

Edgar Filing: MARITRANS INC /DE/ - Form 10-Q

MARITRANS INC /DE/  
Form 10-Q  
November 12, 2002

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, DC 20549  
FORM 10-Q

(Mark One)

Quarterly Report Pursuant to Section 13 or 15(d) of the Securities  
--- Exchange Act of 1934

For the Quarterly Period ended September 30, 2002  
-----

or

\_\_\_ Transition Report Pursuant to Section 13 or 15(d) of the Securities  
Exchange Act of 1934

For the Transition Period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number 1-9063  
-----

MARITRANS INC.  
-----

(Exact name of registrant as specified in its charter)

DELAWARE  
-----  
(State or other jurisdiction of  
incorporation or organization)

51-0343903  
-----  
(Identification No.  
I.R.S. Employer)

TWO HARBOUR PLACE  
302 KNIGHTS RUN AVENUE  
SUITE 1200  
TAMPA, FLORIDA 33602  
-----

(Address of principal executive offices)  
(Zip Code)

(813) 209-0600  
-----

Registrant's telephone number, including area code

(Former name, former address and former fiscal year,  
if changed since last report)

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 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such requirements for the past 90 days.

Yes  No

Edgar Filing: MARITRANS INC /DE/ - Form 10-Q

--- ----

Common Stock \$.01 par value, 8,136,023 shares outstanding as of November 8, 2002

1

MARITRANS INC.  
INDEX

	Page	
	----	
PART I.	FINANCIAL INFORMATION	
Item 1.	Financial Statements (Unaudited)	
	Condensed Consolidated Balance Sheets - September 30, 2002 and December 31, 2001	3
	Condensed Consolidated Statements of Income - Three months ended September 30, 2002 and 2001	4
	Condensed Consolidated Statements of Income - Nine months ended September 30, 2002 and 2001	5
	Condensed Consolidated Statements of Cash Flows - Nine months ended September 30, 2002 and 2001	6
	Notes to Condensed Consolidated Financial	7
Item 2.	Management's Discussion and Analysis of Financial Condition and Results of Operations	10
Item 3.	Qualitative and Quantitative Disclosures About Market Risk	18
Item 4.	Controls and Procedures	18
PART II.	OTHER INFORMATION	
Item 1.	Legal Proceedings	19
Item 6.	Exhibits and Reports on Form 8-K	20
SIGNATURES		21
OFFICERS CERTIFICATIONS		22

2

PART I: FINANCIAL INFORMATION

MARITRANS INC.

Edgar Filing: MARITRANS INC /DE/ - Form 10-Q

CONDENSED CONSOLIDATED BALANCE SHEETS  
(\$000)

September 30,  
2002

-----  
(Unaudited)

ASSETS

Current assets:

Cash and cash equivalents	\$ 1,991
Trade accounts receivable	5,553
Other accounts receivable	3,668
Inventories	2,765
Deferred income tax benefit	7,258
Prepaid expenses	5,133

-----  
Total current assets 26,368

Vessels and equipment	330,491
Less accumulated depreciation	157,886

-----  
Net vessels and equipment 172,605

Note receivable	3,909
Goodwill	2,863
Other	1,132

-----  
Total assets \$206,877

=====

LIABILITIES AND STOCKHOLDERS' EQUITY

Current liabilities:

Debt due within one year	\$ 5,500
Trade accounts payable	2,911
Accrued shipyard costs	3,870
Accrued wages and benefits	3,080
Other accrued liabilities	6,299

-----  
Total current liabilities 21,660

Long-term debt	63,000
Deferred shipyard costs	5,805
Other liabilities	3,220
Deferred income taxes	44,791

Stockholders' equity:

Common stock	135
Capital in excess of par value	81,056
Retained earnings	34,845
Unearned compensation	(929)
Less: Cost of shares held in treasury	(46,706)

-----  
Total stockholders' equity 68,401

-----  
Total liabilities and stockholders' equity \$206,877

=====

Edgar Filing: MARITRANS INC /DE/ - Form 10-Q

See notes to financial statements.

3

MARITRANS INC.  
 CONDENSED CONSOLIDATED STATEMENTS OF INCOME  
 (Unaudited)  
 (\$000, except per share amounts)

	July 1 to September 30, 2002 -----
Revenues	\$ 30,586
Costs and expenses:	
Operation expense	16,310
Maintenance expense	4,968
General and administrative	1,937
Depreciation and amortization	4,771
	-----
Total operating expense	27,986
	-----
Operating income	2,600
Interest expense	(627)
Other income	726
	-----
Income before income taxes	2,699
Income tax provision	1,012
	-----
Net income	\$ 1,687
	=====
Basic earnings per share	\$ 0.21
Diluted earnings per share	\$ 0.20
Dividends declared per share	\$ 0.11

See notes to financial statements.

