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SEABULK INTERNATIONAL INC
Form 10-Q
August 14, 2002

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, 2002

Commission File Number: 0-28732

SEABULK INTERNATIONAL, INC.

State of Incorporation: Delaware

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

Address and Telephone Number:

2200 Eller Drive

P.O. Box 13038

Ft. Lauderdale, Florida 33316

(954) 523-2200

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

THERE WERE 10,623,938 SHARES OF COMMON STOCK, PAR VALUE \$0.01 PER SHARE, OUTSTANDING AT AUGUST 1, 2002.

SEABULK INTERNATIONAL, INC.

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

PART I. FINANCIAL INFORMATION

Item 1. Condensed Consolidated Financial Statements

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

| | June 30, 2002 |
|---|------------------|
| | ----- |
| ASSETS | |
| Current assets: | |
| Cash and cash equivalents..... | \$ 14,682 |
| Restricted cash..... | 1,337 |
| Trade accounts receivable, net of allowance for doubtful accounts of \$5,248 and \$5,919 in 2002 and 2001, respectively..... | 47,050 |

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| | | |
|--|----|----------|
| Other receivables..... | | 14,057 |
| Marine operating supplies..... | | 8,300 |
| Prepaid expenses and other..... | | 2,710 |
| | | ----- |
| Total current assets..... | | 88,136 |
| Vessels and equipment, net..... | | 567,313 |
| Deferred costs, net..... | | 47,496 |
| Other..... | | 5,333 |
| | | ----- |
| Total assets..... | \$ | 708,278 |
| | | ===== |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| Current liabilities: | | |
| Accounts payable..... | \$ | 8,767 |
| Current maturities of long-term debt..... | | 34,537 |
| Current obligations under capital leases..... | | 2,899 |
| Accrued interest..... | | 4,696 |
| Accrued liabilities and other..... | | 40,877 |
| | | ----- |
| Total current liabilities..... | | 91,776 |
| Long-term debt..... | | 377,513 |
| Obligations under capital leases..... | | 30,265 |
| Senior notes..... | | 83,006 |
| Other liabilities..... | | 6,641 |
| | | ----- |
| Total liabilities..... | | 589,201 |
| Contingencies (Note 8) | | |
| Minority interest..... | | 959 |
| Stockholders' equity: | | |
| Preferred stock, no par value--authorized 5,000; none issued and outstanding. | | -- |
| Common stock--\$.01 par value, authorized 20,000 shares; 10,624 and 10,506 shares issued and outstanding in 2002 and 2001, respectively..... | | 106 |
| Additional paid-in capital..... | | 167,301 |
| Accumulated other comprehensive loss..... | | (10) |
| Unearned compensation..... | | (148) |
| Accumulated deficit..... | | (49,131) |
| | | ----- |
| Total stockholders' equity..... | | 118,118 |
| | | ----- |
| Total liabilities and stockholders' equity..... | \$ | 708,278 |
| | | ===== |

SEE ACCOMPANYING NOTES.

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| | Three Months Ended June 30, | |
|---|--------------------------------|--------|
| | 2002 | 2001 |
| Revenue..... | \$ 81,639 | \$ 91, |
| Operating expenses: | | |
| Crew payroll and benefits..... | 21,854 | 24, |
| Charter hire..... | 1,912 | 1, |
| Repairs and maintenance..... | 8,041 | 5, |
| Insurance..... | 2,603 | 2, |
| Fuel and consumables..... | 7,586 | 8, |
| Port charges and other..... | 4,744 | 5, |
| Total operating expenses..... | 46,740 | 48, |
| Overhead expenses: | | |
| Salaries and benefits..... | 5,727 | 5, |
| Office..... | 2,236 | 1, |
| Professional fees..... | 858 | |
| Other..... | 905 | 1, |
| Total overhead expenses..... | 9,726 | 9, |
| Depreciation, amortization and drydocking..... | 16,633 | 14, |
| Income from operations..... | 8,540 | 18, |
| Other (expense) income: | | |
| Interest expense..... | (12,365) | (14, |
| Interest income..... | 75 | |
| Minority interest in losses (gains) of subsidiaries..... | (216) | |
| (Loss) gain on disposal of assets..... | 1,482 | |
| Other..... | (142) | (|
| Total other expense, net..... | (11,166) | (14, |
| Income (loss) before provision for income taxes..... | (2,626) | 4, |
| Provision for income taxes..... | 1,741 | 1, |
| Net income (loss)..... | \$ (4,367) | \$ 2, |
| Net income (loss) per common share: | | |
| Net income (loss) per common share - basic..... | \$ (0.41) | \$ 0 |
| Net income (loss) per common share - diluted..... | \$ (0.41) | \$ 0 |
| Weighted average common shares outstanding - basic..... | 10,529 | 10, |
| Weighted average common shares outstanding - diluted..... | 10,529 | 10, |

SEE ACCOMPANYING NOTES.

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(in thousands)

| | |
|---|-------|
| | S |
| | ----- |
| | 20 |
| | ----- |
| | |
| OPERATING ACTIVITIES: | |
| Net loss..... | \$ |
| Adjustments to reconcile net loss to net cash provided by operating activities: | |
| Depreciation and amortization of vessels and equipment..... | |
| Amortization of drydocking costs..... | |
| Provision for bad debts..... | |
| Gains on disposal of assets..... | |
| Amortization of discount on long-term debt and financing costs..... | |
| Minority interest in losses (gains) of subsidiaries..... | |
| Senior and notes payable issued for payment of accrued interest and fees..... | |
| Other non-cash items..... | |
| Changes in operating assets and liabilities: | |
| Trade accounts and other receivables..... | |
| Other current and long-term assets..... | |
| Accounts payable and other liabilities..... | |
| | ----- |
| Net cash provided by operating activities..... | |
| | |
| INVESTING ACTIVITIES: | |
| Expenditures for drydocking..... | (|
| Proceeds from disposals of assets..... | |
| Purchases of vessels and equipment..... | |
| Acquisition of minority interest..... | |
| Redemption of restricted investments..... | |
| Purchase of restricted investments..... | |
| | ----- |
| Net cash used in investing activities..... | |
| | |
| FINANCING ACTIVITIES: | |
| Net repayment of revolving credit facility..... | |
| Payments of long-term debt..... | (|
| Payments of Title XI bonds..... | |
| Redemption of restricted cash..... | |
| Payments of obligations under capital leases..... | |
| Capitalized issue costs related to proposed finance transactions..... | |
| Proceeds from exercise of warrants..... | |
| | ----- |
| Net cash used in financing activities..... | (|
| | ----- |
| Change in cash and cash equivalents..... | |
| Cash and cash equivalents at beginning of period..... | |
| | ----- |
| CASH AND CASH EQUIVALENTS AT END OF PERIOD..... | \$ |
| | ===== |
| | |
| SUPPLEMENTAL SCHEDULE OF NONCASH INVESTING AND FINANCING ACTIVITIES: | |
| Notes payable issued for the acquisition of minority interest..... | \$ |
| | ===== |
| Senior and notes payable issued for payment of accrued interest and fees..... | \$ |
| | ===== |
| Vessels exchanged for drydock expenditures..... | \$ |
| | ===== |

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Reactivation of two vessels previously classified as assets held for sale..... \$

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SEE ACCOMPANYING NOTES.

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Seabulk International, Inc. and Subsidiaries
Notes to Condensed Consolidated Financial Statements
June 30, 2002
(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. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States of America for complete financial statements. All adjustments which, in the opinion of management, are considered necessary for a fair presentation of the results of operations for the periods shown are of a normal recurring nature and have been reflected in the unaudited condensed consolidated financial statements. The results of operations for the periods presented are not necessarily indicative of the results expected for the full fiscal year or for any future period. The information included in these unaudited condensed consolidated financial statements should be read in conjunction with Management's Discussion and Analysis of Financial Condition and Results of Operations contained in this report and the consolidated financial statements and accompanying notes included in the Company's Annual Report on Form 10-K/A for the fiscal year ended December 31, 2001.

The Company has restated its consolidated financial statements as of and for the year ended December 31, 2001 and as of and for the quarter ended March 31, 2002. The restatements are primarily related to a \$4.1 million accrual in additional insurance calls in the fourth quarter of 2001 (see Note 8).

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

Certain financial statement reclassifications have been made to conform prior periods' data to the 2002 financial statement presentation.

2. Issues Affecting Liquidity

The Company's capital requirements arise primarily from its need to service debt, fund working capital and maintain and improve its vessels. The Company's expected 2002 capital requirements for debt service, vessel maintenance and fleet improvements total approximately \$106.4 million. The Company expects that cash flow from operations and proceeds from the sale of non-strategic assets will continue to make significant contributions toward working capital and capital requirements. If operating cash flow is not adequate, the Company believes that the amounts available under the revolving line of credit will be sufficient to meet its capital requirements.

On June 13, 2002, the Company announced the signing of a definitive agreement with DLJ Merchant Banking Partners III, L.P., a CSFB Private Equity fund, and affiliated entities, and Carlyle/Riverstone Global Energy and Power

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Fund I, L.P. and affiliated entities, for the private placement of 12.5 million shares of newly issued Seabulk common stock at a cash price of \$8.00 per share. The \$100 million investment would give the new investors approximately 51% of the pro forma, fully diluted common shares of the Company and majority representation on its Board of Directors. The investment is subject to shareholder approval, the refinancing of the Company's senior credit facility, certain regulatory approvals and satisfaction of other customary conditions.

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The new investors have also agreed to purchase, for \$8.00 per share, all of the Company's common stock and common stock purchase warrants beneficially owned by accounts managed by Loomis, Sayles & Co., L.P., an SEC-registered investment advisor. These accounts, which collectively represent approximately 48% of the Company's outstanding shares of common stock, currently hold approximately 5.2 million shares (excluding shares issuable upon exercise of warrants). Loomis has agreed to approve the investment transaction and the related amendments to the Company's Certificate of Incorporation, subject to approvals and certain other conditions customary for transactions of this type.

Taken together, the two transactions would give the new investors approximately 73% of the pro forma, fully diluted shares of the Company.

