

SEABULK INTERNATIONAL INC

Form 10-Q

August 13, 2004

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SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF
1934

For the quarterly period ended June 30, 2004

Commission File Number: 0-28732

SEABULK INTERNATIONAL, INC.

State of Incorporation: Delaware

I.R.S. Employer I.D.: 65-0966399

Address and Telephone Number:
2200 Eller Drive
P.O. Box 13038
Ft. Lauderdale, Florida 33316
(954) 523-2200

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding twelve months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past ninety days. YES NO

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act). YES NO

Indicate by check mark whether the registrant has filed all documents and reports required to be filed by Section 12, 13 or 15(d) of the Securities Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court. YES NO

There were 23,408,952 shares of Common Stock, par value \$0.01 per share, outstanding at August 2, 2004.

SEABULK INTERNATIONAL, INC.
FORM 10-Q

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Part I. Financial Information

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As used in this Report, the term "Parent" means Seabulk International, Inc., and the term "Company" means the Parent and/or one or more of its consolidated subsidiaries.

Table of Contents**PART I. FINANCIAL INFORMATION****Item 1. Condensed Consolidated Financial Statements****Seabulk International, Inc. and Subsidiaries****Condensed Consolidated Balance Sheets (Unaudited)
(in thousands, except par value data)**

| | June 30, 2004 | December 31, 2003 |
|---|-----------------------------|------------------------------|
| | <u> </u> | <u> </u> |
| Assets | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 10,282 | \$ 7,399 |
| Restricted cash | 28,613 | 30,656 |
| Trade accounts receivable, net of allowance for doubtful accounts of \$5,730 and \$4,321 in 2004 and 2003, respectively | 54,694 | 49,599 |
| Other receivables | 3,429 | 10,730 |
| Marine operating supplies | 8,329 | 8,155 |
| Prepaid expenses and other | 3,397 | 3,045 |
| | <u> </u> | <u> </u> |
| Total current assets | 108,744 | 109,584 |
| Vessels and equipment, net | 589,218 | 527,026 |
| Deferred costs, net | 46,980 | 48,486 |
| Other | 11,719 | 9,344 |
| | <u> </u> | <u> </u> |
| Total assets | <u>\$756,661</u> | <u>\$694,440</u> |
| Liabilities and Stockholders Equity | | |
| Current liabilities: | | |
| Accounts payable | \$ 12,635 | \$ 18,805 |
| Current maturities of long-term debt | 16,620 | 11,037 |
| Current obligations under capital leases | 3,623 | 3,521 |
| Accrued interest | 4,423 | 5,812 |
| Accrued liabilities and other | 38,923 | 37,363 |
| | <u> </u> | <u> </u> |
| Total current liabilities | 76,224 | 76,538 |
| Long-term debt | 315,490 | 258,217 |
| Senior notes | 147,994 | 151,472 |
| Obligations under capital leases | 30,419 | 32,246 |
| Other liabilities | 5,188 | 3,136 |
| | <u> </u> | <u> </u> |

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| | | |
|--|-------------------|-------------------|
| Total liabilities | 575,315 | 521,609 |
| Commitments and contingencies | | |
| Minority interest | 418 | 476 |
| Stockholders' equity: | | |
| Preferred stock, no par value-authorized 5,000; issued and outstanding, none | | |
| Common stock \$.01 par value, authorized 40,000 shares; 23,408 and 23,347 shares issued and outstanding in 2004 and 2003, respectively | 234 | 233 |
| Additional paid-in capital | 259,614 | 259,134 |
| Unearned compensation | (894) | (699) |
| Other comprehensive income | (84) | |
| Accumulated deficit | (77,942) | (86,313) |
| | <u> </u> | <u> </u> |
| Total stockholders' equity | 180,928 | 172,355 |
| | <u> </u> | <u> </u> |
| Total liabilities and stockholders' equity | \$756,661 | \$694,440 |
| | <u> </u> | <u> </u> |

See notes to financial statements.

Table of Contents**Seabulk International, Inc. and Subsidiaries****Condensed Consolidated Statements of Operations (Unaudited)**

(in thousands, except per share data)

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|--------------------------------|-----------------|------------------------------|-----------------|
| | 2004 | 2003 | 2004 | 2003 |
| Revenue | \$87,203 | \$79,924 | \$169,737 | \$157,153 |
| Vessel and voyage expenses: | | | | |
| Crew payroll and benefits | 21,697 | 20,939 | 44,278 | 42,319 |
| Charter hire | 3,944 | 1,923 | 7,531 | 3,649 |
| Repairs and maintenance | 7,974 | 6,464 | 14,172 | 12,197 |
| Insurance | 3,704 | 2,739 | 6,324 | 4,943 |
| Fuel and consumables | 7,795 | 6,106 | 14,810 | 12,245 |
| Port charges and other | 5,080 | 4,410 | 9,986 | 8,600 |
| | 50,194 | 42,581 | 97,101 | 83,953 |
| General and administrative | 9,323 | 9,428 | 18,748 | 18,758 |
| Depreciation, amortization and drydocking | 17,127 | 15,923 | 32,917 | 32,417 |
| Gain on disposal of assets, net | (1,989) | (386) | (1,977) | (1,183) |
| | 74,655 | 67,546 | 146,789 | 133,945 |
| Total | | | | |
| Income from operations | 12,548 | 12,378 | 22,948 | 23,208 |
| Other income (expense): | | | | |
| Interest expense | (8,375) | (8,238) | (16,444) | (16,301) |
| Interest income | 52 | 123 | 118 | 209 |
| Minority interest in (gains) losses of subsidiaries | (20) | (199) | 58 | (227) |
| Other, net | 52 | (88) | 4,576 | (65) |
| | (8,291) | (8,402) | (11,692) | (16,384) |
| Total other expense, net | | | | |
| Income before provision for income taxes | 4,257 | 3,976 | 11,256 | 6,824 |
| Provision for income taxes | 1,536 | 1,316 | 2,885 | 2,578 |
| | \$ 2,721 | \$ 2,660 | \$ 8,371 | \$ 4,246 |
| Net income | \$ 2,721 | \$ 2,660 | \$ 8,371 | \$ 4,246 |

Net income per common share:

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| | | | | |
|--|-------------------|-------------------|-------------------|-------------------|
| Net income per common share - basic | \$ 0.12 | \$ 0.11 | \$ 0.36 | \$ 0.18 |
| | <u> </u> | <u> </u> | <u> </u> | <u> </u> |
| Net income per common share - diluted | \$ 0.12 | \$ 0.11 | \$ 0.35 | \$ 0.18 |
| | <u> </u> | <u> </u> | <u> </u> | <u> </u> |
| Weighted average common shares outstanding - basic | 23,261 | 23,182 | 23,255 | 23,142 |
| | <u> </u> | <u> </u> | <u> </u> | <u> </u> |
| Weighted average common shares outstanding - diluted | 23,598 | 23,640 | 23,696 | 23,538 |
| | <u> </u> | <u> </u> | <u> </u> | <u> </u> |

See notes to financial statements.

Table of Contents**Seabulk International, Inc. and Subsidiaries****Condensed Consolidated Statements of Cash Flows (Unaudited)**
(in thousands)

| | Six Months Ended June 30, | |
|---|--------------------------------------|-------------|
| | 2004 | 2003 |
| Operating activities: | | |
| Net income | \$ 8,371 | \$ 4,246 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation of vessels and equipment | 20,222 | 21,391 |
| Expenditures for drydocking | (10,473) | (7,103) |
| Amortization of drydocking costs | 12,695 | 11,026 |
| Amortization of deferred financing costs | 857 | 748 |
| Provision for (recovery of) bad debts | 1,631 | (351) |
| Gain on disposal of assets | (1,977) | (1,183) |
| Minority interest in gains (losses) of subsidiaries | (58) | 227 |
| Other non-cash items | 119 | 105 |
| Changes in operating assets and liabilities: | | |
| Trade accounts and other receivables | 575 | (1,968) |
| Other current and long-term assets | (4,172) | (1,317) |
| Accounts payable and other liabilities | (6,695) | 588 |
| | <hr/> | <hr/> |
| Net cash provided by operating activities | 21,095 | 26,409 |
| Investing activities: | | |
| Proceeds from disposals of assets | 3,145 | 8,259 |
| Purchases of vessels and equipment | (83,533) | (22,535) |
| Investment in Joint Venture | (240) | (400) |
| | <hr/> | <hr/> |
| Net cash used in investing activities | (80,628) | (14,676) |
| Financing activities: | | |
| Payments of prior credit facility | | (5,000) |
| Proceeds from Fortis debt | 20,000 | |
| Payments of long-term debt | (3,166) | (3,349) |
| Proceeds from long-term debt | 49,600 | 6,525 |
| Payments of Title XI bonds | (3,535) | (3,695) |
| Issue costs related to senior notes and amended credit facility | (285) | |
| Payments of other deferred financing costs | (683) | (61) |
| Net proceeds from sale leaseback | | 13,274 |
| Payments of obligations under capital leases | (1,725) | (7,666) |
| Capitalized issue costs related to issuance of common stock | | (27) |
| Proceeds from exercise of stock options | 167 | 155 |
| Proceeds from exercise of warrants | | 1 |
| Decrease in restricted cash | 2,043 | 1,394 |

| | | |
|--|------------------|------------------|
| | _____ | _____ |
| Net cash provided by financing activities | 62,416 | 1,551 |
| | _____ | _____ |
| Change in cash and cash equivalents | 2,883 | 13,284 |
| Cash and cash equivalents at beginning of period | 7,399 | 17,544 |
| | _____ | _____ |
| Cash and cash equivalents at end of period | \$ 10,282 | \$ 30,828 |
| | _____ | _____ |
| Supplemental schedule of non-cash investing and financing activities: | | |
| Obligation for fair market value of interest rate swap | \$ (3,478) | \$ |
| | _____ | _____ |

See notes to financial statements.

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Seabulk International, Inc. and Subsidiaries

**Notes to Condensed Consolidated Financial Statements
June 30, 2004 (Unaudited)**

1. Organization and Basis of Presentation

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information and with Article 10 of Regulation S-X. The consolidated balance sheet at December 31, 2003 has been derived from the audited financial statements at that date. The unaudited condensed consolidated financial statements and the consolidated balance sheet do not include all of the information and footnotes required by accounting principles generally accepted in the United States of America for complete financial statements. All adjustments which, in the opinion of management, are considered necessary for a fair presentation of the results of operations for the periods shown are of a normal recurring nature and have been reflected in the unaudited condensed consolidated financial statements. The results of operations for the periods presented are not necessarily indicative of the results expected for the full fiscal year or for any future period. The information included in these unaudited condensed consolidated financial statements should be read in conjunction with Management's Discussion and Analysis of Financial Condition and Results of Operations contained in this report and the consolidated financial statements and accompanying notes included in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2003. In addition to net income, the only other component of total comprehensive income is that related to the foreign currency forward contract of approximately \$84,000 as discussed below. Certain financial statement reclassifications have been made to conform prior period data to the 2004 financial statement presentation.

2. Vessel Purchases and Operations

In January 2004, the Company began to operate the *Seabulk Energy*, one of its U.S.-flag double-hull tankers, under a consecutive voyage charter in U.S. foreign commerce. The vessel is currently deployed on forty-two-day voyages, approximately 8.5 voyages per year. The charter began in January 2004 for a term of four years, in partial substitution of a previous bareboat charter that was terminated in December 2003 with a major oil company, which has an ongoing financial obligation related to the original bareboat charter.