4

Edgar Filing: MARITRANS INC /DE/ - Form 10-Q

MARITRANS INC.  
 CONDENSED CONSOLIDATED STATEMENTS OF INCOME  
 (Unaudited)  
 (\$000, except per share amounts)

	January 1 to September 30, 2002
	-----
Revenues	\$ 94,377
Costs and expenses:	
Operation expense	49,229
Maintenance expense	12,426
General and administrative	5,930
Depreciation and amortization	14,143
	-----
Total operating expense	81,728
	-----
Operating income	12,649
Interest expense	(1,988)
Other income	1,184
	-----
Income before income taxes	11,845
Income tax provision	4,442
	-----
Net income	\$ 7,403
	=====
Basic earnings per share	\$ 0.91
Diluted earnings per share	\$ 0.85
Dividends declared per share	\$ 0.31

See notes to financial statements.

MARITRANS INC.  
 CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS  
 (Unaudited)  
 (\$000)

## Edgar Filing: MARITRANS INC /DE/ - Form 10-Q

Cash flows from operating activities:	
Net income	\$ 7,40
Adjustments to reconcile net income to net cash provided by (used in) operating activities:	
Depreciation and amortization	14,14
Stock compensation	16
Changes in receivables, inventories and prepaid expenses	31
Changes in current liabilities, other than debt	4,65
Non-current changes, net	(3,73)
(Gain) loss on sale of fixed assets	-----
	15,54
	-----
Net cash provided by operating activities	22,95
Cash flows from investing activities:	
Release of cash and cash equivalents - restricted	
Collections on notes receivable	63
Cash proceeds from sale of equipment	
Purchase of vessels and equipment	(23,43)
	-----
Net cash provided by (used in) investing activities	(22,79)
	-----
Cash flows from financing activities:	
Borrowings under long term debt	9,00
Payment of long-term debt	(9,48)
Net borrowings under revolving credit facilities	26,00
Purchase of treasury stock	(25,57)
Proceeds from exercise of stock options	87
Dividends declared and paid	(2,54)
	-----
Net cash used in financing activities	(1,72)
	-----
Net decrease in cash and cash equivalents	(1,56)
Cash and cash equivalents at beginning of period	3,55
	-----
Cash and cash equivalents at end of period	\$ 1,99
	=====

See notes to financial statements

6

MARITRANS INC.  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
SEPTEMBER 30, 2002

1. Basis of Presentation/Organization  
Maritrans Inc. owns Maritrans Holdings Inc., Maritrans Business Services

## Edgar Filing: MARITRANS INC /DE/ - Form 10-Q

Inc. and Maritrans Transportation Inc.; which owns Maritrans Operating Company L.P., Maritrans General Partner Inc., Maritrans Tankers Inc., Maritrans Barge Co., and other Maritrans entities (collectively, the "Company"). These subsidiaries, directly and indirectly, own and operate oil tankers, tugboats and oceangoing petroleum tank barges principally used in the transportation of oil and related products along the Gulf and Atlantic coasts.

In the opinion of management, the accompanying condensed consolidated financial statements of Maritrans Inc., which are unaudited (except for the Condensed Consolidated Balance Sheet as of December 31, 2001, which is derived from audited financial statements), include all adjustments (consisting of normal recurring accruals) necessary to present fairly the financial statements of the consolidated entities.

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

Pursuant to the rules and regulations of the Securities and Exchange Commission, the unaudited condensed consolidated financial statements do not include all of the information and notes normally included with annual financial statements prepared in accordance with generally accepted accounting principles. These financial statements should be read in conjunction with the consolidated historical financial statements and notes thereto included in the Company's Form 10-K for the period ended December 31, 2001.

7

### 2. Earnings per Common Share

The following data shows the amounts used in computing basic and diluted earnings per share ("EPS"):

	Three Months Ended September 30,		
	2002	2001	
	----	----	
	(000's)		
Income available to common stockholders used in basic EPS	\$ 1,687	\$ 1,422	\$
Weighted average number of common shares used in basic EPS	7,931	9,955	
Effect of dilutive securities:			
Stock options and restricted shares	582	543	
Weighted number of common shares and dilutive potential common stock used in diluted EPS	8,513	10,498	

## Edgar Filing: MARITRANS INC /DE/ - Form 10-Q

3. **Income Taxes**

The Company's effective tax rate differs from the federal statutory rate due primarily to state income taxes and certain nondeductible items.
  4. **Share Buyback Program**

On February 9, 1999, the Board of Directors authorized a share buyback program (the "Program") for the acquisition of up to one million shares of the Company's common stock. In February 2000 and again in February 2001, the Board of Directors authorized the acquisition of an additional one million shares in the Program. The total authorized shares under the Program is three million. As of September 30, 2002, 2,434,700 shares have been repurchased under the Program and were financed from internally generated funds, leaving 565,300 shares authorized for repurchase.
  5. **Tender Offer**

