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SEABULK INTERNATIONAL INC
Form 10-Q
November 14, 2001

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 September 30, 2001

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, and (2) has been subject to such filing requirements for the past ninety days. YES |X| NO

There were 10,400,511 shares of Common Stock, par value \$0.01 per share, outstanding at October 31, 2001.

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.

PART I. FINANCIAL INFORMATION
Item 1. Condensed Consolidated Financial Statements

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

| Three Months Ended September 30, | |
|-------------------------------------|-------|
| 2001 | 2000 |
| ----- | ----- |
| ----- | ----- |

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| | | | | |
|---|----|----------|----|---------|
| Revenue..... | \$ | 89,720 | \$ | 81,62 |
| Operating expenses: | | | | |
| Crew payroll and benefits..... | | 24,004 | | 22,31 |
| Charter hire..... | | 1,803 | | 3,52 |
| Repairs and maintenance..... | | 6,052 | | 6,11 |
| Insurance..... | | 2,970 | | 3,08 |
| Fuel and consumables..... | | 7,760 | | 9,26 |
| Rent, utilities and other..... | | 4,810 | | 6,63 |
| | | ----- | | ----- |
| Total operating expenses..... | | 47,399 | | 50,93 |
| Overhead expenses: | | | | |
| Salaries and benefits..... | | 5,466 | | 4,95 |
| Office..... | | 1,425 | | 1,56 |
| Professional fees..... | | 626 | | 1,39 |
| Other..... | | 1,521 | | 1,31 |
| | | ----- | | ----- |
| Total overhead expenses..... | | 9,038 | | 9,22 |
| Depreciation, amortization and drydocking..... | | 14,718 | | 12,15 |
| | | ----- | | ----- |
| Income from operations..... | | 18,565 | | 9,30 |
| Other income (expense): | | | | |
| Interest expense..... | | (13,783) | | (15,90) |
| Interest income..... | | 50 | | 10 |
| Minority interest in (income) losses of subsidiaries..... | | (90) | | 42 |
| (Loss) gain on disposal of assets..... | | (148) | | 4,18 |
| Other..... | | 29 | | (17) |
| | | ----- | | ----- |
| Total other expense, net..... | | (13,942) | | (11,36) |
| | | ----- | | ----- |
| Income (loss) before provision for income taxes..... | | 4,623 | | (2,06) |
| Provision for income taxes..... | | 1,716 | | 1,08 |
| | | ----- | | ----- |
| Net income (loss)..... | \$ | 2,907 | \$ | (3,14) |
| | | ===== | | ===== |
| Earnings (loss) per common share: | | | | |
| Earnings (loss) per common share - basic..... | \$ | 0.28 | \$ | (0.3) |
| | | ===== | | ===== |
| Earnings (loss) per common share - diluted..... | \$ | 0.27 | \$ | (0.3) |
| | | ===== | | ===== |
| Weighted average common shares outstanding - basic..... | | 10,341 | | 10,03 |
| | | ===== | | ===== |
| Weighted average common shares outstanding - diluted..... | | 10,692 | | 10,03 |
| | | ===== | | ===== |

See accompanying notes

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

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Operating activities:

| | |
|---|----|
| Net loss..... | \$ |
| Adjustments to reconcile net loss to net cash provided by operating activities: | |
| Depreciation and amortization of vessels and equipment..... | |
| Provision for bad debts..... | |
| Gain on disposal of assets..... | |
| Amortization of drydocking costs..... | |
| Amortization of discount on long-term debt and financing costs..... | |
| Minority interest in losses of subsidiaries..... | |
| Other non-cash items..... | |
| Changes in operating assets and liabilities: | |
| Accounts receivable..... | |
| Other current and long-term assets..... | |
| Payment of reorganization items..... | |
| Accounts payable and other liabilities..... | |
| Net cash provided by operating activities..... | |

Investing activities:

| | |
|--|--|
| Expenditures for drydocking..... | |
| Proceeds from disposals of assets..... | |
| Purchases of vessels and equipment..... | |
| Acquisition of minority interest..... | |
| Redemption of restricted investments..... | |
| Purchase of restricted investments..... | |
| Net cash (used in) provided by investing activities..... | |

Financing activities:

| | |
|---|----|
| Proceeds from revolving credit facility..... | |
| Payments of revolving credit facility..... | |
| Payments of long-term borrowings..... | |
| Payments of Title XI bonds..... | |
| Redemption of restricted cash..... | |
| Payments of financing costs..... | |
| Payments of obligations under capital leases..... | |
| Proceeds from exercise of warrants..... | |
| Net cash used in financing activities..... | |
| Change in cash and cash equivalents..... | |
| Cash and cash equivalents at beginning of period..... | |
| Cash and cash equivalents at end of period..... | \$ |

Supplemental schedule of noncash investing and financing activities:

| | |
|--|----|
| Notes payable issued for the acquisition of minority interest..... | \$ |
| Notes payable issued for payment of accrued interest and fees..... | \$ |

See accompanying notes

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Seabulk International, Inc. and Subsidiaries
 Condensed Consolidated Balance Sheets (Unaudited)
 (in thousands, except par value data)

Assets

Current assets:

Cash and cash equivalents..... \$
 Restricted cash.....
 Accounts receivable:
 Trade, net of allowance for doubtful accounts of \$6,014 and \$6,398 in 2001 and
 2000, respectively.....
 Insurance claims and other.....
 Marine operating supplies.....
 Prepaid expenses.....

 Total current assets.....

Vessels and equipment, net.....
 Deferred costs, net.....
 Restricted investments.....
 Other.....

 Total assets..... \$

Liabilities and Stockholders' Equity

Current liabilities:

Accounts payable..... \$
 Current maturities of long-term debt.....
 Current obligations under capital leases.....
 Accrued interest.....
 Accrued liabilities and other.....

 Total current liabilities.....

Long-term debt.....
 Obligations under capital leases.....
 Senior notes.....
 Other liabilities.....

 Total liabilities.....

Contingencies (Note 7)

Minority interest.....

Stockholders' equity:

Preferred stock, no par value--authorized 5,000; none issued and outstanding.....
 Common stock--\$.01 par value, authorized 20,000 shares; 10,401 and 10,117 shares
 issued and outstanding in 2001 and 2000, respectively.....
 Additional paid-in capital.....
 Accumulated other comprehensive loss.....
 Accumulated deficit.....

 Total stockholders' equity.....

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Total liabilities and stockholders' equity.....

See accompanying notes.

Seabulk International, Inc. and Subsidiaries
Notes to Condensed Consolidated Financial Statements
September 30, 2001
(Unaudited)

1. Organization and Basis of Presentation

On March 12, 2001, Hvide Marine Incorporated (the "Issuer") filed a "Certificate of Ownership and Merger" with the Secretary of State of the State of Delaware that merged the Issuer's newly organized, wholly-owned subsidiary Seabulk International, Inc. into the Issuer. This Certificate of Ownership and Merger provided that from and after the effective date of the merger, the name of the merged companies would be Seabulk International, Inc. The merger and name change became effective on March 19, 2001, and the Issuer's common stock began trading on the Nasdaq National Market under its new symbol "SBLK" on March 21, 2001. The Company's Class A Warrants began trading on the OTC Bulletin Board under their new symbol "SBLKW" on March 21, 2001.

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. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States of America for complete financial statements. All adjustments which, in the opinion of management, are considered necessary for a fair presentation of the results of operations for the periods shown are of a normal recurring nature and have been reflected in the unaudited condensed consolidated financial statements. The results of operations for the periods presented are not necessarily indicative of the results expected for the full fiscal year or for any future period. The information included in these unaudited condensed consolidated financial statements should be read in conjunction with Management's Discussion and Analysis of Financial Condition and Results of Operations contained in this report and the consolidated financial statements and accompanying notes included in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2000.

The accompanying condensed consolidated financial statements include the accounts of Seabulk International, Inc. and its majority-owned subsidiaries. All material intercompany transactions and balances have been eliminated in the condensed consolidated financial statements.

The Company has no material components of comprehensive income (loss) except net income (loss).