The Company also announced that it has signed a commitment letter with Fortis Capital Corp. and NIB Capital Bank N.V., as arrangers, for a \$180 million senior secured credit facility, which would replace the Company's existing facility. The new credit facility will consist of an \$80 million term loan and a \$100 million revolving credit facility and will have a five-year maturity.

The term loan portion of the new credit facility will be used to redeem the Company's outstanding 12 1/2% Senior Secured Notes due 2007. The revolving portion of the credit facility will be subject to semi-annual reductions commencing six months after closing. The new credit facility will be secured by first liens on substantially all of the Company's vessels (excluding vessels financed with U.S. Maritime Administration Title XI financing) and will be guaranteed by substantially all of the subsidiaries of the Company. The new credit facility will be subject to various financial covenants, including minimum adjusted tangible net worth requirements, minimum ratios of adjusted EBITDA to adjusted interest expense, and a maximum ratio of adjusted funded debt to adjusted EBITDA. The Company will also be required to maintain a minimum fair market value of collateralized assets of at least 175% of outstanding borrowings under the new credit facility, based upon appraisals which may be requested not more than once during any 12-month period.

In connection with the closing of the new investment, the Company expects to redeem or repurchase all of its outstanding 12 1/2% Senior Secured Notes due 2007. In addition, and as a condition to the closing of the new investment, President and Chief Executive Officer Gerhard E. Kurz has agreed to a five-year extension of his employment contract with the Company.

Proceeds from the new equity investment and new bank credit facility, totaling approximately \$280 million before payment of fees and expenses of the transaction, will be used to repay the Company's existing bank debt, repurchase or redeem its outstanding Senior Notes, and provide growth capital for new initiatives.

It is contemplated that, in connection with the new investment, the new investors would enter into a stockholders agreement together with the Company and Mr. Kurz.

A shareholder vote will be required to approve the new share issuance

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under Nasdaq Stock Market rules and to approve the necessary amendments to the Company's Certificate of Incorporation. The amendments to the Certificate of Incorporation include several provisions intended, for certain periods following closing, to ensure independent director oversight of affiliated party transactions and to provide certain protective rights to minority shareholders. Certain regulatory approvals are also required. If the approvals are obtained, closing of the transaction is expected to take place by the end of the third quarter.

While management believes that the possibility exists that unforeseen events or business conditions, including deterioration in its markets, could prevent the Company from meeting targeted operating results and its financial covenants. If unforeseen events or business conditions prevent the Company from meeting targeted operating results, the Company has alternative plans including additional asset sales, additional reductions in operating expenses and deferral of capital expenditures, which should enable it to satisfy essential capital requirements. While the Company believes it could successfully complete alternative plans, if necessary, there can be no assurance that such alternatives would be available or that the Company would be successful in their implementation.

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3. Sale of Assets of Sun State and Lone Star

On March 22, 2002, the Company closed on the sale of the marine transportation assets and trade name of Sun State for \$3.8 million in cash. The assets consisted of tugs, barges and fuel inventory with a carrying value of \$4.3 million. The name of this company was changed to Seabulk Marine Services, Inc. As a result, the Company recognized a loss on the disposal of these assets of approximately \$470,000. The proceeds from the sale of these assets were used for working capital purposes as permitted by the Company's credit facility.

On May 20, 2002, the Company closed on the sale of the marine terminal facility assets of Lone Star for \$3.0 million. Fifty percent of the proceeds (\$1.5 million) were received at closing in cash and the remainder will be deferred and received over the next three years in the form of either cash or shipyard repair credits from the buyer. The assets consisted of land, an office building, docks and parking and warehouse storage facilities with a carrying value of \$1.3 million. As a result, the Company recognized a gain of \$1.7 million. The proceeds of the sale of these assets were used to pay down the Company's term loans.

On July 9, 2002, the Company closed on the sale of the drydock and related shipyard equipment assets of Seabulk Marine Services, Inc. (formerly Sun State Marine Services, Inc.) for \$450,000. The Company has no remaining operations at the Sun State location.

4. Long-Term Debt

On March 15, 2002, a sixth amendment to the credit facility was executed, which reduced the working capital ratio for 2002 and for the life of the term loans and reduced the fixed charge ratio in 2002, with a gradual increase over the remaining life of the term loans.

On August 9, 2002, the Company executed the seventh amendment to the credit facility which waived the Company's non-compliance with its working capital covenants at December 31, 2001, which occurred as a result of the restatement discussed in Note 2.

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The Company's senior secured notes have not received the rating from the rating agencies required by the note indenture. As a result, on April 15, 2000, the interest rate on the senior notes increased from 12.5% to 13.5%, retroactively applied to December 15, 1999. The additional interest is payable quarterly in the form of additional senior notes, of which notes in the principal amount of \$485,388 were issued for the six months ended June 30, 2002. The Company expects to redeem or repurchase all of the outstanding notes in connection with the closing of the new equity investment and new bank credit facility.

5. Income Taxes

For the three months ended June 30, 2002 and 2001, a gross deferred tax benefit was computed using an estimated annual effective tax rate of 36%. Management has recorded a valuation allowance at June 30, 2002 and 2001 to reduce the net deferred tax assets to an amount that will more likely than not be realized. After application of the valuation allowance, the net deferred tax assets are zero. The current provision for income taxes for the three-month periods ended June 30, 2002 and 2001 represents taxes withheld on foreign source revenue.

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6. Net Income (Loss) Per Share

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

| | Three Months Ended June 30, | | |
|---|--------------------------------|----------|-------|
| | 2002 | 2001 | |
| | (in thousands, except for | | |
| Numerator: | | | |
| Numerator for basic and diluted net income (loss) per share | | | |
| Net income (loss) available to common shareholders..... | \$ (4,367) | \$ 2,750 | \$ |
| | ===== | ===== | ===== |
| Denominator: | | | |
| Denominator for basic net income per share-weighted average shares..... | 10,529 | 10,200 | |
| Effects of dilutive securities: | | | |
| Stock options..... | -- | 62 | |
| Warrants..... | -- | 538 | |
| | ----- | ----- | ----- |
| Dilutive potential common shares..... | -- | 600 | |
| | ----- | ----- | ----- |
| Denominator for diluted net income per share-adjusted weighted average shares and assumed conversions..... | 10,529 | 10,800 | |
| | ===== | ===== | ===== |
| Net income (loss) per share - basic..... | \$ (0.41) | \$ 0.27 | \$ |
| | ===== | ===== | ===== |

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| | | | |
|--|-----------|---------|-------|
| Net income (loss) per share - diluted..... | \$ (0.41) | \$ 0.25 | \$ |
| | ===== | ===== | ===== |

Common stock equivalents include 820,334 stock options and 459,775 warrants as of June 30, 2002 and have not been included in the computation of diluted loss per common share as their effect is antidilutive.

7. Segment Information

The Company organizes its business principally into three segments. The Company does not have significant intersegment transactions. These segments and their respective operations are as follows:

OFFSHORE ENERGY SUPPORT (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 include oceangoing vessels used to transport crude oil, petroleum products and chemicals between ports and terminals within the U.S.

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

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The Company evaluates performance by operating segment. Also, within the offshore energy support segment, the Company performs additional performance evaluations of vessels marketed in U.S. and foreign locations. Resources are allocated based on segment profit or loss from operations, before interest and taxes.

Revenue by segment and geographic area consists only of services provided to external customers, as reported in the Statements of Operations. Income from operations by geographic area represents net revenue less applicable costs and expenses related to that revenue. Unallocated expenses are primarily comprised of general and administrative expenses of a corporate nature.

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

| | | | |
|--|--------------------------------|-------|-------|
| | Three Months Ended June 30, | | |
| | ----- | ----- | ----- |
| | 2002 | 2001 | 2000 |
| | ----- | ----- | ----- |

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| | | | | | |
|---|----|---------|----|---------|----|
| REVENUE | | | | | |
| Offshore energy support..... | \$ | 44,061 | \$ | 50,544 | \$ |
| Marine transportation services..... | | 29,656 | | 32,299 | |
| Towing(1)..... | | 7,922 | | 8,581 | |
| | | ----- | | ----- | |
| TOTAL..... | \$ | 81,639 | \$ | 91,424 | \$ |
| | | ===== | | ===== | |
| OPERATING EXPENSES | | | | | |
| Offshore energy support..... | \$ | 25,092 | \$ | 23,691 | \$ |
| Marine transportation services(1)..... | | 16,532 | | 19,941 | |
| Towing..... | | 4,818 | | 4,933 | |
| General Corporate..... | | 298 | | -- | |
| | | ----- | | ----- | |
| TOTAL..... | \$ | 46,740 | \$ | 48,565 | \$ |
| | | ===== | | ===== | |
| DEPRECIATION, AMORTIZATION AND DRYDOCKING | | | | | |
| Offshore energy support..... | \$ | 11,216 | \$ | 9,311 | \$ |
| Marine transportation services..... | | 4,514 | | 4,435 | |
| Towing..... | | 810 | | 691 | |
| General corporate..... | | 93 | | 384 | |
| | | ----- | | ----- | |
| TOTAL..... | \$ | 16,633 | \$ | 14,821 | \$ |
| | | ===== | | ===== | |
| INCOME (LOSS) FROM OPERATIONS | | | | | |
| Offshore energy support..... | \$ | 3,320 | \$ | 13,687 | \$ |
| Marine transportation services..... | | 7,327 | | 6,543 | |
| Towing..... | | 1,181 | | 1,831 | |
| General corporate..... | | (3,288) | | (3,158) | |
| | | ----- | | ----- | |
| TOTAL..... | \$ | 8,540 | \$ | 18,903 | \$ |
| | | ===== | | ===== | |
| NET INCOME (loss) | | | | | |
| Offshore energy support..... | \$ | (4,979) | \$ | 4,829 | \$ |
| Marine transportation services..... | | 3,571 | | 844 | |
| Towing..... | | (128) | | 302 | |
| General Corporate..... | | (2,831) | | (3,225) | |
| | | ----- | | ----- | |
| TOTAL..... | \$ | (4,367) | \$ | 2,750 | \$ |
| | | ===== | | ===== | |
| GEOGRAPHIC REVENUE..... | | | | | |
| Domestic..... | \$ | 49,353 | \$ | 64,680 | \$ |
| Foreign | | | | | |
| West Africa..... | | 22,455 | | 17,074 | |
| Middle East..... | | 5,780 | | 6,088 | |
| Southeast Asia..... | | 4,051 | | 3,582 | |
| | | ----- | | ----- | |
| CONSOLIDATED GEOGRAPHIC REVENUE..... | \$ | 81,639 | \$ | 91,424 | \$ |
| | | ===== | | ===== | |

(1) Net of elimination of intersegment towing revenue and intersegment marine transportation operating expense of \$0.1 million and \$0.6 million for the three months ended June 30, 2002 and 2001, and \$0.2 million and \$1.1 million for the six months ended June 30, 2002 and 2001, respectively.

