

SEABULK INTERNATIONAL INC

Form 10-Q

August 09, 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 June 30, 2005**  
**Commission File Number: 0-28732**  
**SEABULK INTERNATIONAL, INC.**

State of Incorporation: Delaware

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

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

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

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

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

There were 100 shares of Common Stock, par value \$0.01 per share, outstanding at August 8, 2005.

The registrant meets the conditions set forth in General Instruction H(1)(a) and (b) of Form 10-Q and is therefore filing this Form with the reduced disclosure format.

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**FORM 10-Q**  
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As used in this Report, the term "Parent" means Seabulk International, Inc., and the term "Company" means the Parent and/or one or more of its consolidated subsidiaries.

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

	<b>June 30, 2005</b>	<b>December 31, 2004</b>
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 27,442	\$ 18,949
Restricted cash	32,258	35,681
Trade accounts receivable, net of allowance for doubtful accounts of \$6,854 and \$5,649 in 2005 and 2004, respectively	51,437	55,209
Other receivables	3,774	3,784
Marine operating supplies	7,668	7,868
Prepaid expenses and other	3,929	3,627
<b>Total current assets</b>	<b>126,508</b>	<b>125,118</b>
Vessels and equipment, net	590,943	598,793
Deferred costs, net	40,493	45,053
Other	26,318	17,824
<b>Total assets</b>	<b>\$784,262</b>	<b>\$ 786,788</b>
<b>Liabilities and Stockholders Equity</b>		
Current liabilities:		
Accounts payable	\$ 9,858	\$ 14,918
Current maturities of long-term debt	15,661	16,653
Current obligations under capital leases	3,354	3,708
Accrued interest	5,633	4,875
Accrued liabilities and other	33,962	35,321
<b>Total current liabilities</b>	<b>68,468</b>	<b>75,475</b>
Long-term debt	309,353	325,965
Senior notes	154,219	152,906
Obligations under capital leases	27,097	28,568
Other liabilities	6,150	4,879
<b>Total liabilities</b>	<b>565,287</b>	<b>587,793</b>
Commitments and contingencies		
Stockholders equity:		
Preferred stock, no par value-authorized 5,000; issued and outstanding, none	234	234

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Common stock-.01 par value, authorized 40,000 shares; 23,436 and 23,446 shares issued and outstanding in 2005 and 2004, respectively		
Additional paid-in capital	261,799	259,843
Accumulated other comprehensive income		55
Unearned compensation	(1,880)	(758)
Accumulated deficit	(41,178)	(60,379)
Total stockholders' equity	218,975	198,995
Total liabilities and stockholders' equity	\$784,262	\$ 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		Six Months Ended	
	June 30,		June 30,	
	2005	2004	2005	2004
<b>Revenue</b>	\$96,687	\$87,203	\$192,268	\$169,737
Vessel and voyage expenses:				
Crew payroll and benefits	23,072	21,697	45,672	44,278
Charter hire	4,375	3,944	9,267	7,531
Repairs and maintenance	5,760	7,974	10,405	14,172
Insurance	3,324	3,704	6,505	6,324
Fuel and consumables	7,073	7,795	14,356	14,810
Port charges and other	6,222	5,080	11,548	9,986
	49,826	50,194	97,753	97,101
General and administrative	12,041	9,323	21,609	18,748
Depreciation, amortization and drydocking	16,577	17,127	33,097	32,917
Gain on disposal of assets, net	(453)	(1,989)	(323)	(1,977)
Income from operations	18,696	12,548	40,132	22,948
Other income (expense):				
Interest expense	(9,259)	(8,375)	(18,685)	(16,444)
Interest income	167	52	313	118
Minority interest in (gains) losses of subsidiaries		(20)		58
Other, net	41	52	33	4,576
Total other expense, net	(9,051)	(8,291)	(18,339)	(11,692)
Income before provision for income taxes	9,645	4,257	21,793	11,256
Provision for income taxes	1,624	1,536	2,592	2,885
<b>Net income</b>	<b>\$ 8,021</b>	<b>\$ 2,721</b>	<b>\$ 19,201</b>	<b>\$ 8,371</b>
Net income per common share:				
Net income per common share basic	\$ 0.34	\$ 0.12	\$ 0.82	\$ 0.36
Net income per common share diluted	\$ 0.33	\$ 0.12	\$ 0.79	\$ 0.35
Weighted average common shares outstanding basic	23,366	23,261	23,347	23,255
Weighted average common shares outstanding diluted	24,527	23,598	24,400	23,696

*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)

	<b>Six Months Ended</b>	
	<b>June 30,</b>	
	<b>2005</b>	<b>2004</b>
<b>Operating activities:</b>		
Net income	\$ 19,201	\$ 8,371
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation of vessels and equipment	19,928	20,222
Expenditures for drydocking	(9,457)	(10,473)
Amortization of drydocking costs	13,169	12,695
Amortization of discount on long-term debt and financing costs	825	857
Amortization of unearned compensation	388	
Provision for bad debts	1,405	1,631
Gain on disposal of assets, net	(323)	(1,977)
Minority interest in losses of subsidiaries		(58)
Other		119
Changes in operating assets and liabilities:		
Trade accounts and other receivables	2,377	575
Other current and long-term assets	(7,546)	(4,172)
Accounts payable and other liabilities	(4,387)	(6,695)
Net cash provided by operating activities	35,580	21,095
<b>Investing activities:</b>		
Proceeds from disposals of assets	5,128	3,145
Purchases of vessels and equipment	(16,641)	(83,533)
Investment in Joint Venture		(240)
Net cash used in investing activities	(11,513)	(80,628)
<b>Financing activities:</b>		
Proceeds from Amended Credit Facility		20,000
Payments on Amended Credit Facility	(15,500)	
Proceeds from long-term debt	8,130	49,600
Payments of long-term debt	(4,654)	(3,166)
Payments of Title XI bonds	(5,580)	(3,535)
Payments of obligations under capital leases	(1,825)	(1,725)
Payments of deferred financing costs related to 2003 Senior Notes and Amended Credit Facility		(285)
Payments of other deferred financing costs	(14)	(683)
Proceeds from exercise of stock options	446	167
Decrease in restricted cash	3,423	2,043
Net cash (used in) provided by financing activities	(15,574)	62,416
Change in cash and cash equivalents	8,493	2,883

Cash and cash equivalents at beginning of period	18,949	7,399
<b>Cash and cash equivalents at end of period</b>	<b>\$ 27,442</b>	<b>\$ 10,282</b>
<b>Supplemental schedule of non-cash investing and financing activities:</b>		
Obligation for fair market value of interest rate swap	\$ 1,313	\$ (3,478)

*See notes to condensed consolidated financial statements.*

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**Seabulk International, Inc. and Subsidiaries**  
**Notes to Condensed Consolidated Financial Statements**  
**June 30, 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 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 and Form 10-K/A Amendment No. 1 for the fiscal year ended December 31, 2004. For the six months ended June 30, 2005 and 2004, the Company's components of comprehensive income include net income and a foreign currency forward contract for approximately \$55,000 and \$84,000, respectively. As of June 30, 2005, the foreign currency forward contract was expired.