Certain financial statement reclassifications have been made to conform prior periods' data to the 2001 financial statement presentation.

2. Issues Affecting Liquidity

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The Company's current and future capital requirements as they relate primarily to debt service, vessel maintenance, and fleet improvements total approximately \$108.0 million for fiscal 2001. The Company believes that operating cash flow, proceeds from vessel sales and amounts available under its revolving credit facility will be sufficient to meet its debt service obligations and other capital requirements through 2001. As the Company's operating cash flow is dependent in part on factors beyond the Company's control, however, including general economic conditions and conditions in the markets the Company serves, there can be no assurance that actual operating cash flow will meet expectations.

3. Acquisition of Minority Interest

On January 15, 2001, the Company acquired the remaining 24.25% interest in its five 46,000 dwt double-hull petroleum and chemical tankers. The purchase price was approximately \$11.0 million, of which \$523,544 was paid in cash and the remaining balance was paid by a promissory note in the principal amount of \$10.5 million. The note is guaranteed by certain securities of certain subsidiaries of the Company. The note accrues interest at 8.5% per annum and is paid quarterly. Principal is due in quarterly payments of \$525,000 through January 2006. This transaction resulted in the elimination of minority interest and an increase to vessels and equipment of \$3.1 million, representing the fair value of assets acquired over the carrying value of the minority interest. The increase in vessels and equipment is being depreciated over the remaining useful lives of the tankers.

4. Income Taxes

For the three and nine months ended September 30, 2001 and 2000, a gross deferred tax benefit was computed using an estimated annual effective tax rate of 36%. Management has recorded a valuation allowance at September 30, 2001 and 2000 to reduce the net deferred tax asset to zero. The current provision for income taxes for the three- and nine-month periods ended September 30, 2001 and 2000 represent taxes withheld on foreign source revenue.

5. Earnings (Loss) Per Share

The following table sets forth the computation of basic and diluted earnings (loss) per share for the periods indicated:

| | Three Months Ended September 30, | | |
|---|-------------------------------------|------------|-------|
| | 2001 | 2000 | |
| | (in thousands, except for | | |
| Numerator: | | | |
| Numerator for basic and diluted earnings (loss) per share | | | |
| net income (loss) available to common shareholders..... | \$ 2,907 | \$ (3,142) | \$ |
| | ===== | ===== | ===== |
| Denominator: | | | |
| Denominator for basic earnings per share-weighted average | | | |

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| | | | |
|--|---------|-----------|----|
| shares..... | 10,341 | 10,039 | |
| Effects of dilutive securities: | | | |
| Stock options..... | -- | -- | |
| Warrants..... | 351 | -- | |
| Dilutive potential common shares..... | 351 | -- | |
| Denominator for diluted earnings per share-adjusted weighted average shares and assumed conversions..... | 10,692 | 10,039 | |
| Earnings (loss) per share - basic..... | \$ 0.28 | \$ (0.31) | \$ |
| Earnings (loss) per share - diluted..... | \$ 0.27 | \$ (0.31) | \$ |

6. Segment Information

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 - 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 - Marine transportation services includes oceangoing and inland-waterway vessels used to transport crude oil, petroleum products and chemicals between ports and terminals within the U.S.

Towing - Harbor and offshore towing services are provided by tugs to vessels utilizing the seven ports in which the tugs operate, and to vessels at sea.

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

| | Three Months Ended September 30, | | |
|-------------------------------------|-------------------------------------|-----------|----|
| | 2001 | 2000 | |
| Revenue | | | |
| Offshore energy support..... | \$ 51,081 | \$ 39,067 | \$ |
| Marine transportation services..... | 30,650 | 34,591 | |
| Towing..... | 7,989 | 7,965 | |
| Total..... | \$ 89,720 | \$ 81,623 | \$ |
| Operating expenses | | | |
| Offshore energy support..... | \$ 24,598 | \$ 23,412 | \$ |
| Marine transportation services..... | 17,568 | 22,797 | |

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| | | | | | |
|---|----|----------|----|----------|-------|
| Towing..... | | 5,233 | | 4,726 | |
| | | ----- | | ----- | |
| Total..... | \$ | 47,399 | \$ | 50,935 | \$ |
| | | ===== | | ===== | ===== |
| Depreciation, amortization and drydocking | | | | | |
| Offshore energy support..... | \$ | 9,575 | \$ | 7,683 | \$ |
| Marine transportation services..... | | 4,054 | | 3,718 | |
| Towing..... | | 706 | | 647 | |
| General corporate..... | | 383 | | 109 | |
| | | ----- | | ----- | |
| Total..... | \$ | 14,718 | \$ | 12,157 | \$ |
| | | ===== | | ===== | ===== |
| Income from operations | | | | | |
| Offshore energy support..... | \$ | 13,047 | \$ | 4,577 | \$ |
| Marine transportation services..... | | 7,598 | | 6,226 | |
| Towing..... | | 1,005 | | 1,092 | |
| General corporate..... | | (3,085) | | (2,588) | |
| | | ----- | | ----- | |
| Total..... | \$ | 18,565 | \$ | 9,307 | \$ |
| | | ===== | | ===== | ===== |
| Total income from operations for reportable segments..... | | | | | |
| | \$ | 18,565 | \$ | 9,307 | \$ |
| Interest expense..... | | (13,783) | | (15,904) | |
| Other (expense) income..... | | (159) | | 4,537 | |
| | | ----- | | ----- | |
| Income (loss) before provision for income taxes.... | \$ | 4,623 | \$ | (2,060) | \$ |
| | | ===== | | ===== | ===== |

Three Months Ended
September 30,

| | | 2001 | | 2000 | |
|---------------------------|----|--------|----|--------|-------|
| | | ----- | | ----- | |
| Revenue | | | | | |
| Domestic..... | \$ | 61,580 | \$ | 55,724 | \$ |
| Foreign: | | | | | |
| West Africa..... | | 18,315 | | 13,151 | |
| Middle East..... | | 5,392 | | 8,455 | |
| Southeast Asia..... | | 4,433 | | 4,293 | |
| | | ----- | | ----- | |
| Consolidated revenue..... | \$ | 89,720 | \$ | 81,623 | \$ |
| | | ===== | | ===== | ===== |

7. Contingencies

From time to time, the Company is party to litigation arising in the

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ordinary course of its business, most of which is covered by insurance, subject to certain deductibles. Management does not believe such litigation will have a material effect on the Company's financial position, results of operations or cash flows.

8. Recent Accounting Pronouncements

In August 2001, the Financial Accounting Standards Board issued the Statement of Financial Accounting Standards ("SFAS") No. 143, Accounting for Asset Retirement Obligations. The Statement requires entities to record the fair value of a liability for an asset retirement obligation and to capitalize this cost by increasing the carrying amount of the related long-lived asset in the period in which it is incurred. The Standard is effective for fiscal years beginning after June 15, 2002. The Company does not expect that the adoption of this standard will have a material effect on the Company's financial statements.

In October 2001, the Financial Accounting Standards Board issued SFAS No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets, effective for fiscal years beginning after December 15, 2001. This Statement establishes one accounting model to be used for long-lived assets to be disposed of by sale and broadens the presentation of discontinued operations to include more disposal transactions. SFAS No. 144 supercedes SFAS No. 121, Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of, and the accounting and reporting provisions of Accounting Principles Board Opinion No. 30. The Company does not expect that the adoption of this standard will have a material effect on the Company's financial statements.

9. Supplemental Condensed Consolidated Financial Information

The senior secured notes are fully and unconditionally guaranteed on a joint and several basis by certain of the Company's wholly-owned consolidated subsidiaries. A substantial portion of the Company's cash flows are generated by its subsidiaries. As a result, the funds necessary to meet the Company's obligations are provided in substantial part by distributions or advances from its subsidiaries. Under certain circumstances, contractual or legal restrictions, as well as the financial and operating requirements of the Company's subsidiaries, could limit the Company's ability to obtain cash from its subsidiaries for the purpose of meeting its obligations, including the payments of principal and interest on the senior notes.

