

SEABULK INTERNATIONAL INC

Form 10-Q

May 16, 2005

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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 March 31, 2005

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 23,619,873 shares of Common Stock, par value \$0.01 per share, outstanding at May 2, 2005.

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**SEABULK INTERNATIONAL, INC.**

**FORM 10-Q**

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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)**

	<b>March 31, 2005</b>	<b>December 31, 2004</b>
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 31,310	\$ 18,949
Restricted cash	30,350	35,681
Trade accounts receivable, net of allowance for doubtful accounts of \$5,881 and \$5,649 in 2005 and 2004, respectively	51,848	55,209
Other receivables	4,121	3,784
Marine operating supplies	8,081	7,868
Prepaid expenses and other	4,163	3,627
<b>Total current assets</b>	<b>129,873</b>	<b>125,118</b>
Vessels and equipment, net	596,626	598,793
Deferred costs, net	41,976	45,053
Other	21,173	17,824
<b>Total assets</b>	<b>\$ 789,648</b>	<b>\$ 786,788</b>
<b>Liabilities and Stockholders Equity</b>		
Current liabilities:		
Accounts payable	\$ 10,126	\$ 14,918
Current maturities of long-term debt	16,429	16,653
Current obligations under capital leases	3,531	3,708
Accrued interest	6,265	4,875
Accrued liabilities and other	35,333	35,321
<b>Total current liabilities</b>	<b>71,684</b>	<b>75,475</b>
Long-term debt	323,714	325,965
Senior notes	148,006	152,906
Obligations under capital leases	27,841	28,568
Other liabilities	7,663	4,879
<b>Total liabilities</b>	<b>578,908</b>	<b>587,793</b>
Commitments and contingencies		

Stockholders' equity:

Preferred stock, no par value-authorized 5,000; issued and outstanding, none		
Common stock \$.01 par value, authorized 40,000 shares; 23,620 and 23,446 shares issued and outstanding in 2005 and 2004, respectively	236	234
Additional paid-in capital	261,746	259,843
Accumulated other comprehensive income	31	55
Unearned compensation	(2,074)	(758)
Accumulated deficit	(49,199)	(60,379)
Total stockholders' equity	210,740	198,995
Total liabilities and stockholders' equity	\$ 789,648	\$ 786,788

*See notes to condensed consolidated financial statements.*

**Table of Contents****Seabulk International, Inc. and Subsidiaries****Condensed Consolidated Statements of Operations (Unaudited)**  
**(in thousands, except per share data)**

	<b>Three Months Ended</b>	
	<b>March 31,</b>	
	<b>2005</b>	<b>2004</b>
Revenue	\$ 95,581	\$ 82,534
Vessel and voyage expenses:		
Crew payroll and benefits	22,600	22,581
Charter hire	4,892	3,587
Repairs and maintenance	4,645	6,198
Insurance	3,181	2,620
Fuel and consumables	7,283	7,015
Port charges and other	5,326	4,906
	47,927	46,907
General and administrative	9,568	9,425
Depreciation, amortization and drydocking	16,520	15,790
Loss on disposal of assets, net	130	12
Income from operations	21,436	10,400
Other income (expense):		
Interest expense	(9,426)	(8,069)
Interest income	146	66
Minority interest in losses of subsidiaries		78
Other, net	(8)	4,524
Total income (expense), net	(9,288)	(3,401)
Income before provision for income taxes	12,148	6,999
Provision for income taxes	968	1,349
<b>Net income</b>	<b>\$ 11,180</b>	<b>\$ 5,650</b>
Net income per common share:		
Net income per common share basic	\$ 0.48	\$ 0.24
Net income per common share diluted	\$ 0.46	\$ 0.24
Weighted average common shares outstanding basic	23,327	23,249
Weighted average common shares outstanding diluted	24,273	23,795

*See notes to condensed consolidated financial statements.*

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

	<b>Three Months Ended</b>	
	<b>March 31,</b>	
	<b>2005</b>	<b>2004</b>
		<b>(as restated, see Note 1)</b>
<b>Operating activities:</b>		
Net income	\$ 11,180	\$ 5,650
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization of vessels and equipment	9,903	9,900
Expenditures for drydocking	(3,943)	(4,628)
Amortization of drydocking costs	6,617	5,890
Amortization of discount on long-term debt and financing costs	418	412
Amortization of unearned compensation	194	
Provision for bad debts	432	1,643
Loss on disposal of assets	130	12
Minority interest in losses of subsidiaries		(78)
Other		51
Changes in operating assets and liabilities:		
Trade accounts and other receivables	2,592	1,360
Other current and long-term assets	(9,157)	(5,465)
Accounts payable and other liabilities	(623)	(3,264)
Net cash provided by operating activities	17,743	11,483
<b>Investing activities:</b>		
Proceeds from disposals of assets	2,250	601
Purchases of vessels and equipment	(9,973)	(71,040)
Net cash used in investing activities	(7,723)	(70,439)
<b>Financing activities:</b>		
Proceeds from Amended Credit Facility		20,000
Payments on Amended Credit Facility	(5,500)	
Proceeds from long-term debt	5,799	49,600
Payments of long-term debt	(2,324)	(843)
Payments of Title XI bonds	(450)	(450)
Payments of obligations under capital leases	(904)	(865)
Payments of deferred financing costs related to 2003 Senior Notes and Amended Credit Facility		(95)
Payments of other deferred financing costs	(6)	(506)
Proceeds from exercise of stock options	395	167
Decrease (increase) in restricted cash	5,331	(3,617)
Net cash provided by financing activities	2,341	63,391



Change in cash and cash equivalents	12,361	4,435
Cash and cash equivalents at beginning of period	18,949	7,399
<b>Cash and cash equivalents at end of period</b>	<b>\$ 31,310</b>	<b>\$ 11,834</b>
<b>Supplemental schedule of non-cash investing and financing activities:</b>		
Obligation for fair market value of interest rate swap	\$ 1,994	\$ 4,891

*See notes to condensed consolidated financial statements.*

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**Seabulk International, Inc. and Subsidiaries**

**Notes to Condensed Consolidated Financial Statements**

**March 31, 2005 (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, 2004 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 the 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 and Form 10-K/A Amendment No. 1 for the fiscal year ended December 31, 2004. For the three months ended March 31, 2005, the Company's components of comprehensive income include net income and a foreign currency forward contract for approximately \$24,000. For the three months ended March 31, 2004, except for net income, the Company had no material components of comprehensive income.

Certain financial statement reclassifications have been made to conform prior period data to the 2005 financial statement presentation.

The Company recently reviewed its financial statement presentation and disclosure in response to comments received from the staff of the Securities and Exchange Commission (the SEC) in a normal periodic review of the Company's filings. As a result, the Company is restating the accompanying 2004 condensed consolidated statement of cash flows to classify expenditures for drydocking of \$4.6 million as an operating activity rather than an investing activity.