8. Contingencies

In December 2001, the Company was notified by Steamship Mutual, its protection and indemnity marine insurance club (the "Club"), of additional insurance calls in the projected amount of \$4.1 million, due to investment losses resulting in reserve shortfalls for the Club. Although the Company has serious disagreements over the basis for these additional assessments and has instituted a dispute procedure, the Company has accrued the full \$4.1 million in 2001. Payments toward the calls are projected to be made in various installments during 2002 and 2003.

Under United States law, "United States persons" are prohibited from business activities and contracts in certain countries, including Sudan and Iran. The Company has filed three reports with and submitted documents to the Office of Foreign Asset Control 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 relate 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. Should either of the agencies determine that these activities constituted violations of the laws or regulations administered by them, civil penalties, including fines, could be assessed against the Company and/or certain individuals who knowingly participated in such activities. The Company cannot predict whether any such penalties will be imposed or the nature or extent of such penalties; however, management does not believe the outcome of these matters will have a material impact on its financial position, results of operations or cash flows.

The Company was sued by Maritime Transportation Development Corporation in January 2002 alleging broker commissions due from charters on two of its tanker vessels, the SEABULK MAGNACHEM and SEABULK CHALLENGER, since 1998. The Plaintiff is seeking approximately \$550,000. The Company is vigorously defending such charges, but cannot predict the ultimate outcome of the matter.

The Company is sometimes named as a defendant in litigation, usually relating to claims for bodily injury, or property damage. The Company maintains insurance coverage against such claims to the extent deemed prudent by management and applicable deductible amounts are accrued at the time of the incident. The Company believes that these claims do not have a material impact on the Company's financial position, results of operations or cash flows.

9. Recent Accounting Pronouncements

In July 2001, the FASB issued SFAS No. 143, ACCOUNTING FOR ASSET RETIREMENT OBLIGATIONS, which requires companies to record the fair value of a liability for an asset retirement obligation in the period in which it is incurred and a corresponding increase in the carrying amount of the related long-lived asset. SFAS No. 143 is effective for fiscal years beginning after June 15, 2002. The Company adopted SFAS No. 143 as of January 1, 2002 with no material financial statement impact.

In August 2001, the FASB issued SFAS No. 144, ACCOUNTING FOR THE IMPAIRMENT OR DISPOSAL OF LONG-LIVED ASSETS, which establishes one accounting model to be used for long-lived assets to be disposed of by sale and broadens the presentation of discontinued operations to include more disposal transactions. SFAS No. 144 supersedes SFAS No. 121, ACCOUNTING FOR THE IMPAIRMENT OF LONG-LIVED ASSETS TO BE DISPOSED OF, and the accounting and reporting provisions of APB Opinion No. 30. SFAS No. 144 is effective for fiscal

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years beginning after December 15, 2001. The Company adopted SFAS No. 144 as of January 1, 2002 with no material financial statement impact.

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In April 2002, the FASB issued SFAS No. 145, RESCISSION OF FASB STATEMENTS NO. 4, 44 AND 64, AMENDMENT OF FASB STATEMENT NO. 14, AND TECHNICAL CORRECTIONS, which eliminates the requirement that gains and losses from the extinguishment of debt be aggregated and, if material, classified as extraordinary item, net of the related income tax effect and eliminates an inconsistency between the accounting for sale-leaseback transactions and certain lease modifications that have economic effects that are similar to sale-leaseback transactions. Generally, SFAS No. 145 is effective for transactions occurring after May 15, 2002. The adoption of the standard is not expected to have a significant impact to the Company.

In June 2002, the FASB issued SFAS No. 146, ACCOUNTING FOR COSTS ASSOCIATED WITH EXIT OR DISPOSAL ACTIVITIES, which addresses the financial accounting and reporting for costs associated with exit or disposal activities SFAS No. 146 is effective for fiscal years beginning after December 31, 2002. The adoption of the standard is not expected to have a significant impact on the Company.

In June 2001, the Accounting Executive Committee of the American Institute of Certified Public Accountants issued an exposure draft of a proposed Statement of Position ("SOP") entitled ACCOUNTING FOR CERTAIN COSTS AND ACTIVITIES RELATED TO PROPERTY, PLANT AND EQUIPMENT. Under the proposed SOP, the Company would expense major maintenance costs as incurred and prohibit the use of the deferral of the entire cost of a planned major maintenance activity. Currently, the costs incurred to drydock the vessels are deferred and amortized on a straight-line basis over the period to the next drydocking, generally 30 to 36 months. The proposed SOP would be effective for fiscal years beginning after June 15, 2002. Management has determined that this SOP, if issued as proposed, would have a material effect on the consolidated financial statements. In the year of adoption, the Company would write-off the net book value of the deferred drydocking costs and record the write-off as a change in accounting principle (\$29.4 million as of June 30, 2002). Additionally, all drydock expenditures incurred after the adoption of the SOP would be expensed as incurred.

10. Supplemental Condensed Consolidated Financial Information

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

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

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Condensed Consolidating Balance Sheet
(in thousands)

| | As of June 30, | | | |
|---|----------------|---------------------------------------|--------------------------------------|------------------------|
| | Parent | Domestic Guarantor Subsidiaries | Foreign Guarantor Subsidiaries | Non Guara Subsid |
| ASSETS | | | | |
| Current assets: | | | | |
| Cash and cash equivalents | \$ (2,755) | \$ 269 | \$ 4,411 | \$ 12 |
| Restricted cash | -- | -- | 1,337 | |
| Accounts receivable: | | | | |
| Trade, net | 209 | 16,632 | 28,521 | 1 |
| Insurance claims and other | 1,824 | 3,023 | 8,784 | |
| Marine operating supplies | (638) | 1,891 | 3,340 | 3 |
| Prepaid expenses | 397 | 1,027 | 657 | |
| Total current assets | (963) | 22,842 | 47,050 | 19 |
| Vessels and equipment, net | 43,004 | 159,981 | 101,771 | 262 |
| Deferred costs, net | 14,805 | 8,211 | 16,792 | 7 |
| Due (to) from affiliates | (188,293) | 91,787 | 129,215 | (29 |
| Investments in affiliates | 519,772 | 356,026 | -- | 38 |
| Other | 253 | 2,589 | 2,067 | |
| Total assets | \$ 388,578 | \$ 641,436 | \$ 296,895 | \$ 299 |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | | | |
| (DEFICIT) | | | | |
| Current liabilities: | | | | |
| Accounts payable | \$ 451 | \$ 1,234 | \$ 6,677 | \$ 4 |
| Current maturities of long-term debt | 28,022 | 1,996 | -- | 213 |
| Current obligations under capital leases . | -- | 2,899 | -- | |
| Accrued interest | 3,623 | 404 | -- | |
| Accrued liabilities and other | 8,639 | 2,844 | 27,322 | 2 |
| Total current liabilities | 40,735 | 9,377 | 33,999 | 7 |
| Long-term debt | 141,736 | 22,379 | -- | 213 |
| Obligations under capital leases | -- | 30,265 | -- | |
| Senior notes | 83,006 | -- | -- | |
| Other liabilities | 4,983 | 710 | 846 | |
| Total liabilities | 270,460 | 62,731 | 34,845 | 221 |
| Contingencies | -- | -- | -- | |
| Minority interest | -- | -- | -- | |
| Total stockholders' equity (deficit) | 118,118 | 578,705 | 262,050 | 78 |
| Total liabilities and stockholders' equity (deficit) | \$ 388,578 | \$ 641,436 | \$ 296,895 | \$ 299 |

Condensed Consolidating Balance Sheet
(in thousands)

| | As of December 31, | | | |
|---|--------------------|---------------------------------------|--------------------------------------|------------------------|
| | Parent | Domestic Guarantor Subsidiaries | Foreign Guarantor Subsidiaries | Non Guara Subsid |
| ASSETS | | | | |
| Current assets: | | | | |
| Cash and cash equivalents | \$ 250 | \$ 270 | \$ 3,888 | \$ 7 |
| Restricted cash | -- | -- | 1,337 | |
| Accounts receivable: | | | | |
| Trade, net | 1,088 | 20,186 | 27,098 | 2 |
| Insurance claims and other | 2,896 | 5,849 | 7,149 | |
| Marine operating supplies | (795) | 3,072 | 3,624 | 4 |
| Prepaid expenses | 864 | 844 | 988 | |
| | ----- | ----- | ----- | ----- |
| Total current assets | 4,303 | 30,221 | 44,084 | 14 |
| Vessels and equipment, net | 45,388 | 166,678 | 109,451 | 267 |
| Deferred costs, net | 16,107 | 10,063 | 14,187 | 8 |
| Due (to) from affiliates | (170,000) | 80,479 | 123,866 | (30) |
| Investments in affiliates | 522,764 | 366,174 | -- | 35 |
| Other | 289 | 7,661 | 6,174 | |
| | ----- | ----- | ----- | ----- |
| Total assets | \$ 418,851 | \$ 661,276 | \$ 297,762 | \$ 295 |
| | ===== | ===== | ===== | ===== |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | | | |
| (DEFICIT) | | | | |
| Current liabilities: | | | | |
| Accounts payable | \$ 5,892 | \$ 2,353 | \$ 9,102 | \$ |
| Current maturities of long-term debt | 32,056 | 1,941 | -- | 4 |
| Current obligations under capital leases . | -- | 2,972 | -- | |
| Accrued interest | 340 | 420 | -- | |
| Accrued liabilities and other | 8,787 | 5,442 | 23,110 | 2 |
| | ----- | ----- | ----- | ----- |
| Total current liabilities | 47,075 | 13,128 | 32,212 | 7 |
| Long-term debt | 160,887 | 23,391 | -- | 215 |
| Obligations under capital leases | -- | 31,768 | -- | |
| Senior notes | 81,635 | -- | -- | |
| Other liabilities | 4,567 | 753 | 807 | |
| | ----- | ----- | ----- | ----- |
| Total liabilities | 294,164 | 69,040 | 33,019 | 223 |

