MARITRANS INC /DE/
Form 10-Q
May 10, 2002

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

(Mark One)

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

For the Quarterly Period ended March 31, 2002

or

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

For the Transition Period from ---------- to ----------

Commission File Number 1-9063

MARITRANS INC.
(Exact name of registrant as specified in its charter)

DELAWARE	51-0343903
(State or other jurisdiction of incorporation or organization)	(Identification No. I.R.S. Employer)

TWO HARBOUR PLACE
302 KNIGHTS RUN AVENUE
SUITE 1200
TAMPA, FLORIDA 33602
(Address of principal executive offices)
(Zip Code)

(813) 209-0600
Registrant's telephone number, including area code

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such requirements for the past 90 days.

Yes X No ---

Common Stock $.01 par value, 8,172,063 shares outstanding as of May 6, 2002

MARITRANS INC.
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PART I: FINANCIAL INFORMATION

MARITRANS INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
($000)

	March 31, 2002 (Unaudited)	December 31, 2001 (Note 1)
ASSETS		
Current assets:		
Cash and cash equivalents	$ 4,585	$ 3,558

Trade accounts receivable	7,956	8,703
Other accounts receivable	4,324	3,620
Inventories	2,517	2,453
Deferred income tax benefit	7,258	7,258
Prepaid expenses	3,054	2,659
Total current assets	29,694	28,251
Vessels and equipment	311,695	307,540
Less accumulated depreciation	148,365	144,223
Net vessels and equipment	163,330	163,317
Note receivable	4,142	4,271
Goodwill	2,863	2,863
Other	1,384	1,725
Total assets	$ 201,413	$ 200,427
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Debt due within one year	$ 5,000	$ 10,738
Trade accounts payable	974	681
Accrued shipyard costs	6,158	6,370
Accrued wages and benefits	2,834	2,098
Other accrued liabilities	4,124	2,353
Total current liabilities	19,090	22,240
Long-term debt	59,000	32,250
Deferred shipyard costs	9,237	9,555
Other liabilities	3,617	3,527
Deferred income taxes	44,791	44,791
Stockholders' equity:		
Common stock	135	133
Capital in excess of par value	81,008	79,781
Retained earnings	32,118	29,983
Unearned compensation	(1,251)	(855)
Less: Cost of shares held in treasury	(46,332)	(20,978)
Total stockholders' equity	65,678	88,064
Total liabilities and stockholders' equity	$ 201,413	$ 200,427

See notes to financial statements.

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

	Three Months Ended March 31, 2002	2001
Revenues	$ 31,323	$ 31,567
Costs and expenses:		
Operation expense	15,632	16,641
Maintenance expense	3,824	3,708
General and administrative	1,935	1,890
Depreciation and amortization	4,621	4,431
Total operating expense	26,012	26,670
Operating income	5,311	4,897
Interest expense	(806)	(1,595)
Other income	226	989
Income before income taxes	4,731	4,291
Income tax provision	1,774	1,631
Net income	$ 2,957	$ 2,660
Basic earnings per share	$ 0.35	$ 0.26
Diluted earnings per share	$ 0.32	$ 0.24
Dividends declared per share	$ 0.10	$ 0.10

See notes to financial statements.

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

	Three Months Ended M 2002	
Cash flows from operating activities:		
Net income	$ 2,957	$
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	4,621	
Deferred income tax provision	--	

Changes in receivables, inventories and prepaid expenses	(417)	
Changes in current liabilities, other than debt	2,589	
Other	(244)	
	6,549	
Net cash provided by operating activities	9,506	
Cash flows from investing activities:		
Release of cash and cash equivalents - restricted	--	
Collections on notes receivable	404	
Purchase of vessels and equipment	(4,634)	
Net cash provided by (used in) investing activities	(4,230)	
Cash flows from financing activities:		
Borrowings under long-term debt	9,000	
Payment of long-term debt	(6,988)	
Borrowings under revolving credit facilities	19,000	
Purchase of treasury stock	(25,145)	
Proceeds from exercise of stock options	706	
Dividends declared and paid	(822)	
Net cash used in financing activities	(4,249)	
Net increase in cash and cash equivalents	1,027	
Cash and cash equivalents at beginning of period	3,558	
Cash and cash equivalents at end of period	$ 4,585	$

