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 þ NO o

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

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 þ NO o

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

SEABULK INTERNATIONAL, INC.

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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.

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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)

	March 31, 2005	December 31, 2004
Assets		
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
Total current assets	129,873	125,118
Vessels and equipment, net	596,626	598,793
Deferred costs, net	41,976	45,053
Other	21,173	17,824
Total assets	$ 789,648	$ 786,788
Liabilities and Stockholders Equity		
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
Total current liabilities	71,684	75,475
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
Total liabilities	578,908	587,793
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.

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Seabulk International, Inc. and Subsidiaries

Condensed Consolidated Statements of Operations (Unaudited)
(in thousands, except per share data)

	Three Months Ended March 31, 2005	Three Months Ended March 31, 2004
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
Net income	$ 11,180	$ 5,650
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.

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Seabulk International, Inc. and Subsidiaries

Condensed Consolidated Statements of Cash Flows (Unaudited)
(in thousands)

	Three Months Ended March 31, 2005	Three Months Ended March 31, 2004 (as restated, see Note 1)
Operating activities:		
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
Investing activities:		
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)
Financing activities:		
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
Cash and cash equivalents at end of period	$ 31,310	$ 11,834
Supplemental schedule of non-cash investing and financing activities:		
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.

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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4. Income Taxes

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:

	Three Months Ended March 31,	
	2005	2004
	(in thousands, except per share data)	
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):

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