STANDARD INVESTMENT CHARTERED, INC.
Member . NASD . SIPC

Thinly-Traded Issues
Equity Research
Jack Norberg
714-444-4300

Crowley Maritime Corporation

OTCBB: CWLM
CLOSE, OCTOBER 8, 2003: $1000

A Convergence Of Trends, Circumstances And Regulation

Rating: BUY
Suitability: SPECULATIVE

Public corporations serve multiple stakeholders: customers, managers, employees, and shareholders. Crowley Maritime Corporation ("the Company"; "Crowley"; "CWLM") is one of the world's premier maritime shipping and logistics companies. That it effectively serves its customers is beyond question. The Company has won numerous awards affirming that premise.

That it effectively serves the interests of management is also unquestioned. Founded in 1882, Crowley Maritime evolved into a publicly-held company as stock was inherited by descendents of the founder over the years, in many cases sold for estate settlement purposes. Today, Tom Crowley, Jr., the founder's grandson, is at the helm of an enterprise with approximately 600 shareholders. The business does more than $1 billion in annual revenues, and has more than 3800 employees and almost 300 vessels — serving customers worldwide.

Mr. Crowley is also well-paid. According to the annual proxy statement dated April 25, 2003, Mr. Crowley received almost $1.5 million in cash compensation (salary plus bonuses and other compensation) during 2002, and almost $3.7 million in life insurance policies subject to split dollar agreements with Mr. Crowley and certain trusts for the benefit of his family. In addition, the Crowley family owns 99.9% of the Series A Preferred Stock, which paid more than $2 million in cash dividends in the fiscal year ending December 31, 2002.

We have no reason to believe that Crowley employees are unhappy (more than 2,400 of the approximately 3,900 workers are employed under the terms of 34 separate collective bargaining agreements with 11 different labor unions).

While insiders might argue that Mr. Crowley's 77.8% voting control of the Company aligns his interests with those of the public shareholder, in fact the opposite is occurring. Precisely because of the Company's capital structure and questionable financial management practices (including serious conflicts of interest), shareholders are seeing virtually no return on their investments.

So why buy or hold CWLM shares? Recent regulatory trends demand full disclosure of material corporate events and operations. Especially in the wake of corporate governance scandals in the past three years (i.e. Enron, Tyco, and WorldCom), better informed shareholders are exerting pressure on the managements of public companies: Either treat outside shareholders fairly and honestly, or take the companies private.

Our thesis supporting the purchase of CWLM shares is based on a belief that Crowley management MUST take the Company private. The alternative is to revamp its capital structure and change certain of its operating policies — to unlock shareholder value. The Company's book value is almost $2,100 (June 30, 2003). The stock is trading at $1,000. How much is the stock actually undervalued? Well consider that in 2001 Crowley acquired Marine Transport Corporation for 2.7X book value. Applying the same valuation to CWLM would fetch more than $5,600 per Crowley common share.

This report aims to summarize the Company's operations, its competitive position, and alternatives to its current capital structure. We believe any decision to take the Company private must be priced ***in excess of*** $2,100. Our maximum upside at current book value is $5,600 if the Company values its own shares as much as its competitors.

Thinly Traded Issues *is a copyright protected research product of Standard Investment Chartered, Inc. ("Standard"), Member . NASD . SIPC. This report, either in full or in part, may not be reproduced or redistributed without the express written consent of Standard.* *The information contained herein was obtained from sources believed to be reliable, but no guarantees are made or intended as to accuracy or completeness. This report contains forward-looking statements and projections. Actual business or economic events may vary. No assurances can be made that a security will perform in the manner suggested as probable by this report. Equity market prices fluctuate, so that the value of an investment, when liquidated, may be worth more or less than the amount originally invested. Any investment opinion or recommendation expressed or implied herein is as of the day presented, and subject to change, without notice, due to new information, changing corporate circumstances, or changing industry or overall market conditions. Any investment decision related to an idea presented in this report should also take into consider other suitability factors, such as an investor's investment objectives, tolerance for risk, investment history, financial resources, among others. Past performance is neither a guarantee nor an indication of future profits or losses.*