The following is condensed consolidating financial information for the Company, segregating the parent, the domestic and foreign guarantor subsidiaries, the combined non-guarantor subsidiaries and eliminations.

Condensed Consolidating Statement of Operations (in thousands)

| | Three Months Ended Sep | | | |
|--------------|------------------------|---------------------------------------|--------------------------------------|----------------------|
| | Parent | Domestic Guarantor Subsidiaries | Foreign Guarantor Subsidiaries | No Guar Subsid |
| | | | | |
| Revenue..... | \$ 7,978 | \$ 46,658 | \$ 31,591 | \$ |

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| | | | | |
|---|----------|-----------|------------|-------|
| Operating expenses..... | 5,735 | 29,117 | 14,490 | |
| Overhead expenses..... | 3,089 | 2,882 | 2,203 | |
| Depreciation, amortization and drydocking.... | 1,323 | 4,862 | 5,730 | |
| | ----- | ----- | ----- | ----- |
| (Loss) income from operations..... | (2,169) | 9,797 | 9,168 | |
| Other income (expense), net..... | 5,076 | 11,335 | (8,462) | |
| | ----- | ----- | ----- | ----- |
| Income (loss) before provision income taxes.. | 2,907 | 21,132 | 706 | |
| Provision for income taxes..... | -- | -- | 1,716 | |
| | ----- | ----- | ----- | ----- |
| Net income (loss)..... | \$ 2,907 | \$ 21,132 | \$ (1,010) | \$ |
| | ===== | ===== | ===== | ===== |

Condensed Consolidating Statement of Operations
(in thousands)

| | Three Months Ended Sep | | | |
|---|------------------------|---------------------------------------|--------------------------------------|-------------------|
| | Parent | Domestic Guarantor Subsidiaries | Foreign Guarantor Subsidiaries | N Gua Subsi |
| | ----- | ----- | ----- | ----- |
| Revenue..... | \$ 8,846 | \$ 39,724 | \$ 27,463 | \$ 1 |
| Operating expenses..... | 6,866 | 29,289 | 15,219 | 1 |
| Overhead expenses..... | 2,923 | 2,290 | 3,552 | |
| Depreciation, amortization and drydocking.... | 817 | 3,233 | 4,773 | |
| | ----- | ----- | ----- | ----- |
| (Loss) income from operations..... | (1,760) | 4,912 | 3,919 | |
| Other income (expense), net..... | (299) | (767) | (9,358) | (|
| | ----- | ----- | ----- | ----- |
| (Loss) income before provision income taxes.. | (2,059) | 4,145 | (5,439) | (|
| Provision for income taxes..... | 1,082 | -- | -- | |
| | ----- | ----- | ----- | ----- |
| Net (loss) income..... | \$ (3,141) | \$ 4,145 | \$ (5,439) | \$ (|
| | ===== | ===== | ===== | ===== |

Condensed Consolidating Statement of Operations
(in thousands)

| | Nine Months Ended Sep | | | |
|-------------------------|-----------------------|---------------------------------------|--------------------------------------|-------------|
| | Parent | Domestic Guarantor Subsidiaries | Foreign Guarantor Subsidiaries | Gua Subs |
| | ----- | ----- | ----- | ----- |
| Revenue..... | \$ 24,084 | \$ 140,762 | \$ 84,622 | \$ |
| Operating expenses..... | 18,207 | 88,926 | 41,928 | |

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| | | | | |
|---|------------|-----------|------------|-------|
| Overhead expenses..... | 9,806 | 9,184 | 6,856 | |
| Depreciation, amortization and drydocking.... | 4,657 | 13,828 | 16,542 | |
| | ----- | ----- | ----- | ----- |
| (Loss) income from operations..... | (8,586) | 28,824 | 19,296 | |
| Other income (expense), net..... | 7,010 | 24,390 | (21,932) | |
| | ----- | ----- | ----- | ----- |
| (Loss) income before provision for income taxes | (1,576) | 53,214 | (2,636) | |
| Provision for income taxes..... | -- | -- | 4,914 | |
| | ----- | ----- | ----- | ----- |
| Net (loss) income..... | \$ (1,576) | \$ 53,214 | \$ (7,550) | \$ |
| | ===== | ===== | ===== | ===== |

Condensed Consolidating Statement of Cash Flows
(in thousands)

| | Nine Months Ended Sep | | | |
|---|-----------------------|---------------------------------------|--------------------------------------|--------------------|
| | Parent | Domestic Guarantor Subsidiaries | Foreign Guarantor Subsidiaries | N Guar Subsi |
| | ----- | ----- | ----- | ----- |
| Net cash provided by operating activities.... | \$ 17,191 | \$ 16,350 | \$ 3,921 | \$ 1 |
| Investing activities: | | | | |
| Expenditures for drydocking..... | (2,979) | (6,525) | (8,254) | |
| Proceeds from disposals of assets..... | -- | 1,513 | 4,583 | |
| Purchases of vessels and equipment..... | (422) | (4,375) | (1,235) | |
| Acquisition of minority interest..... | 8,346 | -- | -- | |
| Redemption of restricted investments..... | -- | -- | -- | |
| Purchases of restricted investments..... | -- | -- | -- | |
| | ----- | ----- | ----- | ----- |
| Net cash provided by (used in) investing activities..... | 4,945 | (9,387) | (4,906) | |
| Financing activities: | | | | |
| Proceeds from revolving credit facility..... | 33,000 | -- | -- | |
| Payments of revolving credit facility..... | (38,250) | -- | -- | |
| Payments of long-term borrowings..... | (12,631) | (1,007) | -- | |
| Payments of Title XI bonds..... | (2,857) | (324) | -- | |
| Redemption of restricted cash..... | 331 | -- | -- | |
| Payments of obligations under capital leases.. | -- | (2,730) | -- | |
| Proceeds from exercise of warrants..... | 3 | -- | -- | |
| | ----- | ----- | ----- | ----- |
| Net cash used in financing activities..... | (20,404) | (4,061) | -- | |
| | ----- | ----- | ----- | ----- |
| Change in cash and cash equivalents..... | 1,732 | 2,902 | (985) | |
| Cash and cash equivalents at beginning of period..... | 1,402 | (2,190) | 6,380 | |
| | ----- | ----- | ----- | ----- |
| Cash and cash equivalents at end of period..... | \$ 3,134 | \$ 712 | \$ 5,395 | \$ 1 |
| | ===== | ===== | ===== | ===== |

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Condensed Consolidating Statement of Operations (in thousands)

| | Nine Months Ended Sep | | | |
|---|-----------------------|---------------------------------------|--------------------------------------|-----------------------|
| | Parent | Domestic Guarantor Subsidiaries | Foreign Guarantor Subsidiaries | No Guar Subsidi |
| Revenue..... | \$ 28,390 | \$ 119,027 | \$ 76,944 | \$ 5 |
| Operating expenses..... | 21,301 | 90,654 | 45,991 | 3 |
| Overhead expenses..... | 9,686 | 7,019 | 11,631 | |
| Depreciation, amortization and drydocking.... | 2,281 | 11,841 | 14,411 | |
| (Loss) income from operations..... | (4,878) | 9,513 | 4,911 | |
| Other (expense) income, net..... | (11,234) | (23,189) | (23,565) | (1 |
| (Loss) income before provision for income taxes | (16,112) | (13,676) | (18,654) | (1 |
| Provision for income taxes..... | 3,189 | -- | -- | |
| Net (loss) income..... | \$ (19,301) | \$ (13,676) | \$ (18,654) | \$ (1 |

