so the subsea services portion of the deep water just jumped right out at us. We're happy with our mature OSV fleet because we manage it for cash. We're not big subscribers to the "build the bigger, newer, shinier OSV" philosophy. On the OSV side, we say the opposite: A 225-foot, DP-1 vessel in the Gulf of Mexico, if it is 12 years old, gets the same day rate as one that is 12 days old. I am quite certain that we are the only group with a business model framed like that today. The flaw in the strategy being employed by the "DP-3, 1-day-old" people is that they are not the only one doing it – there's ten other companies with the same models, and not every customer wants to pay the premium for all the bells and whistles.

MarEx: So, you feel the subsea maintenance and repair



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...this is a technology-oriented business: In other words, there are huge barriers to entry. Not money, but having that individual and company resumé and track record that says, "Yes, these guys can do a scale-squeeze well intervention." It says, "Yes, these guys can inspect, repair and maintain an entire pipeline infrastructure for a particular company."

of our remaining newbuild capex schedule is already financed. We don't need to access the capital markets for our newbuild schedule.

MarEx: Okay – so who is holding the notes today?

JC: Well, it is paper that can be traded and the paper does get traded, but we have several large holders that are just institutional investors. They tend to take much larger pieces of a convertible debt offering than if you just sold common stock. So we went to a very targeted slice of the institutional investment community to raise this money. And none has a large enough stake to have any more say in what we do than, say, any large public equity holder.

MarEx: If creating a subsea services company is a good idea because there are fewer competitors and higher barriers to entry (engineering-based), then how did you do it so successfully?

JC: Quite simply, we acquired the management team to accomplish the work. If we hadn't, we never would have bought the company in the first place. When you retain the management team, you simply become today what they have been for the last decade. This is very technology-oriented, whereas OSV is not. We still have about one-third of our business on the OSV side, but no matter what we are doing, we are all mariners. Neither side of the company earns a dollar of revenue unless a boat is out on the water. And that's something we never forget. Secondly, this is a technology-oriented business: In other words, there are huge barriers to entry. Not money, but having that individual and company resumé and track record that says, "Yes, these guys can do a scale-squeeze well intervention." It says, "Yes, these guys can inspect, repair and maintain an entire pipeline infrastructure for a particular company." By purchasing DeepOcean, we have a strong deep water services capability, so you'll see us growing over the next few years in the Gulf of Mexico, on the services side of the business. Our subsea service experience was grown in the North Sea, the home of subsea technology and the largest and oldest base of subsea installations. Where there were just one or two subsea wells in 1976, then over the next thirty years the number grew to a dozen, then several dozens, and now hundreds. The Gulf of Mexico is the second largest and second oldest base of subsea facilities.

JC: There are two parts to the question: There's the raising of the money and then there's raising that money at favorable rates. There just isn't liquidity in the system, and debt capital is virtually impossible to come by – especially for an acquisition. When we raised the money in May of 2007, this credit scenario hadn't unfolded yet and half the money we raised was in the form of convertible debentures. It's a product I like a lot and those people understood what we were doing, why we were doing it and how they were going to make money with us. Now, even with that attitude in today's markets, you couldn't debt-finance that much of an acquisition. Finally, there are a lot of newbuild vessels and rig orders out there. A good percentage of that has not yet been financed. In contrast, 100 percent



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...as we put together our model, we wanted to take the best from each side of the OSV and Subsea Services model and also – and this is important – not take certain things. We didn't want the financial risk of the EPIC subsea contractor model. And we didn't want the high capital intensity of the vessel-owner model.

the high capital intensity of the vessel-owner model. So there's room for us to do the engineering work while staying within the day-rate model. Often, we do work on a big engineering project but our subcontract basis for that work is day rate. In terms of risk, there's simply not as much. We invest on the subsea side with our available cash because that's where we think the vessel can be differentiated, when it is integrated with the services. We'll continue to time-charter from others on the subsea side because we want the opportunity to be able to change and ramp up our vessel requirements to match the changes in subsea engineering technology.

MarEx: With the acquisition of DeepOcean and CTC you have significantly reduced the aver-

age age of your fleet. But your traditional fleet of 55 OSV vessels is arguably getting a little long in the tooth (19 years) – especially at a time when operators like Gulfmar and Bourbon and others are aggressively building. Tell us about your expansion

And so we expect to do in the Gulf of Mexico, going forward, the same sort of work that DeepOcean does in the North Sea as we add ROVs and vessels to the fleet.

MarEx: Explain to our readers what you mean by "Market Positioning – Integrated Subsea Solutions." It looks like you are trying to become the "one-stop" turnkey provider. If so, how is that progressing? If not, what is it exactly that is meant by your market positioning credo?