**2. Merger**

On March 16, 2005, SEACOR Holdings Inc., a Delaware corporation (SEACOR), entered into a merger agreement (the Merger Agreement) with Seabulk International, Inc., a Delaware corporation (Seabulk or the Company), SBLK Acquisition Corp., a Delaware corporation and a direct, wholly owned subsidiary of SEACOR (Merger Sub) and CORBULK LLC, a Delaware limited liability company and a direct, wholly owned subsidiary of SEACOR (LLC). The Merger Agreement provides that, upon the terms and subject to the conditions set forth in the Merger Agreement, the Merger Sub will merge with and into Seabulk, with Seabulk continuing as the surviving corporation and a direct, wholly owned subsidiary of SEACOR (the Merger). The structure of the Merger could be modified such that Seabulk could merge with and into LLC, with LLC continuing as the surviving entity and a direct, wholly owned subsidiary of SEACOR, depending on the share price of SEACOR stock. As part of the transaction, entities associated with DLJ Merchant Banking Partners III, L.P. and Carlyle/Riverstone Global Energy and Power Fund I, L.P., who collectively own approximately 75% of Seabulk's common shares, have entered into an agreement to support the transaction.

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At the effective time and as a result of the Merger, Seabulk stockholders will be entitled to receive in exchange for each issued and outstanding share of Seabulk common stock (i) \$4.00 in cash and (ii) 0.2694 shares of SEACOR common stock. In certain circumstances, the portion of the merger consideration payable in cash may be reduced and shares of SEACOR common stock, having a value on the closing date equal to the cash reduction, may be substituted therefor. The closing prices of SEACOR and Seabulk shares on Wednesday, March 16, 2005, were \$65.28 and \$16.73, respectively. All outstanding Seabulk stock options will be assumed by SEACOR. Each such option for Seabulk common stock will then become exercisable for SEACOR common stock under the exchange ratio, plus the cash component.

Seabulk and SEACOR have made customary representations, warranties and covenants in the Merger Agreement. The completion of the Merger is subject to approval by the stockholders of each of Seabulk and SEACOR and the satisfaction of customary conditions, including regulatory approvals. As part of the transaction, entities associated with DLJ Merchant Banking Partners III, L.P. and Carlyle/Riverstone Global Energy and Power Fund I, L.P., who collectively own approximately 75% of Seabulk's common shares, have entered into an agreement to support the transaction.

The Merger Agreement contains certain termination rights for both SEACOR and Seabulk and further provides that, upon termination of the Merger Agreement under specified circumstances, Seabulk may be required to pay SEACOR a termination fee of up to \$21.3 million and SEACOR may be required to pay Seabulk a termination fee of up to \$5 million.

On April 22, 2005, the Company announced the early termination of the waiting period under the Hart-Scott-Rodino Antitrust Improvements Act, thereby satisfying one of the key conditions to the completion of the merger.

### **3. Vessel Purchases, Sales and Operations**

In January 2005, the Company took delivery of and began to operate the *Seabulk Angra*, an offshore supply vessel, under a time charter with Petrobras in Brazil. The vessel brings the total number of vessels operating in the Brazil market to three under charter with Petrobras.

In January 2005, the Company took delivery of and began to operate the *Seabulk Carmen*, a supply boat, in the U.S. Gulf of Mexico. The transaction to acquire the *Seabulk Carmen* was a like-kind exchange of assets of equal value and was a tax-free transaction to the Company, in which the Company delivered three older crew boats and one older geophysical vessel in exchange for the *Seabulk Carmen*.

In March 2005, the Company sold the *Seabulk Veritas*, an offshore support vessel operating in the U.S. Gulf of Mexico. Proceeds from the sale of the vessel were \$200,000. The gain on the sale of the vessel was approximately \$45,000.

In March 2005, the Company sold the *Seabulk Neptune*, an anchor handling tug operating in West Africa. Proceeds from the sale of the vessel were approximately \$200,000. The loss on the sale of the vessel was approximately \$148,000.

In March 2005, the Company delivered the *Seabulk Winn*, a crew boat operating in the U.S. Gulf of Mexico, and \$550,000 in exchange for the *C/Crusader*, a supply boat, and the assignment of a purchase and sale agreement. The Company subsequently sold the *C/Crusader* under the terms of the assigned purchase and sale agreement for proceeds of approximately \$1.9 million. The transaction was a like-kind exchange of assets of equal value and was a tax free-transaction to the Company.



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For the three months ended March 31, 2005 and 2004, a tax provision was computed using an estimated annual effective tax rate of 35%. A corresponding reduction in the valuation allowance was recorded. Management has recorded a valuation allowance at March 31, 2005 and 2004 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. The current provision for income taxes for the three-month period ended March 31, 2005 represents expected tax obligations on foreign-source revenue and includes a benefit of \$0.5 million related to the acceptance by the Internal Revenue Service of the Company's refund request related to the 1997 tax year. The current provision for income taxes for the three-month period ended March 31, 2004 represents expected tax obligations on foreign-source revenue.

**5. Net Income per Common Share**

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

	<b>Three Months Ended March 31, 2005      2004 (in thousands, except per share data)</b>	
Numerator for basic and diluted net income per share:		
Net income available to common shareholders	\$ 11,180	\$ 5,650
Denominator for basic net income per share-weighted average shares	23,327	23,249
Effects of dilutive securities:		
Stock options	691	337
Warrants	157	159
Restricted shares	98	50
Dilutive potential common shares	946	546
Denominator for diluted net income per share-adjusted weighted average shares and assumed conversions	24,273	23,795
Net income per share - basic	\$ 0.48	\$ 0.24
Net income per share - diluted	\$ 0.46	\$ 0.24

The weighted average diluted common shares outstanding for the three months ended March 31, 2004 excludes 74,000 options as these common stock equivalents are antidilutive.

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**6. 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 10 U.S.-flag product tankers and two foreign-flag product tankers. The U.S.-flag oceangoing vessels are used to transport petroleum, chemicals, and crude 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. One U.S.-flag vessel and the two foreign-flag 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.

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

	<b>Three Months Ended March 31,</b>	
	<b>2005</b>	<b>2004</b>
<b>Revenue</b>		
Offshore energy support	\$ 45,347	\$ 39,583
Marine transportation services	38,659	33,462
Towing	11,654	9,578
Eliminations <sup>(1)</sup>	(79)	(89)
<b>Total</b>	<b>\$ 95,581</b>	<b>\$ 82,534</b>
<b>Vessel and voyage expenses</b>		
Offshore energy support	\$ 24,329	\$ 25,205
Marine transportation services	17,561	16,853
Towing	6,116	4,938
Eliminations <sup>(1)</sup>	(79)	(89)
<b>Total</b>	<b>\$ 47,927</b>	<b>\$ 46,907</b>
<b>Depreciation, amortization and drydocking</b>		
Offshore energy support	\$ 8,840	\$ 9,545

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

(2) Americas consist of vessels operating in the United States, the Gulf of Mexico, South America and the Caribbean.

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**7. Commitments and Contingencies**

Under United States law, United States persons are prohibited from business activities and contracts in certain countries, including Sudan and Iran. Relating to the prohibitions, 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 three of its vessels, the *Seabulk Magnachem*, *Seabulk Challenger* and *Seabulk Pride*, under an alleged broker commission agreement. MTDC was controlled by the founders of our predecessor company. The claim allegedly continues to accrue. The amount alleged to be due is over \$800,000, 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.