Condensed Consolidating Statement of Cash Flows (in thousands)

| | Nine Months Ended Sep | | | |
|---|-----------------------|---------------------------------------|--------------------------------------|----------------------|
| | Parent | Domestic Guarantor Subsidiaries | Foreign Guarantor Subsidiaries | N Guar Subsidi |
| Net cash provided by (used in) by operating activities..... | \$ 5,301 | \$ (7,871) | \$ 1,292 | \$ 1 |
| Investing activities: | | | | |
| Expenditures for drydocking..... | (2,041) | (3,100) | (1,415) | |
| Proceeds from disposals of assets..... | -- | 20,835 | 1,414 | |
| Purchases of vessels and equipment..... | 8,541 | (11,828) | (2,664) | (|
| Redemption of restricted investments..... | -- | -- | -- | |
| Capital contribution to affiliate..... | -- | 1,763 | -- | (|
| Net cash provided by (used in) investing activities..... | 6,500 | 7,670 | (2,665) | (|
| Financing activities: | | | | |
| Proceeds of revolving credit facility..... | 23,203 | -- | -- | |
| Payments of revolving credit facility..... | (17,003) | -- | -- | |
| Payments of long-term borrowings..... | (26,884) | (1,040) | -- | |
| Payments of Title XI bonds..... | (3,675) | (323) | -- | (|
| Redemption of restricted cash..... | 9,213 | 189 | -- | |
| Payments of financing costs..... | (596) | -- | -- | |
| Payments of obligations under capital leases... | (563) | (2,065) | -- | |

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| | | | | |
|---|----------|----------|----------|------|
| Proceeds from exercise of warrants..... | 1 | -- | -- | |
| Net cash used in financing activities..... | (16,304) | (3,239) | -- | (|
| Change in cash and cash equivalents..... | (4,503) | (3,440) | (1,373) | 1 |
| Cash and cash equivalents at beginning of period..... | 4,830 | 2,908 | 7,816 | |
| Cash and cash equivalents at end of period..... | \$ 327 | \$ (532) | \$ 6,443 | \$ 1 |

Condensed Consolidating Balance Sheet
(in thousands)

| | As of September 3 | | | |
|---|-------------------|---------------------------------|--------------------------------|----------------------------|
| | Parent | Domestic Guarantor Subsidiaries | Foreign Guarantor Subsidiaries | Non-Guarantor Subsidiaries |
| Assets | | | | |
| Current assets: | | | | |
| Cash and cash equivalents..... | \$ 3,134 | \$ 712 | \$ 5,395 | \$ |
| Accounts receivable: | | | | |
| Trade, net..... | 264 | 27,025 | 25,378 | |
| Insurance claims and other..... | 992 | 3,082 | 7,812 | |
| Marine operating supplies..... | 603 | 2,346 | 3,363 | |
| Prepaid expenses..... | 762 | 557 | 630 | |
| Total current assets..... | 5,755 | 33,722 | 42,578 | |
| Vessels and equipment, net..... | 46,172 | 177,740 | 111,232 | 2 |
| Deferred costs, net..... | 16,573 | 9,981 | 9,080 | |
| Restricted investments..... | -- | -- | -- | |
| Due (to) from affiliates..... | (163,992) | 74,983 | 125,061 | (|
| Other..... | 525,036 | 366,196 | 5,519 | |
| Total assets..... | \$ 429,544 | \$ 662,622 | \$ 293,470 | \$ 3 |
| Liabilities and Stockholders' Equity | | | | |
| Current liabilities: | | | | |
| Accounts payable..... | \$ 1,621 | \$ 1,948 | \$ 5,237 | \$ |
| Current maturities of long-term debt..... | 31,481 | 1,914 | -- | |
| Current obligations under capital leases..... | -- | 3,078 | -- | |
| Accrued interest..... | 3,628 | 664 | -- | |
| Accrued liabilities and other..... | 6,695 | 7,227 | 22,375 | |
| Total current liabilities..... | 43,425 | 14,831 | 27,612 | |
| Long-term debt..... | 167,539 | 24,048 | -- | 2 |
| Obligations under capital leases..... | -- | 32,490 | -- | |
| Senior notes..... | 80,977 | -- | -- | |
| Other liabilities..... | 2,633 | 403 | 776 | |
| Total liabilities..... | 294,574 | 71,772 | 28,388 | 2 |

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| | | | | |
|--|------------|------------|------------|-------|
| Contingencies (Note 7)..... | -- | -- | -- | -- |
| Minority interest..... | -- | -- | -- | -- |
| Total stockholders' equity (deficit)..... | 134,970 | 590,850 | 265,082 | |
| | ----- | ----- | ----- | ----- |
| Total liabilities and stockholders' equity | \$ 429,544 | \$ 662,622 | \$ 293,470 | \$ 3 |
| | ===== | ===== | ===== | ===== |

Condensed Consolidating Balance Sheet
(in thousands)

| | As of December 31 | | | |
|---|-------------------|---------------------------------------|--------------------------------------|-----------------------------------|
| | Parent | Domestic Guarantor Subsidiaries | Foreign Guarantor Subsidiaries | Non- Guarantor Subsidiaries |
| | ----- | ----- | ----- | ----- |
| Assets | | | | |
| Current assets: | | | | |
| Cash and cash equivalents..... | \$ 1,402 | \$ (2,190) | \$ 6,380 | \$ |
| Restricted cash..... | 331 | -- | -- | |
| Accounts receivable: | | | | |
| Trade, net..... | 1,607 | 24,011 | 24,298 | |
| Insurance claims and other..... | 1,029 | 3,060 | 7,091 | |
| Marine operating supplies..... | 393 | 2,466 | 3,503 | |
| Prepaid expenses..... | 568 | 920 | 1,177 | |
| | ----- | ----- | ----- | ----- |
| Total current assets..... | 5,330 | 28,267 | 42,449 | |
| Vessels and equipment, net..... | 47,349 | 186,174 | 129,344 | 2 |
| Deferred costs, net..... | 17,268 | 7,926 | 4,427 | |
| Restricted investments..... | -- | -- | -- | |
| Due (to) from affiliates..... | (143,041) | 63,892 | 117,788 | (|
| Other..... | 509,352 | 327,407 | 3,431 | |
| | ----- | ----- | ----- | ----- |
| Total assets..... | \$ 436,258 | \$ 613,666 | \$ 297,439 | \$ 3 |
| | ===== | ===== | ===== | ===== |
| Liabilities and Stockholders' Equity | | | | |
| Current liabilities: | | | | |
| Accounts payable..... | \$ 976 | \$ 4,847 | \$ 6,300 | \$ |
| Current maturities of long-term debt..... | 27,226 | 1,960 | -- | |
| Current obligations under capital leases..... | -- | 3,580 | -- | |
| Accrued interest..... | 454 | 492 | -- | |
| Accrued liabilities and other..... | 7,552 | 4,676 | 17,719 | |
| | ----- | ----- | ----- | ----- |
| Total current liabilities..... | 36,208 | 15,555 | 24,019 | |
| Long-term debt..... | 181,451 | 25,333 | -- | 2 |
| Obligations under capital leases..... | -- | 34,718 | -- | |
| Senior notes..... | 79,108 | -- | -- | |

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| | | | | |
|--|------------|------------|------------|------|
| Other liabilities..... | 2,944 | 424 | 785 | |
| | | | | |
| Total liabilities..... | 299,711 | 76,030 | 24,804 | 2 |
| Contingencies (Note 7) | -- | -- | -- | |
| Minority interest..... | -- | -- | -- | |
| Total stockholders' equity (deficit)..... | 136,547 | 537,636 | 272,635 | |
| | | | | |
| Total liabilities and stockholders' equity | \$ 436,258 | \$ 613,666 | \$ 297,439 | \$ 3 |
| | | | | |

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 2000 Form 10-K.

The MD&A contains "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. All statements other than statements of historical fact included in the MD&A are forward-looking statements. Although the Company believes that the expectations and beliefs reflected in such forward-looking statements are reasonable, it can give no assurance that they will prove correct. For information regarding the risks and uncertainties that could cause such forward-looking statements to prove incorrect, see "Projections and Other Forward-Looking Information" in Item 1 of the 2000 Form 10-K.

Revenue Overview

The Company derives its revenue from three main lines of business - offshore energy support, marine transportation, and towing. Seabulk Offshore, the Company's domestic and international offshore energy support business, accounted for approximately 55% and 46% of Company revenue for the nine months ended September 30, 2001 and 2000, respectively. Marine transportation, under the new name Seabulk Tankers, consists of (1) the Company's Jones Act tanker business, in which it operates ten petroleum product and chemical product carriers in the domestic coastwise trade, and (2) its inland tug and barge operation and shipyard, Sun State Marine Services. Together, they accounted for approximately 35% and 44% of Company revenue for the nine months ended September 30, 2001 and 2000, respectively. Seabulk Towing, the Company's domestic harbor and offshore towing business, accounted for approximately 10% of Company revenue for the nine months ended September 30, 2001 and 2000.