**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"). 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 owned approximately 75% of Seabulk's common shares, entered into an agreement to support the transaction.

The merger was approved by the stockholders of the Company and SEACOR, and customary conditions, including regulatory approvals, were satisfied. The effective time and completion date of the Merger was July 1, 2005. At such time, Seabulk stockholders were 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. Based on SEACOR's closing price of \$64.30 on June 30, 2005, the Company's stockholders received approximately \$21.32 in SEACOR stock and cash for each share of the Company's stock. The Company's stock ceased trading at the close of business on June 30, 2005 and the Company began operating as a wholly owned subsidiary of SEACOR beginning July 1, 2005. All outstanding Seabulk stock options are being assumed by SEACOR. Each such option for Seabulk common stock is exercisable for SEACOR common stock under the exchange ratio, plus the cash component.

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**3. Vessel Purchases and Operations**

During the three months ended March 31, 2005, the Company took delivery of and began to operate two offshore vessels. The transaction to acquire one of the offshore vessels was a like-kind exchange of assets of equal value and was a tax-free transaction to the Company, in which the Company delivered four offshore vessels in exchange for one offshore vessel.

Additionally, during the three months ended March 31, 2005, the Company sold two offshore vessels and exchanged a third and \$550,000 for another offshore vessel and the assignment of a purchase and sale agreement. The Company subsequently sold the offshore vessel under the terms of the assigned purchase and sale agreement. The transaction was a like-kind exchange of assets of equal value and was a tax free-transaction to the Company. Proceeds from the sales of the vessels were approximately \$2.3 million and the net loss on the sales of the vessels was approximately \$103,000.

During the three months ended June 30, 2005, the Company sold four offshore vessels. Proceeds from the sales of the vessels were approximately \$2.9 million and the net gain on the sales of the vessels was approximately 449,000.

Management continues to implement its initiative to sell unprofitable vessels and add newer more efficient vessels to its fleet in an effort to improve profitability and liquidity.

In June 2005, the Company sold the *Seabulk Freedom*, a special purpose maintenance vessel operating in Southeast Asia to an unrelated third party (the Buying Entity ) for the purpose of establishing a presence in the Malaysian market. The Company delivered the vessel, with a carrying value of approximately \$0.7 million, as of June 30, 2005, in exchange for a \$3.5 million note receivable and a ship management agreement from the Buying Entity. The ship management agreement stipulates that the Company is responsible for any operating deficits and capital improvements and calls for the note receivable plus accrued interest to be paid from the vessel revenues in excess of operating costs, management fees and commissions. The Buying Entity subsequently placed the vessel under the

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Malaysia flag and began a charter in Malaysia on June 30, 2005. Based on the terms of the sale and the ship management agreement, the Company determined the Buying Entity is a variable interest entity as defined in Financial Accounting Standards Board ( FASB ) Interpretation No. 46(R) *Consolidation of Variable Interest Entities (revised December 2003)* an interpretation of ARB No. 51 ( FIN No. 46(R) ). Therefore, in accordance with FIN No. 46(R), the Company is required to consolidate the financial position and results of operations of the Buying Entity and is precluded from recording a gain on the sale of the vessel. The accompanying condensed consolidated financial statements include the financial position and results of operations of the Buying Entity in accordance with FIN No. 46(R).

In May 2005, the Company exercised existing options at Labroy Shipbuilding and Engineering Pte. Ltd. for the construction of four additional anchor handling tug supply vessels for its international offshore fleet, bringing the total number of vessels under construction to eight. The total remaining commitment, as of June 30, 2005, for the eight vessel package is approximately \$81.9 million. The vessels have various delivery dates beginning in early 2006 through early 2007.

**4. Income Taxes**

The current provision for income taxes for the three and six-month periods ended June 30, 2005 and 2004 represents expected tax obligations on foreign-source revenue. For the three and six months ended June 30, 2005 and 2004, a domestic tax provision was computed using an estimated annual effective tax rate of 35%. A corresponding reduction in the valuation allowance was recorded resulting in no net domestic provision. Management has recorded a valuation allowance at June 30, 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.

**5. Net Income per Common Share**

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

	<b>Three Months Ended June 30,</b>		<b>Six Months Ended June 30,</b>	
	<b>2005</b>	<b>2004</b>	<b>2005</b>	<b>2004</b>
	<b>(in thousands, except for per share data)</b>			
Numerator for basic and diluted net income per share:				
Net income available to common shareholders	\$ 8,021	\$ 2,721	\$ 19,201	\$ 8,371
Denominator for basic net income per share-weighted average shares				
	23,366	23,261	23,347	23,255
Effects of dilutive securities:				
Stock options	845	139	768	238
Warrants	155	159	156	159
Restricted shares	161	39	129	44
Dilutive potential common shares	1,161	337	1,053	441
Denominator for diluted net income per share-adjusted weighted average shares and assumed conversions				
	24,527	23,598	24,400	23,696
Net income per share basic	\$ 0.34	\$ 0.12	\$ 0.82	\$ 0.36
Net income per share diluted	\$ 0.33	\$ 0.12	\$ 0.79	\$ 0.35

The weighted average diluted common shares outstanding for the three and six months ended June 30, 2004 excludes 344,000 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 condensed consolidated statements of operations. Income from operations by geographic area represents net revenue less applicable costs and expenses related to that revenue.