As of February 20, 2004, the Company switched its mutual protection and indemnity ( P&I ) marine insurance policies from Steamship Mutual ( Steamship ) to West of England Association ( West of England ). Under the Company's P&I policies, the Company could be liable for additional premiums to cover investment losses and reserve shortfalls experienced by its marine insurance clubs; however, additional premiums can only be assessed for open policy years. Steamship and West of England close a policy year three years after the policy year has ended. Completed policy years 2002 and 2003 are still open for Steamship and policy year 2004 is open for West of England. There have been no additional premiums assessed for these policy years and the Company believes it is unlikely that additional premiums for those policy years will be assessed. The Company will record a liability for any such additional premiums if and when they are assessed and the amount can be reasonably estimated.

In order to cover potential future additional insurance calls made by Steamship 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. 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.

P&I insurance premiums were approximately \$2.1 million and \$1.5 million for the three months ended March 31, 2005 and 2004, respectively. The Company's hull and machinery insurance renewed in October 2004. Additionally, the Company maintains high levels of self-insurance for P&I and hull and machinery risks through the use of substantial deductibles and self-insured retentions.

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.

**8. Stock-Based Compensation**



As permitted by Statement of Financial Accounting Standards No. 123, *Accounting for Stock-Based Compensation* ( SFAS No. 123 ), the Company has elected to follow Accounting Principles Board Opinion No. 25, *Accounting for Stock Issued to Employees* ( APB No. 25 ) and related interpretations in accounting for its employee stock-based transactions and has complied with the disclosure requirements of SFAS No. 123. Under APB No. 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.

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 No. 123, the Company's net income would have decreased to the pro forma amounts presented below:

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	<b>Three Months Ended March 31,</b>	
	<b>2005</b>	<b>2004</b>
Net income, as reported	\$ 11,180	\$ 5,650
Stock-based compensation expense determined under the fair value method	(447)	(376)
Pro forma net income	\$ 10,733	\$ 5,274
Net income per common share:		
Basic-as reported	\$ 0.48	\$ 0.24
Basic-pro forma	\$ 0.46	\$ 0.23
Diluted-as reported	\$ 0.46	\$ 0.24
Diluted-pro forma	\$ 0.44	\$ 0.22

Effective October 14, 2004, the Company amended the stock option agreements for all of the vested and unvested awards, whereby the option exercise period was extended from 12 months to 36 months in the event of termination within two years of a change in control, as defined in the plan. In accordance with FASB Interpretation No. 44 *Accounting for Certain Transactions Involving Stock Compensation*, the amendment to the agreements is considered a modification of the award and accordingly the intrinsic value of the option award shall be measured at the date of the modification and any intrinsic value in excess of the amount measured at the original measurement date shall be recognized as compensation cost if the separation event occurs. As of December 31, 2004 the intrinsic value in excess of the amount measured at the original measurement date was \$4.1 million and, if a separation event occurred within two years of a change in control, would be recognized as compensation expense in the accompanying condensed consolidated statement of operations.

**9. Recent Accounting Pronouncements**

In December 2004, the Financial Accounting Standards Board ( FASB ) issued Statement of Financial Accounting Standards No. 123 (revised 2004), *Share-Based Payment* ( SFAS No. 123R ), which requires companies to expense in their consolidated statements of operations the estimated fair value of employee stock options and similar awards. The Company currently uses the intrinsic value method to value stock options, and accordingly, no compensation expense has been recognized for stock options since the Company grants stock options with exercise prices equal to or greater than the Company's common stock market price on the date of the grant. The Company will adopt the provisions of SFAS No. 123R using the modified prospective application. Under the modified prospective application, SFAS No. 123R will apply to new awards and to awards that are outstanding on the effective date and are subsequently modified or cancelled. Compensation expense for unvested stock-based awards will be recognized over the remaining vesting period. Depending on the model used to calculate stock-based compensation expense in the future, the implementation of certain other requirements of SFAS No. 123R and additional option grants expected to be made in the future, the pro forma disclosure discussed previously may not be indicative of the stock-based compensation expense that will be recognized in the Company's future consolidated financial statements. In April 2005, the FASB delayed the implementation of SFAS No. 123R from the next reporting period beginning after June 15, 2005 until the beginning of the Company's next fiscal year. The Company is in the process of determining the impact adopting SFAS

No. 123R will have on its consolidated financial position and consolidated results of operations.

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In December 2004, the FASB issued Statement of Financial Accounting Standard No. 153, *Exchanges of Nonmonetary Assets* ( SFAS No. 153 ), an amendment of APB Opinion No. 29, *Accounting for Nonmonetary Transactions* ( APB No. 29 ). APB No. 29 is based on the principle that exchanges of nonmonetary assets should be measured based on the fair value of assets exchanged, however certain exceptions apply. SFAS No. 153 amends APB No. 29 to eliminate the exception for nonmonetary exchanges of similar productive assets that do not have commercial substance. A nonmonetary exchange has commercial substance if the future cash flows of the entity are expected to change significantly as a result of the exchange. SFAS No. 153 is effective for nonmonetary exchanges occurring in fiscal periods beginning after June 15, 2005. The Company's adoption of SFAS No. 153 is not expected to have a material impact on the Company's consolidated financial position and consolidated results of operations.

**10. Supplemental Condensed Consolidated Financial Information**

The Restricted Subsidiaries as to which financial information is included in the tables below are subsidiaries of the Company that are subject to the terms and conditions of the Indenture governing the 2003 Senior Notes. Only certain of the Restricted Subsidiaries (representing the domestic restricted subsidiaries and referred to in the Indenture as the Guarantor Subsidiaries ), jointly and severally guarantee the 2003 Senior Notes, on a senior unsecured basis. The Non-guarantor Unrestricted Subsidiaries as to which financial information is included in the tables below are the subsidiary entities that own the five U.S.-flag double-hull product tankers which are financed by the U.S. Maritime Administration backed Title XI debt with recourse to the five tankers and the subsidiaries that own them. These entities are designated as Non-Recourse or Unrestricted subsidiaries under the Indenture and do not guarantee the 2003 Senior Notes.

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Supplemental financial information for the Company and its guarantor restricted subsidiaries, non-guarantor restricted subsidiaries and non-guarantor unrestricted subsidiaries under the 2003 Senior Notes is presented below.