In January 2004, the Company entered into a contract with Labroy Marine Ltd. of Singapore for the construction of a terminal support tug for delivery in March 2005 for the Singapore dollar equivalent of U.S. \$10.8 million. The Company has also entered into a forward exchange contract intended to fully hedge its foreign currency commitment. Under the forward contract, the Company will purchase Singapore dollars at various rates dated from February 2004 through March 2005, in conjunction with the progress payment dates as required by the purchase agreement. The purchase price will be financed by a combination of bank borrowings and available cash. The tug will be employed on a long-term contract in Angola.

In February 2004, the Company sold the *Seabulk Grebe*, an offshore energy support vessel operating in West Africa. Proceeds from the sale of the vessel were \$600,000. The loss on the sale of the vessel was approximately \$13,000.

In March 2004, the Company completed the purchase of two four-year-old, foreign-flag, double-hull product tankers from principals of World-Wide Shipping of Singapore for a total purchase price of approximately \$62.0 million. The purchase price was funded by a combination of bank borrowings and available cash. The tankers are modern double-hull vessels suitable for worldwide trading. The Company took delivery of the two vessels in March 2004. Both vessels have been placed in an international tanker pool.

In March 2004, the Company received \$400,000 from the settlement of litigation over a previous joint venture and \$4.5 million as other income from the settlement of litigation against two of its suppliers. The settlement against its suppliers represents reimbursement for certain direct expenses and economic losses that adversely affected operating results. The Company recorded the proceeds as other income in the statement of operations.

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In May 2004, the Company sold the *Seabulk Mobile*, an offshore crew boat operating in the U.S. Gulf. Proceeds from the sale of the vessel were \$300,000. The gain on the sale of the vessel was approximately \$174,000. In May 2004, the Company sold the *Seabulk Maintainer*, an offshore crane barge operating in the Arabian Gulf. Proceeds from the sale of the vessel were approximately \$1.6 million. The gain on the sale of the vessel was approximately \$1.5 million.

In May 2004, the Company entered into a contract with Labroy Shipbuilding and Engineering Pte. Ltd. for the construction of an anchor handling tug supply vessel for delivery in mid 2005. Also, in May 2004, the Company entered into a contract with Jaya Shipbuilding and Engineering Pte. Ltd. of Singapore for the construction of a multi-purpose offshore supply vessel with a four point mooring system for delivery in late 2004. Built at a combined cost of approximately \$23.4 million, the new vessels will work under long-term contracts for a major international oil company in offshore Angola.

In June 2004, the Company sold the *Seabulk Petrel*, an offshore anchor handling tug supply vessel. Proceeds from the sale of the vessel were approximately \$650,000. The gain on the sale of the vessel was approximately \$263,000.

3. Income Taxes

The current provision for income taxes for the three and six-month periods ended June 30, 2004 and 2003 represents expected tax obligations on foreign-source revenue. For the three and six months ended June 30, 2004 and 2003, a domestic tax provision was computed using an estimated annual effective tax rate of 35%. A corresponding reduction in the valuation allowance was recorded resulting in no net domestic provision. Management has recorded a valuation allowance at June 30, 2004 and 2003 to reduce the net deferred tax assets to an amount that is likely to be realized. After application of the valuation allowance, the net deferred tax assets are zero.

4. Net Income per Common Share

The following table sets forth the computation of basic and diluted net income per share for the periods indicated:

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|--|--|-------------|--------------------------------------|-------------|
| | 2004 | 2003 | 2004 | 2003 |
| | (in thousands, except for per share data) | | | |
| Numerator for basic and diluted net income per share: | | | | |
| Net income available to common shareholders | \$ 2,721 | \$ 2,660 | \$ 8,371 | \$ 4,246 |
| Denominator for basic net income per share-weighted average shares | 23,261 | 23,182 | 23,255 | 23,142 |
| Effects of dilutive securities: | | | | |
| Stock options | 139 | 268 | 238 | 196 |
| Warrants | 159 | 164 | 159 | 186 |
| Restricted shares | 39 | 26 | 44 | 14 |

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| | | | | |
|--|----------------|----------------|----------------|----------------|
| Dilutive potential common shares | <u>337</u> | <u>458</u> | <u>441</u> | <u>396</u> |
| Denominator for diluted net income per share-adjusted weighted average shares and assumed conversions | <u>23,598</u> | <u>23,640</u> | <u>23,696</u> | <u>23,538</u> |
| Net income per share basic | <u>\$ 0.12</u> | <u>\$ 0.11</u> | <u>\$ 0.36</u> | <u>\$ 0.18</u> |
| Net income per share diluted | <u>\$ 0.12</u> | <u>\$ 0.11</u> | <u>\$ 0.35</u> | <u>\$ 0.18</u> |

The weighted average diluted common shares outstanding for the three and six months ended June 30, 2004 and 2003 excludes 344,000 and 100,000 options, respectively. Additionally, 250,000 warrants are excluded from the weighted average diluted common shares outstanding for the three and six months ended June 30, 2003. These common stock equivalents are excluded because they are antidilutive.

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5. Segment and Geographic Data

The Company organizes its business principally into three segments. The Company does not have significant intersegment transactions. These segments and their respective operations are as follows:

Offshore Energy Support (Seabulk Offshore) Offshore energy support includes vessels operating in U.S. and foreign locations used primarily to transport materials, supplies, equipment and personnel to drilling rigs and to support the construction, positioning and ongoing operations of oil and gas production platforms.

Marine Transportation Services (Seabulk Tankers) Marine transportation services includes oceangoing vessels used to transport chemicals, crude and petroleum products primarily from chemical manufacturing plants, refineries and storage facilities along the U.S. Gulf coast to industrial users and distribution facilities in and around the Gulf of Mexico, Atlantic and Pacific coast ports. Certain of the vessels also transport crude oil within Alaska and among Alaska, the Pacific coast and Hawaiian ports. Three of its vessels operate in the foreign trade.

Towing (Seabulk Towing) Harbor and offshore towing services are provided by tugs to vessels utilizing the ports in which the tugs operate, and to vessels at sea to the extent required by offshore commercial contract opportunities and by environmental regulations, casualty or other emergencies.

The Company evaluates performance by operating segment. Within the offshore energy support segment, the Company conducts additional performance evaluations of vessels marketed in U.S. and foreign locations. Resources are allocated based on segment profit or loss from operations, before interest and taxes.

Revenue by segment and geographic area consists only of services provided to external customers as reported in the Statements of Operations. Income from operations by geographic area represents net revenue less applicable costs and expenses related to that revenue. Unallocated expenses are primarily comprised of general and administrative expenses of a corporate nature.

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The following schedule presents segment and geographic information about the Company's operations (in thousands):

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|--|--------------------------------|-----------------|------------------------------|------------------|
| | 2004 | 2003 | 2004 | 2003 |
| Revenue | | | | |
| Offshore energy support | \$41,173 | \$39,230 | \$ 80,756 | \$ 77,068 |
| Marine transportation services | 36,408 | 31,750 | 69,870 | 61,927 |
| Towing | 9,759 | 9,012 | 19,337 | 18,301 |
| Eliminations ⁽¹⁾ | (137) | (68) | (226) | (143) |
| Total | \$87,203 | \$79,924 | \$169,737 | \$157,153 |
| Vessel and voyage expenses | | | | |
| Offshore energy support | \$25,595 | \$23,015 | \$ 50,800 | \$ 46,217 |
| Marine transportation services | 18,495 | 14,113 | 35,348 | 27,770 |
| Towing | 6,241 | 5,521 | 11,179 | 10,109 |
| Eliminations ⁽¹⁾ | (137) | (68) | (226) | (143) |
| Total | \$50,194 | \$42,581 | \$ 97,101 | \$ 83,953 |
| Depreciation, amortization and drydocking | | | | |
| Offshore energy support | \$ 9,746 | \$ 9,901 | \$ 19,291 | \$ 20,590 |
| Marine transportation services | 6,390 | 4,604 | 11,684 | 9,158 |
| Towing | 923 | 992 | 1,808 | 1,818 |
| General corporate | 68 | 426 | 134 | 851 |
| Total | \$17,127 | \$15,923 | \$ 32,917 | \$ 32,417 |
| Income (loss) from operations | | | | |
| Offshore energy support | \$ 3,356 | \$ 2,194 | \$ 2,454 | \$ 2,229 |
| Marine transportation services | 10,678 | 11,964 | 21,123 | 23,047 |
| Towing | 1,464 | 1,158 | 3,958 | 3,811 |
| General corporate | (2,950) | (2,938) | (4,587) | (5,879) |
| Total | \$12,548 | \$12,378 | \$ 22,948 | \$ 23,208 |

| | | | | |
|--|-------------------|-------------------|-------------------|-------------------|
| Net income (loss) | | | | |
| Offshore energy support | \$ (964) | \$ (2,160) | \$ (6,077) | \$ (6,264) |
| Marine transportation services | 5,989 | 7,343 | 12,156 | 14,014 |
| Towing | 689 | 369 | 2,416 | 2,334 |
| General corporate | (2,993) | (2,892) | (124) | (5,838) |
| | <u> </u> | <u> </u> | <u> </u> | <u> </u> |
| Total | \$ 2,721 | \$ 2,660 | \$ 8,371 | \$ 4,246 |
| | <u> </u> | <u> </u> | <u> </u> | <u> </u> |
| Geographic revenue | | | | |
| Domestic | \$54,489 | \$51,022 | \$105,170 | \$ 99,249 |
| Foreign | | | | |
| West Africa | 21,793 | 19,765 | 44,039 | 39,729 |
| Middle East | 7,367 | 5,356 | 13,206 | 10,833 |
| Southeast Asia | 3,554 | 3,781 | 7,322 | 7,342 |
| | <u> </u> | <u> </u> | <u> </u> | <u> </u> |
| Consolidated geographic revenue | \$87,203 | \$79,924 | \$169,737 | \$157,153 |
| | <u> </u> | <u> </u> | <u> </u> | <u> </u> |

(1) Eliminations of intersegment towing revenue and intersegment marine transportation vessel and voyage expenses.

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6. Commitments and Contingencies

Under United States law, United States persons are prohibited from business activities and contracts in certain countries, including Sudan and Iran. The Company has filed three reports with and submitted documents to the Office of Foreign Asset Control (OFAC) of the U.S. Department of Treasury. One of the reports was also filed with the Bureau of Export Administration of the U.S. Department of Commerce. The reports and documents related to certain limited charters with third parties involving three of the Company's vessels which called in the Sudan for several months in 1999 and January 2000, and charters with third parties involving several of the Company's vessels which called in Iran in 1998. In March 2003, the Company received notification from OFAC that the case has been referred to its Civil Penalties Division. Should OFAC determine that these activities constituted violations of the laws or regulations, civil penalties, including fines, could be assessed against the Company and/or certain individuals who knowingly participated in such activities. The Company cannot predict the extent of such penalties; however, management does not believe the outcome of these matters will have a material impact on its financial position or results of operations.

The Company was sued by Maritime Transport Development Corporation (MTDC) in January 2002 in Florida state court in Broward County alleging broker commissions due since 1998 from charters on two of its vessels, the *Seabulk Magnachem* and *Seabulk Challenger*, under an alleged broker commission agreement. The claim allegedly continues to accrue. The amount alleged to be due is over \$600,000, but is subject to offset claims and defenses by the Company. The Company is vigorously defending such charges, but the Company cannot predict the ultimate outcome.

Under the Company's mutual protection and indemnity (P&I) marine insurance policies, the Company could be liable for additional premiums to cover investment losses and reserve shortfalls experienced by one of its marine insurance clubs (Steamship Mutual). The maximum potential amount of additional premiums that can be assessed by Steamship is substantial. However, additional premiums can only be assessed for open policy years. Steamship closes a policy year three years after the policy year has ended. Policy years 2002 and 2003 are still open, but there have been no additional premiums assessed for these policy years. The Company believes it is unlikely that additional premiums for those policy years will be made. The Company will record a liability for any such additional premiums if and when they are assessed and the amount can be reasonably estimated.