See notes to financial statements

MARITRANS INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2002

1. Basis of Presentation/Organization

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

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

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

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

2. Earnings per Common Share

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

	Three Months Ended March 31, 2002	2001
	(000's)	
Income available to common stockholders used in basic EPS	$ 2,957	$ 2,660
Weighted average number of common shares used in basic EPS	8,528	10,328
Effect of dilutive securities:		
Stock options and restricted shares	656	660
Weighted number of common shares and dilutive potential common stock used in diluted EPS	9,184	10,988

3. Income Taxes

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

4. Share Buyback Program

On February 9, 1999, the Board of Directors authorized a share buyback program for the acquisition of up to one million shares of the Company's common stock. In February 2000 and again in February 2001, the Board of Directors authorized the acquisition of an additional one million shares in the program. The total authorized shares under the program are three million. As of March 31, 2002, 2,398,700 shares have been repurchased under the plan; such repurchases have been financed from internally generated funds.

5. Tender Offer

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

6. Impact of Recent Accounting Pronouncements

In June 2001, the Financial Accounting Standards Board issued Statements of Financial Accounting Standards No. 141, Business Combinations, and No. 142, Goodwill and Other Intangible Assets, effective for fiscal years beginning after December 15, 2001. Under the new rules, goodwill will no longer be amortized but will be subject to the annual impairment tests in accordance with the Statements. Other intangible assets will continue to be amortized over their useful lives. The Company adopted the new rules on accounting for goodwill and other intangible assets on January 1, 2002. A reconciliation of net income for the quarter ended March 31, 2001 had goodwill not been amortized pursuant to FASB No. 142 is as follows:

Net income as reported for the three months ended March 31, 2001
Elimination of goodwill amortization
Adjusted net income
Adjusted basic earnings per share for the three months ended March 31, 2001
Adjusted diluted earnings per share for the three months ended March 31, 2001

The Company is in the process of performing the first of the required impairment tests of goodwill and the Company does not believe that there will be an impairment of goodwill.

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

Forward Looking Information

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

The forward-looking statements included in this 10-Q relate to future events or the Company's future financial performance. In some cases, you can identify forward-looking statements by terminology such as "may," "seem," "should," "believe," "future," "potential," "estimate," "offer," "opportunity," "quality," "growth," "expect," "intend," "plan," "focus," "through," "strategy," "provide," "meet," "allow," "represent," "commitment," "create," "implement," "result," "seek," "increase," "establish," "work," "perform," "make," "continue," "can," "will," "include," or the negative of such terms or comparable terminology. These forward-looking statements inherently involve certain risks and uncertainties, although they are based on the Company's current plans or assessments that are believed to be reasonable as of the date of this 10-Q. Factors that may cause actual results, goals, targets or objectives to differ materially from those contemplated, projected, forecast, estimated, anticipated, planned or budgeted in such forward-looking statements include, among others, the factors outlined in this 10-Q, changes in oil companies' operating and sourcing decisions, competition for marine transportation, domestic oil consumption, the continuation of federal law restricting United States point-to-point maritime shipping to U.S. vessels (the Jones Act), demand for petroleum products, future spot market rates, changes in interest rates, the effect of terrorists activities and the general financial, economic, environmental and regulatory conditions affecting the oil and marine transportation industry in general. Given such uncertainties, current or prospective investors are cautioned not to place undue reliance on any such forward-looking statements. These factors may cause the Company's actual results to differ materially from any forward-looking statement.

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

The following discussion should be read in conjunction with the unaudited financial statements and notes thereto included in Part I Item 1 of this Form 10-Q and the audited financial statements and notes thereto and Management's

Discussion and Analysis of Financial Condition and Results of Operations for the year ended December 31, 2001 contained in the Company's Annual Report on Form 10-K for the year ended December 31, 2001.