In December 2001, the Company announced a self-tender offer (the "Offer") to purchase up to 2,000,000 shares of its common stock. On January 18, 2002, the Offer closed, and the Company subsequently purchased 2,176,296 shares of common stock for a purchase price of \$11.50 per share, or approximately \$25.0 million, on January 29, 2002. The purchase price was funded through borrowings under the Company's Credit Facility (as defined in Item 2).
- 8
6. **Adoption of Shareholder Rights Plan**

In 1993, Maritrans Inc. adopted a Shareholder Rights Plan, which expired on August 1, 2002. On June 26, 2002, the Board of Directors of Maritrans Inc. adopted a new Shareholder Rights Plan which became effective on August 1, 2002 and declared a dividend distribution of one Right for each outstanding share of Common Stock, \$.01 par value of the Company to stockholders of record at the close of business on August 1, 2002. The new plan expires on August 1, 2012.
  7. **Litigation Settlement**

In July 2002, the Company received a \$0.5 million litigation award that was recorded as other income in the third quarter.
  8. **Impact of Recent Accounting Pronouncements**

In September 2001, the Financial Accounting Standards Board issued Statements of Financial Accounting Standards No. 141, Business Combinations, and No. 142, Goodwill and Other Intangible Assets, effective for fiscal years beginning after December 15, 2001. Under the new rules, goodwill is no longer amortized but is subject to the annual impairment tests in accordance with the Statements. Other intangible assets continue to be amortized over their useful lives. The Company adopted the new rules on accounting for goodwill and other intangible assets on January 1, 2002. A reconciliation of net income for the three and nine months ended September 30, 2001 had goodwill not been amortized pursuant to FASB No. 142 is as follows:

Three Months  
September 30,

-----  
(\$000, e



## Edgar Filing: MARITRANS INC /DE/ - Form 10-Q

Net income as reported	\$1,427
Elimination of goodwill amortization	-----
Adjusted net income	\$1,497
Adjusted basic earnings per share	\$ .11
Adjusted diluted earnings per share	\$ .11

The Company has completed the first of the required impairment tests of goodwill as of January 1, 2002 and the Company has concluded that there is no impairment of goodwill recorded on the accompanying balance sheet.

9

### ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

#### Forward Looking Information

Some of the statements in this Form 10-Q (this "10-Q") constitute forward-looking statements under Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, including statements made with respect to present or anticipated utilization, future revenues and customer relationships, capital expenditures, future financings, and other statements regarding matters that are not historical facts, and involve predictions. These statements involve known and unknown risks, uncertainties and other factors that may cause actual results, levels of activity, growth, performance, earnings per share or achievements to be materially different from any future results, levels of activity, growth, performance, earnings per share or achievements expressed in or implied by such forward-looking statements.

The forward-looking statements included in this 10-Q relate to future events or the Company's future financial performance. In some cases, you can identify forward-looking statements by terminology such as "may," "seem," "should," "believe," "future," "potential," "estimate," "offer," "opportunity," "quality," "growth," "expect," "intend," "plan," "focus," "through," "strategy," "provide," "meet," "allow," "represent," "commitment," "create," "implement," "result," "seek," "increase," "establish," "work," "perform," "make," "continue," "can," "will," "include," or the negative of such terms or comparable terminology. These forward-looking statements inherently involve certain risks and uncertainties, although they are based on the Company's current plans or assessments that are believed to be reasonable as of the date of this 10-Q. Factors that may cause actual results, goals, targets or objectives to differ materially from those contemplated, projected, forecasted, estimated, anticipated, planned or budgeted in such forward-looking statements include, among others, the factors outlined in this 10-Q, changes in oil companies' operating and sourcing decisions, competition for marine transportation, domestic oil consumption, the continuation of federal law restricting United States point-to-point maritime shipping to U.S. vessels (the Jones Act), demand for petroleum products, future spot market rates, out of service time for vessel maintenance, increased expenses due to regulatory and customer requirements, changes in interest rates, the effect of terrorists activities and the general financial, economic, environmental and regulatory conditions affecting the oil

## Edgar Filing: MARITRANS INC /DE/ - Form 10-Q

and marine transportation industry in general. Given such uncertainties, current or prospective investors are cautioned not to place undue reliance on any such forward-looking statements. These factors may cause the Company's actual results to differ materially from any forward-looking statement.

Although the Company believes that the expectations in the forward-looking statements are reasonable, the Company cannot guarantee future results, levels of activity, performance, growth, earnings per share or achievements. However, neither the Company nor any other person assumes responsibility for the accuracy and completeness of such statements. The Company is under no duty to update any of the forward-looking statements after the date of this 10-Q to conform such statements to actual results.

