

## U.S. SHIPPING PARTNERS L.P.

Another tanker company has registered to list on the New York Stock Exchange (NYSE)- this one with two important differences from tanker firms recently featured in the financial limelight. U.S. Shipping Partners L.P., (to be listed under the symbol "USS") will be operating vessels in the U.S. Jones Act trades, rather than on international routes. And, it is partnership "units", rather than equity shares, that will be traded on the NYSE.



The company will be operating eight vessels- six Integrated Tug Barge (ITBs) that haul refined oil products between U.S. ports, mainly between West Coast refineries and terminals, and between Gulf Coast refineries and further distribution points in Florida and the U.S. Atlantic Coast, and two chemical tankers moving parcels mainly from Gulf Coast locations to receivers in U.S. ports along the Atlantic.

The ITB fleet, with double bottom vessels built during 1982 – 1984, described at just over 48,000 dwt.each, was originally operated by Amerada Hess Corporation, which then sold the vessels to a United States Shipping LLC, formed in mid 2002 by a consortium of private equity investors and company management. The chemical carriers, of 35,000 dwt. and 48,000 dwt. were acquired later, from Dow Chemical and SeaRiver Maritime, respectively. In its registration materials, USS reveals that has placed an order for an Articulated Tug Barge intended to haul chemicals, rated at 20,000 dwt, with options for additional units. The management team is led by ex banker Paul Gridley (who had previously spearheaded a successful buyout of Marine Transport Lines in the late 1980's), and veteran shipping man Joe Gehegan, who ran the ITB's under the Hess banner.



Vessel purchased from Dow Chemical

Historical financial statements in the Registration materials show that during 2003, the company (which bought one of the chemical tankers in mid-year) would have earned net income of \$7.4 Million on gross revenue of \$80.5 Million, and generated \$29.2 Million of "EBITDA"- a financial measure of importance to bankers. ITB customers during the year included British Petroleum, Shell, and Amerada Hess, while the chemical vessels served customers such as Dow Chemical and Exxon Mobil.

USS is not the first shipping company to raise money through the "Master Limited Partnership" (MLP) medium. Earlier this year, New York based K-Sea Transportation raised \$83 Million in an MLP. MLP's differ from traditional corporate structures, in several important respects. Unlike traditional corporations, MLP's don't pay tax at the company level. Rather, the partners, who own MLP "units", will pay tax on the distributions. Another important difference is that MLP's, common in the U.S. oil and gas pipeline business, are priced based on their yield, similar to bonds. USS

expects to distribute \$0.45 per unit, or \$1.90 per year. As a data point, K-Sea was yielding approximately 7.5%.

If business is good, that means that more cash is available for distribution, and the price of traded units could rise based on the yield. The yield based pricing also brings a sensitivity to the overall interest rates. If rates rise on other interest sensitive vehicles, such as bonds, then the price of MLP's must drop in order to compete on the yield basis. Conversely, in a falling interest rate environment, MLP's become more attractive relative to bonds.

USS is hoping to clear nearly \$125 Million through the sale of partnership units, after underwriting commissions, which it says will be used to mainly repay outstanding debt (\$93.8 Million), and to beef up working capital (\$25 Million +). The company was unable to discuss its prospects during the Registration period, but the filings with the Securities and Exchange Commission paint a rosy picture. Filings reveal that the Jones Act tanker market has been strengthening over the past few years, and is expected to strengthen further as competing vessels reach their mandatory phase out dates under OPA-90. Hire rates on the ITB's are said to be well in excess of \$35,000 per day, with the chemical tankers earning around \$35,000 daily. USS's materials also reveal that each ITB drydocking costs between \$4 Million and \$6 Million, with two units scheduled for dockings in each of 2005, 2006 and 2007.

In recent years, energy companies have used MLP's as vehicles for making corporate acquisitions. The USS documents also suggest that in the coming years, USS might consider "acquisitions and other expansion opportunities" through a combination of additional MLP units, and borrowings under a credit arrangement.

#### **FLEET LIST**

ITB Baltimore	48000 dwt	Blt 1983
ITB Groton	48000 dwt	Blt 1982
ITB Jacksonville	48000 dwt	Blt 1982
ITB Mobile	48000 dwt	Blt 1984
ITB New York	48000 dwt	Blt 1983
ITB Philadelphia	48000 dwt	Blt 1984
Charleston	48000 dwt	Blt 1983
Chemical Pioneer	35000 dwt	Blt 1968/ 1983