As of February 20, 2004, the Company switched its P&I club from Steamship to the West of England Association (West of England). In order to cover potential future additional insurance calls made by Steamship Mutual for 2002, and 2003, the Company was required to post a letter of credit in the amount of approximately \$1.9 million to support such potential additional calls as a condition to its departure from Steamship Mutual. The letter of credit will be returned if no additional insurance calls are made. Potential claims liabilities are recorded as insurance expense reserves when they become probable and can be reasonably estimated.

From time to time, the Company is party to personal injury and property damage claims litigation arising in the ordinary course of our business. Protection and indemnity marine liability insurance covers large claims in excess of the substantial deductibles and self-insured retentions.

7. Stock-Based Compensation

As permitted by Statement of Financial Accounting Standards No. 123, *Accounting for Stock-Based Compensation* (SFAS 123), the Company has elected to follow Accounting Principles Board Opinion No. 25, *Accounting for Stock Issued to Employees* (APB 25) and related interpretations in accounting for its employee stock-based transactions and has complied with the disclosure requirements of SFAS 123. Under APB 25, compensation expense is calculated at the time of option grant based upon the difference between the exercise prices of the option and the fair market value of the Company's common stock at the date of grant recognized over the vesting period.

On December 31, 2002, the FASB issued SFAS No. 148, *Accounting for Stock-Based Compensation - Transition and Disclosure* (SFAS 148). SFAS 148 amends SFAS 123 to provide alternative methods of transition to the fair value method of accounting for stock-based employee compensation. In addition, this

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statement amends the disclosure provisions of SFAS 123 to require expanded disclosure of the effects of an entity's accounting policy with respect to stock-based employee compensation on reported net income and earnings per share in annual and interim financial statements.

The Company uses the Black-Scholes option valuation model to determine the fair value of options granted under the Company's stock option plans. Had compensation expense for the stock option grants been determined based on the fair value at the grant date for awards consistent with the methods of SFAS 123, the Company's net income would have changed to the pro forma amounts presented below:

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|--------------------------------|----------------|------------------------------|----------------|
| | 2004 | 2003 | 2004 | 2003 |
| Net income, as reported | \$2,721 | \$2,660 | \$8,371 | \$4,246 |
| Stock-based compensation expense determined under the fair value method | \$ (194) | \$ (424) | \$ (570) | \$ (641) |
| Pro forma net income | <u>\$2,527</u> | <u>\$2,236</u> | <u>\$7,801</u> | <u>\$3,605</u> |
| Net income per common share: | | | | |
| Basic-as reported | <u>\$ 0.12</u> | <u>\$ 0.11</u> | <u>\$ 0.36</u> | <u>\$ 0.18</u> |
| Basic-pro forma | <u>\$ 0.11</u> | <u>\$ 0.10</u> | <u>\$ 0.34</u> | <u>\$ 0.16</u> |
| Diluted-as reported | <u>\$ 0.12</u> | <u>\$ 0.11</u> | <u>\$ 0.35</u> | <u>\$ 0.18</u> |
| Diluted-pro forma | <u>\$ 0.11</u> | <u>\$ 0.09</u> | <u>\$ 0.33</u> | <u>\$ 0.15</u> |

8. Recent Accounting Pronouncements

In January 2003, the FASB issued FASB Interpretation No. 46, *Consolidation of Variable Interest Entities, an Interpretation of ARB No. 51* (FIN 46). FIN 46 requires certain variable interest entities to be consolidated by the primary beneficiary of the variable interest entity. The primary beneficiary is defined as the party which, as a result of holding its variable interest, absorbs a majority of the entity's expected losses, receives a majority of its expected residual returns, or both. FIN 46 is effective for all new variable interest entities created or acquired after January 31, 2003. For variable interest entities created or acquired prior to February 1, 2003, the provisions of FIN 46 must be applied to the first interim or annual period ending after March 15, 2004. The adoption of FIN 46 did not have a significant impact on the Company's financial position, results of operations or cash flows.

In June 2001, the Accounting Standards Executive Committee (AcSEC) of the American Institute of Certified Public Accountants (AICPA) issued an exposure draft of a proposed Statement of Position (SOP) entitled *Accounting for Certain Costs and Activities Related to Property, Plant and Equipment*. Under the proposed SOP, the Company would expense major maintenance costs as incurred and be prohibited from deferring the cost of a planned major maintenance activity. Currently, the costs incurred to drydock the Company's vessels are deferred and amortized on a straight-line basis over the period to the next drydocking, generally 30 to 36 months. At its April 14, 2004 meeting, the FASB voted not to clear AcSEC's proposed SOP. It has indicated that the accounting matters covered by the SOP will be addressed during the 2005-2006 time frame.

9. Subsequent Events

In July 2004, the Company sold the *Seabulk Beauregard*, an offshore crew boat operating in the U.S. Gulf. Proceeds from the sale of the vessel were \$325,000. The gain on the sale of the vessel was approximately \$223,000.

10. Supplemental Condensed Consolidated Financial Information

The restricted subsidiaries represent the Company's subsidiaries that are subject to the terms and conditions outlined in the indenture governing the Senior Notes due 2013. Only domestic restricted subsidiaries guarantee the

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notes, jointly and severally, on a senior unsecured basis. The non-guarantor unrestricted subsidiaries represent the subsidiaries that own the five double-hull tankers, which are financed by the Title XI debt with recourse to these tankers and the subsidiaries that own them. These subsidiaries are designated as unrestricted subsidiaries under the indenture governing the Senior Notes and will not guarantee the notes.

Supplemental financial information for the Company and its guarantor restricted subsidiaries, non-guarantor restricted subsidiaries and non-guarantor unrestricted subsidiaries for the Senior Notes is presented below.

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Condensed Consolidating Balance Sheet
(in thousands)
As of June 30, 2004

| | Parent | Wholly Owned Guarantor Restricted Subsidiaries | Non-Wholly Owned Guarantor Restricted Subsidiaries | Non- Guarantor Restricted Subsidiaries | Non- Guarantor Unrestricted Subsidiaries | Eliminations | Consolidated Total |
|--|------------------|---|---|---|---|---------------------|-------------------------------|
| Assets | | | | | | | |
| Current assets: | | | | | | | |
| Cash and cash equivalents | \$ 3,268 | \$ 1,920 | \$ 39 | \$ 5,055 | \$ | \$ | \$ 10,282 |
| Restricted cash | 2,198 | | | 1,478 | 24,937 | | 28,613 |
| Trade accounts receivable, net | 19 | 13,547 | 1,303 | 38,737 | 1,088 | | 54,694 |
| Other receivables | 1,562 | 703 | 17 | 852 | 295 | | 3,429 |
| Marine operating supplies | 28 | 1,633 | 498 | 3,505 | 2,665 | | 8,329 |
| Due from affiliates | | 63,025 | | 114,406 | 3,782 | (181,213) | |
| Prepaid expenses and other | 1,346 | 286 | | 1,359 | 406 | | 3,397 |
| Total current assets | 8,421 | 81,114 | 1,857 | 165,392 | 33,173 | (181,213) | 108,744 |
| Vessels and equipment, net | 41,625 | 194,773 | 28,660 | 111,053 | 213,107 | | 589,218 |
| Deferred costs, net | 12,322 | 8,520 | 613 | 16,506 | 9,019 | | 46,980 |
| Investments in affiliates | 505,795 | 2,095 | | | | (507,890) | |
| Due from affiliates | 24,957 | | | | | (24,957) | |
| Other | 239 | 1,380 | | 1,569 | 8,531 | | 11,719 |
| Total assets | \$593,359 | \$287,882 | \$31,130 | \$294,520 | \$263,830 | \$(714,060) | \$756,661 |
| Liabilities and Stockholders Equity | | | | | | | |
| Current liabilities: | | | | | | | |
| Accounts payable | \$ 2,067 | \$ 2,416 | \$ | \$ 8,117 | \$ 35 | \$ | \$ 12,635 |
| Current maturities of long-term debt | 4,250 | 7,060 | | 137 | 5,173 | | 16,620 |
| Current obligations under capital leases | 1,068 | 2,555 | | | | | 3,623 |
| Accrued interest | 3,583 | 167 | | 4 | 669 | | 4,423 |

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| | | | | | | | |
|---|------------------|------------------|-----------------|------------------|------------------|--------------------|------------------|
| Due to affiliates | 178,101 | | 3,112 | | | (181,213) | |
| Accrued liabilities and other | <u>10,855</u> | <u>3,023</u> | <u>499</u> | <u>22,646</u> | <u>1,900</u> | | <u>38,923</u> |
| Total current liabilities | 199,924 | 15,221 | 3,611 | 30,904 | 7,777 | (181,213) | 76,224 |
| Long-term debt | 53,450 | 56,809 | | 1,843 | 203,388 | | 315,490 |
| Senior notes | 147,994 | | | | | | 147,994 |
| Obligations under capital leases | 11,028 | 19,391 | | | | | 30,419 |
| Due to affiliates | | | 24,957 | | | (24,957) | |
| Other liabilities | <u>3,560</u> | <u>257</u> | | <u>1,325</u> | <u>46</u> | | <u>5,188</u> |
| Total liabilities | <u>415,956</u> | <u>91,678</u> | <u>28,568</u> | <u>34,072</u> | <u>211,211</u> | <u>(206,170)</u> | <u>575,315</u> |
| Commitments and contingencies | | | | | | | |
| Minority interest | | | | | | 418 | 418 |
| Total stockholders equity | <u>177,403</u> | <u>196,204</u> | <u>2,562</u> | <u>260,448</u> | <u>52,619</u> | <u>(508,308)</u> | <u>180,928</u> |
| Total liabilities and stockholders equity | <u>\$593,359</u> | <u>\$287,882</u> | <u>\$31,130</u> | <u>\$294,520</u> | <u>\$263,830</u> | <u>\$(714,060)</u> | <u>\$756,661</u> |

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Condensed Consolidating Balance Sheet
(in thousands)
As of December 31, 2003

| | Parent | Wholly Owned Guarantor Restricted Subsidiaries | Non-Wholly Owned Guarantor Restricted Subsidiaries | Non- Guarantor Restricted Subsidiaries | Non- Guarantor Unrestricted Subsidiaries | Eliminations | Consolidated Total |
|--|------------------|---|---|---|---|---------------------|-------------------------------|
| Assets | | | | | | | |
| Current assets: | | | | | | | |
| Cash and cash equivalents | \$ 217 | \$ 452 | \$ 1,030 | \$ 5,700 | \$ | \$ | \$ 7,399 |
| Restricted cash | 2,198 | | | 1,478 | 26,980 | | 30,656 |
| Trade accounts receivable, net | (296) | 13,686 | 822 | 34,161 | 1,226 | | 49,599 |
| Other receivables | 3,739 | 3,338 | 16 | 2,799 | 838 | | 10,730 |
| Marine operating supplies | 121 | 1,575 | 482 | 3,504 | 2,473 | | 8,155 |
| Due from affiliates | | 73,837 | | 120,556 | 3,377 | (197,770) | |
| Prepaid expenses and other | 960 | 365 | 19 | 1,505 | 196 | | 3,045 |
| Total current assets | 6,939 | 93,253 | 2,369 | 169,703 | 35,090 | (197,770) | 109,584 |
| Vessels and equipment, net | 34,998 | 138,211 | 29,893 | 106,401 | 217,523 | | 527,026 |
| Deferred costs, net | 13,869 | 9,347 | 1,022 | 14,202 | 10,046 | | 48,486 |
| Investments in affiliates | 506,250 | 2,214 | | | | (508,464) | |
| Due from affiliates | 30,069 | | | | | (30,069) | |
| Other | 1,709 | 2,234 | | 1,562 | 3,839 | | 9,344 |
| Total assets | \$593,834 | \$245,259 | \$33,284 | \$291,868 | \$266,498 | \$(736,303) | \$694,440 |
| Liabilities and Stockholders Equity | | | | | | | |
| Current liabilities: | | | | | | | |
| Accounts payable | \$ 5,256 | \$ 2,658 | \$ | \$ 9,504 | \$ 1,387 | \$ | \$ 18,805 |
| Current maturities of long-term debt | 4,250 | 1,650 | | 139 | 4,998 | | 11,037 |
| Current obligations under capital leases | 1,039 | 2,482 | | | | | 3,521 |
| Accrued interest | 5,079 | 100 | | | 633 | | 5,812 |