10

The following discussion should be read in conjunction with the unaudited financial statements and notes thereto included in Part I Item 1 of this Form 10-Q and the audited financial statements and notes thereto and Management's Discussion and Analysis of Financial Condition and Results of Operations for the year ended December 31, 2001 contained in the Company's Annual Report on Form 10-K for the year ended December 31, 2001.

### Results of Operations

Time Charter Equivalent ("TCE") is a commonly used industry measure where direct voyage costs are deducted from revenue. Maritrans enters into various types of charters, some of which involve the customer paying substantially all voyage costs, while other types of charters involve Maritrans paying some or substantially all of the voyage costs. The Company monitors the TCE basis because it essentially nets the voyage costs and voyage revenue to yield a measure that is comparable between periods regardless of the types of charters utilized. The Company began reporting on the TCE basis in the first quarter of 2002. For comparison purposes, the following table lists the TCE revenue for all quarters in 2002 and 2001:

	9/30/02 -----	6/30/02 -----	3/31/02 -----	12/31/01 -----	9/30/01 -----
Voyage revenue	\$30,586	\$32,468	\$31,323	\$31,716	\$28,276
Voyage costs	4,906	4,970	4,381	4,803	4,995
	-----	-----	-----	-----	-----
Time Charter Equivalent	\$25,680	\$27,498	\$26,942	\$26,913	\$23,281
	=====	=====	=====	=====	=====

### Three Month Comparison

TCE revenue for the quarter ended September 30, 2002 compared to the quarter ended September 30, 2001 is as follows:

	9/30/02 -----	9/30/01 -----
Voyage revenue	\$30,586	\$28,276
Voyage costs	4,906	4,995
	-----	-----

## Edgar Filing: MARITRANS INC /DE/ - Form 10-Q

Time Charter Equivalent	\$25,680	\$23,281
	=====	=====

11

TCE revenue increased from \$23.3 million in the third quarter of 2001 to \$25.7 million, or 10 percent, in 2002. Vessel utilization, as measured by revenue days divided by calendar days available, increased from 76.4 percent in the third quarter of 2001 to 77.5 percent in the third quarter of 2002. Utilization increased due to less vessel out of service time in the third quarter of 2002 compared to the third quarter of 2001. In the third quarter of each year a vessel was out of service for its double hull rebuild. Late in the second quarter of 2001, the OCEAN CITIES went out of service for her double hull rebuild. She re-entered service early in 2002 as the MARITRANS 252. Late in May 2002, the OCEAN 250 went out of service for her double hull rebuild and is scheduled to re-enter service in the fourth quarter of 2002.

Term contract rates renewed with customers in 2001 were renewed at higher levels than those experienced in 2000 on long-term contracts. The increase in these rates resulted from a more stable supply/demand relationship in the Jones Act trade. These rate increases had a positive impact on the third quarter of 2002 revenue. Spot market rates were significantly lower in the third quarter of 2002 than the same period in 2001. The Company believes the spot market was weak due to the decrease in demand for distillate, particularly jet fuel, and to an increase in the amount of gasoline imported into the United States, which results in less demand for the Company's services. The Company currently expects spot rates to slightly improve with the upcoming winter season in the Northeast but to remain depressed for the remainder of 2002 compared to the same period in 2001. Barrels of cargo transported decreased from 43.4 million in the third quarter of 2001 to 41.7 million in the third quarter of 2002, due to decreases in demand during the quarter (as discussed above).

Voyage costs decreased from \$5.0 million in the third quarter of 2001 to \$4.9 million in the third quarter of 2002. Voyage costs consist of fuel costs and port charges and were running at levels consistent with the same quarter in 2001.

Operating expenses, excluding voyage costs discussed above, increased from \$10.5 million in the third quarter of 2001 to \$11.4 million in the third quarter of 2002, an increase of \$0.9 million or 9 percent. Insurance costs increased in the third quarter of 2002 compared to the third quarter of 2001 as the result of increased premiums charged by the insurance companies on policies renewed and to additional deductible amounts paid in the current quarter. Routine maintenance expenses incurred during voyages and in port have declined in the third quarter of 2002 compared to the third quarter of 2001, while expenditure levels for maintenance incurred in shipyards has increased. This reflects efforts being made to meet increased regulatory and customer vetting requirements. These expenses are expected to continue to increase and will result in higher maintenance accruals in 2002 compared to 2001. Professional fees increased in the third quarter 2002 compared to the third quarter 2001 for consulting fees incurred to review port security and other security issues. Seagoing salary increases, which took effect early in 2002, increased crew costs in the third quarter of 2002 compared to the third quarter of 2001.