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Contingencies

| | | | | |
|---|------------|------------|------------|--------|
| Minority interest | -- | -- | -- | |
| Total stockholders' equity (deficit) | 124,687 | 592,236 | 264,743 | 71 |
| | ----- | ----- | ----- | ----- |
| Total liabilities and stockholders' equity (deficit) | \$ 418,851 | \$ 661,276 | \$ 297,762 | \$ 295 |
| | ===== | ===== | ===== | ===== |

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Condensed Consolidating Statement of Operations
(in thousands)

| | Three Months Ended June | | | |
|--|-------------------------|---------------------------------------|--------------------------------------|-----------------------------------|
| | Parent | Domestic Guarantor Subsidiaries | Foreign Guarantor Subsidiaries | Non- Guarantor Subsidiaries |
| | ----- | ----- | ----- | ----- |
| Revenue | \$ 9,770 | \$ 20,567 | \$ 32,286 | \$ 19,359 |
| Operating expenses | 7,290 | 12,842 | 17,863 | 9,094 |
| Overhead expenses | 3,176 | 2,745 | 3,193 | 607 |
| Depreciation, amortization and drydocking | 1,626 | 4,495 | 7,545 | 2,967 |
| | ----- | ----- | ----- | ----- |
| (Loss) income from operations | (2,322) | 485 | 3,685 | 6,691 |
| Other (expense) income, net | (2,045) | (7,249) | (4,156) | (2,724) |
| | ----- | ----- | ----- | ----- |
| (Loss) income before provision income taxes | (4,367) | (6,764) | (471) | 3,967 |
| Provision for income taxes | -- | -- | 1,741 | -- |
| | ----- | ----- | ----- | ----- |
| Net (loss) income | \$ (4,367) | \$ (6,764) | \$ (2,212) | \$ 3,967 |
| | ===== | ===== | ===== | ===== |

Condensed Consolidating Statement of Operations
(in thousands)

| | Three Months Ended | | | |
|--|--------------------|---------------------------------------|--------------------------------------|-----------------------------------|
| | Parent | Domestic Guarantor Subsidiaries | Foreign Guarantor Subsidiaries | Non- Guarantor Subsidiaries |
| | ----- | ----- | ----- | ----- |

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| | | | | |
|---|----------|-----------|------------|---------|
| Revenue | \$ 2,176 | \$ 48,520 | \$ 27,309 | \$ 14,6 |
| Operating expenses | 488 | 28,287 | 13,509 | 7,4 |
| Overhead expenses | 3,019 | 3,186 | 3,192 | (1 |
| Depreciation, amortization and drydocking ... | 1,720 | 4,728 | 5,623 | 2,7 |
| | ----- | ----- | ----- | ----- |
| (Loss) income from operations | (3,051) | 12,319 | 4,985 | 4,6 |
| Other (expense) income, net | 4,387 | 12,752 | (3,090) | (4,6 |
| | ----- | ----- | ----- | ----- |
| (Loss) income before provision income taxes . | 1,336 | 25,071 | 1,895 | |
| Provision for income taxes | (1,414) | -- | 3,198 | |
| | ----- | ----- | ----- | ----- |
| Net (loss) income | \$ 2,750 | \$ 25,071 | \$ (1,303) | \$ |
| | ===== | ===== | ===== | ===== |

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Condensed Consolidating Statement of Operations
(in thousands)

| | Six Months Ended Jun | | | |
|--|----------------------|---------------------------------------|--------------------------------------|-----------------------------------|
| | Parent | Domestic Guarantor Subsidiaries | Foreign Guarantor Subsidiaries | Non- Guarantor Subsidiaries |
| | ----- | ----- | ----- | ----- |
| Revenue | \$ 20,133 | \$ 45,884 | \$ 61,915 | \$ 37, |
| Operating expenses | 13,481 | 28,619 | 33,121 | 17, |
| Overhead expenses | 5,676 | 5,427 | 6,129 | 1, |
| Depreciation, amortization and drydocking | 3,935 | 9,005 | 14,310 | 5, |
| | ----- | ----- | ----- | ----- |
| (Loss) income from operations | (2,959) | 2,833 | 8,355 | 12, |
| Other (expense) income, net | (3,694) | (16,364) | (7,640) | (6, |
| | ----- | ----- | ----- | ----- |
| (Loss) income before provision income taxes | (6,653) | (13,531) | 715 | 6, |
| Provision for income taxes | -- | -- | 3,408 | |
| | ----- | ----- | ----- | ----- |
| Net (loss) income | \$ (6,653) | \$ (13,531) | \$ (2,693) | \$ 6, |
| | ===== | ===== | ===== | ===== |

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Condensed Consolidating Statement of Cash Flows
(in thousands)

Six Months Ended Jun

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| | Parent | Domestic Guarantor Subsidiaries | Foreign Guarantor Subsidiaries | Non-Guarantor Subsidiaries |
|---|------------|---------------------------------|--------------------------------|----------------------------|
| Net cash provided by (used in) operating activities | \$ 22,163 | \$ (1,841) | \$ 6,687 | \$ 7,169 |
| INVESTING ACTIVITIES: | | | | |
| Expenditures for drydocking | (1,375) | (2,588) | (8,021) | (11,984) |
| Proceeds from disposals of assets | -- | 8,713 | 2,169 | 1,000 |
| Purchases of vessels and equipment | (139) | (1,753) | (312) | (1,164) |
| Net cash (used in) provided by investing activities | (1,514) | 4,372 | (6,164) | (12,148) |
| FINANCING ACTIVITIES: | | | | |
| Net repayment of revolving credit facility .. | (4,281) | -- | -- | -- |
| Payments of long-term borrowings | (17,971) | (633) | -- | -- |
| Payments of Title XI bonds | (1,075) | (323) | -- | (2,428) |
| Payments of obligations under capital leases | -- | (1,576) | -- | -- |
| Issue costs related to new equity/credit facility | (328) | -- | -- | -- |
| Proceeds from exercise of warrants | 1 | -- | -- | -- |
| Net cash used in financing activities | (23,654) | (2,532) | -- | (2,428) |
| Change in cash and cash equivalents | (3,005) | (1) | 523 | 5,169 |
| Cash and cash equivalents at beginning of period | 250 | 270 | 3,888 | 7,169 |
| Cash and cash equivalents at end of period ... | \$ (2,755) | \$ 269 | \$ 4,411 | \$ 12,338 |

Condensed Consolidating Statement of Operations
(in thousands)

| | Parent | Domestic Guarantor Subsidiaries | Foreign Guarantor Subsidiaries | Non-Guarantor Subsidiaries |
|---|----------|---------------------------------|--------------------------------|----------------------------|
| Revenue | \$ 4,487 | \$ 90,231 | \$ 50,493 | \$ 30,000 |
| Operating expenses | 854 | 55,936 | 27,438 | 15,500 |
| Overhead expenses | 6,717 | 6,302 | 5,708 | 7,000 |
| Depreciation, amortization and drydocking | 3,334 | 8,966 | 10,865 | 5,500 |
| (Loss) income from operations | (6,418) | 19,027 | 6,482 | 8,200 |
| Other (expense) income, net | 1,935 | 13,055 | (9,780) | (9,600) |
| (Loss) income before provision income taxes | (4,483) | 32,082 | (3,298) | (1,400) |
| Provision for income taxes | -- | -- | 3,198 | -- |

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| | | | | |
|-------------------------|------------|-----------|------------|---------|
| Net (loss) income | \$ (4,483) | \$ 32,082 | \$ (6,496) | \$ (1,) |
| | ===== | ===== | ===== | ===== |

16

Condensed Consolidating Statement of Cash Flows
(in thousands)

| | Six Months Ended Jun | | | |
|---|----------------------|---------------------------------------|--------------------------------------|-----------------------|
| | Parent | Domestic Guarantor Subsidiaries | Foreign Guarantor Subsidiaries | No Guara Subsid |
| Net cash provided by (used in) operating activities | \$ 5,720 | \$ 13,780 | \$ 2,415 | \$ (4) |
| INVESTING ACTIVITIES: | | | | |
| Expenditures for drydocking | (656) | (5,493) | (5,801) | |
| Proceeds from disposals of assets | -- | 820 | 3,880 | |
| Purchases of property | 37 | (3,533) | (1,133) | |
| Acquisition of minority interest | 8,347 | -- | -- | |
| Redemption of restricted investments | -- | -- | -- | |
| Purchases of restricted investments | -- | -- | -- | |
| Net cash provided by (used in) investing activities | 7,728 | (8,206) | (3,054) | (1) |
| FINANCING ACTIVITIES: | | | | |
| Net repayment of revolving credit facility .. | (3,250) | -- | -- | |
| Repayment of long-term borrowings | (9,091) | (665) | -- | |
| Repayment of Title XI bonds | (2,409) | (322) | -- | (2) |
| Redemption of restricted cash | 331 | -- | -- | |
| Payments of obligations under capital leases | -- | (2,115) | -- | |
| Proceeds from exercise of warrants | 1 | -- | -- | |
| Net cash used in financing activities | (14,418) | (3,102) | -- | (2) |
| Change in cash and cash equivalents | (970) | 2,472 | (639) | (7) |
| Cash and cash equivalents at beginning of period | 1,402 | (2,190) | 6,380 | 8 |
| Cash and cash equivalents at end of period ... | \$ 432 | \$ 282 | \$ 5,741 | \$ 1 |
| | ===== | ===== | ===== | ===== |

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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

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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 2001 Annual Report on Form 10-K. References to the "2001 Form 10-K" in this Quarterly Report are to a restated and amended Annual Report on Form 10-K/A.

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 2001 Form 10-K.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

For general information concerning critical accounting policies as well as estimates, see "Management's Discussion and Analysis of Financial Condition and Results of Operations, Critical Accounting Policies and Estimates" in the 2001 Form 10-K.