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| | | | | | | | |
|---|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|
| Due to affiliates | 197,707 | | 63 | | | (197,770) | |
| Accrued liabilities and other | 11,395 | 3,010 | 415 | 20,293 | 2,250 | | 37,363 |
| | <u> </u> | <u> </u> | <u> </u> | <u> </u> | <u> </u> | <u> </u> | <u> </u> |
| Total current liabilities | 224,726 | 9,900 | 478 | 29,936 | 9,268 | (197,770) | 76,538 |
| Long-term debt | 35,575 | 14,665 | | 1,958 | 206,019 | | 258,217 |
| Senior notes | 151,472 | | | | | | 151,472 |
| Obligations under capital leases | 11,569 | 20,677 | | | | | 32,246 |
| Due to affiliates | | | 30,069 | | | (30,069) | |
| Other liabilities | 1,660 | 273 | | 1,157 | 46 | | 3,136 |
| | <u> </u> | <u> </u> | <u> </u> | <u> </u> | <u> </u> | <u> </u> | <u> </u> |
| Total liabilities | 425,002 | 45,515 | 30,547 | 33,051 | 215,333 | (227,839) | 521,609 |
| | <u> </u> | <u> </u> | <u> </u> | <u> </u> | <u> </u> | <u> </u> | <u> </u> |
| Commitments and contingencies | | | | | | | |
| Minority interest | | | | | | 476 | 476 |
| Total stockholders equity | 168,832 | 199,744 | 2,737 | 258,817 | 51,165 | (508,940) | 172,355 |
| | <u> </u> | <u> </u> | <u> </u> | <u> </u> | <u> </u> | <u> </u> | <u> </u> |
| Total liabilities and stockholders equity | \$593,834 | \$245,259 | \$33,284 | \$291,868 | \$266,498 | \$(736,303) | \$694,440 |
| | <u> </u> | <u> </u> | <u> </u> | <u> </u> | <u> </u> | <u> </u> | <u> </u> |

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Condensed Consolidating Statement of Operations
(in thousands)
Three Months Ended June 30, 2004

| | Parent | Wholly Owned Guarantor Restricted Subsidiaries | Non-Wholly Owned Guarantor Restricted Subsidiaries | Non- Guarantor Restricted Subsidiaries | Non- Guarantor Unrestricted Subsidiaries | Eliminations | Consolidated Total |
|--|---------------|---|---|---|---|---------------------|-------------------------------|
| Revenue | \$ 10,377 | \$ 21,817 | \$ 3,769 | \$ 32,981 | \$ 18,396 | \$ (137) | \$ 87,203 |
| Vessel and voyage expenses | 6,693 | 13,942 | 2,322 | 18,670 | 8,704 | (137) | 50,194 |
| General and administrative | 3,150 | 1,967 | 205 | 3,647 | 354 | | 9,323 |
| Depreciation, amortization and drydocking | 2,213 | 4,336 | 822 | 7,051 | 2,705 | | 17,127 |
| Gain on disposal of assets, net | | (184) | | (1,805) | | | (1,989) |
| Income from operations | (1,679) | 1,756 | 420 | 5,418 | 6,633 | | 12,548 |
| Other expense, net | (93) | (2,337) | (357) | (1,635) | (3,849) | (20) | (8,291) |
| Income before provision for income taxes | (1,772) | (581) | 63 | 3,783 | 2,784 | (20) | 4,257 |
| Provision for income taxes | | | | 1,536 | | | 1,536 |
| Net income | \$ (1,772) | \$ (581) | \$ 63 | \$ 2,247 | \$ 2,784 | \$ (20) | \$ 2,721 |

Condensed Consolidating Statement of Operations
(in thousands)
Three Months Ended June 30, 2003

| | Parent | Wholly Owned Guarantor Restricted Subsidiaries | Non-Wholly Owned Guarantor Restricted Subsidiaries | Non- Guarantor Restricted Subsidiaries | Non- Guarantor Unrestricted Subsidiaries | Eliminations | Consolidated Total |
|----------------------------|---------------|---|---|---|---|---------------------|-------------------------------|
| Revenue | \$ 11,872 | \$ 19,340 | \$ 3,909 | \$ 28,902 | \$ 15,920 | \$ (19) | \$ 79,924 |
| Vessel and voyage expenses | 5,720 | 12,736 | 2,064 | 15,751 | 6,329 | (19) | 42,581 |
| General and administrative | 2,865 | 2,352 | 234 | 3,535 | 442 | | 9,428 |

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| | | | | | | | |
|--|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|
| Depreciation, amortization and drydocking | 1,929 | 3,828 | 702 | 7,082 | 2,382 | | 15,923 |
| Gain on disposal of assets, net | | 10 | | (396) | | | (386) |
| | <u> </u> | <u> </u> | <u> </u> | <u> </u> | <u> </u> | <u> </u> | <u> </u> |
| Income from operations | 1,358 | 414 | 909 | 2,930 | 6,767 | | 12,378 |
| Other expense, net | (121) | (2,436) | (306) | (1,588) | (3,951) | | (8,402) |
| | <u> </u> | <u> </u> | <u> </u> | <u> </u> | <u> </u> | <u> </u> | <u> </u> |
| Income before provision for income taxes | 1,237 | (2,022) | 603 | 1,342 | 2,816 | | 3,976 |
| Provision for income taxes | | | | 1,316 | | | 1,316 |
| | <u> </u> | <u> </u> | <u> </u> | <u> </u> | <u> </u> | <u> </u> | <u> </u> |
| Net income | <u>\$ 1,237</u> | <u>\$ (2,022)</u> | <u>\$ 603</u> | <u>\$ 26</u> | <u>\$ 2,816</u> | <u>\$</u> | <u>\$ 2,660</u> |

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Condensed Consolidating Statement of Operations
(in thousands)
Six Months Ended June 30, 2004

| | Parent | Wholly Owned Guarantor Restricted Subsidiaries | Non-Wholly Owned Guarantor Restricted Subsidiaries | Non- Guarantor Restricted Subsidiaries | Non- Guarantor Unrestricted Subsidiaries | Eliminations | Consolidated Total |
|--|---------------|---|---|---|---|---------------------|-------------------------------|
| Revenue | \$22,290 | \$39,162 | \$ 7,088 | \$65,099 | \$36,324 | \$ (226) | \$169,737 |
| Vessel and voyage expenses | 12,750 | 25,793 | 4,512 | 37,154 | 17,118 | (226) | 97,101 |
| General and administrative | 5,002 | 4,531 | 415 | 8,102 | 698 | | 18,748 |
| Depreciation, amortization and drydocking | 3,930 | 8,207 | 1,643 | 13,735 | 5,402 | | 32,917 |
| Gain on disposal of assets, net | | (185) | | (1,792) | | | (1,977) |
| Income from operations | 608 | 816 | 518 | 7,900 | 13,106 | | 22,948 |
| Other expense, net | 4,335 | (4,237) | (694) | (3,387) | (7,767) | 58 | (11,692) |
| Income before provision for income taxes | 4,943 | (3,421) | (176) | 4,513 | 5,339 | 58 | 11,256 |
| Provision for income taxes | | | | 2,885 | | | 2,885 |
| Net income | \$ 4,943 | \$ (3,421) | \$ (176) | \$ 1,628 | \$ 5,339 | \$ 58 | \$ 8,371 |

Condensed Consolidating Statement of Operations
(in thousands)
Six Months Ended June 30, 2003

| | Parent | Wholly Owned Guarantor Restricted Subsidiaries | Non-Wholly Owned Guarantor Restricted Subsidiaries | Non- Guarantor Restricted Subsidiaries | Non- Guarantor Unrestricted Subsidiaries | Eliminations | Consolidated Total |
|-------------------------------|---------------|---|---|---|---|---------------------|-------------------------------|
| Revenue | \$23,757 | \$37,475 | \$ 7,347 | \$57,904 | \$30,723 | \$ (53) | \$157,153 |
| Vessel and voyage expenses | 11,775 | 24,457 | 4,007 | 31,777 | 11,990 | (53) | 83,953 |
| General and administrative | 5,709 | 4,885 | 455 | 6,907 | 802 | | 18,758 |
| Depreciation, amortization | 3,867 | 7,969 | 1,345 | 14,473 | 4,763 | | 32,417 |

| | | | | | | | |
|---|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|
| and drydocking | | | | | | | |
| Gain on disposal of assets, net | | (787) | | (396) | | | (1,183) |
| | <u> </u> | <u> </u> | <u> </u> | <u> </u> | <u> </u> | <u> </u> | <u> </u> |
| Income from operations | 2,406 | 951 | 1,540 | 5,143 | 13,168 | | 23,208 |
| Other expense, net | (27) | (4,522) | (851) | (3,097) | (7,887) | | (16,384) |
| | <u> </u> | <u> </u> | <u> </u> | <u> </u> | <u> </u> | <u> </u> | <u> </u> |
| Income before provision for income taxes | 2,379 | (3,571) | 689 | 2,046 | 5,281 | | 6,824 |
| Provision for income taxes | | | | 2,578 | | | 2,578 |
| | <u> </u> | <u> </u> | <u> </u> | <u> </u> | <u> </u> | <u> </u> | <u> </u> |
| Net income | <u>\$ 2,379</u> | <u>\$ (3,571)</u> | <u>\$ 689</u> | <u>\$ (532)</u> | <u>\$ 5,281</u> | <u>\$</u> | <u>\$ 4,246</u> |

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Condensed Consolidating Statement of Cash Flows
(in thousands)
Six Months Ended June 30, 2004

| | Parent | Wholly Owned Guarantor Restricted Subsidiaries | Non-Wholly Owned Guarantor Restricted Subsidiaries |
|---|---------------|---|---|
| Net cash provided by operating activities | \$ (7,836) | \$ 17,674 | \$ (991) |
| Investing activities: | | | |
| Proceeds from disposals of assets | | 311 | |
| Purchases of vessels and equipment | (6,272) | (62,219) | |
| Investment in Joint Venture | — | — | — |
| Net cash used in investing activities | (6,272) | (61,908) | |
| Financing activities: | | | |
| Proceeds from Fortis debt | 20,000 | | |
| Payments of long-term debt | (1,050) | (2,116) | |
| Proceeds from long-term debt | | 49,600 | |
| Payments of Title XI bonds | (1,075) | | |
| Issue costs related to senior notes and amended credit facility | (285) | | |
| Payment of other deferred financing costs | (86) | (569) | |
| Payments of obligations under capital leases | (512) | (1,213) | |
| Proceeds from exercise of stock options | 167 | | |
| Decrease in restricted cash | — | — | — |
| Net cash provided by financing activities | 17,159 | 45,702 | |
| Change in cash and cash equivalents | 3,051 | 1,468 | (991) |
| Cash and cash equivalents at beginning of period | 217 | 452 | 1,030 |
| Cash and cash equivalents at end of period | \$ 3,268 | \$ 1,920 | \$ 39 |