**Condensed Consolidating Balance Sheet**  
(in thousands)  
As of March 31, 2005

	Parent	Wholly Owned Guarantor Restricted Subsidiaries	Non- Guarantor Restricted Subsidiaries	Non- Guarantor Unrestricted Subsidiaries	Eliminations	Consolidated Total
<b>Assets</b>						
Current assets:						
Cash and cash equivalents	\$ 22,955	\$ 986	\$ 7,369	\$	\$	\$ 31,310
Restricted cash			2,756	27,594		30,350
Trade accounts receivable, net	366	18,294	30,046	3,142		51,848
Other receivables	1,313	2,257	360	191		4,121
Marine operating supplies	(698)	3,178	3,118	2,483		8,081
Prepaid expenses and other	1,806	514	1,321	522		4,163
Total current assets	25,742	25,229	44,970	33,932		129,873
Vessels and equipment, net	54,371	210,543	125,260	206,452		596,626
Deferred costs, net	12,902	8,099	13,211	7,764		41,976
Investments in affiliates	525,413				(525,413)	
Due from affiliates		50,282	127,080	3,698	(181,060)	
Other	5,807	712	1,549	13,105		21,173
Total assets	\$ 624,235	\$ 294,865	\$ 312,070	\$ 264,951	\$ (706,473)	\$ 789,648
<b>Liabilities and Stockholders Equity</b>						
Current liabilities:						
Accounts payable	\$ 938	\$ 3,003	\$ 6,185	\$	\$	\$ 10,126
Current maturities of long-term debt	3,350	7,067	659	5,353		16,429
Current obligations under capital leases	1,108	2,423				3,531
Accrued interest	1,878	161	6	4,220		6,265
Accrued liabilities and other	8,265	4,931	19,775	2,362		35,333
Total current liabilities	15,539	17,585	26,625	11,935		71,684

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Long-term debt	56,688	51,507	14,853	200,666		323,714
Senior Notes	148,006					148,006
Obligations under capital leases	10,192	17,649				27,841
Due to affiliates	177,536				(177,536)	
Other liabilities	5,534	238	1,846	45		7,663
Total liabilities	413,495	86,979	43,324	212,646	(177,536)	578,908
Commitments and contingencies						
Total stockholders equity	210,740	207,886	268,746	49,027	(528,937)	210,740
Total liabilities and stockholders equity	\$ 624,235	\$ 294,865	\$ 312,070	\$ 264,951	\$ (706,473)	\$ 789,648

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**Condensed Consolidating Balance Sheet**  
(in thousands)

As of December 31, 2004

	Parent	Wholly Owned Guarantor Restricted Subsidiaries	Non- Guarantor Restricted Subsidiaries	Non- Guarantor Unrestricted Subsidiaries	Eliminations	Consolidated Total
<b>Assets</b>						
Current assets:						
Cash and cash equivalents	\$ 8,265	\$ 4,983	\$ 5,701	\$	\$	\$ 18,949
Restricted cash			2,756	32,925		35,681
Trade accounts receivable, net	35	17,797	32,207	5,170		55,209
Other receivables	1,003	2,430	204	147		3,784
Marine operating supplies	79	2,503	2,700	2,586		7,868
Due from affiliates		66,330	119,375	3,372	(189,077)	
Prepaid expenses and other	2,005	285	1,239	98		3,627
<b>Total current assets</b>	<b>11,387</b>	<b>94,328</b>	<b>164,182</b>	<b>44,298</b>	<b>(189,077)</b>	<b>125,118</b>
Vessels and equipment, net	46,072	216,200	127,848	208,673		598,793
Deferred costs, net	14,546	6,625	15,438	8,444		45,053
Investments in affiliates	525,588	14,644	364	82,611	(623,207)	
Other	7,231	813	1,177	8,603		17,824
<b>Total assets</b>	<b>\$ 604,824</b>	<b>\$ 332,610</b>	<b>\$ 309,009</b>	<b>\$ 352,629</b>	<b>\$ (812,284)</b>	<b>\$ 786,788</b>
<b>Liabilities and Stockholders</b>						
<b>Equity</b>						
Current liabilities:						
Accounts payable	\$ 4,802	\$ 1,159	\$ 8,957	\$	\$	\$ 14,918
Current maturities of long-term debt	3,799	7,065	436	5,353		16,653
Current obligations under capital leases	1,093	2,615				3,708
Accrued interest	4,008	159	5	703		4,875
Due to affiliates	161,144				(161,144)	
Accrued liabilities and other	8,854	4,676	17,929	3,862		35,321
<b>Total current liabilities</b>	<b>183,700</b>	<b>15,674</b>	<b>27,327</b>	<b>9,918</b>	<b>(161,144)</b>	<b>75,475</b>
Long-term debt	57,544	53,275	14,480	200,666		325,965
Senior Notes	152,906					152,906

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Obligations under capital leases	10,476	18,092				28,568
Due to affiliates		27,935			(27,935)	
Other liabilities	2,851	242	1,740	46		4,879
Total liabilities	407,477	115,218	43,547	210,630	(189,079)	587,793
Commitments and contingencies						
Total stockholders equity	197,347	217,392	265,462	141,999	(623,205)	198,995
Total liabilities and stockholders equity	\$ 604,824	\$ 332,610	\$ 309,009	\$ 352,629	\$ (812,284)	\$ 786,788



**Table of Contents****Condensed Consolidating Statement of Operations**

(in thousands)

Three Months Ended March 31, 2005

	Parent	Wholly Owned Guarantor Restricted Subsidiaries	Non-Wholly Owned Guarantor Restricted Subsidiaries <sup>(a)</sup>	Non-Guarantor Restricted Subsidiaries	Non-Guarantor Unrestricted Subsidiaries	Eliminations	Consolidated Total
Revenue	\$ 11,827	\$ 30,504	\$	\$ 35,240	\$ 18,089	\$ (79)	\$ 95,581
Vessel and voyage expenses	6,589	15,704		18,306	7,407	(79)	47,927
General and administrative	3,473	2,401		3,263	431		9,568
Depreciation, amortization and drydocking	2,294	5,082		6,365	2,779		16,520
(Gain) loss on disposal of assets, net		(18)		148			130
Income (loss) from operations	(529)	7,335		7,158	7,472		21,436
Other expense	(449)	(2,770)		(2,399)	(3,670)		(9,288)
Income (loss) before income taxes	(978)	4,565		4,759	3,802		12,148
Provision for income taxes	(507)			1,475			968
Net income (loss)	\$ (471)	\$ 4,565	\$	\$ 3,284	\$ 3,802	\$	\$ 11,180

(a) In December 2004, the Company purchased the minority interest in a partnership that owns the Seabulk America. Subsequent to the acquisition, all Guarantor Restricted Subsidiaries are wholly-owned subsidiaries of the Company.