Offshore Energy Support

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, which are in turn heavily dependent upon the price of crude oil and natural gas. Further, in certain areas where the Company conducts offshore energy support

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operations (particularly the U.S. Gulf of Mexico), contracts for the utilization of offshore energy support vessels commonly include termination provisions with three- to five-day notice requirements and no termination penalty. As a result, companies engaged in offshore energy support operations (including the Company) are particularly sensitive to changes in market demand.

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

| | Q1 2001 | | | | Q2 2001 | | | | Q3 2001 | |
|--------------------------|-----------------|--------------|------------------|---------|-----------------|--------------|------------------|---------|-----------------|--------------|
| | AHTS/ Supply | AHT/ Tugs | Crew/ Utility | Other | AHTS/ Supply | AHT/ Tugs | Crew/ Utility | Other | AHTS/ Supply | AHT/ Tugs |
| Domestic(1) | | | | | | | | | | |
| Vessels(2) (3) (4) | 26 | - | 31 | 1 | 26 | - | 33 | 1 | 26 | - |
| Bareboat-out (4) | - | - | 2 | 1 | - | - | 2 | 1 | - | - |
| Laid-Up | 1 | - | - | 1 | 1 | - | - | 1 | - | - |
| Effective Utilization(5) | 75% | - | 87% | - | 90% | - | 87% | - | 83% | - |
| Day Rate | \$6,946 | - | \$2,709 | - | \$7,397 | - | \$2,929 | - | \$7,486 | - |
| West Africa | | | | | | | | | | |
| Vessels(2) (3) (6) (8) | 27 | 3 | 6 | 1 | 27 | 4 | 5 | 1 | 27 | 4 |
| Laid-Up | - | - | - | - | - | - | - | - | - | - |
| Effective Utilization(5) | 83% | 46% | 85% | - | 86% | 41% | 77% | 84% | 82% | 63% |
| Day Rate | \$6,325 | \$4,491 | \$2,754 | - | \$6,988 | \$5,528 | \$2,774 | - | \$7,644 | \$6,097 |
| Middle East | | | | | | | | | | |
| Vessels(2) (3) (7) (9) | 5 | 8 | 11 | 7 | 5 | 8 | 11 | 7 | 5 | 8 |
| Laid-Up | - | - | - | - | - | - | - | - | - | - |
| Effective Utilization(5) | 77% | 24% | 66% | 56% | 92% | 50% | 59% | 69% | 86% | 48% |
| Day Rate | \$3,003 | \$4,129 | \$1,421 | \$5,197 | \$2,855 | \$3,889 | \$1,434 | \$5,393 | \$2,954 | \$4,443 |
| Southeast Asia | | | | | | | | | | |
| Vessels(2) (6) (10) | 8 | 1 | 5 | 1 | 8 | 1 | 5 | 1 | 8 | - |
| Laid-Up | - | - | 1 | - | - | - | 1 | - | - | - |
| Effective Utilization(5) | 87% | 37% | 89% | 33% | 83% | 46% | 73% | 71% | 79% | - |
| Day Rate | \$5,347 | - | \$1,429 | - | \$4,277 | - | \$1,443 | - | \$4,762 | - |

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- (1) Domestic consists of vessels operating in the United States, the U.S. Gulf of Mexico, Mexico, the Caribbean and South America.
- (2) Held-for-sale and bareboat-out vessels are excluded from the vessel count.
- (3) During Q1 2001, one AHTS, one supply boat, and one specialty vessel (Other) transferred from the Middle East to West Africa. During Q2 2001, the Company purchased a crewboat and transferred one vessel in the Crew/Utility category from West Africa to Domestic.
- (4) Bareboat-out chartered vessels are not included in the day rate and utilization statistics. During Q3 2001, bareboat contracts for two crewboats in the Domestic operating region were terminated and the vessels were returned to the Company.
- (5) Effective utilization excludes laid-up vessels.
- (6) One vessel in the AHT/Tugs category worked in West Africa and Southeast Asia during Q2 2001 and earned sufficient revenue to be included in the statistics for both regions.
- (7) The Middle East - Other category includes a vessel that is in a 50/50 joint venture and not included in the day rate and utilization statistics.
- (8) During Q3 2001, one crewboat and one utility boat in Domestic region were transferred to "held-for-sale" status. Additionally, the Company transferred one crewboat from Domestic to West Africa. The reduction in the Domestic Crew/Utility vessel count was offset in part by the addition of two crewboats as bareboat-out contracts were terminated during Q3 2001.
- (9) During Q3 2001, the Company transferred one crewboat and one specialty vessel (Other) from the Middle East to Southeast Asia. Additionally, one crewboat was transferred to "held-for-sale" status.
- (10) During Q3 2001, one crewboat and one specialty vessel (Other) were transferred from West Africa to Southeast Asia. Also, one vessel in the AHT/Tugs category that worked in West Africa and Southeast Asia during Q2 2001 did not work in Southeast Asia during Q3. Additionally, the Company reactivated one crewboat from laid-up status during Q3 2001.

| | Q1 2000 | | | | Q2 2000 | | | | Q3 2000 | | |
|--------------------------|-----------------|--------------|------------------|-------|-----------------|--------------|------------------|-------|-----------------|--------------|-----------------|
| | AHTS/ Supply | AHT/ Tugs | Crew/ Utility | Other | AHTS/ Supply | AHT/ Tugs | Crew/ Utility | Other | AHTS/ Supply | AHT/ Tugs | Crew/ Utilit |
| Domestic(1) | | | | | | | | | | | |
| Vessels(2) (3) | 25 | - | 33 | 2 | 26 | - | 33 | 2 | 26 | - | 31 |
| Bareboat-out(4) | - | - | 6 | 1 | - | - | 2 | 1 | - | - | 2 |
| Laid-Up | 3 | - | 1 | 2 | 5 | - | 2 | 2 | 3 | - | - |
| Effective Utilization(5) | 80% | - | 79% | - | 79% | - | 81% | - | 76% | - | 86% |
| Day Rate | \$3,663 | - | \$1,894 | - | \$4,024 | - | \$1,921 | - | \$4,821 | - | \$2,117 |
| West Africa | | | | | | | | | | | |
| Vessels(3) | 24 | 4 | 5 | 1 | 25 | 4 | 5 | 1 | 26 | 4 | 6 |
| Laid-Up | 2 | 1 | 1 | 1 | 2 | 1 | 1 | 1 | 1 | 2 | 1 |
| Effective Utilization(5) | 85% | 57% | 53% | - | 83% | 60% | 59% | - | 85% | 81% | 62% |

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| | | | | | | | | | | | |
|--------------------------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|
| Day Rate | \$5,304 | \$4,289 | \$2,450 | - | \$5,618 | \$5,200 | \$2,460 | - | \$5,887 | \$5,122 | \$2,809 |
| Middle East | | | | | | | | | | | |
| Vessels(6) | 24 | 21 | 29 | 8 | 21 | 21 | 29 | 8 | 18 | 21 | 24 |
| Laid-Up | 10 | 5 | 15 | - | 10 | 5 | 12 | - | 10 | 6 | 12 |
| Effective Utilization(5) | 62% | 72% | 69% | 69% | 83% | 74% | 61% | 70% | 83% | 50% | 61% |
| Day Rate | \$2,899 | \$2,809 | \$1,373 | \$6,988 | \$2,995 | \$2,960 | \$1,446 | \$6,302 | \$2,634 | \$3,345 | \$1,483 |
| Southeast Asia | | | | | | | | | | | |
| Vessels | 9 | 2 | 5 | 2 | 9 | 2 | 5 | 2 | 10 | 2 | 5 |
| Laid-Up | 3 | - | - | 1 | 2 | 1 | - | - | 2 | 1 | - |
| Effective Utilization(4) | 49% | 7% | 46% | 33% | 90% | 96% | 66% | 85% | 85% | 60% | 69% |
| Day Rate | \$4,031 | \$8,516 | \$1,540 | \$8,086 | \$4,358 | \$4,569 | \$1,549 | \$5,268 | \$3,765 | \$7,364 | \$1,330 |

- (1) Domestic consists of vessels operating in the United States, the U.S. Gulf of Mexico, Mexico, the Caribbean and South America.
- (2) One vessel was sold in Q4 2000 from the Crew/Utility category. Since the vessel earned substantial revenue during the quarter, it was included in the statistics.
- (3) One vessel in the Crew/Utility category changed reporting area from Domestic to West Africa after Q2 2000. The statistics reflected this move.
- (4) Bareboat-out chartered vessels are not included in the day rate and utilization statistics.
- (5) Effective utilization excludes laid-up vessels.
- (6) The Middle East-AHT/Tugs and Other categories include a vessel that is a 44-foot harbor tug and in a 50/50 joint venture, respectively, which are not included in the day rate and utilization statistics.