General and administrative fees increased due to increased professional fees including higher litigation and consulting costs in the third quarter of 2002 compared to the third quarter of 2001. Litigation costs arose from both immaterial litigation arising in the ordinary course of business and the proceedings described in Part II Item 1 of this Form 10-Q. In addition, the

## Edgar Filing: MARITRANS INC /DE/ - Form 10-Q

Company experienced increased premiums charged by the insurance companies on the Directors and Officers policy renewed in 2002.

12

Operating income decreased as a result of the aforementioned changes in revenue and expenses.

Interest expense in the third quarter of 2002 of \$0.6 million decreased compared to \$1.1 million in the third quarter of 2001 as a result of the refinancing of debt that took place in the fourth quarter of 2001. The new debt has a variable interest rate, which is lower than the fixed interest rate of 9.25 percent on most of the previously held debt and therefore resulted in decreased interest expense when compared to the third quarter of 2001.

Other income was \$0.7 million in both the third quarter of 2002 and 2001. Other income in the third quarter of 2002 includes a \$0.5 million litigation settlement received. Interest income decreased due to a lower amount of cash invested in the third quarter of 2002 compared to the third quarter of 2001. The decrease in the average cash balance is primarily the result of the debt refinancing discussed above.

Net income for the quarter ended September 30, 2002 increased compared to the quarter ended September 30, 2001 due to the aforementioned changes in revenue and expenses.

### Nine Month Comparison

TCE revenue for the nine months ended September 30, 2002 compared to the nine months ended September 30, 2001 is as follows:

	9/30/02	9/30/01
	-----	-----
Voyage revenue	\$94,377	\$91,660
Voyage costs	14,257	16,699
	-----	-----
Time Charter Equivalent	\$80,120	\$74,961
	=====	=====

TCE revenue increased from \$75.0 million in the nine months ended September 30, 2001 to \$80.1 million in the nine months ended September 30, 2002, or 7 percent. Vessel utilization, as measured by revenue days divided by calendar days available, decreased from 83.7 percent in the nine months ended September 30, 2001 to 80.9 percent in the nine months ended September 30, 2002. Utilization decreased due to more vessel out of service time in the nine months ended September 30, 2002 compared to the nine months ended September 30, 2001 as a result of vessel maintenance and the OCEAN 250 rebuild. In late May 2002, the OCEAN 250 went out of service for her double hull rebuild and is scheduled to re-enter service in the fourth quarter of 2002. In addition, the MARITRANS 252 was out of service in the beginning of 2002 while her double hull rebuild was being completed.

13

Term contract rates renewed with customers in 2001 were renewed at higher levels than those experienced in 2000 on long-term contracts. The increase in these rates resulted from a more stable supply/demand relationship in the Jones Act trade. These rate increases had a positive impact on 2002 revenue. Spot market rates were significantly lower in the nine months ended September 30, 2002 than

## Edgar Filing: MARITRANS INC /DE/ - Form 10-Q

in the same period in 2001 due to warm weather in the early part of 2002 in the Northeast, which reduced the demand for heating oil, the continued reduction in the demand for distillate, particularly jet fuel, and to an increase in the amount of gasoline imported into the United States in the second and third quarters, which results in less demand for the Company's services. The Company believes the spot market continues to be weak due to these factors. The Company currently expects spot rates to slightly improve with the upcoming winter season in the Northeast but to remain depressed for the remainder of 2002 compared to the same period in 2001. Barrels of cargo transported decreased from 138.5 million in the nine months ended September 30, 2001 to 127.9 million in the nine months ended September 30, 2002, due to decreases in demand and utilization (as discussed above).

Voyage costs decreased from \$16.7 million in the nine months ended September 30, 2001 to \$14.3 million in the nine months ended September 30, 2002, a decrease of \$2.4 million or 14 percent. The primary decrease in voyage costs was in fuel costs, which resulted from the downturn in the economy in the later part of 2001. The average price per gallon of fuel decreased approximately 21 percent compared to the same nine months in 2001.

Operating expenses, excluding voyage costs discussed above, increased from \$31.7 million in the nine months ended September 30, 2001 to \$34.9 million in the nine month ended September 30, 2002, an increase of \$3.2 million or 10 percent. Insurance costs increased in the nine months ended September 30, 2002 compared to the nine months ended September 30, 2001 as the result of increased premiums charged by the insurance companies on policies renewed and to additional deductible amounts paid in the current year. Charter hire expense increased in the nine months ended September 30, 2002 compared to the nine months ended September 30, 2001 as the result of the Company chartering in equipment in the second quarter of 2002 from third parties to replace a tug/barge that was out of service for scheduled maintenance. In the nine months ended September 30, 2002, the Company engaged in a synthetic rope replacement program for most of the tugboats resulting in an increase in supplies expense compared to the same period in 2001. Routine maintenance expenses incurred during voyages and in port have declined in the nine months ended September 30, 2002 compared to the nine months ended September 30, 2001, while expenditure levels for maintenance incurred in shipyards has increased. This reflects efforts being made to meet increased regulatory and customer vetting requirements. These expenses are expected to continue to increase and will result in higher maintenance accruals in 2002 compared to 2001. Professional fees increased in the nine months ended September 30, 2002 compared to the nine months ended September 30, 2001 for consulting fees incurred to review port security and other security issues. Seagoing salary increases, which took effect early in 2002, increased crew costs in the nine months ended September 30, 2002 compared to the nine month ended September 30, 2001.