In June 2001, the Accounting Executive Committee of the American Institute of Certified Public Accountants issued an exposure draft of a proposed Statement of Position ("SOP") entitled ACCOUNTING FOR CERTAIN COSTS AND ACTIVITIES RELATED TO PROPERTY, PLANT AND EQUIPMENT. Under the proposed SOP, the Company would expense major maintenance costs as incurred and prohibit the use of the deferral of the entire cost of a planned major maintenance activity. Currently, the costs incurred to drydock the vessels are deferred and amortized on a straight-line basis over the period to the next drydocking, generally 30 to 36 months. The proposed SOP would be effective for fiscal years beginning after June 15, 2002. Management has determined that this SOP, if issued as proposed, would have a material effect on the consolidated financial statements. In the year of adoption, the Company would write off the net book value of the deferred drydocking costs and record the write off as a change in accounting principle (\$29.4 million as of June 30, 2002). Additionally, all drydock expenditures incurred after the adoption of the SOP would be expensed as incurred.

REVENUE OVERVIEW

The Company derives its revenue from three main lines of business - offshore energy support, marine transportation, and towing. Seabulk Offshore, the Company's domestic and international offshore energy support business, accounted for approximately 54% and 55% of Company revenue for the three months ended June 30, 2002 and 2001, respectively. Marine transportation consists of the Company's Jones Act domestic tanker business, in which it owns eight petroleum and chemical product carriers in the domestic coastwise trade with a 67.3% ownership interest in a ninth, and is the bareboat charterer with a purchase option on a tenth. Marine transportation accounted for approximately 36% and 35% of Company revenue for the three months ended June 30, 2002 and 2001, respectively. Seabulk Towing, the Company's domestic harbor and offshore towing business, accounted for approximately 10% of Company revenue for the three months ended June 30, 2002 and 2001.

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Revenue from the Company's offshore energy support operations is primarily a function of the size of the Company's fleet, vessel day rates or charter rates, and fleet utilization. Rates and utilization are primarily a function of offshore exploration, development, and production activities, which are in turn heavily dependent upon the price of crude oil and natural gas. Further, in certain areas where the Company conducts offshore energy support operations (particularly the U.S. Gulf of Mexico), contracts for the utilization of offshore energy support vessels commonly include termination provisions with three- to five-day notice requirements and no termination penalty. As a result, companies engaged in offshore energy support operations (including the Company) are particularly sensitive to changes in market demand.

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

| | Q1 2002 | | | | Q2 2002 | | | |
|----------------------------|-----------------|--------------|------------------|---------|-----------------|--------------|------------------|---------|
| | AHTS/ Supply | AHT/ Tugs | Crew/ Utility | Other | AHTS/ Supply | AHT/ Tugs | Crew/ Utility | Other |
| DOMESTIC(1) | | | | | | | | |
| Vessels(2) (3) (4) (8) (9) | 24 | -- | 30 | 2 | 21 | -- | 31 | 2 |
| Bareboat-out(4) | -- | -- | -- | -- | -- | -- | -- | -- |
| Laid-Up | -- | -- | -- | 1 | -- | -- | -- | 1 |
| Effective Utilization(5) | 59% | -- | 65% | -- | 63% | -- | 58% | -- |
| Day Rate | \$6,687 | -- | \$2,666 | -- | \$6,005 | -- | \$2,469 | -- |
| WEST AFRICA | | | | | | | | |
| Vessels(2) (3) (6) (7) (8) | 29 | 5 | 7 | 1 | 30 | 5 | 6 | 1 |
| Laid-Up | -- | 1 | -- | -- | -- | 1 | -- | -- |
| Effective Utilization(5) | 84% | 86% | 89% | 97% | 85% | 97% | 84% | -- |
| Day Rate | \$7,368 | \$6,613 | \$3,124 | - | \$8,042 | \$6,522 | \$2,722 | -- |
| MIDDLE EAST | | | | | | | | |
| Vessels(2) | 6 | 8 | 8 | 5 | 6 | 8 | 8 | 5 |
| Laid-Up | -- | 1 | 1 | 1 | -- | 1 | 1 | 1 |
| Effective Utilization(5) | 83% | 75% | 81% | 77% | 79% | 62% | 85% | 66% |
| Day Rate | \$3,265 | \$4,571 | \$1,649 | \$4,502 | \$3,250 | \$5,048 | \$1,668 | \$4,475 |
| SOUTHEAST ASIA | | | | | | | | |
| Vessels(2) (7) (10) | 8 | -- | 5 | 2 | 8 | -- | -- | 2 |
| Laid-Up | -- | -- | -- | -- | -- | -- | -- | -- |
| Effective Utilization(5) | 59% | -- | 53% | 44% | 68% | -- | -- | -- |
| Day Rate | \$5,510 | -- | \$1,472 | - | \$6,320 | -- | -- | -- |

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-
- (1) Domestic consists of vessels operating in the United States, the U.S. Gulf of Mexico and Mexico.
 - (2) Held-for-sale and bareboat-out vessels are excluded from the vessel count.
 - (3) During Q1 2002, two Anchor Handling Tug Supply Vessels were transferred from Domestic to West Africa.
 - (4) During Q1 2002, a bareboat contract for one Geophysical Vessel in the Domestic operating region expired and the vessel was returned to the Company.
 - (5) Effective utilization excludes laid-up vessels.
 - (6) During Q1 2002, the Company reactivated one AHT from "held-for-sale" status. This vessel was placed into service in West Africa.
 - (7) During Q1 2002, the Company reactivated one Anchor Handling Tug Supply Vessel from "held-for-sale" status and placed the vessel into service in Southeast Asia. Additionally during Q1 2002, the Company transferred one utility boat from Southeast Asia to West Africa.
 - (8) During Q2 2002, two Anchor Handling Tug Supply Vessels were sold. Additionally during Q2 2002, the Company transferred one supply vessel to West Africa.
 - (9) During Q2 2002, one Crewboat was returned to Domestic from West Africa.
 - (10) During Q2 2002, five Crewboats in Southeast Asia were sold.

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| | Q1 2001 | | | | Q2 2001 | | | |
|--------------------------------------|-----------------|--------------|------------------|---------|-----------------|--------------|------------------|---------|
| | AHTS/ Supply | AHT/ Tugs | Crew/ Utility | Other | AHTS/ Supply | AHT/ Tugs | Crew/ Utility | Other |
| DOMESTIC (1) | | | | | | | | |
| Vessels (2) (3) (4) | 26 | -- | 31 | 1 | 26 | -- | 33 | 1 |
| Bareboat-out (4) | -- | -- | 2 | 1 | -- | -- | 2 | 1 |
| Laid-Up | 1 | -- | -- | 1 | 1 | -- | -- | 1 |
| Effective Utilization (5) | 75% | -- | 87% | -- | 90% | -- | 87% | -- |
| Day Rate | \$6,946 | -- | \$2,709 | -- | \$7,397 | -- | \$2,929 | -- |
| WEST AFRICA | | | | | | | | |
| Vessels (2) (3) (6) (8) | 27 | 3 | 6 | 1 | 27 | 4 | 5 | 1 |
| Laid-Up | -- | -- | -- | -- | -- | -- | -- | -- |
| Effective Utilization (5) | 83% | 46% | 85% | -- | 86% | 41% | 77% | 84% |
| Day Rate | \$6,325 | \$4,491 | \$2,754 | -- | \$6,988 | \$5,528 | \$2,774 | \$6,160 |
| MIDDLE EAST | | | | | | | | |
| Vessels (2) (3) (7) (9) (11) (12) | 5 | 8 | 11 | 7 | 5 | 8 | 11 | 7 |
| Laid-Up (12) | -- | -- | -- | -- | -- | -- | -- | -- |
| Effective Utilization (5) | 77% | 24% | 66% | 56% | 92% | 50% | 59% | 69% |
| Day Rate | \$3,003 | \$4,129 | \$1,421 | \$5,197 | \$2,855 | \$3,889 | \$1,434 | \$5,393 |

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| | | | | | | | | |
|-------------------------|-----------------|--------------|------------------|---------|-----------------|--------------|------------------|---------|
| SOUTHEAST ASIA | | | | | | | | |
| Vessels (2) (6) (10) | | | | | | | | |
| (11) | 8 | 1 | 5 | 1 | 8 | 1 | 5 | 1 |
| Laid-Up | -- | -- | 1 | -- | -- | -- | 1 | -- |
| Effective | | | | | | | | |
| Utilization(5) | 87% | 37% | 89% | 33% | 83% | 46% | 73% | 71% |
| Day Rate | \$5,347 | \$3,929 | \$1,429 | \$6,614 | \$4,277 | \$4,255 | \$1,443 | \$6,630 |
| | | | | | | | | |
| | Q3 2001 | | | | Q4 2001 | | | |
| | ----- | | | | ----- | | | |
| | AHTS/ Supply | AHT/ Tugs | Crew/ Utility | Other | AHTS/ Supply | AHT/ Tugs | Crew/ Utility | Other |
| | ----- | | | | ----- | | | |
| DOMESTIC (1) | | | | | | | | |
| Vessels (2) (3) (4) | 26 | -- | 32 | 1 | 26 | -- | 32 | 1 |
| Bareboat-out (4) | -- | -- | -- | 1 | -- | -- | -- | 1 |
| Laid-Up | -- | -- | -- | 1 | -- | -- | -- | 1 |
| Effective | | | | | | | | |
| Utilization(5) | 83% | -- | 83% | -- | 63% | -- | 72% | -- |
| Day Rate | \$7,486 | -- | \$3,061 | -- | \$7,141 | -- | \$2,928 | -- |
| | | | | | | | | |
| WEST AFRICA | | | | | | | | |
| Vessels (2) (3) (6) (8) | 27 | 4 | 6 | 1 | 27 | 4 | 6 | 1 |
| Laid-Up | -- | -- | -- | -- | -- | -- | -- | -- |
| Effective | | | | | | | | |
| Utilization(5) | 82% | 63% | 64% | 84% | 76% | 86% | 80% | 96% |
| Day Rate | \$7,644 | \$6,097 | \$2,715 | \$7,363 | \$7,829 | \$8,041 | \$3,358 | \$9,246 |
| | | | | | | | | |
| MIDDLE EAST | | | | | | | | |
| Vessels (2) (3) (7) (9) | | | | | | | | |
| (11) (12) | 5 | 8 | 9 | 6 | 6 | 8 | 8 | 5 |
| Laid-Up (12) | -- | -- | -- | -- | -- | 1 | 1 | 1 |
| Effective | | | | | | | | |
| Utilization(5) | 86% | 48% | 65% | 43% | 81% | 60% | 86% | 64% |
| Day Rate | \$2,954 | \$4,443 | \$1,611 | \$5,399 | \$3,121 | \$4,937 | \$1,671 | \$3,986 |
| | | | | | | | | |
| SOUTHEAST ASIA | | | | | | | | |
| Vessels (2) (6) (10) | | | | | | | | |
| (11) | 8 | -- | 6 | 2 | 7 | -- | 6 | 2 |
| Laid-Up | -- | -- | -- | -- | -- | -- | -- | -- |
| Effective | | | | | | | | |
| Utilization(5) | 79% | -- | 69% | 100% | 69% | -- | 51% | 52% |
| Day Rate | \$4,762 | -- | \$1,708 | \$8,298 | \$5,285 | -- | \$1,674 | \$7,302 |