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Condensed Consolidating Statement of Cash Flows
(in thousands)
Six Months Ended June 30, 2004

| | Non- Guarantor Restricted Subsidiaries | Non- Guarantor Unrestricted Subsidiaries | Eliminations | Consolidated Total |
|---|---|---|-------------------|-----------------------|
| Net cash provided by operating activities | \$ 11,804 | \$ 444 | \$ | \$ 21,095 |
| Investing activities: | | | | |
| Proceeds from disposals of assets | 2,834 | | | 3,145 |
| Purchases of vessels and equipment | (15,015) | (27) | | (83,533) |
| Investment in Joint Venture | (240) | | | (240) |
| | <u> </u> | <u> </u> | <u> </u> | <u> </u> |
| Net cash used in investing activities | (12,421) | (27) | | (80,628) |
| Financing activities: | | | | |
| Proceeds from Fortis debt | | | | 20,000 |
| Payments of long-term debt | | | | (3,166) |
| Proceeds from long-term debt | | | | 49,600 |
| Payments of Title XI bonds | | (2,460) | | (3,535) |
| Issue costs related to senior notes and amended credit facility | | | | (285) |
| Payment of other deferred financing costs | (28) | | | (683) |
| Payments of obligations under capital leases | | | | (1,725) |
| Proceeds from exercise of stock options | | | | 167 |
| Decrease in restricted cash | | 2,043 | | 2,043 |
| | <u> </u> | <u> </u> | <u> </u> | <u> </u> |
| Net cash provided by financing activities | (28) | (417) | | 62,416 |
| Change in cash and cash equivalents | (645) | | | 2,883 |
| Cash and cash equivalents at beginning of period | 5,700 | | | 7,399 |
| | <u> </u> | <u> </u> | <u> </u> | <u> </u> |
| Cash and cash equivalents at end of period | \$ 5,055 | \$ | \$ | \$ 10,282 |
| | <u> </u> | <u> </u> | <u> </u> | <u> </u> |

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Condensed Consolidating Statement of Cash Flows
(in thousands)
Six Months Ended June 30, 2003

| | Parent | Wholly Owned Guarantor Restricted Subsidiaries | Non-Wholly Owned Guarantor Restricted Subsidiaries |
|---|-----------------|---|---|
| | <u> </u> | <u> </u> | <u> </u> |
| Net cash provided by operating activities | \$ 6,874 | \$ (922) | \$ 1,488 |
| Investing activities: | | | |
| Proceeds from disposals of assets | | 3,607 | |
| Purchases of vessels and equipment | (1,059) | (1,056) | |
| Investment in Joint Venture | | | |
| | <u> </u> | <u> </u> | <u> </u> |
| Net cash used in financing activities | (1,059) | 2,551 | |
| Financing activities: | | | |
| Payments of prior credit facility | (5,000) | | |
| Payments of long-term debt | (2,551) | (798) | |
| Proceeds from long-term debt | | 6,525 | |
| Payments of Title XI bonds | (1,075) | (323) | |
| Payments of other deferred financing costs | (61) | | |
| Net proceeds from sale leaseback | 13,274 | | |
| Payments of obligations under capital leases | (327) | (7,339) | |
| Capitalized issue costs related to issuance of common stock | (27) | | |
| Proceeds from exercise of stock options | 155 | | |
| Proceeds from exercise of warrants | 1 | | |
| Decrease in restricted cash | | | |
| | <u> </u> | <u> </u> | <u> </u> |
| Net cash provided by financing activities | 4,389 | (1,935) | |
| Change in cash and cash equivalents | 10,204 | (306) | 1,488 |
| Cash and cash equivalents at beginning of period | 12,316 | 413 | 13 |
| | <u> </u> | <u> </u> | <u> </u> |
| Cash and cash equivalents at end of period | \$22,520 | \$ 107 | \$ 1,501 |
| | <u> </u> | <u> </u> | <u> </u> |

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Condensed Consolidating Statement of Cash Flows
(in thousands)
Six Months Ended June 30, 2003

| | Non- Guarantor Restricted Subsidiaries | Non- Guarantor Unrestricted Subsidiaries | Eliminations | Consolidated Total |
|---|---|---|--------------|-----------------------|
| Net cash provided by operating activities | \$ 18,066 | \$ 903 | \$ | \$ 26,409 |
| Investing activities: | | | | |
| Proceeds from disposals of assets | 4,652 | | | 8,259 |
| Purchases of vessels and equipment | (20,420) | | | (22,535) |
| Investment in Joint Venture | (400) | | | (400) |
| Net cash used in financing activities | (16,168) | | | (14,676) |
| Financing activities: | | | | |
| Payments of prior credit facility | | | | (5,000) |
| Payments of long-term debt | | | | (3,349) |
| Proceeds from long-term debt | | | | 6,525 |
| Payments of Title XI bonds | | (2,297) | | (3,695) |
| Payments of other deferred financing costs | | | | (61) |
| Net proceeds from sale leaseback | | | | 13,274 |
| Payments of obligations under capital leases | | | | (7,666) |
| Capitalized issue costs related to issuance of common stock | | | | (27) |
| Proceeds from exercise of stock options | | | | 155 |
| Proceeds from exercise of warrants | | | | 1 |
| Decrease in restricted cash | | 1,394 | | 1,394 |
| Net cash provided by financing activities | | (903) | | 1,551 |
| Change in cash and cash equivalents | 1,898 | | | 13,284 |
| Cash and cash equivalents at beginning of period | 4,802 | | | 17,544 |
| Cash and cash equivalents at end of period | \$ 6,700 | \$ | \$ | \$ 30,828 |

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Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

The following Management's Discussion and Analysis of Financial Condition and Results of Operations (MD&A) should be read in conjunction with the condensed consolidated financial statements and the related notes thereto included elsewhere in this Report and the 2003 Form 10-K.

The MD&A contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. All statements other than statements of historical fact included in the MD&A are forward-looking statements. Although the Company believes that the expectations and beliefs reflected in such forward-looking statements are reasonable, it can give no assurance that they will prove correct. For information regarding the risks and uncertainties that could cause such forward-looking statements to prove incorrect, see Projections and Other Forward-Looking Information in Item 1 of the 2003 Form 10-K.

Critical Accounting Policies and Estimates

For general information concerning critical accounting policies as well as estimates, see Management's Discussion and Analysis of Financial Condition and Results of Operations, Critical Accounting Policies and Estimates in the 2003 Form 10-K.

In June 2001, the Accounting Standards Executive Committee (AcSEC) of the American Institute of Certified Public Accountants (AICPA) issued an exposure draft of a proposed Statement of Position (SOP) entitled *Accounting for Certain Costs and Activities Related to Property, Plant and Equipment*. Under the proposed SOP, the Company would expense major maintenance costs as incurred and be prohibited from deferring the cost of a planned major maintenance activity. Currently, the costs incurred to drydock the Company's vessels are deferred and amortized on a straight-line basis over the period to the next drydocking, generally 30 to 36 months. At its April 14, 2004 meeting, the FASB voted not to clear AcSEC's proposed SOP. It has indicated that the accounting matters covered by the SOP will be addressed during the 2005-2006 time frame.

Overview of Revenue

The Company derives its revenue from three main lines of business offshore energy support, marine transportation, and marine towing. Seabulk Offshore, the Company's domestic and international offshore energy support business, accounted for approximately 48% and 49% of Company revenue for the six months ended June 30, 2004 and 2003, respectively. Seabulk Tankers, our marine transportation business, consists of the Company's tanker business, in which it operates ten U.S.-flag tankers, and two foreign-flag tankers. Nine of the U.S.-flag tankers are engaged in coastwise trade carrying petroleum products, crude oil, and chemicals, and one is employed in U.S. foreign commerce. The two foreign-flag vessels, acquired at the end of March 2004, have been employed in the world-wide foreign product shipping trade. Seabulk Tankers accounted for approximately 41% and 39% of Company revenue for the six months ended June 30, 2004 and 2003, respectively. Seabulk Towing, the Company's domestic harbor and offshore towing business, accounted for approximately 11% and 12% of Company revenue for the six months ended June 30, 2004 and 2003, respectively.

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Seabulk Offshore

Revenue from the Company's offshore energy support business is primarily a function of the size of the Company's fleet, vessel day rates or charter rates, and fleet utilization. Rates and utilization are primarily a function of offshore exploration, development, and production activities. In certain areas where the Company conducts offshore energy support operations (particularly the U.S. Gulf of Mexico), contracts for the utilization of offshore energy support vessels commonly include termination provisions with three-to-five-day notice requirements and no termination penalty. As a result, companies engaged in offshore energy support operations (including the Company) are particularly sensitive to changes in market demand.

As the Company's offshore energy support fleet gets older, the Company's strategy is to look for opportunities to improve its age profile by acquiring higher-value, larger and newer vessels, and selling a number of older and smaller vessels, mainly crewboats.

Periods for collection of receivables in certain foreign areas of operation in the offshore business tend to be longer than is usual for the United States. The Company regularly monitors all such receivables accounts and believes that it has accrued adequate reserves where necessary.

The Company has a newbuild program for selective offshore fleet replacement and enhancement and currently has commitments from several lenders. In 2003, the Company added three vessels to its West African fleet: the *Seabulk Africa*, *Seabulk South Atlantic* and *Seabulk Asia*; two vessels to its Southeast Asia fleet: the *Seabulk Badamyar* and *Seabulk Nilar*; and an inaugural vessel to its Brazilian fleet, the *Seabulk Ipanema*. The Company also executed contracts in 2003 for two offshore newbuilds for deployment in Brazil and one in the first quarter of 2004 to cover a long-term contract in Angola.

In February 2004, the Company sold the *Seabulk Grebe*, an offshore energy support vessel operating in West Africa. Proceeds from the sale of the vessel were \$600,000. The loss on the sale of the vessel was approximately \$13,000.

In May 2004, the Company sold the *Seabulk Mobile*, an offshore crew boat operating in the U.S. Gulf. Proceeds from the sale of the vessel were \$300,000. The gain on the sale of the vessel was approximately \$174,000. In May 2004, the Company sold the *Seabulk Maintainer*, an offshore crane barge operating in the Arabian Gulf. Proceeds from the sale of the vessel were approximately \$1.6 million. The gain on the sale of the vessel was approximately \$1.5 million.

In May 2004, the Company ordered two additional vessels for delivery in late 2004 and mid-2005. Built at a combined cost of approximately \$23.4 million, the new vessels will work under long-term contracts for a major international oil company in offshore Angola.

In June 2004, the Company sold the *Seabulk Petrel*, an offshore anchor handling tug supply vessel. Proceeds from the sale of the vessel were approximately \$650,000. The gain on the sale of the vessel was approximately \$263,000.