14

General and administrative fees increased due to increased professional fees including higher litigation and consulting costs in the nine months ended September 30, 2002 compared to the nine months ended September 30, 2001. Litigation costs arose from both immaterial litigation arising in the ordinary course of business and the proceedings described in Part II Item 1 of this Form 10-Q. In addition, the Company experienced increased premiums charged by the insurance companies on the Directors and Officers policy renewed in 2002.

Operating income decreased as a result of the aforementioned changes in revenue and expenses.

Interest expense in the nine months ended September 30, 2002 of \$2.0 million

## Edgar Filing: MARITRANS INC /DE/ - Form 10-Q

decreased compared to \$4.1 million in the nine months ended September 30, 2001 as a result of the refinancing of debt that took place in the fourth quarter of 2001. The new debt has a variable interest rate, which is lower than the fixed interest rate of 9.25 percent on most of the previously held debt and therefore resulted in decreased interest expense when compared to the same period in 2001.

Other income in the nine months ended September 30, 2002 was \$1.2 million compared to other income in the nine months ended September 30, 2001 of \$2.5 million. Other income is made up primarily of interest income. Interest income decreased due to a lower amount of cash invested in 2002 compared to 2001. The decrease in the average cash balance is primarily the result of the debt refinancing discussed above. Other income in the nine months ended September 30, 2002 includes a \$0.5 million litigation settlement received whereas other income in the nine months ended September 30, 2001 includes a pre-tax gain of \$0.2 million on the sale of a barge.

Net income for the nine months ended September 30, 2002 increased compared to the nine months ended September 30, 2001 due to the aforementioned changes in revenue and expenses.

### Liquidity and Capital Resources

For the nine months ended September 30, 2002, net cash provided by operating activities was \$15.5 million. These funds, augmented by the Company's Credit Facility, were sufficient to meet debt service obligations and loan agreement restrictions, to make capital acquisitions and improvements and to allow Maritrans Inc. to pay a dividend in the current quarter. Management believes funds provided by operating activities, augmented by the Company's Credit Facility, described below, and investing activities, will be sufficient to finance operations, anticipated capital expenditures, lease payments and required debt repayments in the foreseeable future. While dividends have been made quarterly in each of the last three years, there can be no assurances that the dividend will continue. The ratio of total debt to capitalization is .50:1 at September 30, 2002.

15

On February 9, 1999, the Board of Directors authorized a share buyback program for the acquisition of up to one million shares of the Company's common stock, which represented approximately 8 percent of the 12.1 million shares outstanding at that time. In February 2000 and again in February 2001, the Board of Directors authorized the acquisition of an additional one million shares in the program. The total authorized shares under the buyback program is three million. As of September 30, 2002, 2,434,700 shares had been purchased under the plan and financed by internally generated funds. The Company intends to hold the majority of the repurchased shares as treasury stock; although some shares will be used for employee compensation plans and others may be used for acquisition currency and/or other corporate purposes.

In August 2000, the Company awarded a contract to rebuild a third large single hull barge, the OCEAN CITIES, to a double hull configuration. In February 2002, this vessel was completed and put back into service as the MARITRANS 252. The total cost of the rebuild and other improvements made while in the shipyard was \$17.5 million. The Company financed this project from internally generated funds.

In September 2001, the Company awarded a contract to rebuild a fourth large single hull barge, the OCEAN 250, to a double hull configuration. The Company expects the total cost of the rebuild and other improvements will be approximately \$18.0 million. As of September 30, 2002, \$14.0 million has been

## Edgar Filing: MARITRANS INC /DE/ - Form 10-Q

paid to the shipyard contractor for the project. The Company has financed, and expects to continue the financing of, this project from a combination of internally generated funds and borrowings under the Company's Credit Facility.

In October 2001, the Company repaid \$33.0 million of its long-term debt in advance of its due date. The Company recorded an extraordinary charge of approximately \$2.5 million, net of taxes, or approximately \$0.24 per share, in prepayment penalties and the write-off of unamortized financing costs in the fourth quarter of 2001 as a result of the repayment.