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

	<b>Three Months Ended</b>		<b>Six Months Ended</b>	
	<b>June 30,</b>		<b>June 30,</b>	
	<b>2005</b>	<b>2004</b>	<b>2005</b>	<b>2004</b>
<b>Revenue</b>				
Offshore energy support	\$48,843	\$41,173	\$ 94,190	\$ 80,756
Marine transportation services	37,062	36,408	75,721	69,870
Towing	10,894	9,759	22,548	19,337
Eliminations <sup>(1)</sup>	(112)	(137)	(191)	(226)
<b>Total</b>	<b>\$96,687</b>	<b>\$87,203</b>	<b>\$192,268</b>	<b>\$169,737</b>
<b>Vessel and voyage expenses</b>				
Offshore energy support	\$24,887	\$25,595	\$ 49,216	\$ 50,800
Marine transportation services	18,720	18,495	36,281	35,348
Towing	6,331	6,241	12,447	11,179
Eliminations <sup>(1)</sup>	(112)	(137)	(191)	(226)
<b>Total</b>	<b>\$49,826</b>	<b>\$50,194</b>	<b>\$ 97,753</b>	<b>\$ 97,101</b>
<b>Depreciation, amortization and drydocking</b>				
Offshore energy support	\$ 8,937	\$ 9,746	\$ 17,779	\$ 19,291
Marine transportation services	6,485	6,390	13,080	11,684
Towing	1,083	923	2,095	1,808
General corporate	72	68	143	134
<b>Total</b>	<b>\$16,577</b>	<b>\$17,127</b>	<b>\$ 33,097</b>	<b>\$ 32,917</b>
<b>Income (loss) from operations</b>				
Offshore energy support	\$10,752	\$ 3,356	\$ 18,669	\$ 2,454
Marine transportation services	11,000	10,678	24,637	21,123
Towing	2,204	1,464	5,281	3,958
General corporate	(5,260)	(2,950)	(8,455)	(4,587)
<b>Total</b>	<b>\$18,696</b>	<b>\$12,548</b>	<b>\$ 40,132</b>	<b>\$ 22,948</b>
<b>Net income (loss)</b>				
Offshore energy support	\$ 5,447	\$ (964)	\$ 8,147	\$ (6,077)
Marine transportation services	6,385	5,989	15,354	12,156
Towing	1,418	689	3,603	2,416
General corporate	(5,229)	(2,993)	(7,903)	(124)
<b>Total</b>	<b>\$ 8,021</b>	<b>\$ 2,721</b>	<b>\$ 19,201</b>	<b>\$ 8,371</b>

<b>Geographic revenue</b>				
Americas <sup>(2)</sup>	\$62,403	\$54,489	\$123,592	\$105,170
Foreign				
West Africa	21,669	21,793	42,794	44,039
Middle East	7,438	7,367	15,320	13,206
Southeast Asia	5,177	3,554	10,562	7,322
<b>Consolidated geographic revenue</b>	<b>\$96,687</b>	<b>\$87,203</b>	<b>\$192,268</b>	<b>\$169,737</b>

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

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

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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 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 the 2002 and 2003 policy years, 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 of 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 \$1.7 million and \$2.6 million for the three months ended June 30, 2005 and 2004, respectively. The Company's hull and machinery insurance renewed in October 2004, and was renegotiated again in July 2005 as a consequence of the Merger with SEACOR. The hull and machinery policy years will now run from July 1 to June 30. 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. Also as a consequence of the Merger with SEACOR, in July 2005, the P&I coverage was split between three different P&I clubs, one of which will insure the Company's



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international offshore fleet, one will insure the Company's domestic offshore fleet and one the Company's tanker fleet.

From time to time, the Company is party to personal injury and property damage claims litigation arising in the ordinary course of 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:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2005	2004	2005	2004
Net income, as reported	\$ 8,021	\$ 2,721	\$ 19,201	\$ 8,371
Stock-based compensation expense determined under the fair value method	\$ (468)	\$ (194)	\$ (916)	\$ (570)
Pro forma net income	\$ 7,553	\$ 2,527	\$ 18,285	\$ 7,801
Net income per common share:				
Basic-as reported	\$ 0.34	\$ 0.12	\$ 0.82	\$ 0.36
Basic-pro forma	\$ 0.32	\$ 0.11	\$ 0.78	\$ 0.34
Diluted-as reported	\$ 0.33	\$ 0.12	\$ 0.79	\$ 0.35
Diluted-pro forma	\$ 0.31	\$ 0.11	\$ 0.75	\$ 0.33

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

**Table of Contents****9. Recent Accounting Pronouncements**

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

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

In May 2005, the FASB issued Statement of Financial Accounting Standard No. 154, *Accounting Changes and Error Corrections* ( SFAS No. 154 ), a replacement of APB Opinion No. 20, *Accounting Changes* ( APB No. 20 ) and SFAS No. 3. SFAS No. 154 eliminates the requirement in APB No. 20 to include the cumulative effect of a change in accounting principle in the income statement of the period of change. Instead, SFAS No. 154 requires that a change in accounting principle be retrospectively applied. Under retrospective application, the new accounting principle is applied as of the beginning of the first period presented as if that principle had always been used. The cumulative effect of the change is reflected in the carrying value of assets and liabilities as of the first period presented and the offsetting adjustments are recorded to opening retained earnings. Each period presented is adjusted to reflect the period-specific effects of applying the change. SFAS No. 154 is effective for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005. Early adoption is permitted for accounting changes and corrections of errors made in fiscal years beginning after the date SFAS No. 154 was issued. SFAS No. 154 does not change the transition provisions of any existing accounting pronouncements, including those that are in a transition phase as of the effective date of SFAS No. 154. The Company is in the process of determining the impact adopting SFAS No. 154 will have on its consolidated financial position and consolidated results of operations.

**Table of Contents****10. Subsequent Events**

In July 2005, the Company sold an offshore crew boat operating in the U.S. Gulf and a harbor tug operating in Port Canaveral. Proceeds from the sales of the vessels were \$800,000. The loss on the sales of the vessels was approximately \$60,000.

Effective July 1, 2005, the Company merged with SEACOR and began operations as a wholly-owned subsidiary of SEACOR (see Note 2). As of July 1, 2005, the effective date of the Merger, Gerhard Kurz, Chairman, CEO and President, and Larry D. Francois, Senior Vice President and President - Seabulk Offshore, resigned from the Company and were paid severance under their respective employment agreements. As a consequence of the Merger, certain terminations, certain employment and severance agreements and the Company's change in control severance policy in place prior to the effective date of the Merger, were triggered. Additionally, the entire slate of directors of the Company resigned as of the effective date of the Merger, pursuant to the Merger Agreement. The Company expects severance payments of approximately \$4.4 million will be incurred in the third quarter.

In addition to the severance and employee termination costs described above, the Company also expects to incur additional expenses in the third quarter as a consequence of the Merger with SEACOR including: approximately \$1.3 million to expense certain costs which had been capitalized related to a public offering that the Company was considering prior to the Merger; approximately \$1.9 million of unearned compensation related to the release of restrictions on previously issued restricted stock; approximately \$1.5 million for investment banking fees contingent upon the completion of the Merger; and insurance premiums for director and officer coverage for approximately \$1.2 million.