**Condensed Consolidating Statement of Operations**

(in thousands)

Three Months Ended March 31, 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	\$ 11,913	\$ 17,345	\$ 3,319	\$ 32,118	\$ 17,928	\$ (89)	\$ 82,534

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Vessel and voyage expenses	6,057	11,851	2,190	18,484	8,414	(89)	46,907
General and administrative	1,852	2,564	210	4,455	344		9,425
Depreciation, amortization and drydocking	1,717	3,871	821	6,684	2,697		15,790
(Gain) loss on disposal of assets, net		(1)		13			12
Income (loss) from operations	2,287	(940)	98	2,482	6,473		10,400
Other income (expense)	4,428	(1,900)	(337)	(1,752)	(3,918)	78	(3,401)
Income (loss) before income taxes	6,715	(2,840)	(239)	730	2,555	78	6,999
Provision for income taxes				1,349			1,349
Net income (loss)	\$ 6,715	\$ (2,840)	\$ (239)	\$ (619)	\$ 2,555	\$ 78	\$ 5,650

**Table of Contents****Condensed Consolidating Statement of Cash Flows  
(in thousands)****Three Months Ended March 31, 2005**

	<b>Parent</b>	<b>Wholly Owned Guarantor Restricted Subsidiaries</b>	<b>Non-Wholly Owned Guarantor Restricted Subsidiaries<sup>(a)</sup></b>
Net cash provided by (used in) operating activities	\$ 24,330	\$ (3,032)	\$
<b>Investing activities:</b>			
Proceeds from sales of vessels and equipment		2,050	
Purchases of vessels and equipment	(8,459)	(610)	
Net cash (used in) provided by investing activities	(8,459)	1,440	
<b>Financing activities:</b>			
Proceeds from Amended Credit Facility			
Payments on Amended Credit Facility	(5,500)		
Proceeds from long-term debt	5,170	33	
Payments of long-term debt	(525)	(1,799)	
Payments of Title XI bonds	(450)		
Payments of obligations under capital leases	(269)	(635)	
Payment of other deferred financing costs	(2)	(4)	
Proceeds from exercise of stock options	395		
Decrease in restricted cash			
Net cash (used in) provided by financing activities	(1,181)	(2,405)	
Increase (decrease) in cash and cash equivalents	14,690	(3,997)	
Cash and cash equivalents at beginning of period	8,265	4,983	
Cash and cash equivalents at end of period	\$ 22,955	\$ 986	\$

<sup>(a)</sup> In December 2004, the Company purchased the minority interest in a partnership that owns the Seabulk America. Subsequent to the acquisition, all Guarantor Restricted Subsidiaries are wholly-owned subsidiaries of the Company.

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**Condensed Consolidating Statement of Cash Flows**  
(in thousands)

**Three Months Ended March 31, 2005**

	<b>Non- Guarantor Restricted Subsidiaries</b>	<b>Non- Guarantor Unrestricted Subsidiaries</b>	<b>Eliminations</b>	<b>Consolidated Total</b>
Net cash provided by (used in) operating activities	\$ 1,776	\$ (5,331)	\$	\$ 17,743
<b>Investing activities:</b>				
Proceeds from sales of vessels and equipment	200			2,250
Purchases of vessels and equipment	(904)			(9,973)
Net cash (used in) provided by investing activities	(704)			(7,723)
<b>Financing activities:</b>				
Proceeds from Amended Credit Facility				(5,500)
Payments on Amended Credit Facility				(5,500)
Proceeds from long-term debt	596			5,799
Payments of long-term debt				(2,324)
Payments of Title XI bonds				(450)
Payments of obligations under capital leases				(904)
Payment of other deferred financing costs				(6)
Proceeds from exercise of stock options				395
Decrease in restricted cash		5,331		5,331
Net cash (used in) provided by financing activities	596	5,331		2,341
Increase (decrease) in cash and cash equivalents	1,668			12,361
Cash and cash equivalents at beginning of period	5,701			18,949
Cash and cash equivalents at end of period	\$ 7,369	\$	\$	\$ 31,310

**Table of Contents****Condensed Consolidating Statement of Cash Flows  
(in thousands)****Three Months Ended March 31, 2004**

	<b>Parent</b>	<b>Wholly Owned Guarantor Restricted Subsidiaries</b>	<b>Non-Wholly Owned Guarantor Restricted Subsidiaries</b>
Net cash (used in) provided by operating activities	\$ (16,904)	\$ 13,702	\$ (271)
<b>Investing activities:</b>			
Proceeds from sales of vessels and equipment		1	
Purchases of vessels and equipment	(21)	(62,026)	
Net cash (used in) provided by investing activities	(21)	(62,025)	
<b>Financing activities:</b>			
Proceeds from Amended Credit Facility	20,000		
Payments of long-term debt	(525)	(318)	
Proceeds from long-term debt		49,600	
Payments of Title XI bonds	(450)		
Payments of obligations under capital leases	(254)	(611)	
Payments of deferred financing costs related to 2003 Senior Notes and Amended Credit Facility	(95)		
Payment of other deferred financing costs		(506)	
Proceeds from the exercise of stock options	167		
Increase in restricted cash			
Net cash provided by (used in) financing activities	18,843	48,165	
Increase (decrease) in cash and cash equivalents	1,918	(158)	(271)
Cash and cash equivalents at beginning of period	217	452	1,030
Cash and cash equivalents at end of period	\$ 2,135	\$ 294	\$ 759

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**Condensed Consolidating Statement of Cash Flows**  
(in thousands)

**Three Months Ended March 31, 2004**

	<b>Non- Guarantor Restricted Subsidiaries</b>	<b>Non- Guarantor Unrestricted Subsidiaries</b>	<b>Eliminations</b>	<b>Consolidated Total</b>
Net cash (used in) provided by operating activities	\$ 11,321	\$ 3,635	\$	\$ 11,483
<b>Investing activities:</b>				
Proceeds from sales of vessels and equipment	600			601
Purchases of vessels and equipment	(8,975)	(18)		(71,040)
Net cash (used in) provided by investing activities	(8,375)	(18)		(70,439)
<b>Financing activities:</b>				
Proceeds from Amended Credit Facility				20,000
Payments of long-term debt				(843)
Proceeds from long-term debt				49,600
Payments of Title XI bonds				(450)
Payments of obligations under capital leases				(865)
Payments of deferred financing costs related to 2003 Senior Notes and Amended Credit Facility				(95)
Payment of other deferred financing costs				(506)
Proceeds from the exercise of stock options				167
Increase in restricted cash		(3,617)		(3,617)
Net cash provided by (used in) financing activities		(3,617)		63,391
Increase (decrease) in cash and cash equivalents	2,946			4,435
Cash and cash equivalents at beginning of period	5,700			7,399
Cash and cash equivalents at end of period	\$ 8,646	\$	\$	\$ 11,834

## **Table of Contents**

### **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 Company's 2004 Annual Report on Form 10-K and Form 10-K/A Amendment No. 1.

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 Company's 2004 Annual Report on Form 10-K and Form 10-K/A Amendment No. 1.

### **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 Company's 2004 Annual Report on Form 10-K and Form 10-K/A Amendment No. 1.

### **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 47.4% and 47.9% of Company revenue for the three months ended March 31, 2005 and 2004, respectively. Seabulk Tankers, our tanker business, consists of the Company's *Jones Act* U.S.-flag product tanker business, in which it owns nine petroleum and chemical product tankers and leases one chemical product tanker in the domestic coastwise trade. The tanker business also consists of the Company's two foreign-flag product tankers, which began operations in international trade in March and April 2004. Seabulk Tankers accounted for approximately 40.4% and 40.5% of Company revenue for the three months ended March 31, 2005 and 2004, respectively. Seabulk Towing, the Company's domestic harbor and offshore towing business, accounted for approximately 12.2% and 11.6% of Company revenue for the three months ended March 31, 2005 and 2004, respectively.

#### ***Seabulk Offshore***

Revenue from the Company's offshore energy support operations 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 us) 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 and vessels approaching the end of their useful lives.