In December 2001, the Company announced a self-tender offer (the "Offer") to purchase up to 2,000,000 shares of its common stock at a price between \$11.00 and \$12.50. On January 18, 2002, the Offer closed, and the Company subsequently purchased 2,176,296 shares of common stock for a purchase price of \$11.50 per share, or approximately \$25.0 million. The purchase price was funded through borrowings under the Company's Credit Facility.

### Debt Obligations and Borrowing Facility

-----

In November 2001, the Company entered into an \$85 million credit and security agreement ("Credit Facility") with Citizens Bank (formerly Mellon Bank N.A.) and a syndicate of other financial institutions ("Lenders"). Pursuant to the terms of the Credit Facility, the Company could borrow up to \$45 million of term loans and up to \$40 million under a revolving credit facility. Interest is variable based on either the LIBOR rate or prime rate plus an applicable margin (as defined in the loan documents). Principal payments on the term loans are required on a quarterly basis. The Credit Facility expires in January 2007. The Company has granted first preferred ship mortgages and a first security interest in certain vessels and other collateral to the Lenders as a guarantee of the debt. At September 30, 2002, there was \$42.5 million of term loans outstanding under the Credit Facility and \$26 million outstanding under the revolving Credit Facility.

16

### Critical Accounting Policies

-----

Accounting policies that management believes are most critical to the Company's financial condition and operating results pertain to the valuation of accounts receivable, claims receivable, notes receivable, goodwill and the accrual for maintenance and repairs (discussed below). In developing estimates management considered available information and used judgment.

### Maintenance and Repairs

-----

Provision is made for the cost of upcoming major periodic overhauls of vessels and equipment in advance of performing the related maintenance and repairs. The current portion of this estimated cost is included in accrued shipyard costs while the portion of this estimated cost not expected to be incurred within one year is classified as long-term. Shipyard costs have fluctuated, particularly as a result of changes in the size of the fleet. The Company believes that providing for such overhauls in advance of performing the related maintenance and repairs provides a more appropriate view of the financial position of the Company at any point in time.

In September 2001, the AICPA issued an Exposure Draft on a Proposed Statement of Position regarding "Accounting for Certain Costs and Activities Related to Property, Plant, and Equipment". The Proposed Statement, if issued, would require the Company to modify its accounting policy for maintenance and repairs. Such costs would no longer be accrued in advance of performing the related

## Edgar Filing: MARITRANS INC /DE/ - Form 10-Q

maintenance and repairs; rather, the Proposed Statement would require these costs to be capitalized and amortized over their estimated useful life. The Company has not yet quantified the impact of adopting this Proposed Statement on its financial statements; however, the Company's preliminary assessment is that the adoption of this pronouncement would increase the recorded value of vessels and equipment and stockholders' equity of the Company.

### Impact of Recent Accounting Pronouncements

-----

The Company adopted Statement of Financial Accounting Standards ("SFAS") No. 142 "Goodwill and Intangible Assets" as of January 1, 2002. SFAS No. 142 provides that goodwill and intangible assets with indefinite lives will not be amortized. As such, the Company did not record goodwill amortization for the three months and nine months ended September 30, 2002. Rather, the Company performed an impairment test on its net carrying value as of January 1, 2002, its initial test, as required by SFAS No. 142. The Company was not required to record an impairment charge based on its test. The test required estimates, assumptions and judgments and results could be materially different if different estimates, assumptions and judgments had been used.

17

### ITEM 3. QUALITATIVE AND QUANTITATIVE DISCLOSURES ABOUT MARKET RISK

The principal market risk to which the Company is exposed is a change in interest rates on debt instruments. The Company manages its exposure to changes in interest rate fluctuations by optimizing the use of fixed and variable rate debt. As of September 30, 2002, all of the Company's debt is variable rate debt. The table below presents principal cash flows by year of maturity. Variable interest rates disclosed fluctuate with the LIBOR and federal fund rates. The weighted average rate at September 30, 2002 was 3.99%.

#### Expected years of maturity

-----

(\$000's)

	2002*	2003	2004	2005	2006
	----	----	----	----	----
Long-term debt, including current portion:					
Variable rate	\$1,250	\$5,750	\$7,500	\$11,000	\$13,000

\* For the period October 1, 2002 to December 31, 2002

### ITEM 4. CONTROLS AND PROCEDURES

As of September 30, 2002, an evaluation was performed with the participation of the Company's management, including the CEO and CFO, of the effectiveness of the design and operation of the Company's disclosure controls and procedures. Based on that evaluation, the Company's management, including the CEO and CFO, concluded that the Company's disclosure controls and procedures were effective as of September 30, 2002. There have been no significant changes in the Company's internal controls or in other factors that could significantly affect internal controls subsequent to September 30, 2002.