In July 2005, the Company signed agreements to sell the *Seabulk Trust* and the *Seabulk Reliant*, the Company's two foreign-flag tankers, in separate transactions. The *Seabulk Trust* is expected to be delivered to its buyer in August. The *Seabulk Reliant* is expected to be delivered to its buyer in September. Both vessels are currently operating in an international product tanker pool.

In July 2005, the Company removed its tanker fleet and its international offshore fleet from the West of England P&I club and placed those fleets into two separate P&I insurance clubs (see Note 7).

**11. Supplemental Condensed Consolidated Financial Information**

The Restricted Subsidiaries as to which financial information is included in the tables below are subsidiaries of the Company that are subject to the terms and conditions of the Indenture governing the 2003 Senior Notes. Only certain of the Restricted Subsidiaries (representing the domestic restricted subsidiaries and referred to in the Indenture as the

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

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

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**Condensed Consolidating Balance Sheet**  
**(in thousands)**  
**As of June 30, 2005**

	Parent <sup>(a)</sup>	Wholly Owned Guarantor Restricted Subsidiaries <sup>(a)</sup>	Non- Guarantor Restricted Subsidiaries	Non- Guarantor Unrestricted Subsidiaries	Eliminations	Consolidated Total
<b>Assets</b>						
Current assets:						
Cash and cash equivalents	\$ 21,253	\$ 2,336	\$ 3,853	\$	\$	\$ 27,442
Restricted cash			2,756	29,502		32,258
Trade accounts receivable, net	(457)	18,615	32,251	1,028		51,437
Other receivables	214	2,549	701	310		3,774
Marine operating supplies	(1,026)	3,416	2,849	2,429		7,668
Prepaid expenses and other	1,856	547	1,145	381		3,929
<b>Total current assets</b>	<b>21,840</b>	<b>27,463</b>	<b>43,555</b>	<b>33,650</b>		<b>126,508</b>
Vessels and equipment, net						
	29,442	235,848	121,422	204,231		590,943
Deferred costs, net	7,435	13,591	12,381	7,086		40,493
Investments in affiliates	562,222				(562,222)	
Due from affiliates		44,508	137,482	3,855	(185,845)	
Other	10,606	999	1,560	13,153		26,318
<b>Total assets</b>	<b>\$631,545</b>	<b>\$ 322,409</b>	<b>\$ 316,400</b>	<b>\$ 261,975</b>	<b>\$ (748,067)</b>	<b>\$ 784,262</b>
<b>Liabilities and Stockholders Equity</b>						
Current liabilities:						
Accounts payable	\$ 154	\$ 3,542	\$ 6,162	\$	\$	\$ 9,858
Current maturities of long-term debt	2,179	7,070	875	5,537		15,661
Current obligations under capital leases	1,129	2,225				3,354
Accrued interest	4,825	151	5	652		5,633
Accrued liabilities and other	6,847	5,890	18,646	2,579		33,962

Total current liabilities	15,134	18,878	25,688	8,768		68,468
Long-term debt	47,022	49,738	14,742	197,851		309,353
Senior notes	154,219					154,219
Obligations under capital leases	9,899	17,198				27,097
Due to affiliates	182,671				(182,671)	
Other liabilities	3,625	557	1,922	46		6,150
Total liabilities	412,570	86,371	42,352	206,665	(182,671)	565,287
Commitments and contingencies						
Total stockholders equity	218,975	236,038	274,048	55,310	(565,396)	218,975
Total liabilities and stockholders equity	\$631,545	\$ 322,409	\$ 316,400	\$ 261,975	\$ (748,067)	\$ 784,262

(a) In June 2005, certain vessels owned by Parent were contributed to newly created and existing entities. Subsequent to the contributions by Parent all entities which received vessels are Wholly Owned Guarantor Restricted Subsidiaries.

**Table of Contents****Condensed Consolidating Balance Sheet**  
**(in thousands)**

As of December 31, 2004

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

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Total current liabilities	183,700	15,674	27,327	9,918	(161,144)	75,475
Long-term debt	57,544	53,275	14,480	200,666		325,965
Senior notes	152,906					152,906
Obligations under capital leases	10,476	18,092				28,568
Due to affiliates		27,935			(27,935)	
Other liabilities	2,851	242	1,740	46		4,879
Total liabilities	407,477	115,218	43,547	210,630	(189,079)	587,793
Commitments and contingencies						
Total stockholders equity	197,347	217,392	265,462	141,999	(623,205)	198,995
Total liabilities and stockholders equity	\$604,824	\$ 332,610	\$ 309,009	\$ 352,629	\$ (812,284)	\$ 786,788

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**Condensed Consolidating Statement of Operations**  
(in thousands)

**Three Months Ended June 30, 2005**

	<b>Parent</b>	<b>Wholly Owned Guarantor Restricted Subsidiaries<sup>(b)</sup></b>	<b>Non-Wholly Owned Guarantor Restricted Subsidiaries<sup>(a)</sup></b>	<b>Non- Guarantor Restricted Subsidiaries</b>	<b>Non- Guarantor Unrestricted Subsidiaries</b>	<b>Eliminations</b>	<b>Consolidated Total</b>
Revenue	\$ 11,452	\$ 31,298	\$	\$ 36,780	\$ 17,269	\$ (112)	\$ 96,687
Vessel and voyage expenses	7,102	17,209		18,274	7,353	(112)	49,826
General and administrative	5,503	2,481		3,612	445		12,041
Depreciation, amortization and drydocking	2,130	5,156		6,512	2,779		16,577
Loss (gain) on disposal of assets, net		603		(1,056)			(453)
Income from operations	(3,283)	5,849		9,438	6,692		18,696
Other expense, net	(317)	(2,538)		(2,511)	(3,685)		(9,051)
Income before provision for income taxes	(3,600)	3,311		6,927	3,007		9,645
Provision for income taxes				1,624			1,624
Net income	\$ (3,600)	\$ 3,311	\$	\$ 5,303	\$ 3,007	\$	\$ 8,021

(a) In December 2004, the Company purchased the minority interest in a partnership that owns the *Seabulk America*. Subsequent to the acquisition, all Guarantor



Restricted Subsidiaries are wholly-owned subsidiaries of the Company.

- (b) In June 2005, certain vessels owned by Parent were contributed to newly created and existing entities. Subsequent to the contributions by Parent all entities which received vessels are Wholly Owned Guarantor Restricted Subsidiaries.