JC: Some of the larger subsea service companies, who many times are our customer, use a lump-sum model rather than a day-rate service model. The lump-sum providers tend to have an engineering expertise that is far broader than anything that we would purport to do. So, as we put together our model, we wanted to take the best from each side of the OSV and Subsea Services model and also – and this is important – not take certain things. We didn't want the financial risk of the EPIC subsea contractor model. And we didn't want



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and replacement plans and any efforts underway to modernize and bring down the average age of your tonnage.

JC: We have 63 vessels in our towing and supply business and 14 in subsea services – so just under 80 vessels right now. We have ten newbuilds to come. On the OSV side, the average age is 18 or 19 years. We're averaging about 12 years old in the North Sea and over 20 years old in the Gulf of Mexico. The GOM fleet is dedicated to the shallow water; they are fully depreciated assets that are very, very well-maintained and we make exceptionally strong EBITDA margins on those vessels. So having an older fleet, limited to the shallow Gulf of Mexico waters, is a very profitable strategy. In the North Sea, our fleet is about in the middle of the bell-shaped curve. Some have younger fleets, some older; but 12 years old there is not by any means old. There are many markets which have a strong demand for older, well-maintained supply vessels. The Bay of Campeche, at about a 200-foot or less water depth, is a perfect example of this. We have ten vessels doing very well there. Will we take those vessels to Brazil, the North Sea or Angola? No. We believe that the condition of the vessels – and their fitness for the market they are deployed in – is far more important than their age.

MarEx: How much of your tonnage is U.S.-flagged? Foreign registry? What's the logic behind this business mix?

JC: We have probably only a dozen under U.S. flag out of

the 80 we operate. We don't see a big difference between the cost or method or quality of operation, no matter what the flag. What we do see is the need for a proper match. Brazil is a good example of this. Mexico is another. It pays to use local talent in those regions. It is a matter of matching what that National Oil Company prefers. You can't always do it, but that's what we strive for. With a vessel being repositioned, we want to retain the key positions and talent, and under those conditions we often have mixed crews. The vast majority of our business is with National Oil Companies (NOC) and the balance with International Majors (IOC), not much at all with smaller operators.

MarEx: You have estimated capex construction and installation work to more than double over existing levels and subsea spending to more than triple in the next five years. In light of the tightening of available credit, are you now prepared to scale back on those optimistic estimates? Please explain.

JC: I don't think anyone knows what is going to happen. These are highly unusual times. The growth in energy the last few years and the growth in subsea have been driven by the lowering of the cost of recovering a barrel of oil and the exceptionally tight worldwide supply side of the equation. If you use the example of measurement while drilling (MWD), that market sector evolved in the early and mid-eighties, a similarly difficult energy

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market will oil prices very low. MWD has never had a down year, no matter what is happening, because it lowers the cost of doing what the customer has to do. Subsea is driven in a similar fashion. It should continue to grow, but there will be some slowing of the growth rate possibly because of the “psychology” of such difficult financial markets. About 80 percent of subsea spending comes from IOCs and NOCs. People like Exxon do not access credit markets to grow. And the price deck for oil being used to justify new projects is \$40 per barrel. I’ve seen it as high as \$55 - \$60 per barrel. But the average is \$41 per barrel, according to recent surveys. If oil levels out around \$70 per barrel – as some would have us believe – then everyone in the subsea business is going to be very happy. If it fluctuates between \$50 and \$70 I don’t believe the five year growth in the subsea market is going to be any different than at \$100 oil. You have both a capex customer spending market on the new installations, but you also have an opex spending market.

MarEx: You talk a lot about the subsea services markets and how those requirements changed before and after Trico expanded its presence with the Deep-Ocean acquisition. Expand on that.

JC: The only way to get into this business now – with any critical mass at all, excepting a “startup” operation that will take ten years or more to get credibility – is to acquire someone else. And there are only a handful of acquisition candidates out there. Not even a handful.

MarEx: What percentage of the global subsea business do you have as a function of the total market and what is your goal for that over the next five years?

JC: We never look at it like that; instead we look at it on a segment basis. In terms of trenching and cable work, we think it is north of 30 percent. In terms of Deep Ocean’s subsea services, probably 20 to 25 percent. On the other side of the ledger, in the OSV market, that segment is so fragmented that we don’t think there is anyone in the world that has even five percent of the world’s business.

MarEx: Explain how the credit crunch is built into your risk metrics. What about your prospects to secure lines of credit for new tonnage? Arguably, you are in the same boat as everyone else.

JC: We need to concentrate on generating cash flow for our newbuilds and “deleveraging” over the next two or three years. The outlook for doing that is very good. The goal is to frame a balance sheet of time that will allow us to do more acquisitions once we delever from current levels. Our building blocks are in place. We don’t have to access the capital markets during this difficult time and, frankly, we got lucky – we did it at the right time.

MarEx: Some people would call it luck; some would call it sound business strategy. Whatever it is, it certainly looks like it is working for you and Trico.