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

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

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- (3) During Q1 2001, one AHTS, one supply boat, and one specialty vessel (Other) transferred from the Middle East to West Africa. During Q2 2001, the Company purchased a crewboat and transferred one vessel in the Crew/Utility category from West Africa to Domestic.
- (4) Bareboat-out chartered vessels are not included in the day rate and utilization statistics. During Q3 2001, bareboat contracts for two crewboats in the Domestic operating region were terminated and the vessels were returned to the Company.
- (5) Effective utilization excludes laid-up vessels.
- (6) One vessel in the AHT/Tugs category worked in West Africa and Southeast Asia during Q2 2001 and earned sufficient revenue to be included in the statistics for both regions.
- (7) The Middle East - Other category includes a vessel that is in a 50/50 joint venture and not included in the day rate and utilization statistics.
- (8) During Q3 2001, one crewboat and one utility boat in Domestic region were transferred to "held-for-sale" status. Additionally, the Company transferred one crewboat from Domestic to West Africa. The reduction in the Domestic Crew/Utility vessel count was offset in part by the addition of two crewboats as bareboat-out contracts were terminated during Q3 2001.
- (9) During Q3 2001, the Company transferred one crewboat and one specialty vessel (Other) from the Middle East to Southeast Asia. Additionally, one crewboat was transferred to "held-for-sale" status.
- (10) During Q3 2001, one crewboat and one specialty vessel (Other) were transferred from West Africa to Southeast Asia. Also, one vessel in the AHT/Tugs category that worked in West Africa and Southeast Asia during Q2 2001 did not work in Southeast Asia during Q3. Additionally, the Company reactivated one crewboat from laid-up status during Q3 2001.
- (11) During Q4 2001, one supply vessel was transferred from Southeast Asia to Middle East. Also, one vessel in the AHT/Tugs category that worked in West Africa and Southeast Asia during Q2 2001 did not work in Southeast Asia during Q3. Additionally, the Company reactivated one crewboat from laid-up status during Q3 2001.
- (12) During Q4 2001, the Company transferred one crewboat to "held-for-sale" status. Additionally, three vessels were laid-up during Q4 2001.

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Domestic revenue for the six months ended June 30, 2002 was adversely affected by the slowdown in natural gas drilling activity in the U.S. Gulf of Mexico as a result of lower natural gas prices and high inventories. The lower level of natural gas prices resulted from above-average inventory buildups and reduced demand due to one of the mildest winters on record. Exploration and production companies in the U.S. Gulf of Mexico responded by cutting back their level of spending as evidenced by the significant drop in offshore rig fleet utilization rates during the last half of calendar year 2001 and the first half of 2002. Although there is still uncertainty in the market, the recent rise in both crude oil and natural gas prices, driven by the conflict in the Middle East, the temporary shutoff of Iraqi and Venezuelan imports and other factors, have led to a recent improvement in utilization rates for jack-up rigs, which should eventually bring about a recovery in the Gulf of Mexico offshore vessel market.

As the demand for vessels in the domestic market is primarily driven by natural gas exploration and production, it is difficult to predict what effect the current fluctuation in natural gas prices and the uncertainty in the economic environment will have on demand for the Company's vessels in the domestic market.

International offshore revenues for the six months ended June 30, 2002 benefited from increases in vessel count and utilization. In West Africa, the

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demand for vessels, and hence utilization, remained strong as this is an oil-driven deepwater market with longer time horizons and increasing exploration and production budgets primarily from oil company majors. The Company redeployed vessels to its West African operations during the six months ended June 30, 2002.

International vessel demand is primarily driven by crude oil production, and during the quarter crude oil prices and demand remained firm. The Company expects international exploration and production spending to continue to increase in West Africa, which should strengthen vessel demand in that area. Revenue and utilization were also up for the Company's Middle East operations. In Southeast Asia, revenue declined from the year-earlier period due to reduced utilization caused by vessel downtimes.

Average day rates and utilization for the Company's anchor handling tug supply vessels and supply boats at July 31, 2002 for Domestic, West Africa, the Middle East and Southeast Asia were approximately \$5,900/57.0%, \$8,600/74.0%, \$3,200/100.0% and \$5,300/63.0%, respectively.

The Company had four offshore vessels in "held-for-sale" status as of June 30, 2002. The majority of these vessels were previously laid up.

Seabulk Tankers

Revenue from the Company's marine transportation services is derived principally from the operations of ten tankers carrying crude oil, petroleum products and chemical products in the U.S. Jones Act trade and, to a lesser extent, from the Sun State towboat and fuel barge operations in Green Cove Springs, Florida, which were sold in March 2002.

PETROLEUM TANKERS. Demand for crude oil and petroleum product transportation services is dependent both on production and refining levels as well as on consumer and commercial consumption of petroleum products and chemicals. The Company owned eight petroleum product tankers at June 30, 2002. Five of these are double-hull, state-of-the-art vessels, of which two have chemical-carrying capability. At the end of December 2001, voyage charters for three vessels expired and were replaced by two multi-year time charters at time charter-equivalent rates 55% above the returns achieved for these vessels in 2001. For the third vessel, the Company entered into a ten-year bareboat charter

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agreement with a major oil company. Beginning in January 2002, the oil company has exclusive possession and control of the vessel. As a result, the charterer incurs and pays all operating costs during the charter period. A fourth vessel also secured a time charter, commencing in the fourth quarter of 2001, at a 25% increase over the expiring rate. Under a time charter, fuel and port charges are borne by the charterer customer and are therefore not reflected in the charter rates. Under a bareboat contract, the charterer is responsible for all operating expenses of the vessel. Consequently, both the revenue and cost side of time charter vessels are reduced by the amount of the fuel and port charges. Our Jones Act fleet is benefiting from a tightening domestic tanker market, which should see a further strengthening as OPA 90 forces out older, single-hull vessels. None of our single hull vessels is scheduled for retirement under OPA 90 before 2007.

CHEMICAL TANKERS. Demand for industrial chemical transportation services generally coincides with overall economic activity. The Company operated two chemical tankers and one of the five double-hull vessels in the chemical trade as of June 30, 2002. The chemical tankers are double-bottom ships. The higher day rate environment for petroleum tankers is carrying over

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into the chemical tanker market as charterers look for quality tonnage to replace older single-hull vessels.

The Company's tanker fleet operates on either long-term time charters, bareboat charters, or pursuant to short-term arrangements. During the six months ended June 30, 2002, six of the Company's tankers operated under long-term contracts. As a result of the change from spot trading to time charters for two tankers and the bareboat charter of a third tanker, the Company expects that revenue and operating expenses will decline in 2002. However, operating income should increase to reflect the improved contract terms.

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

| | Six Months Ended June 30, | |
|------------------------------|---------------------------|-----------|
| | 2002 | 2001 |
| Number of vessels owned..... | 10 | 10 |
| Revenue (in thousands)..... | \$ 57,880 | \$ 56,495 |

INLAND TUGS AND BARGES. Revenue from the Company's Sun State Marine Services subsidiary, were derived primarily from contracts of affreightment with Colonial Oil Industries (formerly known as Steuart Petroleum Co.) and Florida Power & Light (FPL) and from ship maintenance, repair, drydocking and construction activities. Revenue from all of Sun State's operations totaled \$3.8 and \$5.7 million, respectively, for the six months ended June 30, 2002 and 2001. The decrease in Sun State revenue is due to the sale of the marine transportation tug and barge assets on March 22, 2002. On July 9, 2002, the Company closed on the sale of the drydock and related shipyard equipment of Sun State for \$450,000 in cash, and recorded a gain of approximately \$88,000.

Seabulk Towing

Revenue from the Company's tug operations is primarily a function of the number of tugs available to provide services, the rates charged for their services, and the volume of vessel traffic requiring docking and other ship-assist services. Vessel traffic, in turn, is largely a function of general trade activity in the region served by the port.

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

| | Six Months Ended June 30, | |
|--------------------------------------|---------------------------|-----------|
| | 2002 | 2001 |
| Number of tugs at end of period..... | 31 | 31 |
| Revenue (in thousands)..... | \$ 15,885 | \$ 17,038 |

Towing revenue decreased by 6.8% for the six months ended June 30, 2002 compared to the same period in the prior year. The decrease in revenue is due to reduced vessel traffic in certain of the Company's ports, reflecting the slowdown in international trade. The Company expects that towing revenue in fiscal 2002 will decrease marginally compared to fiscal 2001 due to competition and a less than robust economy.

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Overview of Operating Expenses and Capital Expenditures

The Company's operating expenses are primarily a function of fleet size and utilization. The most significant expense categories are crew payroll and benefits, maintenance and repairs, fuel, insurance and charter hire. For general information concerning these categories of operating expenses as well as capital expenditures, see "Management's Discussion and Analysis of Financial Condition and Results of Operations, Overview of Operating Expenses and Capital Expenditures" in the 2001 Form 10-K.