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The following tables set forth, by primary area of operation, average day rates achieved by the offshore energy support fleet owned or operated by the Company and average utilization for the periods indicated. Average day rates are calculated by dividing total revenue by the number of days worked. Utilization percentages are based upon the number of working days over a 365/366-day year and the number of vessels in the fleet on the last day of the quarter.

| | Q1 2004 | | | | Q2 2004 | | | |
|--------------------------------------|-----------------|--------------|------------------|---------|-----------------|--------------|------------------|---------|
| | AHTS/ Supply | AHT/ Tugs | Crew/ Utility | Other | AHTS/ Supply | AHT/ Tugs | Crew/ Utility | Other |
| Domestic⁽¹⁾ | | | | | | | | |
| Vessels ⁽²⁾ | 21 | | 22 | 2 | 21 | | 21 | 2 |
| Laid-Up | | | | 1 | | | | 1 |
| Effective Utilization ⁽³⁾ | 43% | | 63% | | 52% | | 67% | |
| Average Day Rate | \$5,001 | | \$2,410 | | \$4,879 | | \$2,442 | |
| West Africa | | | | | | | | |
| Vessels ⁽²⁾ | 33 | 4 | 3 | | 33 | 4 | 3 | |
| Laid-Up | | | | | | | | |
| Effective Utilization ⁽³⁾ | 82% | 86% | 98% | | 83% | 75% | 94% | |
| Average Day Rate | \$7,281 | \$6,193 | \$3,413 | | \$7,350 | \$6,831 | \$3,524 | |
| Middle East | | | | | | | | |
| Vessels ⁽²⁾ | 6 | 5 | 7 | 5 | 6 | 5 | 7 | 4 |
| Laid-Up | | | | | | | | |
| Effective Utilization ⁽³⁾ | 89% | 80% | 79% | 43% | 97% | 84% | 92% | 78% |
| Average Day Rate | \$3,750 | \$4,565 | \$1,740 | \$3,966 | \$3,880 | \$4,739 | \$1,712 | \$5,043 |
| Southeast Asia | | | | | | | | |
| Vessels ⁽²⁾ | 8 | | | 1 | 7 | | | 1 |
| Laid-Up | | | | | | | | |
| Effective Utilization ⁽³⁾ | 66% | | | | 77% | | | |
| Average Day Rate | \$5,422 | | | | \$5,388 | | | |

(1) Domestic consists of vessels operating in the United States, the Gulf of Mexico, South America, and the Caribbean.

(2) Held-for-sale vessels are excluded from the vessel count.

(3) Effective utilization excludes laid-up vessels.

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| | Q1 2003 | | | | Q2 2003 | | | |
|-------------------------------|-----------------|--------------|------------------|---------|-----------------|--------------|------------------|---------|
| | AHTS/ Supply | AHT/ Tugs | Crew/ Utility | Other | AHTS/ Supply | AHT/ Tugs | Crew/ Utility | Other |
| Domestic⁽¹⁾ | | | | | | | | |
| Vessels ⁽²⁾ | 21 | | 25 | 2 | 21 | | 25 | 2 |
| Laid-Up | | | | 1 | | | | 1 |
| Effective | | | | | | | | |
| Utilization ⁽³⁾ | 56% | | 61% | | 67% | | 69% | |
| Average Day | | | | | | | | |
| Rate | \$5,192 | | \$2,330 | | \$4,989 | | \$2,422 | |
| West Africa | | | | | | | | |
| Vessels ⁽²⁾ | 32 | 4 | 6 | 1 | 32 | 4 | 1 | |
| Laid-Up | | | | | | | | |
| Effective | | | | | | | | |
| Utilization ⁽³⁾ | 80% | 72% | 97% | | 83% | 76% | | |
| Average Day | | | | | | | | |
| Rate | \$7,223 | \$6,131 | \$3,028 | | \$7,199 | \$6,198 | | |
| Middle East | | | | | | | | |
| Vessels ⁽²⁾ | 6 | 6 | 7 | 6 | 6 | 6 | 7 | 6 |
| Laid-Up | | | | 1 | | | | 1 |
| Effective | | | | | | | | |
| Utilization ⁽³⁾ | 90% | 56% | 86% | 52% | 89% | 48% | 95% | 50% |
| Average Day | | | | | | | | |
| Rate | \$3,283 | \$4,457 | \$1,682 | \$5,213 | \$3,393 | \$5,364 | \$1,677 | \$4,246 |
| Southeast Asia | | | | | | | | |
| Vessels ⁽²⁾ | 9 | 1 | | 1 | 8 | | | 1 |
| Laid-Up | | | | | | | | |
| Effective | | | | | | | | |
| Utilization ⁽³⁾ | 59% | | | | 80% | | | |
| Average Day | | | | | | | | |
| Rate | \$5,936 | | | | 5,321 | | | |

[Additional columns below]

[Continued from above table, first column(s) repeated]

| | Q3 2003 | | | | Q4 2003 | | | |
|-------------------------------|-----------------|--------------|------------------|-------|-----------------|--------------|------------------|-------|
| | AHTS/ Supply | AHT/ Tugs | Crew/ Utility | Other | AHTS/ Supply | AHT/ Tugs | Crew/ Utility | Other |
| Domestic⁽¹⁾ | | | | | | | | |
| Vessels ⁽²⁾ | 21 | | 24 | 2 | 21 | | 24 | 2 |
| Laid-Up | | | | 1 | | | | 1 |
| Effective | | | | | | | | |
| Utilization ⁽³⁾ | 73% | | 77% | | 61% | | 73% | |

| | | | | | | | | |
|--------------------------------------|---------|---------|---------|---------|---------|---------|---------|---------|
| Effective Utilization ⁽³⁾ | | | | | | | | |
| Average Day Rate | \$4,970 | | \$2,557 | | \$5,101 | | \$2,463 | |
| West Africa | | | | | | | | |
| Vessels ⁽²⁾ | 33 | 4 | 1 | | 34 | 4 | 1 | |
| Laid-Up | | | | | | | | |
| Effective Utilization ⁽³⁾ | 78% | 86% | | | 73% | 82% | | |
| Average Day Rate | \$7,321 | \$6,265 | | | \$7,591 | \$6,053 | | |
| Middle East | | | | | | | | |
| Vessels ⁽²⁾ | 6 | 6 | 7 | 6 | 6 | 5 | 7 | 5 |
| Laid-Up | | | | 1 | | | | |
| Effective Utilization ⁽³⁾ | 91% | 63% | 92% | 71% | 75% | 94% | 92% | 58% |
| Average Day Rate | \$3,476 | \$5,266 | \$1,742 | \$5,341 | \$3,711 | \$4,855 | \$1,760 | \$4,975 |
| Southeast Asia | | | | | | | | |
| Vessels ⁽²⁾ | 8 | | | 1 | 8 | | | 1 |
| Laid-Up | | | | | | | | |
| Effective Utilization ⁽³⁾ | 78% | | | | 65% | | | |
| Average Day Rate | \$5,310 | | | | \$5,558 | | | |

(1) Domestic consists of vessels operating in the United States, the Gulf of Mexico, South America, and the Caribbean.

(2) Held-for-sale vessels are excluded from the vessel count.

(3) Effective utilization excludes laid-up vessels.

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Domestic revenue for the six months ended June 30, 2004 was adversely affected by the continued slowdown in natural gas and crude oil drilling activity in the U.S. Gulf of Mexico. Despite high natural gas and petroleum prices, exploration and production companies in the U.S. Gulf of Mexico have not been investing in new projects, and the contracted rig count fell to seasonal lows. Many of the oil company majors have reduced their expectations for energy prospects in the mature Gulf of Mexico market and are seeking more promising opportunities elsewhere. The Company redeployed two vessels to Mexico in the second quarter of 2004. The Company continues to explore charter opportunities in Mexico, which remains an active market.

International offshore revenues for the six months ended June 30, 2004 increased by approximately 11.5% over the same period in 2003. International vessel demand is primarily driven by crude oil exploration and production. During the first and second quarters of 2004, crude oil prices and demand remained high. In West Africa, utilization and day rates increased as this is an oil-driven deepwater market with long time horizons and increasing exploration and production budgets primarily from oil company majors. Based on oil company projections and independent analyses, the Company expects international exploration and production spending to continue to increase in West Africa, which should maintain a firm level of demand in that area for some time to come. Revenue increased for the Company's Middle East operations versus the prior year as a result of higher day rates and higher utilization. Revenue remained substantially the same for the Company's Southeast Asia operations versus the prior year.

Seabulk Tankers

Revenue from the Company's marine transportation services business is derived from the operations of nine U.S.-flag tankers carrying crude oil, petroleum products and chemical products in the domestic Jones Act trade, one in U.S. foreign commerce and, as of the first quarter of 2004, two foreign-flag tankers in foreign trade.

The Company's U.S.-flag tanker fleet operates on long-term time charters, consecutive voyage charters or contracts of affreightment. The Company currently has six tankers operating under time charters, one under a consecutive voyage charter, and three under contracts of affreightment. The two foreign-flag tankers have been placed in an international tanker pool.

The following table sets forth the number of vessels and revenue for the Company's U.S. and foreign-flag product carriers:

| | Six Months Ended June 30, | |
|---|----------------------------------|-------------|
| | 2004 | 2003 |
| Number of vessels operated at end of period | 12 | 10 |
| Revenue (in thousands) | \$69,870 | \$61,927 |

Tanker revenue increased by 12.8% in the first half of 2004 as a result of the operation of the Company's two foreign-flag double-hull product tankers, which were purchased in March 2004. In addition, revenue increased for one tanker after the Company converted a bareboat charter to a consecutive voyage charter in January 2004.

U.S.-Flag Tankers. Demand for the Company's ten Jones Act product carriers is dependent on several factors, including production and refining levels in the United States, domestic consumer and commercial consumption of petroleum products and chemicals, and competition from foreign imports. The Company owned nine U.S.-flag tankers and operated a tenth under a bareboat charter at June 30, 2004. Five of the petroleum product tankers are double-hull, state-of-the-art vessels, of which two have chemical-carrying capability. Although the Company's Jones Act fleet has

benefited from a tightening domestic tanker market, increased competition from imported products has had a moderating effect on Jones Act tanker rates. One of the Company's single-hull vessels is scheduled for retirement in 2007, one in 2008, two in 2012, and one in 2015. None of the five double-hull tankers has a regulatory age restriction.

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Foreign-Flag Tankers. The international product tanker market is highly cyclical and dependent upon the worldwide demand for refined products. Surging demand from China and an increase in U.S. imports have favorably impacted international tanker rates, which are currently high by historical standards. The Company's two double-hull foreign-flag carriers are benefiting from the current high rates. Neither of them has a regulatory age restriction.

Seabulk Towing

Revenue derived from the Company's towing business is primarily a function of the number of tugs available to provide services, the rates charged for their services, the volume of vessel traffic requiring docking and other ship-assist services, and competition. Vessel traffic is largely a function of the general trade activity in the region served by the port.

The following table summarizes certain operating information for the Company's tugs:

| | Six Months Ended June 30, | |
|---------------------------------|----------------------------------|-------------|
| | 2004 | 2003 |
| Number of tugs at end of period | 26 | 28 |
| Revenue (in thousands) | \$19,337 | \$18,301 |

Towing revenue increased by 5.7% in the first half of 2004 due to increased vessel traffic in certain of the Company's ports, higher rates and improved utilization.

Overview of Vessel and Voyage Expenses and Capital Expenditures

The Company's vessel and voyage expenses are primarily a function of fleet size and utilization. The most significant expense categories are crew payroll and benefits, charter hire, repairs and maintenance, insurance, fuel and consumables, port charges and other. For general information concerning these categories of expenses as well as capital expenditures, see Management's Discussion and Analysis of Financial Condition and Results of Operations and Overview of Operating Expenses and Capital Expenditures in Item 7 of the 2003 Form 10-K.

Insurance Coverage

Our protection and indemnity (P&I) insurance coverage for marine liability insurance is provided by mutual protection and indemnity marine insurance syndicates (clubs) and reinsured in the commercial market. Since February 2004, our coverage has been with West of England. Prior to that, Steamship Mutual. The clubs generally base a member's premium on the member's loss experience and deductible. Insurance risk is transferred to the club, (as a third party), for losses in excess of the deductible. Premiums are a reflection of loss experience over prior years; premiums do not equate to insurance pay-outs. Insurance risk for claims above the deductible is transferred to the club, and to the reinsurance syndicates to the extent that the cost of claims exceeds specified levels. Additional or supplemental premiums for prior open years may be assessed; however, they are not based on an individual member's loss experience. Such premiums are based on requirements to maintain the stated legal reserves as required by the insurance regulators in the United Kingdom.