The Essential Story

- ***Coverage History.*** We have followed Crowley under our *Thinly Traded Issues* theme for several years, most recently writing about the Company in June 2000.
- ***Summary Conclusion.*** Given the new, more exacting environment for existence as a public company, Crowley management has two choices: [1] take the Company private; or [2] significantly alter certain operating and financial practices to more closely resemble a publicly-traded company — to unlock shareholder value. With its 2001 acquisition of Marine Transport Corporation, Crowley has established an appealing potential valuation mutliple for its own shares: $5,600.
- ***What They Do.*** Crowley Maritime Corporation is one of the world's leading, diversified transportation service companies with four primary segments: Liner Services; Ship Assist and Escort Services; Oil and Chemical Distribution and Transportation Services; and Energy and Marine Services. The Company employs approximately 3,900 people, using a fleet of more than 280 vessels, including RO/RO (roll on roll off) vessels, LO/LO (lift on lift off) vessels, tankers, tugboats and barges. Land-based facilities include terminals, warehouses, tank farms, office buildings, trucks, trailers, containers, chassis, cranes and other specialized vehicles.
- ***Brief Corporate History.*** Tom Crowley founded the business on San Francisco Bay in 1892 with a single Whitehall boat to ferry cargo and supplies between ships and harbor facilities. It was incorporated in the State of Delaware in 1972. The present structure, as a holding company for the various lines of business, was put in place in 1992. In 2000, Crowley suddenly found itself with more than 500 shareholders, as family members passed away over the years and shares migrated into outside hands, generally in settling estate and tax liabilities. Consequently, Crowley became a fully reporting company (though it remains very thinly traded on "the pink sheets", with no active market). In 2001, the Company completed its acquisition of Marine Transport Corporation (previously traded on Nasdaq), for $42.7 million in an all-cash tender offer valued at approximately 2.7X book value.
- ***Value Play: Trading At Significant Discount To Book.*** Crowley's book value per share at the end of June 2003 was nearly $2100 per share. Currently priced by the market at $1,000, or just 47% of book, one can easily make a case that purchase of Crowley shares today represents a "safe" investment with substantial upside appreciation potential. However, the share price is being penalized by two primary factors: [1] uncertainty re: asbestos-related lawsuits, and [2] the Company's capital structure. Nonetheless, Crowley's 2001 acquisition of Marine Transport at a multiple of 2.7X book value implies that an acquisition of Crowley, or more likely a leveraged buyout by management, might fetch as much as $5,665 per share (2.7X Crowley's book value).
- ***Risk: Asbestos-Related Lawsuits.*** Crowley is currently a defendant in approximately 15,000 maritime asbestos cases and other toxic tort cases. Most of these were filed in federal courts in Ohio, Michigan, and New Jersey, with others filed in the Virgin Islands, Utah, Pennsylvania, Texas, and Louisiana. They were each filed on behalf of a seaman or his representative, alleging injury or illness arising from exposure to asbestos or other toxic substances. The Company has insurance coverage that should reimburse it for a substantial portion of any costs incurred defending against asbestos claims, as well as a substantial portion of amounts paid to settle claims or court judgments. According to Crowley disclosure documents (i.e., the December 31, 2002 10-K), this insurance coverage is provided by "dozens of insurance companies," and the amount of coverage depends on the nature of alleged exposure and the specific subsidiary against which the claim is asserted. No one knows when, how and to what degree of potential liability the asbestos-related litigation

will be settled. However, we were heartened to learn recently of proposed legislation that would create an asbestos settlement “superfund”, including a streamlined process for settling claims. This would more clearly define the subject companies’ potential liability, as well as increase the probability of getting money more quickly to legitimate victims.