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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 accounts receivable and believes that it has accrued adequate reserves.

The Company has a newbuild program for selective offshore fleet replacement and enhancement. In 2004, the Company added one vessel to the Brazilian fleet, the *Seabulk Brasil*; and one vessel to the West African fleet, the *Seabulk Advantage*. In January 2005, the Company added one vessel to the Brazilian fleet, the *Seabulk Angra*. The Company also executed contracts in 2004 for two offshore newbuilds for delivery in May and August 2005 to cover contracts in Angola. In addition, in 2004 and in May 2005 the Company signed contracts for a total of eight anchor handling tug supply vessels for delivery in 2006 and 2007.

In January 2005, the Company took delivery of and began to operate the *Seabulk Carmen*, a supply boat operating in the U.S. Gulf of Mexico. The transaction to acquire the *Seabulk Carmen* was a like-kind exchange of assets of equal value and was a tax-free transaction to the Company, in which the Company delivered three older crew boats and one older geophysical vessel in exchange for the *Seabulk Carmen*.

In March 2005, the Company sold the *Seabulk Veritas*, an offshore support vessel operating in the U.S Gulf of Mexico. Proceeds from the sale of the vessel were \$200,000. The gain on the sale of the vessel was approximately \$45,000.

In March 2005, the Company sold the *Seabulk Neptune*, an anchor handling tug operating in West Africa. Proceeds from the sale of the vessel were approximately \$200,000. The loss on the sale of the vessel was approximately \$148,000.

In March 2005, the Company delivered the *Seabulk Winn*, a crew boat operating in the U.S. Gulf of Mexico, and \$550,000 in exchange for the *C/Crusader*, a supply boat, and the assignment of a purchase and sale agreement. The Company subsequently sold the *C/Crusader* under the terms of the assigned purchase and sale agreement for proceeds of approximately \$1.9 million. The transaction was a like-kind exchange of assets of equal value and was a tax-free transaction to the Company.

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. Day rates and utilization are not disclosed for categories with a limited number of vessels.

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	Q1 2005			
	AHTS/ Supply	AHT/ Tugs	Crew/ Utility	Other
<b>Americas<sup>(1)</sup></b>				
Vessels <sup>(2)</sup>	24		14	1
Effective Utilization <sup>(3)</sup>	64%		77%	
Day Rate	\$ 5,518		\$ 3,196	
<b>West Africa</b>				
Vessels <sup>(2)</sup>	29	2	3	1
Effective Utilization <sup>(3)</sup>	87%	79%	92%	
Day Rate	\$ 7,564	\$ 7,076	\$ 3,635	
<b>Middle East</b>				
Vessels <sup>(2)</sup>	8	5	7	4
Effective Utilization <sup>(3)</sup>	84%	95%	72%	72%
Day Rate	\$ 4,298	\$ 4,686	\$ 1,614	\$ 4,095
<b>Southeast Asia</b>				
Vessels <sup>(2)</sup>	7			1
Effective Utilization <sup>(3)</sup>	94%			
Day Rate	\$ 6,159			

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

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

(3) Effective utilization excludes laid-up vessels.

Q1 2004			Q2 2004				Q3 2004				Q4 2004	
AHT/ Tugs	Crew/ Utility	Other	AHTS/ Supply	AHT/ Tugs	Crew/ Utility	Other	AHTS/ Supply	AHT/ Tugs	Crew/ Utility	Other	AHTS/ Supply	AHT/ Tugs
	22	2	21		21	2	21		18	2	22	
		1				1				1		
	63%		52%		67%		68%		73%		69%	
	\$ 2,410		\$ 4,879		\$ 2,442		\$ 4,768		\$ 2,705		\$ 5,421	
4	3		33	4	3		33	4	3		32	
86%	98%		83%	75%	94%		78%	67%	93%		77%	77%
\$ 6,193	\$ 3,413		\$ 7,350	\$ 6,831	\$ 3,524		\$ 7,300	\$ 6,196	\$ 3,620		\$ 7,574	\$ 6,320

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5	7	5	6	5	7	4	6	5	7	4	6	6
80%	79%	43%	97%	84%	92%	78%	83%	75%	93%	95%	86%	6
\$4,565	\$1,740	\$3,966	\$3,880	\$4,739	\$1,712	\$5,043	\$3,827	\$4,951	\$1,659	\$4,804	\$3,782	\$5,38
		1	7			1	7			1	7	
			77%				88%				93%	
			\$5,388				\$5,400				\$5,327	

- 
- (1) Americas consists of vessels operating in the United States, the Gulf of Mexico, South America, and the Caribbean.
  - (2) Held-for-sale and bareboat-out vessels are excluded from the vessel count.
  - (3) Effective utilization excludes laid-up vessels.

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Offshore energy support revenue in the Americas for the three months ended March 31, 2005 increased by 41.7% over the same period in 2004. Gulf of Mexico revenue increased from the prior year due to improvement in natural gas and crude oil drilling activity due to higher commodity prices and strong energy demand, which resulted in higher rates and utilization. However, with a current shortage of additional rigs available for employment, future upside may be limited as boat demand is essentially capped in the shallow water Gulf of Mexico where the Company operates. As a result of the cycles in the Gulf of Mexico, the Company continues to explore charter opportunities in Mexico and Brazil, which remain active markets. The *Seabulk Brasil*, which began operations in Brazil in November 2004, underwent modifications for a part of the first quarter 2005 in preparation for her two year term charter, and now continues to produce high revenues. Revenues are expected to increase in the Americas region as the *Seabulk Angra* begins full operation in Brazil in the second quarter of 2005 after also undergoing modifications for a similar time charter.

International offshore revenues for the three months ended March 31, 2005 increased by approximately 8.0% over the same period in 2004. International vessel demand is primarily driven by crude oil exploration and production. During the first quarter of 2005, crude oil prices and demand remained high. The West African market continues to benefit from a tight market driven by strong exploration and production activity coupled with larger vessels moving out of the region and repatriating back to the North Sea. Day rates continued to improve with almost all available vessels fully utilized. In the Middle East and Southeast Asia, the Company experienced higher rates and utilization in comparison to the prior year. The Company's Middle East region has increased its presence in India to five vessels, which resulted in higher revenues. Revenue increased for the Company's Southeast Asia operations primarily due to a strong Vietnamese market.

***Seabulk Tankers***

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

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

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

	<b>Three Months Ended March</b>	
	<b>31,</b>	
	<b>2005</b>	<b>2004</b>
Number of vessels operated at end of period	12	12
Revenue (in thousands)	\$ 38,659	\$ 33,462

Tanker revenue increased by 15.5% in the first quarter of 2005 as a result of adding the two foreign-flag tankers to the Company's fleet at the end of March 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 industrial 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 March 31, 2005. Five of the petroleum product tankers are double-hull, state-of-the-art vessels, of which two have chemical-carrying capability. The Company's *Jones Act* fleet is benefiting from higher energy demand and a tightening domestic tanker market, although 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 2011, and one in 2015. None of the five U.S.-flag double-hull tankers has an OPA 90 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. petroleum product 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 restriction.