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Results of Operations

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

| | Three Months ended June 30, 2002 | | |
|--|----------------------------------|------|----------|
| | 2002 | | |
| | (in millions) | | |
| Revenue..... | \$ 81.6 | 100% | \$ 91.4 |
| Operating expenses..... | 46.7 | 57 | 48.6 |
| Overhead expenses..... | 9.7 | 12 | 9.1 |
| Depreciation, amortization and drydocking..... | 16.6 | 21 | 14.8 |
| Income from operations..... | \$ 8.5 | 10% | \$ 18.9 |
| Interest expense, net..... | \$ 12.3 | 15% | \$ 14.1 |
| Other income, net..... | \$ 1.1 | 0% | \$ (0.3) |
| Net loss..... | \$ (4.4) | 5% | \$ 2.8 |

Three months ended June 30, 2002 compared with the three months ended June 30, 2001

REVENUE. Revenue decreased 10.7% to \$81.6 million for the three months ended June 30, 2002 from \$91.4 million for the three months ended June 30, 2001.

Offshore energy support revenue decreased 12.8% to \$44.1 million for the three months ended June 30, 2002 from \$50.5 million for the same period in 2001, primarily due to reduced revenue from the U.S. Gulf of Mexico offset in part by increased revenue from the West Africa operating region. Revenue from the U.S. Gulf of Mexico decreased during the three months ended June 30, 2002 compared to the same period in 2001 primarily due to reduced exploration and production activity in response to low natural gas prices and reduced demand. The increase in West Africa revenue was driven by higher day rates and an expanded vessel count as offshore exploration and production activity remained

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strong. The Company took advantage of the expanding West Africa market by mobilizing one of its Gulf of Mexico supply boats to West Africa during the quarter.

Marine transportation revenue decreased 8.2% to \$29.7 million for the three months ended June 30, 2002 from \$32.3 million for the three months ended June 30, 2001. This decrease is primarily due to the change from spot trading to time charters for two tankers and the bareboat charter of a third tanker, and the sale of Sun State marine transportation assets during the first quarter of 2002.

Towing revenue decreased 7.7% to \$7.9 million for the three months ended June 30, 2002 from \$8.6 million for the three months ended June 30, 2001. The decrease in revenue is due to reduced vessel traffic in certain of the Company's ports, reflecting the slowdown in international trade. The Company expects that towing revenue in fiscal 2002 will decrease marginally compared to fiscal 2001 due to competition and a less than robust economy.

OPERATING EXPENSES. Operating expenses decreased 3.8% to \$46.7 million for the three months ended June 30, 2002 from \$48.6 million for the same period in 2001. The decrease is primarily due to the change from spot trading to time

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charters for two tankers and the bareboat charter of a third tanker, and the sale of Sun State marine transportation assets in the first quarter. The decrease in expenditures is offset by an increase in operating expenses in the West Africa region due to higher crew payroll and repair and maintenance expenditures. As a percentage of revenue, operating expenses increased to 56.9% for the three months ended June 30, 2002 from 53.0% for the 2001 period.

OVERHEAD EXPENSES. Overhead expenses increased 6.4% to \$9.7 million for the three months ended June 30, 2002 from \$9.1 million for the same period in 2001, primarily due to increased salaries and benefits and office expense, offset in part by decreases in other overhead. The decrease in other overhead expenses is primarily due to lower charges for rent and other miscellaneous items as a result of the elimination of non-essential services and the consolidation of administrative functions. As a percentage of revenue, overhead expenses increased to 11.9% for the three months ended June 30, 2002 compared to 10.0% for the same period in 2001.

DEPRECIATION, AMORTIZATION AND DRYDOCKING. Depreciation, amortization and drydocking increased 12.2% to \$16.6 million for the three months ended June 30, 2002 from \$14.8 million for the three months ended June 30, 2001, primarily due to higher planned drydocking expenditures for offshore energy support vessels and tankers during the second half of 2001 compared to the second half of 2000. Since there were larger 2001 drydock expenditures, drydock amortization expense is also higher as drydock costs are amortized on a straight-line basis over the period to the next drydocking (generally 30 months).

NET INTEREST EXPENSE. Net interest expense decreased 12.6% to \$12.3 million for the three months ended June 30, 2002 from \$14.1 million for the same period in 2001. The decrease is primarily due to the combination of lower interest rates on variable rate debt and lower outstanding debt balances under our term loans and revolving credit facility.

OTHER INCOME, NET. Other income, net increased to \$1.1 million for the three months ended June 30, 2002 compared to other income, net of \$(0.3) million for the same period in 2001, primarily due to a gain on asset sales in 2002 compared to a loss on asset sales in the 2001 period.

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SIX MONTHS ENDED JUNE 30, 2002 COMPARED WITH THE SIX MONTHS ENDED JUNE 30, 2001

REVENUE. Revenue decreased 4.6% to \$164.8 million for the six months ended June 30, 2002 from \$172.8 million for the six months ended June 30, 2001.

Offshore energy support revenue decreased 6.8% to \$87.4 million for the six months ended June 30, 2002 from \$93.7 million for the same period in 2001, primarily due to reduced revenue from the U.S. Gulf of Mexico offset in part by higher revenue from the West Africa operating region. Revenue from the U.S. Gulf of Mexico decreased during the six months ended June 30, 2002 compared to the same period in 2001 primarily due to reduced exploration and production activity in response to low natural gas prices and reduced demand. The increase in West Africa revenue was driven by higher utilization and an expanded vessel count as offshore exploration and production activity remained strong. The Company took advantage of the expanding West Africa market by (1) mobilizing three of its Gulf of Mexico supply boats and one Southeast Asia utility boat for redeployment to West Africa and (2) reactivating one anchor-handling tug from "held-for-sale" status to active status in West Africa during the first half of 2002.

Marine transportation revenue remains substantially the same at \$61.6 million for the six months ended June 30, 2002 as compared to \$62.1 million for the six months ended June 30, 2001.

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Towing revenue decreased by 6.8% to \$15.9 million for the six months ended June 30, 2002 from \$17.0 million for the six months ended June 30, 2001. The decrease in revenue was due to reduced vessel traffic in certain of the Company's ports, reflecting the slowdown in international trade. The Company expects that towing revenue in fiscal 2002 will decrease marginally compared to fiscal 2001 due to competition and a less than robust economy.

OPERATING EXPENSES. Operating expenses decreased 5.0% to \$92.5 million for the six months ended June 30, 2002 from \$97.4 million for the same period in 2001, primarily due to the change from spot trading to time charters for two tankers and the bareboat charter of a third tanker, and the sale of Sun State marine transportation assets in the first quarter. As a percentage of revenue, operating expenses decreased to 55.9% for the six months ended June 30, 2002 from 56.4% for the 2001 period.

OVERHEAD EXPENSES. Overhead expenses decreased 3.6% to \$18.7 million for the six months ended June 30, 2002 from \$19.4 million for the same period in 2001, primarily due to decreased professional fees and other overhead expense, offset in part by increases in salaries and benefits. The decrease in other overhead expenses is primarily due to lower charges for rent and other miscellaneous items as a result of the elimination of non-essential services and the consolidation of administrative functions. As a percentage of revenue, overhead expenses increased to 11.4% for the six months ended June 30, 2002 compared to 11.2% for the same period in 2001.

DEPRECIATION, AMORTIZATION AND DRYDOCKING. Depreciation, amortization and drydocking increased 15.5% to \$33.2 million for the six months ended June 30, 2002 from \$28.7 million for the six months ended June 30, 2001, primarily due to higher planned drydocking expenditures for offshore energy support vessels and tankers during the second half of 2001 compared to the second half of 2000. Since there were larger 2001 drydock expenditures, drydock amortization expense is also higher as drydock costs are amortized on a straight-line basis over the period to the next drydocking (generally 30 months).

NET INTEREST EXPENSE. Net interest expense decreased 12.9% to \$24.9 million for the six months ended June 30, 2002 from \$28.6 million for the same

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period in 2001. The decrease is primarily due to the combination of lower interest rates on variable rate debt and lower outstanding debt balances under our term loans and revolving credit facility.

OTHER INCOME, NET. Other income, net increased to \$1.2 million for the six months ended June 30, 2002 compared to the same period in 2001, primarily due to a larger gain on asset sales in 2002 compared to the same period in 2001.

Liquidity and Capital Resources

PROPOSED RECAPITALIZATION. The Company has entered into agreements for a series of proposed transactions that, if consummated, will substantially affect the liquidity and financial position of the Company.

On June 13, 2002, the Company announced the signing of a definitive agreement with DLJ Merchant Banking Partners III, L.P., a CSFB Private Equity fund, and affiliated entities, and Carlyle/Riverstone Global Energy and Power Fund I, L.P. and affiliated entities, for the private placement of 12.5 million shares of newly issued Seabulk common stock at a cash price of \$8.00 per share. The \$100 million investment would give the new investors approximately 51% of the pro forma, fully diluted common shares of the Company and majority representation on its Board of Directors. The investment is subject to shareholder approval, the refinancing of the Company's senior credit facility, certain regulatory approvals and satisfaction of other customary conditions.

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The new investors have also agreed to purchase, for \$8.00 per share, all of the Company's common stock and common stock purchase warrants beneficially owned by accounts managed by Loomis, Sayles & Co., L.P., an SEC-registered investment advisor. These accounts, which collectively represent approximately 48% of the Company's outstanding shares of common stock, currently hold approximately 5.2 million shares (excluding shares issuable upon exercise of warrants). Loomis has agreed to approve the investment transaction and the related amendments to the Company's Certificate of Incorporation, subject to approvals and certain other conditions customary for transactions of this type.

Taken together, the two transactions would give the new investors approximately 73% of the pro forma, fully diluted shares of the Company.

The Company also announced that it has signed a commitment letter with Fortis Capital Corp. and NIB Capital Bank N.V., as arrangers, for a \$180 million senior secured credit facility, which would replace the Company's existing facility. The new credit facility will consist of an \$80 million term loan and a \$100 million revolving credit facility and will have a five-year maturity.