- ***The Capital Structure Is Problematic.*** Until Crowley became a fully reporting public company, there was little information about company operations made available to shareholders. Despite acknowledging that it is now required to report to shareholders as a publicly-held company, Crowley continues to operate the Company more like a private firm, with seemingly little or no regard for outside shareholders. Given the new disclosures, we suggest that management needs to either buy out non-insider shareholders, or begin to operate as a public company that has all of its shareholders earnestly in mind as one of its constituent interest groups. Given the new clamor for regulatory reform, the days of abusing the trust of outside shareholders by management are numbered. While Enron, Tyco and WorldCom are highly visible and flagrant, the more commonplace instances (and in some cases worst) cases of shareholder abuse may be occurring in public companies that are closely held and the stock thinly traded, like Crowley, even though operations are apparently (and generally) well-managed. In response to increased public awareness and scrutiny, the promise of higher valuations deriving from stock buybacks — or management taking steps to unlock shareholder value — makes these interesting, if speculative investments.
- ***Alternative I: Take The Company Private.*** If Crowley management does not want to act like a public company, then it should take the Company private via a leveraged buyout. If Crowley management is willing to pay 2.7X book value for a rival, shouldn’t it also consider purchase of its own shares at or above book value — which would be immediately accretive to earnings — an important investment opportunity? Especially if it meant avoiding “life in a fish bowl” as a public company, this seems a reasonable assumption, if not expectation. While there are opportunities for expanding business with the acquisition of a competitor or starting a de novo business segment, we would still expect a generous multiple for purchase of its own shares. Therefore, our MINIMUM expected price for taking the company private is $3,000 per share, or 1.42X June 30, 2003 book value.
- ***Alternative II: Create A Real Public Company.*** In order to unlock shareholder value as a public company, Crowley management must become accountable to all shareholders, not just the inside owners. We suggest a two step process. First, split the stock 100 to 1. This would increase the shares outstanding from 135,000 to 13.5 million shares, significantly increasing liquidity (even without any additional steps). The split equivalent from today’s price would be $10 per share, but we contend that with increased liquidity the stock price will migrate towards split adjusted book value, or towards $21. Second, the Company should effect the sale of 5 million additional shares in a follow-on offering, taking the shares outstanding from 13.5 million to 18.5 million shares. This reduces insider ownership to about 50%. Proceeds from such a sale could be used to pay down debt, reducing interest expense and increasing earnings. Crowley management might not have the control to write their own meal ticket using Company funds, but we contend that their ownership position in a perhaps dramatically appreciating common equity would enrich them far more than the current unprincipled management practices.
- ***Company-Funded Perpetual Ownership By Crowley Family Is Simply Not Right.*** We applaud Crowley’s response to regulatory trends by becoming a fully reporting company, but disclosure represents a two-edged sword. It helps the Company better comply with public company requirements, but it also facilitates closer inspection by shareholders and their analyst representatives. In the 10-K dated December 31, 2002, on page 35 under

"Other Business Risks", the Company properly discloses (as a risk) that Mr. Crowley exercises control of the voting stock on all issues, including the composition of the Board, mergers and business combinations, acquisition or disposition of assets, financing, and the payment of dividends. It also discloses that Mr. Crowley and his family are beneficiaries of split-dollar life insurance agreements (almost $3.7 million in 2002). It reveals that the Board (remember, controlled by Mr. Crowley), *"...approved these agreements in furtherance of its belief that preserving Crowley familjy control and closely held nature of the Company is beneficial.....and will maximize stockholder value over the long term. The Board has long been concerned that short-term and long-term estate tax and other obligations of certain Crowley stockholders could lead to an unrelated third party gaining a highly influential and potentially detrimental position.....The Board also has been concerned that should the Company receive a request to purchase shares held by such stockholders or their estates in lieu of a possible sale to such investors, the Company would be unable to effect such a purchase without negatively impacting its results of operations or financial condition....the split-dollar life insurance agreements enable Mr. Crowley and certain trusts for the benefit of descendants to purchase most, if not all, of such shares without involving the Company.....essentially, the split dollar life insurance agreements enable Mr. Crowley and his family to retain ownership of shares and control the Company under circumstances when certain of such shares otherwise might have to be sold to a third party to pay applicable estate taxes."* Perpetuating his and his family's control by having the Company fund life insurance policies violates basic ethics principles, including the severe conflict of interest inherent because Mr. Crowley has sole power to line his own pockets at the expense of shareholders. Consequently, outside shareholders are "locked out" by these practices indefinitely, AND suffer from the Company's reduced operating results (in the current capital structure, $3.7 million in insurance costs represents a before tax cost to earnings of more than $27 per share).

- ***Valuation and Recommendation.*** There can be no guarantee that increased activism on the part of outside shareholders — even within the context of today's new regulatory trends — and demands for fairer corporate governance can effect change in management policies. Investor demands for recapitalization, such as the steps discussed earlier in this report, may go unheard without costly litigation. However, investors (especially at current prices) are somewhat insulated from potential loss over the long-term — with significant upside potential. If sufficient pressure is brought to bear on management to effect changes in the capital structure, to increase liquidity and unlock shareholder value, we think a minimum target price of $2,100 per share is probable. $3,000 is reasonable should a decision be made to take the Company private.

Let us be clear: We do not object to the manner in which management of Crowley is addressing its market opportunities or how it serves its customers in the marine transportation and logistics markets. Our sole concern is the significant shareholder value that is being "left on the table" because of ill-conceived, if not unethical financial management and corporate governance practices. Somewhere along the way, Crowley management forgot about its fourth constituent, the shareholder. We believe this must and will change, willingly or unwillingly, in the months ahead.