Domestic offshore revenues during the first half of fiscal 2001 benefited from increased average day rates and fleet utilization. Third quarter results, however, showed a modest downturn due to reduced drilling activity in the Gulf of Mexico. The impact of this was largely felt in September as the downward trend in natural gas prices accelerated and drillers laid off rigs. The underlying market weakness has been largely due to a slowing U.S. economy and moderate summer weather, both of which reduced the demand for energy. Since the events of September 11, both the U.S. and world economies have been subject to further downward pressure. As a result, the timing for a robust recovery in the Gulf of Mexico is less certain. Nevertheless, the Company believes that the energy fundamentals which drive this industry will lead to a recovery in the U.S. offshore market by mid-2002. This should have a positive impact on offshore vessel demand.

International offshore revenues for the nine months ended September 30, 2001 benefited from rising day rates, particularly in West Africa and Southeast Asia, as major oil companies are moving ahead with aggressive oil exploration

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and development programs outside the U.S. During the third quarter, both demand and the price of oil remained relatively firm, although there is now evidence of a softening trend. This, however, is unlikely to affect exploration and development outlays in the key areas where the Company operates as most of the activity there is controlled by the international oil majors, whose strategy reflects a longer-term time horizon.

The Company's actual performance in West Africa and Southeast Asia was affected by an aggressive drydocking and repair program, which reduced reported utilization for the Company's vessels. The benefits of these actions should be reflected in improved vessel performance, reliability and utilization in future quarters.

Average day rates and utilization for the Company's anchor handling tug supply vessels and supply boats as of October 31, 2001 for Domestic, West Africa, the Middle East and Southeast Asia approximated \$7,000/66%, \$8,000/83%, \$3,400/83% and \$5,900/71%, respectively.

The Company had 24, 16 and 14 offshore vessels in "held for sale" status as of March 31, June 30 and September 30, 2001, respectively. Most of these vessels were previously in lay-up. Subsequent to September 30, 2001, the Company sold two crewboats in the held-for-sale category.

Marine Transportation

Revenue from the Company's marine transportation services is derived principally from the operations of 10 tankers carrying crude oil, petroleum products and chemical products in the U.S. Jones Act trade and, to a lesser extent, from towboat and fuel barge operations in Green Cove Springs, Florida.

Petroleum Tankers. Demand for crude oil and petroleum product transportation services is dependent on production and refining levels as well as on consumer and commercial consumption of petroleum products and chemicals. The Company operated seven petroleum tankers as of September 30, 2001. Four of these are double-hull, state-of-the-art vessels delivered in late 1998 and the first half of 1999. The Company operates a fifth double-hull tanker in the chemical transportation trade. At the end of December 2001, voyage charters for three vessels will expire and be replaced by two multiyear time charters at time charter-equivalent rates 55% above the returns achieved for these vessels in 2001. The third vessel is expected to show a similar year-over-year gain when its new contract is signed in the fourth quarter of 2001. A fourth vessel also secured a time charter, commencing in the fourth quarter of 2001, at a 25% increase over the expiring rate. Under a time charter, fuel and port charges are borne by the charterer and are therefore not reflected in the charter rates. Consequently, both the revenue and cost side of time charter vessels are reduced by the amount of fuel and port charges. Our Jones Act fleet is benefiting from a tightening domestic tanker market, which should see a further strengthening as OPA 90 forces out older, single-hull vessels.

Chemical Tankers. Demand for industrial chemical transportation services generally coincides with overall economic activity. The Company operated two chemical tankers and one multipurpose vessel in the chemical trade as of September 30, 2001. The multi-purpose vessel is a double-hull, state-of-the-art tanker delivered in the first half of 1999. The two chemical tankers are double-bottom ships. The higher rate environment for petroleum tankers is carrying over into the chemical tanker market. Higher spot market rates have helped push time charter equivalents up substantially in the third quarter and into the fourth quarter.

The following table sets forth the number of vessels and revenue for the Company's petroleum and chemical product carriers:

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| | Nine Months Ended September 30, | |
|---------------------------------|---------------------------------|--------------|
| | 2001 | 2000 (1) (2) |
| Number of vessels operated..... | 10 | 12 |
| Revenue (in thousands)..... | \$ 84,827 | \$ 97,108 |

- (1) During the third quarter of 2000, the Company scrapped one tanker that was at the end of its OPA 90-mandated useful life.
- (2) Includes revenue from chartered-in vessels of \$9.4 million for the nine months ended September 30, 2000.

Inland Tugs and Barges. Revenue from the Company's Sun State Marine Services subsidiary has been derived primarily from contracts of affreightment with Colonial Oil Industries (formerly known as Steuart Petroleum Co.) and Florida Power & Light (FPL) that require the Company to transport fuel as needed. On January 31, 2001, Sun State renewed the contract with Colonial for four years with an additional seven-year renewal option. The renewal option in 2005 is contingent on Colonial's ability to renew a related contract. The contract with FPL expires in April 2002 and will not be renewed. Revenue is also derived from Sun State's ship maintenance, repair, drydocking and construction activities. Revenue from all of Sun State's operations totaled \$7.9 and \$7.6 million, respectively, for the nine months ended September 30, 2001 and 2000.

Towing

Revenue from the Company's tug operations is primarily a function of the number of tugs available to provide services, the rates charged for their services, and the volume of vessel traffic requiring docking and other ship-assist services. Vessel traffic, in turn, is largely a function of general trade activity in the region served by the port. While the demand for tug services normally tracks overall trade activity, it has increased in certain areas in the wake of the terrorist attacks and the renewed focus on security in U.S. ports.

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

| | Nine Months Ended September 30, | |
|--------------------------------------|---------------------------------|-----------|
| | 2001 | 2000 |
| Number of tugs at end of period..... | 31 | 33 |
| Revenue (in thousands)..... | \$ 25,027 | \$ 25,011 |

Towing revenue was unchanged for the nine months ended September 30, 2001 compared to the same period in the prior year. The Company sold a total of five towing vessels in 2000, one in the second quarter and four in the third quarter; and two more in the first quarter of 2001. The associated proceeds were used to pay down debt. In addition, the Company took delivery of its fourth SDM(TM) in the second quarter of 2000.

In August 2001, the Broward County Board of Commissioners granted a second Port Everglades tug franchise to a competitor. Since 1958, when the tug operations commenced, the Company has operated the franchise as a sole provider of docking services in the port. The competitor is expected to put two boats into service in January 2002 and one in January 2003. As a result, the Company expects that towing revenue will decrease in fiscal 2002. However, the decline in towing revenue is not considered to be material to the Company as a whole.

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Overview of Operating Expenses and Capital Expenditures

The Company's operating 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 operating expenses as well as capital expenditures, see "Management's Discussion and Analysis of Financial Condition and Results of Operations, Overview of Operating Expenses and Capital Expenditures" in the 2000 Form 10-K.