**Condensed Consolidating Statement of Operations**  
(in thousands)

**Three Months Ended June 30, 2004**

	<b>Parent</b>	<b>Wholly Owned Guarantor Restricted Subsidiaries</b>	<b>Non-Wholly Owned Guarantor Restricted Subsidiaries</b>	<b>Non- Guarantor Restricted Subsidiaries</b>	<b>Non- Guarantor Unrestricted Subsidiaries</b>	<b>Eliminations</b>	<b>Consolidated Total</b>
Revenue	\$10,377	\$ 21,817	\$ 3,769	\$ 32,981	\$ 18,396	\$ (137)	\$ 87,203
Vessel and voyage expenses	6,693	13,942	2,322	18,670	8,704	(137)	50,194
General and administrative	3,150	1,967	205	3,647	354		9,323
Depreciation, amortization and drydocking	2,213	4,336	822	7,051	2,705		17,127
Gain on disposal of assets, net		(184)		(1,805)			(1,989)

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**Condensed Consolidating Statement of Operations**  
**(in thousands)**  
**Six Months Ended June 30, 2005**

	<b>Parent</b>	<b>Wholly Owned Guarantor Restricted Subsidiaries<sup>(b)</sup></b>	<b>Non-Wholly Owned Guarantor Restricted Subsidiaries<sup>(a)</sup></b>	<b>Non- Guarantor Restricted Subsidiaries</b>	<b>Non- Guarantor Unrestricted Subsidiaries</b>	<b>Eliminations</b>	<b>Consolidated Total</b>
Revenue	\$23,279	\$ 61,802	\$	\$ 72,020	\$ 35,358	\$ (191)	\$ 192,268
Vessel and voyage expenses	13,691	32,914		36,579	14,760	(191)	97,753
General and administrative	8,976	4,881		6,876	876		21,609
Depreciation, amortization and drydocking	4,424	10,238		12,877	5,558		33,097
Loss (gain) on disposal of assets, net		585		(908)			(323)
Income from operations	(3,812)	13,184		16,596	14,164		40,132
Other expense, net	(766)	(5,308)		(4,910)	(7,355)		(18,339)
Income before provision for income taxes	(4,578)	7,876		11,686	6,809		21,793
(Benefit) provision for income taxes	(507)			3,099			2,592
Net income	\$ (4,071)	\$ 7,876	\$	\$ 8,587	\$ 6,809	\$	\$ 19,201

(a) In December 2004, the Company purchased the minority interest in a partnership that owns the *Seabulk America*. Subsequent to the acquisition, all Guarantor

Restricted Subsidiaries are wholly-owned subsidiaries of the Company.

- (b) In June 2005, certain vessels owned by Parent were contributed to newly created and existing entities. Subsequent to the contributions by Parent all entities which received vessels are Wholly Owned Guarantor Restricted Subsidiaries.

**Condensed Consolidating Statement of Operations**  
(in thousands)

**Six Months Ended June 30, 2004**

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

Provision for income taxes				2,885			2,885
Net income	\$ 4,943	\$ (3,421)	\$ (176)	\$ 1,628	\$ 5,339	\$ 58	\$ 8,371

**Table of Contents****Condensed Consolidating Statement of Cash Flows  
(in thousands)****Six Months Ended June 30, 2005**

	<b>Parent</b> <sup>(b)</sup>	<b>Wholly Owned Guarantor Restricted Subsidiaries</b> (b)	<b>Non-Wholly Owned Guarantor Restricted Subsidiaries</b> (a)
Net cash provided by (used in) operating activities	\$ 40,056	\$ (155)	\$
<b>Investing activities:</b>			
Proceeds from sales of vessels and equipment		3,443	
Purchases of vessels and equipment	(14,821)	(1,115)	
Net cash (used in) provided by investing activities	(14,821)	2,328	
<b>Financing activities:</b>			
Payments on Amended Credit Facility	(15,500)		
Proceeds from long-term debt	7,362	67	
Payments of long-term debt	(1,055)	(3,599)	
Payments of Title XI bonds	(2,949)		
Payments of obligations under capital leases	(541)	(1,284)	
Payment of other deferred financing costs	(10)	(4)	
Proceeds from exercise of stock options	446		
Decrease in restricted cash			
Net cash (used in) provided by financing activities	(12,247)	(4,820)	
Change in cash and cash equivalents	12,988	(2,647)	
Cash and cash equivalents at beginning of period	8,265	4,983	
Cash and cash equivalents at end of period	\$ 21,253	\$ 2,336	\$

(a) In December 2004, the Company purchased the minority interest in a partnership that owns the *Seabulk America*. Subsequent to

the acquisition,  
all Guarantor  
Restricted  
Subsidiaries are  
wholly-owned  
subsidiaries of  
the Company.

- (b) In June 2005,  
certain vessels  
owned by Parent  
were contributed  
to newly created  
and existing  
entities.  
Subsequent to  
the contributions  
by Parent all  
entities which  
received vessels  
are Wholly  
Owned  
Guarantor  
Restricted  
Subsidiaries.

**Table of Contents****Condensed Consolidating Statement of Cash Flows**  
**(in thousands)****Six Months Ended June 30, 2005**

	<b>Non- Guarantor Restricted Subsidiaries</b>	<b>Non- Guarantor Unrestricted Subsidiaries</b>	<b>Eliminations</b>	<b>Consolidated Total</b>
Net cash provided by (used in) operating activities	\$(3,529)	\$ (792)	\$	\$ 35,580
<b>Investing activities:</b>				
Proceeds from sales of vessels and equipment	1,685			5,128
Purchases of vessels and equipment	(705)			(16,641)
Net cash (used in) provided by investing activities	980			(11,513)
<b>Financing activities:</b>				
Payments on Amended Credit Facility				(15,500)
Proceeds from long-term debt	701			8,130
Payments of long-term debt				(4,654)
Payments of Title XI bonds		(2,631)		(5,580)
Payments of obligations under capital leases				(1,825)
Payment of other deferred financing costs				(14)
Proceeds from exercise of stock options				446
Decrease in restricted cash		3,423		3,423
Net cash (used in) provided by financing activities	701	792		(15,574)
Change in cash and cash equivalents	(1,848)			8,493
Cash and cash equivalents at beginning of period	5,701			18,949
Cash and cash equivalents at end of period	\$ 3,853	\$	\$	\$ 27,442

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

wholly-owned subsidiaries of the Company.