Results of Operations

The following table sets forth certain selected financial data and percentages of revenue for the periods indicated:

| | Three Months Ended June 30, | | | |
|--|------------------------------------|------|-------------|------|
| | 2004 | | 2003 | |
| | (in millions) | | | |
| Revenue | \$87.2 | 100% | \$79.9 | 100% |
| Vessel and voyage expenses | 50.2 | 58% | 42.6 | 53% |
| General and administrative | 9.3 | 11% | 9.4 | 12% |
| Depreciation, amortization, and drydocking | 17.1 | 20% | 15.9 | 20% |
| Gain on disposal of assets, net | (2.0) | (2%) | (0.4) | 0% |
| Income from operations | \$12.5 | 14% | \$12.4 | 15% |
| Interest expense, net | \$ 8.3 | 10% | \$ 8.1 | 10% |
| Other income (expense), net | \$ 0.0 | 0% | \$ (0.3) | 0% |
| Income before provision for income taxes | \$ 4.3 | 5% | \$ 4.0 | 5% |
| Net income | \$ 2.7 | 3% | \$ 2.7 | 3% |

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Three months ended June 30, 2004 compared with the three months ended June 30, 2003

Revenue. Revenue during the three months ended June 30, 2004 increased 9.1% from \$79.9 million to \$87.2 million versus the comparable period in 2003. The increase primarily reflects higher revenue from the Company's marine transportation services segment and, to a lesser extent, higher offshore and towing revenue.

Offshore revenue during the three months ended June 30, 2004 increased 5.0% from \$39.2 million to \$41.2 million versus the comparable period in 2003. The increase primarily reflects revenue growth in West Africa due to higher day rates and increased number of vessels.

Marine transportation revenue during the three months ended June 30, 2004 increased 14.7% from \$31.8 million to \$36.4 million versus the comparable period in 2003. The increase primarily reflects the revenue impact from the two new foreign-flag tankers as they entered service toward the end of March 2004. In addition, revenue increased for one tanker after the Company converted a bareboat charter to a consecutive voyage charter in January 2004.

Towing revenue during the three months ended June 30, 2004 increased 8.3% from \$9.0 million to \$9.8 million versus the comparable period in 2003. The increase primarily reflects additional vessel traffic in certain of the Company's ports, higher rates and improved utilization of the Company's tug fleet.

Vessel and Voyage Expenses. Vessel and voyage expenses during the three months ended June 30, 2004 increased 17.9% from \$42.6 million to \$50.2 million versus the comparable period in 2003. Charter hire increased as a result of additional bareboat expenses in the offshore segment as the Company acquired four vessels in 2003 through bareboat charter contracts. Repairs and maintenance increased primarily due to repairs performed in the tanker segment. Insurance increased due to higher P&I premiums and higher P&I claim reserves. Fuel and consumables increased as a result of higher prices in the offshore, tanker and towing segments.

General and Administrative Expenses. General and administrative expenses during the three months ended June 30, 2004 remained substantially the same at \$9.3 million versus \$9.4 million in the comparable period in 2003.

Depreciation, Amortization, and Drydocking. Depreciation, amortization, and drydocking during the three months ended June 30, 2004 increased 7.6% from \$15.9 million to \$17.1 million versus the comparable period in 2003. The increase is due to a higher number of drydockings subsequent to June 30, 2003, primarily in the tanker and offshore segments.

Gain on Disposal of Assets, Net. Gain on disposal of assets during the three months ended June 30, 2004 increased to a gain of \$2.0 million from a gain of \$0.4 million versus the comparable period in 2003. The number of vessels sold decreased to three for the three months ended June 30, 2004 compared to 10 for the same period in 2003. However, the gain in 2004 included the sale of the *Seabulk Maintainer*, which had a gain of approximately \$1.5 million.

Net Interest Expense. Net interest expense during the three months ended June 30, 2004 remained substantially the same at \$8.3 million versus \$8.1 million in the comparable period in 2003.

Other Income (Expense), Net. Other income (expense), net during the three months ended June 30, 2004 was zero versus expense of \$0.3 million in the comparable period in 2003. The expense in 2003 included \$0.2 million in minority interest.

Six months ended June 30, 2004 compared with the six months ended June 30, 2003

Revenue. Revenue during the six months ended June 30, 2004 increased 8.0% from \$157.2 million to \$169.7 million versus the comparable period in 2003. The increase primarily reflects higher revenue from the Company's marine transportation services segment and, to a lesser extent, higher offshore and towing revenue.

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Offshore revenue during the six months ended June 30, 2004 increased 4.8% from \$77.1 million to \$80.8 million versus the comparable period in 2003. The increase primarily reflects revenue growth in West Africa due to increased utilization, higher day rates, and increased number of vessels.

Marine transportation revenue during the six months ended June 30, 2004 increased 12.8% from \$61.9 million to \$69.9 million versus the comparable period in 2003. The increase primarily reflects the addition of the Company's two foreign-flag double-hull product tankers in March 2004. In addition, revenue increased for one tanker after the Company converted a bareboat charter to a consecutive voyage charter in January 2004.

Towing revenue during the six months ended June 30, 2004 increased 5.7% from \$18.3 million to \$19.3 million versus the comparable period in 2003. The increase primarily reflects additional vessel traffic in certain of the Company's ports, higher rates and improved utilization of the Company's tug fleet.

Vessel and Voyage Expenses. Vessel and voyage expenses during the six months ended June 30, 2004 increased 15.7% from \$84.0 million to \$97.1 million versus the comparable period in 2003. Charter hire increased as a result of additional bareboat expenses in the offshore segment as the Company acquired four vessels in 2003 through bareboat charter contracts. Repairs and maintenance increased primarily due to repairs performed in the tanker segment. Insurance increased due to higher P&I premiums and higher P&I claim reserves. Fuel and consumables increased as a result of higher prices in the offshore, tanker and towing segments.

General and Administrative Expenses. General and administrative expenses during the six months ended June 30, 2004 remained substantially the same at \$18.7 million versus \$18.8 million in the comparable period in 2003.

Depreciation, Amortization, and Drydocking. Depreciation, amortization, and drydocking during the six months ended June 30, 2004 increased 1.5% from \$32.4 million to \$32.9 million versus the comparable period in 2003. The increase is due to a higher number of drydockings subsequent to June 30, 2003, primarily in the tanker and offshore segments, offset somewhat by a reduction in depreciation expense, as the Company has been selling its older and smaller units.

Gain on Disposal of Assets, Net. Gain on disposal of assets during the six months ended June 30, 2004 increased 67.1% from a gain of \$1.2 million to a gain of \$2.0 million versus the comparable period in 2003. The number of vessels sold decreased to four for the six months ended June 30, 2004 compared to 16 for the same period in 2003. However, sales in 2004 included the *Seabulk Maintainer*, which had a gain of approximately \$1.5 million.

Net Interest Expense. Net interest expense during the six months ended June 30, 2004 remained substantially the same at \$16.3 million versus \$16.1 million in the comparable period in 2003.

Other Income (Expense), Net. Other income (expense), net during the six months ended June 30, 2004 increased to \$4.6 million versus expense of \$0.3 million in the comparable period in 2003. The increase is primarily due to the proceeds from the Company's settlement of litigation, in which it received a total of \$4.5 million from two of its suppliers in March 2004.

Liquidity and Capital Resources

At June 30, 2004, the Company had cash on hand of \$10.3 million and working capital of approximately \$32.5 million. The Company's main sources of liquidity are cash from operations, borrowings under its amended credit facility, and proceeds from the sale of vessels with marginal operating performance. For the six months ended June 30, 2004, cash from operations totaled \$21.1 million, which was \$5.3 million less than in the same period in 2003. At June 30, 2004, availability under our \$80.0 million amended senior credit facility was approximately

\$20.0 million. Additionally, the Company received approximately \$3.1 million from the sale of vessels during the first half of 2004. While the Company believes cash from operations will continue to be a meaningful source of liquidity, factors that can affect our operating earnings and liquidity are discussed further under Additional Business and Corporate Risk Factors in Part 1, Item 1 of the 2003 Form 10-K. The Company relies on external financing to fund

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a substantial portion of the purchase price of new vessels to its fleet. The Company currently has a commitment from a lender to fund 80% of the cost of an additional vessel that it has contracted to purchase.

Off-Balance Sheet Arrangements

The Company does not have any financial instruments classified as off-balance sheet as of June 30, 2004 and December 31, 2003.

Long-Term Debt. Long-term debt, including capital leases and current maturities, consisted of the following (in millions):

| Facility | Outstanding Balance as of June 30, 2004 | Outstanding Balance as of December 31, 2003 | Maturity | Interest Rate as of August 2, 2004 |
|--------------------------|--|--|-----------------|---|
| Senior Notes | \$ 148.0 | \$ 151.5 | 2013 | 9.50% ^(a) |
| Amended credit facility | 50.0 | 30.0 | 2008 | 5.48% |
| Title XI financing bonds | 212.6 | 216.1 | 2005 to 2024 | 5.86% to 10.10% |
| Other notes payable | 69.5 | 23.1 | 2003 to 2011 | 3.13% to 8.50% |
| Capital leases | 34.0 | 35.8 | 2004 to 2013 | 5.57% to 10.0% |
| Total | \$ 514.1 | \$ 456.5 | | |

(a) The Company effectively converted the interest rate on its outstanding 9.50% Senior Notes to a floating rate based on LIBOR. Pursuant to our interest rate swap agreement, the current effective floating interest rate is 6.05%.

In addition to the amended credit facility balance of \$50.0 million, there are \$5.9 million in outstanding letters of credit as of June 30, 2004. The Company is subject to semi-annual reductions on the amended credit facility commencing February 5, 2004 with the final payment due in August 2008.

Material Changes in Contractual Obligations. In March 2004, the Company acquired the *Seabulk Reliant* and the *Seabulk Trust*. To finance this transaction, a subsidiary of the Company entered into a loan agreement and mortgage with a syndicate of banks led by Nordea Bank. The loan was in the principal amount of \$49.6 million for a term of seven years.

In January 2004, the Company entered into a contract with Labroy Marine Ltd. of Singapore for the construction of a terminal support tug for delivery in March 2005 for the Singapore dollar equivalent of U.S. \$10.8 million. The Company has also entered into a forward exchange contract intended to fully hedge its foreign currency commitment. Under the contract, the Company will purchase Singapore dollars at various rates dated from February 2004 through March 2005, in conjunction with the progress payment dates as required by the purchase agreement. The purchase price will be financed by a combination of bank borrowings and available cash. The tug will be employed on a long-term contract in Angola.

A covenant in the Company's amended credit agreement was amended as of February 26, 2004, to allow the Company a greater degree of flexibility under the debt/EBITDA ratio.

Capital Requirements. The Company's capital requirements arise primarily from its need to service debt, fund working capital, maintain and improve its vessels, and make vessel acquisitions.

During the first half of 2004, the Company spent \$94.0 million for drydocking costs and newbuild vessels. Of this amount, approximately \$10.5 million was expended for drydockings and approximately \$62.0 million for the purchase of the two double-hull product tankers, *Seabulk Reliant* and *Seabulk Trust*. Expenditures on the construction of four and the purchase of one offshore newbuild vessel totaled approximately \$21.2 million.

Management expects to continue implementation of the initiative to sell unprofitable vessels in an effort to improve profitability and liquidity.

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The Company anticipates that capital requirements for drydocking and newbuild vessels for the remainder of 2004 will be approximately \$45.0 million. The Company expects that cash flow from operations will continue to be a significant source of funds for its working capital and capital requirements.

The Company's amended credit agreement contains certain restrictive financial covenants that, among other things, require minimum levels of EBITDA and tangible net worth. A covenant was amended as of February 26, 2004 to allow the Company a greater degree of flexibility under the debt/EBITDA ratio.