Results of Operations

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

| | Three Months ended September 30, | | | | Nine Mo |
|---|----------------------------------|------|----------|------|----------|
| | 2001 | | 2000 | | 200 |
| | (in millions) | | | | |
| Revenue..... | \$ 89.7 | 100% | \$ 81.6 | 100% | \$ 262.6 |
| Operating expenses..... | 47.4 | 53 | 50.9 | 62 | 144.8 |
| Overhead expenses..... | 9.0 | 10 | 9.2 | 11 | 28.4 |
| Depreciation, amortization and drydocking..... | 14.7 | 16 | 12.2 | 15 | 43.5 |
| Income from operations..... | \$ 18.6 | 21% | \$ 9.3 | 12% | \$ 45.9 |
| Interest expense, net..... | \$ 13.7 | 15% | \$ 15.8 | 19% | \$ 42.4 |
| Other income (expense)..... | \$ (0.2) | 0% | \$ 4.4 | 5% | \$ (0.2) |
| Net income (loss)..... | \$ 2.9 | 3% | \$ (3.1) | 4% | \$ (1.6) |

Three months ended September 30, 2001 compared with the three months ended September 30, 2000

Revenue. Revenue increased 9.9% to \$89.7 million for the three months ended September 30, 2001 from \$81.6 million for the three months ended September 30, 2000.

Offshore energy support revenue increased 30.8% to \$51.1 million for the three months ended September 30, 2001 from \$39.1 million for the same period in 2000, primarily due to higher day rates and utilization rates resulting from the increase in offshore exploration and production activity.

Marine transportation revenue decreased 11.4% to \$30.7 million for the three months ended September 30, 2001 from \$34.6 million for the three months

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ended September 30, 2000. This decrease is primarily due to the mandated retirement of one of the Company's Jones Act tankers in the third quarter of 2000 and the termination of a charter-in contract for one tanker. The decrease in revenue also reflects the redeployment of three tankers from spot trading to time charters whereby the cost of fuel and port charges are borne by the charterer.

Towing revenue of \$8.0 million was unchanged for the three months ended September 30, 2001 compared to the three months ended September 30, 2000.

Operating Expenses. Operating expenses decreased 6.9% to \$47.4 million for the three months ended September 30, 2001 from \$50.9 million for the same period in 2000, primarily due to reduced charter hire, fuel and port charges, offset in part by increases in domestic crew salaries and benefits. The reduction in charter hire payments is due to the termination of a charter-in contract for one tanker in October 2000. The reduction in fuel and port charges is primarily due to the change of three tankers from spot trading to time charters, termination of the charter-in contract for one tanker and the mandatory retirement of one tanker. The increase in domestic offshore crew salaries and benefits is primarily due to additional maritime staff resulting from (1) the purchase of two crewboats in December 2000 and May 2001 and (2) the termination of a bareboat-out contract for two crewboats. Under a bareboat contract, the charterer is responsible for crewing the vessel. As a percentage of revenue, operating expenses decreased to 52.8% for the three months ended September 30, 2001 from 62.4% for the 2000 period. This favorable trend may be affected in the future by possible increases in crewing and insurance costs.

Overhead Expenses. Overhead expenses decreased 2.0% to \$9.0 million for the three months ended September 30, 2001 from \$9.2 million for the same period in 2000, primarily due to decreased professional fees and other overhead expense, offset in part by increases in salaries and benefits. Higher headcount and related salary expense for corporate activity resulted in savings on third-party consulting fees and services. The decrease in other overhead expenses is primarily due to lower charges for rent and other miscellaneous items as a result of the elimination of non-essential services and the consolidation of administrative functions. As a percentage of revenue, overhead expenses decreased to 10.1% for the three months ended September 30, 2001 compared to 11.3% for the same period in 2000.

Depreciation, Amortization and Drydocking. Depreciation, amortization and drydocking increased 21.1% to \$14.7 million or 16.4% of revenue for the three months ended September 30, 2001 from \$12.2 million or 14.9% of revenue for the three months ended September 30, 2000, primarily due to higher planned drydocking expenditures for offshore energy support vessels.

Net Interest Expense. Net interest expense decreased 13.1% to \$13.7 million or 15.3% of revenue for the three months ended September 30, 2001 from \$15.8 million or 19.4% of revenue for the same period in 2000. The decrease is primarily due to the combination of lower interest rates on variable rate debt and lower outstanding debt balances under our term loans and revolving credit facility. This decrease is offset in part by interest expense on additional borrowings in 2001 for the remaining 24.25% interest in the five double-hull tankers and the purchase of two crewboats (financed through borrowings under the Company's revolving credit agreement).

Other (Expense) Income, Net. Other (expense) income, net decreased 104.7% to (\$0.2) million for the three months ended September 30, 2001 from net income of \$4.4 million for the same period in 2000, primarily due to a gain on asset sales in 2000 compared to a loss on asset sales in the 2001 period.

Nine months ended September 30, 2001 compared with the nine months ended September 30, 2000

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Revenue. Revenue increased 9.2% to \$262.6 million for the nine months ended September 30, 2001 from \$240.4 million for the nine months ended September 30, 2000.

Offshore energy support revenue increased 30.7% to \$144.8 million for the nine months ended September 30, 2001 from \$110.8 million for the same period in 2000, primarily due to higher day rates and utilization rates resulting from the increase in offshore exploration and production activity.

Marine transportation revenue decreased 11.4% to \$92.8 million for the nine months ended September 30, 2001 from \$104.6 million for the nine months ended September 30, 2000. This decrease is primarily due to the mandated retirement of one of the Company's Jones Act tankers in the third quarter of 2000 and the Company's charter-in of one tanker in the first quarter of 2000 through October 2000. The decrease in revenue also reflects the redeployment of three tankers from spot trading to time charters whereby the cost of fuel and port charges are borne by the charterer.

Towing revenue of \$25.0 million is unchanged for the nine months ended September 30, 2001 compared to the nine months ended September 30, 2000.

Operating Expenses. Operating expenses decreased 8.2% to \$144.8 million for the nine months ended September 30, 2001 from \$157.7 million for the same period in 2000, due mainly to lower charter hire, fuel, and port charges, offset in part by increases in domestic crew salaries and benefits. The reduction in charter hire payments is due to the termination of a chartered-in contract for one tanker in October 2000. The reduction in fuel and port charges is primarily due to the change of three tankers from spot trading to time charters, termination of a chartered-in contract for one tanker, and the mandatory retirement of one tanker. The increase in the domestic offshore crew salaries and benefits is primarily due to additional maritime staff resulting from (1) the purchase of two crewboats in December 2000 and May 2001 and (2) the termination of a bareboat-out contract for two crewboats. Under a bareboat contract, the charterer is responsible for crewing the vessel. As a percentage of revenue, operating expenses decreased to 55.2% for the nine months ended September 30, 2001 from 65.6% for the same period in 2000. This favorable trend may be affected in the future by possible increases in crewing and insurance costs.

Overhead Expenses. Overhead expenses decreased 1.6% to \$28.4 million for the nine months ended September 30, 2001 from \$28.9 million for the same period in 2000, primarily due to lower professional fees and other overhead expenses offset in part by increases in salaries and benefits. As a percentage of revenue, overhead expenses decreased to 10.8% for the nine months ended September 30, 2001 from 12.0% for the same period in 2000.

Depreciation, Amortization and Drydocking. Depreciation, amortization and drydocking increased 18.7% to \$43.5 million or 16.6% of revenue for the nine months ended September 30, 2001 from \$36.6 million or 15.2% of revenue for the nine months ended September 30, 2000, primarily due to higher planned drydocking expenditures for offshore energy support vessels.

Net Interest Expense. Net interest expense decreased 8.4% to \$42.4 million or 16.1% of revenue for the nine months ended September 30, 2001 from \$46.2 million or 19.2% of revenue for the same period in 2000. The decrease is primarily due to the combination of lower interest rates on variable rate debt and lower outstanding debt balances under our term loans and revolving credit facility. This decrease is offset in part by interest expense on additional borrowings in 2001 for the remaining 24.25% interest in the five double-hull tankers and the purchase of two crewboats (financed through borrowings under the

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Company's revolving credit agreement).