- (b) In June 2005, certain vessels owned by Parent were contributed to newly created and existing entities. Subsequent to the contributions by Parent all entities which received vessels are Wholly Owned Guarantor Restricted Subsidiaries.



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

	<b>Parent</b>	<b>Wholly Owned Guarantor Restricted Subsidiaries</b>	<b>Non-Wholly Owned Guarantor Restricted Subsidiaries</b>
Net cash (used in) provided by operating activities	\$ (7,836)	\$ 17,674	\$ (991)
<b>Investing activities:</b>			
Proceeds from disposals of assets		311	
Purchases of vessels and equipment	(6,272)	(62,219)	
Investment in Joint Venture			
Net cash used in financing activities	(6,272)	(61,908)	
<b>Financing activities:</b>			
Proceeds from Amended Credit Facility	20,000		
Proceeds from long-term debt		49,600	
Payments of long-term debt	(1,050)	(2,116)	
Payments of Title XI bonds	(1,075)		
Payments of obligations under capital leases	(512)	(1,213)	
Payments of deferred financing costs related to 2003 Senior Notes and Amended Credit Facility	(285)		
Payments of other deferred financing costs	(86)	(569)	
Proceeds from exercise of stock options	167		
Decrease in restricted cash			
Net cash provided by (used in) financing activities	17,159	45,702	
Change in cash and cash equivalents	3,051	1,468	(991)
Cash and cash equivalents at beginning of period	217	452	1,030
Cash and cash equivalents at end of period	\$ 3,268	\$ 1,920	\$ 39

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

**Six Months Ended June 30, 2004**

	<b>Non-Guarantor Restricted Subsidiaries</b>	<b>Non- Guarantor Unrestricted Subsidiaries</b>	<b>Eliminations</b>	<b>Consolidated Total</b>
Net cash (used in) provided by operating activities	\$ 11,804	\$ 444	\$	\$ 21,095
<b>Investing activities:</b>				
Proceeds from disposals of assets	2,834			3,145
Purchases of vessels and equipment	(15,015)	(27)		(83,533)
Investment in Joint Venture	(240)			(240)
Net cash used in financing activities	(12,421)	(27)		(80,628)
<b>Financing activities:</b>				
Proceeds from Amended Credit Facility				20,000
Proceeds from long-term debt				49,600
Payments of long-term debt				(3,166)
Payments of Title XI bonds		(2,460)		(3,535)
Payments of obligations under capital leases				(1,725)
Payments of deferred financing costs related to 2003 Senior Notes and Amended Credit Facility				(285)
Payments of other deferred financing costs	(28)			(683)
Proceeds from exercise of stock options				167
Decrease in restricted cash		2,043		2,043
Net cash provided by (used in) financing activities	(28)	(417)		62,416
Change in cash and cash equivalents	(645)			2,883
Cash and cash equivalents at beginning of period	5,700			7,399
Cash and cash equivalents at end of period	\$ 5,055	\$	\$	\$ 10,282

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

The following Management's Discussion and Analysis of Financial Condition and Results of Operations ( MD&A ) should be read in conjunction with the condensed consolidated financial statements and the related notes thereto included elsewhere in this Report and the Company's 2004 Annual Report on Form 10-K and Form 10-K/A Amendment No. 1.

The MD&A contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. All statements other than statements of historical fact included in the MD&A are forward-looking statements. Although the Company believes that the expectations and beliefs reflected in such forward-looking statements are reasonable, it can give no assurance that they will prove correct. For information regarding the risks and uncertainties that could cause such forward-looking statements to prove incorrect, see Projections and Other Forward-Looking Information in Item 1 of the Company's 2004 Annual Report on Form 10-K and Form 10-K/A Amendment No. 1.

**Overview of Revenue**

The Company derives its revenue from three main lines of business offshore energy support, marine transportation, and marine towing. Seabulk Offshore, the Company's domestic and international offshore energy support business, accounted for approximately 49.0% and 47.6% of Company revenue for the six months ended June 30, 2005 and 2004, respectively. Seabulk Tankers, our tanker business, consists of the Company's Jones Act U.S.-flag product tanker business, in which it owns nine petroleum and chemical product tankers and leases one chemical product tanker in the domestic coastwise trade. The tanker business also consists of the Company's two foreign-flag product tankers which began operations in the international trade in March and April 2004. Seabulk Tankers accounted for approximately 39.3% and 41.1% of Company revenue for the six months ended June 30, 2005 and 2004, respectively. Seabulk Towing, the Company's domestic harbor and offshore towing business, accounted for approximately 11.7% and 11.3% of Company revenue for the six months ended June 30, 2005 and 2004, respectively.

***Seabulk Offshore***

During the first six months of 2005, the Company took delivery of two offshore support vessels, and sold eleven offshore support vessels.

The following tables set forth, by primary area of operation, average day rates achieved by the offshore energy support fleet owned or operated by the Company and average utilization for the periods indicated. Average day rates are calculated by dividing total revenue by the number of days worked. Utilization percentages are based upon the number of working days over a 365/366-day year and the number of vessels in the fleet on the last day of the quarter. Day rates and utilization are not disclosed for categories with a limited number of vessels.

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	Q1 2005				Q2 2005			
	AHTS/ Supply	AHT/ Tugs	Crew/ Utility	Other	AHTS/ Supply	AHT/ Tugs	Crew/ Utility	Other
<b>Americas<sup>(1)</sup></b>								
Vessels <sup>(2)</sup>	24		14	1	22		14	1
Effective Utilization	64%		77%		79%		78%	
Average Day Rate	\$ 5,518		\$ 3,196		\$ 6,203		\$ 3,441	
<b>West Africa</b>								
Vessels <sup>(2)</sup>	29	2	3	1	29	3	2	
Effective Utilization	87%	79%	92%		95%	65%	93%	
Average Day Rate	\$ 7,564	\$ 7,076	\$ 3,653		\$ 7,419	\$ 7,007	\$ 3,877	
<b>Middle East</b>								
Vessels <sup>(2)</sup>	8	5	7	4	8	5	7	3
Effective Utilization	84%	95%	72%	72%	79%	83%	87%	88%
Average Day Rate	\$ 4,298	\$ 4,686	\$ 1,614	\$ 4,095	\$ 4,385	\$ 4,740	\$ 1,733	\$ 4,642
<b>Southeast Asia</b>								
Vessels <sup>(2)</sup>	7			1	7			1
Effective Utilization	94%				94%			
Average Day Rate	\$ 6,159				\$ 6,136			