Results of Operations

Time Charter Equivalent ("TCE") is a commonly used industry measure where direct voyage costs are deducted from revenue. Maritrans enters into various types of charters, some of which involve the customer paying substantially all voyage costs, while other types of charters involve Maritrans paying some or substantially all of the voyage costs. The Company monitors the TCE basis because it essentially nets the voyage costs and voyage revenue to yield a measure that is comparable between periods regardless of the types of charters utilized. Going forward, the Company will be reporting on a TCE basis. For comparison purposes, the following table lists the TCE revenue for all quarters in 2001 and 2000:

	12/31/01	9/30/01	6/30/01	3/31/01	12/31/00	9/30/
Voyage revenue	$31,716	$28,276	$31,826	$31,558	$32,239	$32,73
Voyage costs	4,803	4,995	5,707	5,997	6,941	7,11
Time Charter Equivalent	$26,913	$23,281	$26,119	$25,561	$25,298	$25,61

Three Month Comparison
TCE revenue for the quarter ended March 31, 2002 compared to the quarter ended March 31, 2001 is as follows:

	3/31/02	3/31/01
Voyage revenue	$31,323	$31,558
Voyage costs	4,381	5,997
Time Charter Equivalent	$26,942	$25,561

TCE revenue increased from $25.6 million to $26.9 million, or 5 percent, over the comparable quarter in 2001. Vessel utilization, as measured by revenue days divided by calendar days available, decreased from 87.9 percent in the first quarter of 2001 to 82.8 percent in the first quarter of 2002. Utilization decreased due to more vessel out of service time in the first quarter of 2002 compared to the first quarter of 2001 as a result of vessel maintenance and the MARITRANS 252 rebuild. In the first quarter of 2002, the MARITRANS 252 was out of service for one month for the completion of her double hull rebuild, which began in June 2001, and re-entered service early in February 2002.

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Term contract rates renewed with customers in 2001 were renewed at higher levels than those experienced in 2000. The increase in these rates resulted from a more stable supply/demand relationship in the Jones Act trade. These rate increases had a positive impact on the first quarter of 2002 revenue. Spot market rates were significantly lower than the same period in 2001 due to high gasoline inventories and a decreased demand for jet fuel. In addition, warm weather in the Northeast reduced the demand for heating oil. The Company expects spot rates to gradually improve throughout 2002. Barrels of cargo transported decreased from 46.2 million in the first quarter of 2001 to 42.9 million in the first quarter of 2002, due to decreases in demand and utilization during the quarter.

Voyage costs decreased from $6.0 million in the first quarter of 2001 to $4.4 million in the first quarter of 2002, a decrease of $1.6 million or 27 percent. The primary decrease in voyage costs was in fuel costs, which resulted from the downturn in the economy in the later part of 2001. The average price per gallon of fuel decreased almost 40 percent compared to the same quarter in 2001. Offsetting the decrease that resulted from fuel was an increase in port charges. During the first quarter of 2002, one of the Company's tankers made numerous trips through the Panama Canal, which resulted in a significant increase in port charges.

Operating expenses, excluding voyage costs discussed above, increased from $10.6 million in the first quarter of 2001 to $11.2 million in the first quarter of 2002, an increase of $0.6 million or 6 percent. Crew costs increased in the first quarter of 2002 as a result of seagoing salary increases which took effect in 2002. Routine maintenance increased in the first quarter of 2002 compared to the first quarter of 2001 as a result of a higher level of vessel maintenance. Other maintenance expenses decreased due to the extensive renewals and refurbishments that occur during the rebuilding of the single-hulled barges to double- hulled barges.

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

Other income in the first quarter of 2002 was $0.2 million compared to other income in the first quarter of 2001 of $1.0 million. Other income is made up primarily of interest income. Interest income decreased due to a lower amount of cash invested in the first quarter of 2002 compared to the first quarter of 2001. The decrease in the average cash balance is primarily the result of the refinancing discussed below.

Interest expense in the first quarter of 2002 of $0.8 million decreased compared to $1.6 million in the first quarter of 2001 as a result of the refinancing of debt that took place in the fourth quarter of 2001. The new debt has a variable interest rate, which was lower than the fixed interest rate of 9.25 percent on most of the previously held debt and therefore resulted in decreased interest expense when compared to the first quarter of 2001.

Net income for the first quarter of 2002 increased compared to the first quarter of 2001 due to the aforementioned changes in revenue and expenses.

Liquidity and Capital Resources

For the three months ended March 31, 2002, funds provided by operating activities were sufficient to meet debt service obligations and loan agreement restrictions, to make capital acquisitions and improvements and to allow Maritrans Inc. to pay a dividend in the current quarter. While dividends have been made quarterly in each of the last three years, there can be no assurances that the dividend will continue. The ratio of total debt to capitalization is ..49:1 at March 31, 2002.