Part II: OTHER INFORMATION

ITEM 1. Legal Proceedings

-----

In 1996, Maritrans filed suit against the United States government under the Fifth Amendment to the U.S. Constitution for "taking" Maritrans' tank barges without just compensation. The Fifth Amendment specifically prohibits the United States government from taking private property for public use without just compensation. Maritrans asserts that its vessels were taken by Section 4115 of the Oil Pollution Act of 1990 ("OPA"), which prohibits all existing single-hull tank vessels from operating in U.S. waters under a retirement schedule that began January 1, 1995, and ends on January 1, 2015. This provision will force Maritrans to remove its single-hull barges from service commencing on January 1, 2005 or rebuild them, thus depriving the Company of their continued use for a significant portion of their remaining economic lives. In December 2001, the United States Court of Federal Claims ruled that the OPA double hull requirement did not constitute a taking of Maritrans' vessels. The Company is currently appealing the decision.

The Company is engaged in litigation instituted by a competitor to challenge its double-hull patent. Penn Maritime, Inc. v. Maritrans Inc., was filed in the U.S. District Court for the Eastern District of New York on September 6, 2001. The Plaintiff is seeking damages of \$3 million and an injunction restraining Maritrans from enforcing its patent, which if awarded, would have a material adverse effect on the Company. However, management believes the suit to be without merit. Maritrans is challenging the jurisdiction of the court to hear the matter in New York and upon resolution of the jurisdictional issue, intends to seek affirmative damages from Penn Maritime, Inc. for infringement of its patent as well as other claims arising from the conduct of Penn Maritime, Inc.'s double hull program.

In December 1999, Maritrans sold 18 vessels from its Northeast fleet to K-Sea Transportation. The purchaser has alleged that Maritrans breached warranties in the contract of sale pertaining to one of the vessels, and has initiated binding arbitration to recover damages arising from the alleged breach. The purchaser claims damages of approximately \$1.5 million. Maritrans believes the claim to be without merit, maintains that it fully satisfied all requirements of the contract of sale, and that no warranties were breached. Maritrans is defending the action. The arbitration proceeding will conclude on November 7, 2002 and a ruling is expected shortly thereafter.

ITEM 6. Exhibits and Reports on Form 8-K

(a) Exhibits

Edgar Filing: MARITRANS INC /DE/ - Form 10-Q

- 10.17 - Severance and Non-Competition Agreement, as amended and restated effective October 1, 2002 between Maritrans General Partner Inc. and Philip J. Doherty (Exhibit 10.17)
- 10.18 - Severance and Non-Competition Agreement, as amended and restated effective July 12, 2002 between Maritrans Inc. and Walter T. Bromfield (Exhibit 10.18)
- 10.19 - Severance and Non-Competition Agreement effective September 25, 2002 between Maritrans General Partner Inc. and Peter Nielsen (Exhibit 10.19)
- 99.1 - Certification of Chief Executive Officer
- 99.2 - Certification of Chief Financial Officer

(b) Reports on Form 8-K

On August 1, 2002, Maritrans Inc. filed a report on Form 8-K. In that Form 8-K under Item 5 "Other Events", the Company reported on the adoption of a new shareholder rights plan to be effective August 1, 2002.

On August 28, 2002, Maritrans Inc. filed a report on Form 8-K. In that Form 8-K under Item 5 "Other Events", the Company filed a press release which stated the Company had revised earnings estimates and had a contract renewal with its largest customer.

20

SIGNATURES

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.

MARITRANS INC.  
(Registrant)

By: /s/Walter T. Bromfield  
-----  
Walter T. Bromfield  
Chief Financial Officer  
(Principal Financial Officer)

Dated: November 12, 2002

By: /s/ Judith M. Cortina  
-----  
Judith M. Cortina

Dated: November 12, 2002

Edgar Filing: MARITRANS INC /DE/ - Form 10-Q

Controller  
(Principal Accounting Officer)

21

CERTIFICATION

I, Stephen A. Van Dyck, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Maritrans Inc.;
2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:
  - a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;
  - b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and
  - c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):
  - a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
  - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's

Edgar Filing: MARITRANS INC /DE/ - Form 10-Q

internal controls; and

6. The registrant's other certifying officers and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: November 12, 2002  
-----

/s/ Stephen A. Van Dyck  
-----

Stephen A. Van Dyck  
Chief Executive Officer

22

CERTIFICATION

I, Walter T. Bromfield, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Maritrans Inc.;
2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:
  - a. designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;
  - b. evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and
  - c. presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):

Edgar Filing: MARITRANS INC /DE/ - Form 10-Q

- a. all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
  - b. any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and
6. The registrant's other certifying officers and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: November 12, 2002  
-----

/s/ Walter T. Bromfield  
-----

Walter T. Bromfield  
Chief Financial Officer