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

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

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Q1 2004			Q2 2004				Q3 2004				Q4	
AHT/ Tugs	Crew/ Utility	Other	AHTS/ Supply	AHT/ Tugs	Crew/ Utility	Other	AHTS/ Supply	AHT/ Tugs	Crew/ Utility	Other	AHTS/ Supply	AHT/ Tugs
	22	2 1	21		21	2 1	21		18	2 1	22	
	63%		52%		67%		68%		73%		69%	
	\$ 2,410		\$ 4,879		\$ 2,442		\$ 4,768		\$ 2,705		\$ 5,421	
4	3		33	4	3		33	4	3		32	2
86%	98%		83%	75%	94%		78%	67%	93%		77%	70%
\$ 6,193	\$ 3,413		\$ 7,350	\$ 6,831	\$ 3,524		\$ 7,300	\$ 6,196	\$ 3,620		\$ 7,574	\$ 6,329
5	7	5	6	5	7	4	6	5	7	4	6	5
80%	79%	43%	97%	84%	92%	78%	83%	75%	93%	95%	86%	64%
\$ 4,565	\$ 1,740	\$ 3,966	\$ 3,880	\$ 4,739	\$ 1,712	\$ 5,043	\$ 3,827	\$ 4,951	\$ 1,659	\$ 4,804	\$ 3,782	\$ 5,388
		1	7			1	7			1	7	
			77%				88%				93%	
			\$ 5,388				\$ 5,400				\$ 5,327	

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

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

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Offshore energy support revenue in the Americas for the six months ended June 30, 2005 increased by 57.6% over the same period in 2004. Gulf of Mexico revenue increased from the prior year due to improvement in natural gas and crude oil drilling activity due to higher commodity prices and strong energy demand, which resulted in higher rates and utilization. Brazil revenues increased as the two newbuild supply boats commenced their long-term charters during the six months ended June 30, 2005.

International offshore revenues for the six months ended June 30, 2005 increased by approximately 6.4% over the same period in 2004. International vessel demand is primarily driven by crude oil exploration and production. During the first and second quarters of 2005, crude oil prices and demand remained high. Revenues for the Middle East and Southeast Asia region increased as operations in India and Vietnam continued to be strong. The West African market had a slight decrease in revenue primarily due to vessel sales.

**Seabulk Tankers**

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

	<b>Six Months Ended June 30,</b>	
	<b>2005</b>	<b>2004</b>
Number of vessels operated at end of period	12	12
Revenue (in thousands)	\$ 75,721	\$ 69,870

Tanker revenue increased by 8.4% in the first half of 2005 as a result of adding the two foreign-flag double-hull product tankers to the Company's fleet at the end of March 2004.

**Seabulk Towing**

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

	<b>Six Months Ended June 30,</b>	
	<b>2005</b>	<b>2004</b>
Number of tugs at end of period	26	26
Revenue (in thousands)	\$ 22,548	\$ 19,337

Towing revenue increased by 16.6% in the first half of 2005 due to increased vessel traffic in certain of the Company's ports, higher rates and improved utilization.

**Overview of Vessel and Voyage Expenses and Capital Expenditures**

The Company's vessel and voyage expenses are primarily a function of fleet size and utilization. The most significant expense categories are crew payroll and benefits, maintenance and repairs, fuel, insurance and charter hire. For general information concerning these categories of expenses as well as capital expenditures, see Management's Discussion and Analysis of Financial Condition and Results of Operations and Overview of Operating Expenses and Capital Expenditures in Item 7 of the 2004 Annual Report on Form 10-K and Form 10-K/A Amendment No. 1.

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

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

	<b>Six Months Ended June 30,</b>			
	<b>2005</b>	<b>(in millions)</b>		<b>2004</b>
Revenue	\$ 192.3	100%	\$ 169.7	100%
Vessel and voyage expenses	97.8	51%	97.1	57%
General and administrative	21.6	11%	18.8	11%
Depreciation, amortization, and drydocking	33.1	17%	32.9	19%
Gain on disposal of assets, net	(0.3)	(0%)	(2.0)	(1%)
Income from operations	\$ 40.1	21%	\$ 22.9	14%
Interest expense, net	\$ 18.4	10%	\$ 16.3	10%
Other income (expense), net	\$ 0.0	0%	\$ 4.6	3%
Income before provision for income taxes	\$ 21.8	11%	\$ 11.3	7%
Net income	\$ 19.2	10%	\$ 8.4	5%

**Six months ended June 30, 2005 compared with the six months ended June 30, 2004**

*Revenue.* Revenue during the six months ended June 30, 2005 increased 13.3% from \$169.7 million to \$192.3 million versus the comparable period in 2004. The increase primarily reflects higher revenue from the Company's offshore energy support segment and, to a lesser extent, higher tanker and towing revenue.

Offshore revenue during the six months ended June 30, 2005 increased 16.6% from \$80.8 million to \$94.2 million versus the comparable period in 2004. The increase primarily reflects increases in rates and utilization for the Americas (including additions to the Brazil fleet), Middle East and Southeast Asia regions.

Marine transportation revenue during the six months ended June 30, 2005 increased 8.4% from \$69.9 million to \$75.7 million versus the comparable period in 2004. The increase primarily reflects the full six month operations in 2005 of the Company's two foreign-flag double-hull product tankers which were added to the fleet at the end of March 2004.

Towing revenue during the six months ended June 30, 2005 increased 16.6% from \$19.3 million to \$22.5 million versus the comparable period in 2004. The increase primarily reflects additional vessel traffic in certain of the Company's ports, higher rates and improved utilization of the Company's tug fleet.

*Vessel and Voyage Expenses.* Vessel and voyage expenses during the six months ended June 30, 2005 remained substantially the same at \$97.8 million versus \$97.1 in the comparable period in 2004.

*General and Administrative Expenses.* General and administrative expenses during the six months ended June 30, 2005 increased 14.9% from \$18.8 million to \$21.6 million versus the comparable period in 2004. The increase is primarily due to costs incurred related to the merger with SEACOR, an

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increase in the allowance for doubtful accounts and an increase in the Company's P&I insurance reserve.

*Depreciation, Amortization, and Drydocking.* Depreciation, amortization, and drydocking during the six months ended June 30, 2005 remained substantially the same at \$33.1 million versus \$32.9 million in the comparable period in 2004.

*Gain on Disposal of Assets, Net.* Gain on disposal of assets during the six months ended June 30, 2005 decreased 83.7% from a gain of \$2.0 million to a gain of \$0.3 million versus the comparable period in 2004. The number of vessels sold or exchanged increased to 11 for the six months ended June 30, 2005 compared to three for the same period in 2004. However, sales in 2004 included the *Seabulk Maintainer*, which had a gain of approximately \$1.5 million.