Management believes funds provided by operating activities, augmented by the

Company's Credit Facility, described below, and investing activities, will be sufficient to finance operations, anticipated capital expenditures, lease payments and required debt repayments in the foreseeable future.

On February 9, 1999, the Board of Directors authorized a share buyback program for the acquisition of up to one million shares of the Company's common stock, which represented approximately 8 percent of the 12.1 million shares outstanding at that time. In February 2000 and again in February 2001, the Board of Directors authorized the acquisition of an additional one million shares in the program. The total authorized shares under the buyback program are three million. As of March 31, 2002, 2,398,700 shares had been purchased under the plan and financed by internally generated funds. The Company intends to hold the majority of the shares as treasury stock; although some shares will be used for employee compensation plans and others may be used for acquisition currency and/or other corporate purposes.

In August 2000, the Company awarded a contract to rebuild a third large single hull barge, the OCEAN CITIES, to a double hull configuration. In February 2002, this vessel was completed and put back into service as the MARITRANS 252. The total cost of the rebuild was $16.3 million. The Company financed this project from internally generated funds.

In September 2001, the Company awarded a contract to rebuild a fourth large single hull barge, the OCEAN 250, to a double hull configuration, which is expected to have a total cost of approximately $16.0 million. As of March 31, 2002, $5.8 million has been paid to the shipyard contractor for prefabrication and other advance design work. The Company has financed, and expects to continue the financing of, this project from internally generated funds.

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

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

Debt Obligations and Borrowing Facility

In November 2001, the Company entered into an $85 million credit and security agreement ("Credit Facility") with Citizens Bank (formerly Mellon Bank N.A.) and a syndicate of other financial institutions ("Lenders"). Pursuant to the terms of the Credit Facility, the Company can borrow up to $45 million of term loans and up to $40 million under a revolving credit facility. Interest is variable based on either the LIBOR rate or prime rate plus an applicable margin (as defined). Principal payments on the term loans are required on a quarterly basis beginning in April 2002. The Credit Facility expires in January 2007. The Company has granted first preferred ship mortgages and a first security interest in the vessels and other collateral to the Lenders as a guarantee of the debt. At March 31, 2002, there was $45 million of term loans outstanding under the Credit Facility and $19 million outstanding under the revolving line of credit.

Maintenance and Repairs

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

In June 2001, the AICPA issued an Exposure Draft on a Proposed Statement of Position regarding Accounting for Certain Costs and Activities Related to Property, Plant, and Equipment. The Proposed Statement, if issued, would require the Company to modify its accounting policy for maintenance and repairs. Such costs would no longer be accrued in advance of performing the related maintenance and repairs; rather, the Proposed Statement would require these costs to be capitalized and amortized over their estimated useful life. The Company has not yet quantified the impact of adopting this new pronouncement on its financial statements; however, the Company's preliminary assessment is that the adoption of this pronouncement would increase the recorded value of vessels and equipment and stockholders' equity of the Company.

Impact of Recent Accounting Pronouncements

In June 2001, the Financial Accounting Standards Board issued Statements of Financial Accounting Standards No. 141, Business Combinations, and No. 142, Goodwill and Other Intangible Assets, effective for fiscal years beginning after December 15, 2001. Under the new rules, goodwill will no longer be amortized but will be subject to the annual impairment tests in accordance with the Statements. Other intangible assets will continue to be amortized over their useful lives. The Company adopted the new rules on accounting for goodwill and other intangible assets on January 1, 2002. The Company is in the process of performing the first of the required impairment tests of goodwill and the Company does not believe that there will be an impairment of goodwill.

Part II: OTHER INFORMATION

ITEM 1. Legal Proceedings

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

ITEM 6. Exhibits and Reports on Form 8-K

(a) Exhibits

None.

(b) Reports on Form 8-K
No reports on Form 8-K were filed in the quarter ended March 31, 2002.

SIGNATURES

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

MARITRANS INC.
(Registrant)

By: /s/ Walter T. Bromfield Dated: May 10, 2002

Walter T. Bromfield
Chief Financial Officer
(Principal Financial Officer)

By: /s/ Judith M. Cortina Dated: May 10, 2002

Judith M. Cortina
Controller
(Principal Accounting Officer)