The Company is in compliance with the financial covenants of the Senior Notes at June 30, 2004. The Senior Notes require the Company to make payments of interest only. Based on current financial projections, the Company expects to be in compliance through the balance of 2004.

The possibility exists that unforeseen events or changes in business or regulatory conditions, including deterioration in its markets, could prevent the Company from meeting targeted operating results. If unforeseen events or changes in business or regulatory conditions prevent the Company from meeting targeted operating results, the Company will continue to pursue alternative plans including additional asset sales, additional reductions in operating expenses, and deferral of capital expenditures, which should enable the Company to satisfy essential capital requirements. While the Company believes it could successfully complete alternative plans, if necessary, there can be no assurance that such alternatives would be available or that the Company would be successful in their implementation.

Cash Flows. Net cash provided by operating activities totaled \$21.1 million for the six months ended June 30, 2004 compared to \$26.4 million for the same period in 2003. The decrease in cash provided by operating activities resulted in part from an additional \$1.8 million in interest payments primarily due to the Senior Notes as well as an increase in drydock expenditures of \$3.4 million.

Net cash used in investing activities was \$80.6 million for the six months ended June 30, 2004 compared to \$14.7 million for the same period in 2003. The increase in cash used in investing activities was due primarily to the purchase of vessels and equipment. In 2004, the Company used approximately \$62.0 million for the purchase of the two foreign-flag product tankers and approximately \$21.2 million for the construction of four and the purchase of one new offshore vessel.

Net cash provided by financing activities for the six months ended June 30, 2004 was \$62.4 million compared to net cash provided in financing activities of \$1.6 million for the same period in 2003. The cash provided by financing activities in 2004 is mainly attributable to additional financing related to the purchase of the *Seabulk Reliant* and *Seabulk Trust*, and additional financing under the Company's amended credit facility.

Effects of Inflation

The rate of inflation has not had a material impact on our operations. Moreover, if inflation remains at its recent levels, it is not expected to have a material impact on our operations for the foreseeable future.

Recent Accounting Pronouncements

In January 2003, the FASB issued FASB Interpretation No. 46, *Consolidation of Variable Interest Entities, an Interpretation of ARB No. 51* (FIN 46). FIN 46 requires certain variable interest entities to be consolidated by the primary beneficiary of the variable interest entity. The primary beneficiary is defined as the party which, as a result of holding its variable interest, absorbs a majority of the entity's expected losses, receives a majority of its expected residual returns, or both. FIN 46 is effective for all new variable interest entities created or acquired after January 31,

2003. For variable interest entities created or acquired prior to February 1, 2003, the provisions of FIN 46 must be applied for the first interim or annual period ending after March 15, 2004. The adoption of FIN 46 did not have a significant impact on the Company's financial position, results of operations or cash flows.

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In June 2001, the Accounting Standards Executive Committee (AcSEC) of the American Institute of Certified Public Accountants (AICPA) issued an exposure draft of a proposed Statement of Position (SOP) entitled *Accounting for Certain Costs and Activities Related to Property, Plant and Equipment*. Under the proposed SOP, the Company would expense major maintenance costs as incurred and be prohibited from deferring the cost of a planned major maintenance activity. Currently, the costs incurred to drydock the Company's vessels are deferred and amortized on a straight-line basis over the period to the next drydocking, generally 30 to 36 months. At its April 14, 2004 meeting, the FASB voted not to clear AcSEC's proposed SOP. It has indicated that the accounting matters covered by the SOP will be addressed during the 2005-2006 time frame.

Item 3. Quantitative and Qualitative Disclosures of Market Risk.

The Jones Act restricts U.S. coastwise trade to vessels owned, operated and crewed substantially by U.S. citizens. The Jones Act continues to be in effect and supported by Congress and the Administration. However, it is possible that the Company's advantage as a U.S. citizen operator of Jones Act vessels could be somewhat eroded over time as there continue to be periodic efforts and attempts by foreign interests to circumvent certain aspects of the Jones Act.

Interest Rate Risk

The Company is exposed to market risk from changes in interest rates, which may adversely affect its results of operations and financial condition. On October 20, 2003, the Company entered into a ten-year interest rate swap agreement with Fortis Bank and other members of its bank group. The Company entered into this transaction in order to take advantage of a lower available interest rate. Through this derivative instrument, which covers a notional amount of \$150 million, the Company effectively converted the interest rate on its outstanding 9.50% Senior Notes due August 2013 to a floating rate based on LIBOR. The current effective floating interest rate is 6.05%.

The fair value of the interest rate swap is the present value of the projected future net cash flows, based on the change in the United States swap yield curve. The Company expects the fair value of the swap to change in accordance with the movements in the swap yield curve. The fair value of the swap is reflected in the carrying value of the Senior Notes. At the inception of the swap agreement, the carrying value of the Senior Notes was \$150 million. The carrying value increased to \$151.5 million at 12/31/03 and subsequently decreased \$148 million at 6/30/04.

A hypothetical 2.0% increase in interest rates on \$150 million of debt would cause the Company interest expense on average to increase approximately \$3.0 million per year over the remaining term of the swap agreement. The swap agreement is secured by a second lien on the assets that secure the Company's amended credit facility.

In connection with the Senior Notes offering in August 2003, the Company amended and restated its existing credit facility. The amended credit facility consists of an \$80 million revolving credit facility and has a five-year maturity. The interest rate is currently 5.48%. A hypothetical 2.0% increase in interest rates on \$80 million of debt would cause the Company's interest expense to increase on average approximately \$1.2 million per year over the remaining term of the loan, with a corresponding decrease in income before taxes.

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Item 4. Controls and Procedures.

Evaluation of Disclosure Controls and Procedures

The Company maintains systems of disclosure controls and procedures (as defined in Rule 13a-15(e) of the Securities Exchange Act of 1934) designed to ensure that the Company is able to record, process, summarize and report, within the applicable time periods, the information required in the Company's annual and quarterly reports under the Securities Exchange Act of 1934. Management of the Company has evaluated the effectiveness of these disclosure controls and procedures as of the end of the period covered by this report. Based upon that evaluation, the principal executive officer and principal financial officer concluded that these disclosure controls and procedures are effective to accomplish their purpose. No changes were made during the period covered by this report to the Company's internal control over financial reporting (as defined in Rule 13a-15(f) of the Securities and Exchange Act of 1934) that have materially affected the Company's internal control over financial reporting or are reasonably likely to materially affect the Company's internal control over financial reporting.

Attached as Exhibits 31.1 and 31.2 hereto are certifications by the Company's Chief Executive Officer and Chief Financial Officer, which are required by Section 302 of the Sarbanes-Oxley Act of 2002. The information set forth in this Item 4 should be read in conjunction with these Section 302 certifications. Additionally, our Chief Executive Officer and Chief Financial Officer have provided certain certifications to the Commission pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, which are filed as exhibits to this Report on Form 10-Q.

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For information concerning certain legal proceedings see Note 6 of the financial statements.

Item 2. Changes in Securities and Use of Proceeds.

None.

Item 3. Defaults upon Senior Securities.

None.

Item 4. Submission of Matters to a Vote of Security Holders.

The Company held its annual meeting of shareholders on May 27, 2004. At the meeting, the shareholders elected the following individuals to one-year terms as members of the Board of Directors: Ari J. Benacerraf, Peter H. Cressy, David A. Durkin, Kenneth V. Huseman, Robert L. Keiser, Gerhard E. Kurz, Pierre F. Lapeyre, Jr., David M. Leuschen, Thomas P. Moore, Jr., and Steven A. Webster.

The voting results of the election of directors and the ratification of the appointment of Ernst & Young LLP as independent public accountants for the year 2004 voted upon at the meeting are as follows:

Election of Directors:

| Nominee | Votes For | Authority Withheld |
|------------------------|------------------|-------------------------------|
| Ari J. Benacerraf | 22,250,883 | 875,530 |
| Peter H. Cressy | 23,080,575 | 45,838 |
| David A. Durkin | 22,391,286 | 735,127 |
| Kenneth V. Huseman | 22,495,580 | 630,833 |
| Robert L. Keiser | 23,080,575 | 45,838 |
| Gerhard E. Kurz | 22,495,580 | 630,833 |
| Pierre F. Lapeyre, Jr. | 22,335,877 | 790,536 |
| David M. Leuschen | 23,335,977 | 790,436 |
| Thomas P. Moore, Jr. | 23,080,575 | 45,838 |
| Steven A. Webster | 22,319,474 | 806,939 |

To ratify the appointment of Ernst & Young LLP as the Company's independent public accountants for the year ending December 31, 2004:

Votes For

Votes Against

| | | Votes Abstaining |
|------------|-------|-----------------------------|
| 23,116,715 | 2,188 | 7,510 |

Item 5. Other Information.

None.

Item 6. Exhibits and Reports on Form 8-K.

(a) Exhibits

- 10.14 Severance Agreement between the Company and Vincent J. deSostoa dated April 10, 2003.
- 10.15 Severance Agreement between the Company and Larry D. Francois dated April 10, 2003.
- 10.16 Severance Agreement between the Company and Alan R. Twaits dated April 10, 2003.

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- 10.17 Severance Agreement between the Company and Hubert E. Thyssen dated April 21, 2003.
 - 10.18 Severance Agreement between the Company and Michael J. Pellicci dated as of May 27, 2004.
 - 10.19 Severance Agreement between the Company and Kenneth M. Rogers dated as of May 27, 2004.
 - 10.20 Severance Agreement between the Company and L. Stephen Willrich dated as of May 27, 2004.
 - 10.21 Subsidiary Guarantee Agreement dated as of March 16, 2004, among Seabulk International, Inc., the Subsidiary Guarantors named therein, Fortis Capital Corp, as Agents for the Counterparties to the Swap Agreements, Fortis Capital Corp., as Counterparty, NIB Capital Bank N.V., as Counterparty, and HBOS Treasury Services PLC, as Counterparty.
 - 10.22 Supplemental Credit Agreement dated as of June 17, 2004 between Seabulk International, Inc., as Borrower, and Fortis Capital Corp., as Agent.
 - 10.23 First Supplemental Subsidiary Guarantee Agreement dated as of June 17, 2004 between Seabulk International, Inc., as Borrower, and Fortis Capital Corp., as Agent.
 - 31.1 Certification of Principal Executive Officer pursuant to Rule 13a-14(a) of the Securities and Exchange Act of 1934.
 - 31.2 Certification of Principal Financial Officer pursuant to Rule 13a-14(a) of the Securities and Exchange Act of 1934.
 - 32.1 Certification of Principal Executive Officer pursuant to 18 U.S.C. § 1350, as adopted pursuant to Section 906 of the Sarbanes Oxley Act of 2002 and Rule 13a-14(b) of the Securities Exchange Act of 1934 (furnished herewith).
 - 32.2 Certification of Principal Financial Officer pursuant to 18 U.S.C. § 1350, as adopted pursuant to Section 906 of the Sarbanes Oxley Act of 2002 and Rule 13a-14(b) of the Securities Exchange Act of 1934 (furnished herewith).
- (b) Reports on Form 8-K

The following reports on Form 8-K were filed (other than information reported pursuant to Item 9, which was furnished to the Securities and Exchange Commission rather than filed) during the quarter ended June 30, 2004:

1. The Company filed a Current Report on Form 8-K dated May 14, 2004. Items 7 and 12 were reported and no financial statements were filed.

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Signature

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

SEABULK INTERNATIONAL, INC.

/s/ MICHAEL J. PELLICCI

Michael J. Pellicci
VP - Finance and Corporate Controller
(Chief Accounting and Duly Authorized Officer)
Date: August 13, 2004