*Net Interest Expense.* Net interest expense during the six months ended June 30, 2005 increased 12.5% from \$16.3 million to \$18.4 million versus the comparable period in 2004. The increase is due to the debt incurred for the purchase of the two foreign-flag tankers, which entered service in late March 2004 and an overall increase in the Company's variable borrowing rates.

*Other Income (Expense), Net.* Other income (expense), net during the six months ended June 30, 2005 decreased to \$0.0 million versus income of \$4.6 million in the comparable period in 2004. The decrease is primarily due to the proceeds from the Company's settlement of litigation, in which it received a total of \$4.5 million from two of its suppliers in March 2004.

**Interest Rate Risk**

The Company is exposed to market risk from changes in interest rates, which may adversely affect its results of operations and financial condition. On October 20, 2003, the Company entered into a ten-year interest rate swap agreement with its Amended Credit Facility lenders and other members of its lending group. The Company entered into this transaction in order to take advantage of a lower available interest rate. Through this derivative instrument, which covers a notional amount of \$150.0 million, the Company effectively converted the interest rate on its outstanding 2003 Senior Notes due August 2013 to a floating rate based on LIBOR. The current effective floating interest rate is 7.88%. The floating rate is adjusted semi-annually in February and August of each year. The swap agreement is secured by a second lien on the assets that secure the Company's Amended Credit Facility.

The interest rate swap was valued as an asset of \$4.2 million as of June 30, 2005 an increase of \$1.3 million from the value as of December 31, 2004 and is included in other assets with an offsetting increase in the 2003 Senior Notes in the accompanying condensed consolidated financial statements. The Company expects the fair value of the swap to change in accordance with the movement in the underlying LIBOR rate.

In connection with the 2003 Senior Notes offering, the Company amended and restated its existing credit facility. The Amended Credit Facility consists of a revolving credit facility with an original amount available of \$80.0 million and has a five-year maturity. The interest rate as of June 30, 2005 was 5.88%. A hypothetical 2.0% increase in the interest rate on the outstanding borrowings of \$55.4 million, including outstanding letters of credit of \$22.4 million, as of June 30, 2005, would cause the Company's interest expense to increase on average approximately \$1.1 million per year over the term of the Amended Credit Facility, with a corresponding decrease in income before taxes.



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**Item 4. Controls and Procedures.**

**Evaluation of Disclosure Controls and Procedures**

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

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

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**PART II. OTHER INFORMATION**

**Item 1. Legal Proceedings.**

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

**Item 2. Changes in Securities and Use of Proceeds.**

N/A under General Instructions H(1)(a) and (b).

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

N/A under General Instructions H(1)(a) and (b).

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

N/A under General Instructions H(1)(a) and (b).

**Item 5. Other Information.**

None.

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

(a) Exhibits

- 10.46 Fourth Supplemental Credit Agreement dated June 10, 2005 among Seabulk International, Inc. and Fortis Capital Corp. (filed herewith).
- 10.47 Fourth Supplemental Subsidiary Guarantee Agreement dated June 10, 2005 among Seabulk International Inc. and Fortis Capital Corp. (filed herewith).
- 10.48 Fifth Supplemental Credit Agreement dated June 23, 2005 among Seabulk International, Inc., Seabulk Towing, Inc. and each of the four Additional Subsidiary Guarantors and Fortis Capital Corp. (filed herewith).
- 10.49 Fifth Supplemental Subsidiary Guarantee Agreement dated June 23, 2005 among Seabulk International Inc., Seabulk Towing, Inc. and each of the four Additional Subsidiary Guarantors and Fortis Capital Corp. (filed herewith).
- 10.50 Amendment No. 4 to Executive Employment Agreement by and between Seabulk International Inc. and Gerhard E. Kurz dated April 18, 2005 (filed herewith).
- 10.51 Amendment No. 5 to Executive Employment Agreement by and between Seabulk International Inc. and Gerhard E. Kurz dated June 28, 2005 (filed herewith).
- 10.52 Amendment No. 1 to Seabulk International Inc. Executive Deferred Compensation Plan dated April 18, 2005 (filed herewith).
- 10.53 Amendment No. 1 to Seabulk International Inc. Stock Option Plan for Directors dated April 18, 2005 (filed herewith).
- 10.54 Specimen of Amendment No. 2 to Non-Qualified Stock Option Agreement dated April 18, 2005 (filed herewith).
- 10.55 Amendment No. 1 to Seabulk International Inc. Amended and Restated Equity Ownership Plan dated April 18, 2005 (filed herewith).
- 10.56 Specimen of Amendment No. 2 to Severance Agreement dated April 18, 2005 (filed herewith).
- 31.1 Certification of Principal Executive Officer pursuant to Rule 13a-14(a) of the Securities and



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Exchange Act of 1934 (furnished herewith).

31.2 Certification of Principal Financial Officer pursuant to Rule 13a-14(a) of the Securities and Exchange Act of 1934 (furnished herewith).

32.1 Certification of Principal Executive Officer pursuant to 18 U.S.C. § 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 and Rule 13a-14(b) of the Securities Exchange Act of 1934 (furnished herewith).

32.2 Certification of Principal Financial Officer pursuant to 18 U.S.C. § 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 and Rule 13a-14(b) of the Securities Exchange Act of 1934 (furnished herewith).

**(b) Reports on Form 8-K**

The following reports on Form 8-K were filed (other than information reported pursuant to Item 9, which was furnished to the Securities and Exchange Commission rather than filed) during the quarter ended June 30, 2005:

1. The Company filed a Current Report on Form 8-K dated May 5, 2005. Items 2 and 9 were reported and no financial statements were filed.
2. The Company filed a Current Report on Form 8-K/A dated May 5, 2005. Items 2, 8 and 9 were reported and no financial statements were filed.
3. The Company filed a Current Report on Form 8-K dated May 10, 2005. Items 1, 2 and 9 were reported and no financial statements were filed.
4. The Company filed a Current Report on Form 8-K dated June 27, 2005. Item 8 was reported and no financial statements were filed.

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**Signature**

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

SEABULK INTERNATIONAL, INC.

/s/ MICHAEL J. PELLICCI

Michael J. Pellicci

Senior Vice President Finance and Planning,  
Treasurer and Chief Accounting Officer  
(Chief Accounting and Duly Authorized Officer)

Date: August 9, 2005