***Seabulk Towing***

Revenue derived from the Company's tug operations is primarily a function of the rates charged for their services, the volume of vessel traffic requiring docking and other ship-assist services, competition and the number of tugs available to provide services. 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:

	<b>Three Months Ended March 31,</b>	
	<b>2005</b>	<b>2004</b>
Number of tugs at end of period	26	26
Revenue (in thousands)	\$ 11,654	\$ 9,578

Towing revenue increased by 21.7% 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, maintenance and repairs, fuel, insurance and charter hire. For general information concerning these categories of vessel and voyage 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 Company's 2004 Annual Report on Form 10-K and Form 10-K/A Amendment No. 1.

**Table of Contents****Results of Operations**

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

	<b>Three Months Ended March 31,</b>			
	<b>2005</b>		<b>2004</b>	
	(\$ s in millions)			
Revenue	\$ 95.6	100%	\$ 82.5	100%
Vessel and voyage expenses	47.9	50%	46.9	57%
General and administrative	9.7	10%	9.4	11%
Depreciation, amortization, drydocking and Other	16.5	17%	15.8	19%
Loss on disposal of assets, net	0.1	0%		0%
Income from operations	\$ 21.4	23%	\$ 10.4	13%
Interest expense, net	\$ 9.3	10%	\$ 8.0	10%
Other income (expense), net	\$	0%	\$ 4.6	6%
Income before provision for income taxes	\$ 12.1	13%	\$ 7.0	8%
Net income	\$ 11.2	12%	\$ 5.7	7%

**Three months ended March 31, 2005 compared with the three months ended March 31, 2004**

**Revenue.** Revenue during the first quarter of 2005 increased 15.8% from \$82.5 million to \$95.6 million versus the comparable period in 2004. The increase primarily reflects higher revenue from the Company's marine transportation and offshore energy support segments and, to a lesser extent, higher towing revenue.

Offshore revenue during the first quarter of 2005 increased 14.6% from \$39.6 million to \$45.3 million versus the comparable period in 2004. The increase reflects increases in rates and utilization for the Americas (including additions to the Brazil fleet), Middle East and Southeast Asia regions.

Marine transportation revenue during the first quarter of 2005 increased 15.5% from \$33.5 million to \$38.7 million versus the comparable period in 2004. The increase primarily reflects the operation of the two new foreign-flag tankers which entered service at the end of March 2004.

Towing revenue during the first quarter of 2005 increased 21.7% from \$9.6 million to \$11.6 million versus the comparable period in 2004. The increase primarily reflects additional vessel traffic in certain of the Company's ports, higher rates, improved utilization of the Company's tug fleet, and additional offshore towing jobs.

**Vessel and Voyage Expenses.** Vessel and voyage expenses during the first quarter of 2005 increased 2.2% from \$46.9 million to \$47.9 million versus the comparable period in 2004. Higher charter hire expenses due to increased

activity in Southeast Asia, the Middle East and outside harbor towing were offset by a decrease in maintenance and repair expenses due to the sale of a number of older vessels in the Gulf of Mexico and West Africa.



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*General and Administrative.* General and administrative expenses during the first quarter of 2005 remained substantially the same at \$9.6 million versus \$9.4 million in the comparable period in 2004.

*Depreciation, Amortization, and Drydocking.* Depreciation, amortization, and drydocking during the first quarter of 2005 increased 4.6% from \$15.8 million to \$16.5 million versus the comparable period in 2004. The increase was primarily due to the addition of the two foreign-flag product tankers added in March 2004 offset by a reduction in the total number of vessels as the Company continued selling its older and smaller offshore units.

*Loss on Disposal of Assets, Net.* Loss on disposal of assets during the first quarter of 2005 increased to a loss of \$0.1 million from \$12,000 in the comparable period of 2004. The number of vessels sold or exchanged increased to seven for the three months ended March 31, 2005 compared to one for the same period in 2004.

*Net Interest Expense.* Net interest expense during the first quarter of 2005 increased 16.0% from \$8.0 million to \$9.3 million versus the comparable period in 2004. The increase is due to increased debt related to the purchase of the two new foreign-flag tankers, which entered service in late March 2004, and to an overall increase in the Company's variable borrowing rates.

*Other Income (Expense), Net.* Other income (expense), net during the first quarter of 2005 decreased to \$0.0 million from income of \$4.6 million in the comparable period in 2004. The decrease is 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**

As of March 31, 2005, the Company had cash on hand of \$31.3 million and working capital of approximately \$58.2 million, which includes \$30.4 million in restricted cash. 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. As of March 31, 2005, cash from operations totaled \$17.7 million, which was \$6.3 million more than in the same period in 2004. Additionally, the Company received \$2.3 million from the sale of vessels during the first quarter of 2005. As of March 31, 2005, availability under our Amended Credit Facility was approximately \$2.6 million. 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 Company's 2004 Annual Report on Form 10-K and Form 10-K/A Amendment No. 1. The Company relies on external financing to fund a substantial portion of the purchase price of new vessels to its fleet. The Company believes it will obtain commitments from various lenders to fund at least 80% of the cost of vessels it has contracted to purchase.

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

Facility	Outstanding Balance as of	Outstanding Balance as of	Maturity	Interest Rate
	March 31, 2005	31, 2004		as of May 1, 2005
2003 Senior Notes	\$ 148.0	\$ 152.9	2013	9.50% <sup>(a)</sup>
Amended Credit Facility	43.0	48.5	2008	7.13%
Title XI financing bonds	208.5	209.0	2006 to 2024	5.86% to 8.85%
Other notes payable	88.6	85.1	2006 to 2011	4.00% to 8.50%
Capital leases	31.4	32.3	2005 to 2013	5.57% to 10.00%
Total	\$ 519.5	\$ 527.8		

(a) The Company effectively converted the interest rate on its outstanding 2003 Senior Notes to a floating rate based on LIBOR. Pursuant to our interest rate swap agreement, the effective floating interest rate is 7.88% as of May 1, 2005.

In addition to the Amended Credit Facility balance of approximately \$43.0 million, there are \$22.4 million in outstanding letters of credit as of March 31, 2005. The Company is subject to semi-annual reductions on the Amended Credit Facility each February and August with the final payment due in August 2008.

*Material Changes in Contractual Obligations.* On March 4, 2005, the Company made the final principal redemption on the United States Government Guarantee Ship Financing Bonds, Hull 2318 Issue, 10.10% Sinking Fund Bonds, Series C, issued in connection with the Title XI financing on its U.S.-flag product tanker, *Seabulk Trader* (ex: *HMI Dynachem*). Accordingly, all of the Shipowner's issued and outstanding United States Government Guarantee Ship Financing Bonds, Hull 2318 Issue, comprised on Sinking Fund Bond Series A, Series B, and Dynachem Series B (which were previously retired or paid) and Series C, have been retired or paid within the meaning of the indenture between the Shipowner's predecessor, Ogden Clover Transport, Inc. and Citibank, N.A., as Trustee, effective March 4, 2005; and each and every guarantee, as that term is defined in Schedule A to the Indenture, has been released and is of no further force and effect.