Other (Expense) Income, Net. Other (expense) income, net decreased 101.4% to (\$0.2) million for the nine months ended September 30, 2001 from \$12.8 million for the same period in 2000, primarily due to a net loss of \$0.2 million on asset sales in 2001 compared to a \$7.0 million gain on the settlement of a disputed liability and a net gain on asset sales of \$4.8 million in 2000.

Liquidity and Capital Resources

Cash Flows. Net cash provided by operating activities totaled \$56.2 million for the nine months ended September 30, 2001 compared to \$14.6 million for the same period in 2000. The significant increase in cash provided by operating activities is primarily a result of (1) higher operating income before non-cash charges in 2001 and (2) no reorganization costs in 2001.

Net cash used in investing activities was \$18.5 million for the nine months ended September 30, 2001 compared to \$8.0 million for the same period in 2000. The use of cash for investing activities is due primarily to planned drydocking expenditures for an additional 19 vessels and smaller proceeds from disposal of assets held for sale.

Net cash used in financing activities for the nine months ended September 30, 2001 was \$26.5 million compared to \$21.4 million for the same period in 2000. The increase in cash used in financing activities is attributable to a larger net decrease in the outstanding balance of the revolving credit facility and smaller redemption of restricted cash. The restricted cash represented proceeds from the exit financing which were deposited into escrow in fiscal 1999 to fund certain of the Company's contractual interest payments in 2000. The cash used in financing activities includes payments, generated from vessel sales, on term debt during the year. Proceeds from vessel sales decreased from \$22.2 million in 2000 to \$6.1 million in 2001.

Recent Expenditures and Future Cash Requirements. With the market upswing during the second half of 2000, the Company elected to purchase two modern 152' crewboats for a total price of \$5.0 million. Deposits totaling \$175,000 were made during October 2000. In December 2000, the first crewboat was delivered and the remaining balance of \$2.38 million was paid out of funds available under the revolver. The second crewboat was delivered on May 1, 2001, and the Company made a cash payment of \$2.45 million out of funds available under the revolver.

In December 2000, the Company signed an agreement to purchase the remaining 24.25% equity interest in its five 46,000 dwt double-hull petroleum and chemical tankers. The purchase was completed in January 2001 and was funded by \$0.5 million in cash and a promissory note in the principal amount of \$10.5 million at an interest rate of 8.5%. The aggregate cost of the five carriers was approximately \$280.0 million, a substantial portion of which was financed with the proceeds of U.S. government-guaranteed Title XI ship financing bonds. The Company now has 100% equity ownership of all five double-hull tankers.

The Company's five double-hull petroleum and chemical tankers were financed with U.S. government guaranteed Title XI ship financing bonds. The Company is required to make deposits to a Title XI reserve fund based on a percentage of net income attributable to the operations of the five double-hull tankers, as defined by the Title XI Financial Agreement. To date, no deposits have been required. Additionally, according to the Title XI Financial Agreement, the Company is restricted from formally distributing excess cash from the operations of the five double-hull tankers until certain working capital ratios have been reached and maintained. Accordingly, at September 30, 2001, the

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Company has approximately \$16 million in cash and cash equivalents that are restricted for use for the operations of the five double-hull tankers and cannot be used to fund the Company's general working capital requirements. Based on current projections, the Company expects to meet the working capital requirements under the financial agreement in 2002 and may begin to formally distribute any available excess cash.

The Company's current and future capital needs relate primarily to debt service, vessel maintenance and fleet improvement costs. Principal obligations for the first nine months of 2001 were \$21.6 million. Cash interest obligations were \$29.7 million of \$42.5 million in total interest expense, which includes amortization of bank fees and discounts on senior notes. The Company's principal payments for the remainder of 2001 are estimated at \$7.6 million. Estimated cash interest obligations for the remainder of 2001 total \$18.6 million. The fourth quarter cash interest obligations are higher than the average 2001 quarterly cash interest obligations due to (1) scheduled semi-annual interest payments on the Title XI debt for the double-hull tankers and (2) the timing of interest payments for the senior debt.

During the first nine months of 2001, the Company incurred \$24.1 million in capital expenditures for fleet improvements and drydocking costs. For the remainder of 2001, these expenditures are expected to aggregate \$6.4 million. Total 2001 expenditures of \$30.5 million will substantially cover all of the Company's drydocking requirements for 75 vessels.

The Company believes that operating cash flow, proceeds from vessel sales and amounts available under its revolving credit facility will be sufficient to meet its debt service obligations and other capital requirements through 2001 and 2002. As the Company's operating cash flow is dependent on factors largely beyond the Company's control, including general economic conditions and conditions in the markets the Company serves, there can be no assurance that actual operating cash flow will meet expectations. However, the Company expects to generate excess cash flow in the future from operations, which we expect to use primarily to reduce existing debt. The Company continues to evaluate financing alternatives to support future growth and enhance shareholder value.

The terms of the term loans and revolving credit facility are contained in a credit agreement between the Company and the financial institutions. For general information concerning the term loans and revolving credit facility, see "Management's Discussion and Analysis of Financial Condition and Results of Operations, Liquidity and Capital Resources" in the 2000 Form 10-K. The credit agreement provides for the following facilities:

| Facility ----- | Year-to-Date Payments ----- | Outstanding Balance as of September 30, 2001 ----- | Maturit ----- |
|---------------------------|-----------------------------------|---|------------------|
| Tranche A term loan | \$6.7 million | \$54.2 million | 2004 |
| Tranche B term loan | \$1.0 million | \$24.8 million | 2005 |
| Tranche C term loan | \$3.2 million | \$78.6 million | 2006 |
| Other | \$2.7 million | \$29.8 million | Variou |
| Revolving credit facility | \$5.3 million(1) | \$ 9.0 million | 2004 |

(1) Represents net payments

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At October 31, 2001, \$10.0 million was outstanding under the revolving credit facility. In addition to the revolver balance, there are \$1.8 million in outstanding letters of credit as of October 31, 2001. We have \$5.7 million of remaining credit on the revolver at October 31, 2001.

The senior secured notes did not receive by April 15, 2000 the minimum credit rating from the rating agencies required under the note indenture. As a result, the interest rate on the notes increased from 12.5% to 13.5% effective December 15, 1999. The indenture requires that such additional interest be paid in the form of additional notes, which notes in the aggregate principal amount of \$0.7 million have been issued for the nine months ended September 30, 2001. The Company is currently seeking the required ratings that would return the interest rate to 12.5%.

Recent Accounting Pronouncements

In August 2001, the Financial Accounting Standards Board issued the Statement of Financial Accounting Standards ("SFAS") No. 143, Accounting for Asset Retirement Obligations. The Statement requires entities to record the fair value of a liability for an asset retirement obligation and to capitalize this cost by increasing the carrying amount of the related long-lived asset in the period in which it is incurred. The Standard is effective for fiscal years beginning after June 15, 2002. The Company does not expect that the adoption of this standard will have a material effect on the Company's financial statements.

In October 2001, the Financial Accounting Standards Board issued SFAS No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets, effective for fiscal years beginning after December 15, 2001. This Statement establishes one accounting model to be used for long-lived assets to be disposed of by sale and broadens the presentation of discontinued operations to include more disposal transactions. SFAS No. 144 supercedes SFAS No. 121, Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of, and the accounting and reporting provisions of APB Opinion No. 30. The Company does not expect that the adoption of this standard will have a material effect on its financial statements.

Item 3. Quantitative and Qualitative Disclosures of Market Risk

Information about the Company's exposure to market risk was disclosed in its 2000 Annual Report on Form 10-K, which was filed with the Securities and Exchange Commission on March 30, 2001. There have been no material quantitative or qualitative changes in market risk exposures since the date of that filing.

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PART II. OTHER INFORMATION

Item 1. Legal Proceedings

For information concerning certain legal proceedings see Note 7 of the financial statements.

Item 6. Exhibits and Reports on Form 8-K

None.

Signature

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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/ J. STEPHEN NOUSS

J. Stephen Nouss
Senior Vice President and Chief Financial Officer
Date: November 14, 2001