*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 quarter of 2005, the Company incurred \$13.9 million in capital improvements for drydocking costs, capital expenditures and newbuild vessels. Of this amount, approximately \$3.9 million was expended for drydockings, approximately \$9.3 million for five offshore newbuild vessels, \$0.1 million for capital expenditures and \$0.6 million on the exchange for the *C/Crusader*.

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

The Company's expected remaining 2005 capital requirements are \$26.1 million for drydocking costs and \$17.9 million for newbuild vessels. The Company expects that cash flow from operations will continue to be a

significant source of funds for its working capital and capital requirements.

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The Company's Amended Credit Facility contains certain restrictive financial covenants that, among other things, require minimum levels of EBITDA and tangible net worth. The Company was in compliance with all such covenants as of March 31, 2005.

The Company is in compliance with the financial covenants of the 2003 Senior Notes as of March 31, 2005. The 2003 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 2005.

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 \$17.7 million for the three months ended March 31, 2005 compared to \$11.5 million for the same period in 2004. The increase in cash provided by operating activities was primarily a result of increased net income. In addition, the Company deposited \$4.5 million in the Title XI reserve fund with the U.S. Maritime Administration in March 2005 for its five double-hull *Jones Act* product tankers. The corresponding amount in 2004 of \$4.7 million was deposited in March 2004.

Net cash used in investing activities was \$7.7 million for the three months ended March 31, 2005 compared to \$70.4 million for the same period in 2004. The decrease in cash used in investing activities was due primarily to the purchase of the two foreign-flag product tankers in 2004 for approximately \$62.0 million.

Net cash provided by financing activities for the three months ended March 31, 2005 was \$2.3 million compared to \$64.0 million for the same period in 2004. The decrease in cash provided by financing activities in 2005 is mainly attributable to additional financing related to the purchase of the *Seabulk Reliant* and *Seabulk Trust*, the Company's two foreign-flag product tankers, which occurred in March 2004.

**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.

**Table of Contents****Recent Accounting Pronouncements**

In December 2004, the FASB issued SFAS No. 123R, which requires companies to expense in their consolidated statements of operations the estimated fair value of employee stock options and similar awards. The Company currently uses the intrinsic value method to value stock options, and accordingly, no compensation expense has been recognized for stock options since the Company grants stock options with exercise prices equal to or greater than the Company's common stock market price on the date of the grant. The Company will adopt the provisions of SFAS No. 123R using the modified prospective application. Under the modified prospective application, SFAS No. 123R will apply to new awards and to awards that are outstanding on the effective date and are subsequently modified or cancelled. Compensation expense for unvested stock-based awards will be recognized over the remaining vesting period. Depending on the model used to calculate stock-based compensation expense in the future, the implementation of certain other requirements of SFAS No. 123R and additional option grants expected to be made in the future, the pro forma disclosure discussed previously may not be indicative of the stock-based compensation expense that will be recognized in the Company's future consolidated financial statements. In April 2005, the FASB delayed the implementation of SFAS No. 123R from the next reporting period beginning after June 15, 2005 until the beginning of the Company's next fiscal year. The Company is in the process of determining the impact adopting SFAS No. 123R will have on its consolidated financial position and consolidated results of operations.

In December 2004, the FASB issued SFAS No. 153, an amendment of APB No. 29. APB No. 129 is based on the principle that exchanges of nonmonetary assets should be measured based on the fair value of assets exchanged; however, certain exceptions apply. SFAS No. 153 amends APB No. 29 to eliminate the exception for nonmonetary exchanges of similar productive assets that do not have commercial substance. A nonmonetary exchange has commercial substance if the future cash flows of the entity are expected to change significantly as a result of the exchange. SFAS No. 153 is effective for nonmonetary exchanges occurring in fiscal periods beginning after June 15, 2005. The Company's adoption of SFAS No. 153 is not expected to have a material impact on the Company's consolidated financial position and consolidated results of operations.

**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*.

On March 30, 2005, the U. S. District Court for the Northern District of California found that the Environmental Protection Agency (EPA) should not have exempted ballast water discharges in U. S. territorial waters from the rules under the National Pollutant Discharge Elimination System established under the U.S. Clean Water Act. The decision may affect the way product tankers and other vessels in the maritime transportation industry, including Seabulk Tankers, discharge ballast water from ships. This is an industry issue being reviewed by the EPA, the marine industry, environmental groups, and Congress. It is possible that final resolution of this issue will involve higher operating costs for the industry, including Seabulk Tankers.

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### **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 its Amended Credit Facility lenders and other members of its lending 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 \$150.0 million, the Company effectively converted the interest rate on its outstanding 2003 Senior Notes due August 2013 to a floating rate based on LIBOR. The current effective floating interest rate is 7.88%. The floating rate is adjusted semi-annually in February and August of each year. The swap agreement is secured by a second lien on the assets that secure the Company's Amended Credit Facility.

The interest rate swap was valued as a liability of (\$2.0) million as of March 31, 2005 a decrease of \$4.9 million from an asset of \$2.9 million as of December 31, 2004 and is included in other liabilities with an offsetting decrease in the 2003 Senior Notes in the accompanying condensed consolidated balance sheets. The Company expects the fair value of the interest rate swap to change in accordance with the movement in the underlying LIBOR rate.

In connection with the 2003 Senior Notes offering, the Company amended and restated its existing credit facility. The Amended Credit Facility consists of a revolving credit facility with an original amount available of \$80.0 million and has a five-year maturity. The interest rate as of March 31, 2005 was 6.88%. A hypothetical 2.0% increase in the interest rate on the outstanding borrowings of \$65.4 million including outstanding letters of credit of \$22.4 million, as of March 31, 2005, would cause the Company's interest expense to increase on average approximately \$1.3 million per year over the terms of the Amended Credit Facility, with a corresponding decrease in income before taxes.

### **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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**PART II. OTHER INFORMATION**

**Item 1. Legal Proceedings.**

For information concerning certain legal proceedings see Note 7 of the condensed consolidated financial statements included herein.

**Item 2. Changes in Securities.**

None.

**Item 3. Defaults upon Senior Securities.**

None.

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

None.

**Item 5. Other Information.**

None.

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

(a) Exhibits

- 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

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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 March 31, 2004:

1. The Company filed a Current Report on Form 8-K dated January 24, 2005. Items 1 and 9 were reported and no financial statements were filed.
2. The Company filed a Current Report on Form 8-K dated February 1, 2005. Items 7 and 9 were reported and no financial statements were filed.
3. The Company filed a Current Report on Form 8-K dated March 3, 2005. Items 2, 7 and 9 were reported and no financial statements were filed.



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4. The Company filed a Current Report on Form 8-K dated March 7, 2005. Item 1 was reported and no financial statements were filed.
5. The Company filed a Current Report on Form 8-K dated March 17, 2005. Items 1 and 9 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

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Michael J. Pellicci  
Senior Vice President Finance &  
Planning,  
Treasurer and Chief Accounting  
Officer  
(Principal Accounting Officer)  
Date: May 13, 2005