The term loan portion of the new credit facility will be used to redeem the Company's outstanding 12 1/2% Senior Secured Notes due 2007. The revolving portion of the credit facility will be subject to semi-annual reductions commencing six months after closing. The new credit facility will be secured by first liens on substantially all of the Company's vessels (excluding vessels financed with U.S. Maritime Administration Title XI financing) and will be guaranteed by substantially all of the subsidiaries of the Company. The new credit facility will be subject to various financial covenants, including minimum adjusted tangible net worth requirements, minimum ratios of adjusted EBITDA to adjusted interest expense, and a maximum ratio of adjusted funded debt to adjusted EBITDA. The Company will also be required to maintain a minimum fair market value of collateralized assets of at least 175% of outstanding borrowings under the new credit facility, based upon appraisals which may be requested not more than once during any 12-month period.

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In connection with the closing of the new investment, the Company expects to redeem or repurchase all of its outstanding 12 1/2% Senior Secured Notes due 2007. In addition, and as a condition to the closing of the new investment, President and Chief Executive Officer Gerhard E. Kurz has agreed to a five-year extension of his employment contract with the Company.

Proceeds from the new equity investment and new bank credit facility, totaling approximately \$280 million before payment of fees and expenses of the transaction, will be used to repay the Company's existing bank debt, repurchase or redeem its outstanding Senior Notes, and provide growth capital for new initiatives.

It is contemplated that, in connection with the new investment, the new investors would enter into a stockholders agreement together with the Company and Mr. Kurz.

A shareholder vote will be required to approve the new share issuance under Nasdaq Stock Market rules and to approve the necessary amendments to the Company's Certificate of Incorporation. The amendments to the Certificate of Incorporation include several provisions intended, for certain periods following closing, to ensure independent director oversight of affiliated party transactions and to provide certain protective rights to minority shareholders. Certain regulatory approvals are also required. If the approvals are obtained, closing of the transaction is expected to take place by the end of the third quarter.

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CASH FLOWS. Net cash provided by operating activities totaled \$34.8 million for the six months ended June 30, 2002 compared to \$25.3 million for the same period in 2001. The significant increase in cash provided by operating activities is primarily a result of timely collection of customer invoices and collections of outstanding insurance claims. The average number of days outstanding for trade accounts receivable was 51 days at June 30, 2002 compared to 55 days at June 30, 2001. During the first half of 2002, the Company received approximately \$7.5 million in collections from our protection and indemnity insurance club for settlement of outstanding insurance claims.

Net cash used in investing activities was \$3.4 million for the six months ended June 30, 2002 compared to \$12.5 million for the same period in 2001. The reduction of cash used in investing activities is due primarily to a larger amount of proceeds from asset sales. In particular, on March 22, 2002, the Company closed on the sale of the towboat/barge assets of Sun State for \$3.8 million in cash.

Net cash used in financing activities for the six months ended June 30, 2002 was \$28.3 million compared to \$19.5 million for the same period in 2001. The increase in cash used in financing activities is attributable to larger payments on the term loans from the proceeds of asset sales.

RECENT EXPENDITURES AND FUTURE CASH REQUIREMENTS. During the first six months of 2002, the Company incurred \$14.3 million in capital expenditures for fleet improvements and drydocking costs. For the remainder of 2002, these capital expenditures are expected to aggregate \$10.7 million. Total 2002 expenditures of \$25.0 million will substantially cover all of the Company's drydocking requirements.

Long-term debt and the Senior Notes consisted of the following at June 30, 2002:

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| Facility ----- | 2002 Year-to-Date Payments ----- | Outstanding Balance as of June 30, 2002 ----- | Maturit ----- |
|---------------------------|---|--|------------------|
| Tranche A term loan | \$7.20 million | \$45.2 million | 2004 |
| Tranche B term loan | \$1.15 million | \$23.5 million | 2005 |
| Tranche C term loan | \$3.64 million | \$74.4 million | 2006 |
| Amendment fee note | \$4.79 million | \$0.00 million | 2002 |
| Senior Notes | \$0.00 million | \$83.0 million(1) | 2007 |
| Title XI Financing Bonds | \$3.55 million | \$238.1 million | 2005 to 2 |
| Other notes payable | \$1.68 million | \$26.3 million | 2003 to 2 |
| Revolving credit facility | \$4.28 million(2) | \$4.7 million | 2004 |

-
- (1) Outstanding balance is net of unamortized discount of \$14.4 million
(2) Represents net payments

The terms of the term loans and revolving credit facility are contained in the credit facility between the Company and the financial institutions. For general information concerning the term loans and revolving credit facility, see "Management's Discussion and Analysis of Financial Condition and Results of Operations, Liquidity and Capital Resources" in the 2001 Form 10-K.

In addition to the revolver balance, there are \$1.2 million in outstanding letters of credit as of June 30, 2002. As a result, the unused portion of the revolver was \$11.6 million at June 30, 2002. With the bank's approval, the Company can borrow an additional \$7.5 million on the revolver. However, there can be no assurance that the bank would approve such additional borrowings under the revolver.

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On March 15, 2002, a sixth amendment to the credit facility was executed, which is expected to allow the Company to maintain compliance with the financial covenants of its existing credit facility until it is replaced. The amendment reduced the working capital ratio for 2002 and for the life of the term loans and reduced the fixed charge ratio in 2002, with a gradual increase over the remaining life of the term loans.

On August 9, 2002, the Company executed the seventh amendment to the credit facility which waived the Company's non-compliance with its working capital covenants at December 31, 2001, which occurred as a result of the restatement discussed in Note 2.

The senior secured notes did not receive by April 15, 2000 the minimum credit rating from the rating agencies required under the note indenture. As a result, the interest rate on the notes increased from 12.5% to 13.5% effective December 15, 1999. The indenture requires that such additional interest be paid in the form of additional notes, which notes in the aggregate principal amount of \$485,388 were issued for the six months ended June 30, 2002. The Company is currently seeking the required ratings that would return the interest rate to 12.5%.

The Company is required to make deposits to a U.S. Maritime Administration Title XI reserve fund based on a percentage of net income attributable to the operations of the five double-hull tankers, as defined by the Title XI bond agreement. Cash held in a Title XI reserve fund is invested by the trustee of the fund, and any income earned thereon is either paid to the

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Company or retained in the reserve fund. Withdrawals from the Title XI reserve fund may be made for limited purposes, subject to prior approval from MARAD. To date, no deposits have been required. Additionally, according to the Title XI Reserve Fund and Financial Agreement, the Company is restricted from formally distributing excess cash from the operations of the five double-hull tankers until certain working capital ratios have been reached and maintained. Accordingly, at June 30, 2002, the Company had approximately \$12.6 million in cash and cash equivalents that are restricted for use from the operations of the five double-hull tankers and cannot be used to fund the Company's general working capital requirements without MARAD approval. Based on current projections, the Company expects to meet the working capital requirements under the Title XI Reserve Fund and Financial Agreement in the first quarter of 2003 and may then begin to formally distribute available excess cash.

The Company's capital requirements arise primarily from its need to service debt, fund working capital and maintain and improve its vessels. The Company's expected 2002 capital requirements for debt service, vessel maintenance and fleet improvements total approximately \$106.4 million. The Company expects that cash flow from operations and proceeds from the sale of non-strategic assets will continue to make significant contributions toward working capital and capital requirements. If operating cash flow is not adequate, the Company believes that the amounts available under the revolving credit facility will be sufficient to meet its capital requirements.

Management has taken new initiatives to improve profitability and liquidity during the first half of 2002. Due to the expanding market in West Africa, the Company has mobilized three of its Gulf of Mexico supply boats and one Southeast Asia utility boat for redeployment to West Africa. Additionally, the Company reactivated one anchor-handling tug from "held-for-sale" status and placed the boat into service in West Africa. At the end of December 2001, low-rate voyage charters for three of the Company's tankers expired and were replaced by two time charters and a ten-year bareboat charter at substantially higher rates. During the first half of 2002, the Company sold the marine transportation assets and marine terminal assets of Sun State Marine Services, Inc. and Lone Star Marine Services, Inc. for \$3.8 million and \$3.0 million, respectively (see Note 3). In addition, the Company sold 13 offshore energy support vessels during the first half of 2002 for an aggregate total of \$5.4 million.

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While management believes that the possibility exists that unforeseen events or business conditions, including deterioration in its markets, could prevent the Company from meeting targeted operating results and its financial covenants. If unforeseen events or business conditions prevent the Company from meeting targeted operating results, the Company has alternative plans including additional asset sales, additional reductions in operating expenses and deferral of capital expenditures, which should enable it to satisfy essential capital requirements. While the Company believes it could successfully complete alternative plans, if necessary, there can be no assurance that such alternatives would be available or that the Company would be successful in their implementation.

Inflation

The rate of inflation has not had a material impact on our operations. Moreover, if inflation remains at its recent levels, it is not expected to have a material impact on our operations for the foreseeable future.

Recent Accounting Pronouncements

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In July 2001, the Financial Accounting Standards Board issued SFAS No. 142, GOODWILL AND OTHER INTANGIBLE ASSETS, which establishes a new method of testing goodwill for impairment using a fair value-based approach and does not permit amortization of goodwill as previously required by Accounting Principles Board (APB) Opinion No. 17, INTANGIBLE ASSETS. An impairment loss would be recorded if the recorded goodwill exceeds its implied fair value. The Company adopted SFAS No. 142 effective January 1, 2002. As the Company does not have any recorded goodwill or other intangible assets, the adoption of this statement had no impact on its financial statements.

Also in July 2001, the FASB issued SFAS No. 143, ACCOUNTING FOR ASSET RETIREMENT OBLIGATIONS, which requires companies to record the fair value of a liability for an asset retirement obligation in the period in which it is incurred and a corresponding increase in the carrying amount of the related long-lived asset. SFAS No. 143 is effective for fiscal years beginning after June 15, 2002. The Company adopted SFAS No. 143 as of January 1, 2002 with no material financial statement impact.

In August 2001, the FASB issued SFAS No. 144, ACCOUNTING FOR THE IMPAIRMENT OR DISPOSAL OF LONG-LIVED ASSETS, which establishes one accounting model to be used for long-lived assets to be disposed of by sale and broadens the presentation of discontinued operations to include more disposal transactions. SFAS No. 144 supersedes SFAS No. 121, ACCOUNTING FOR THE IMPAIRMENT OF LONG-LIVED ASSETS TO BE DISPOSED OF, and the accounting and reporting provisions of APB Opinion No. 30. SFAS No. 144 is effective for fiscal years beginning after December 15, 2001. The Company adopted SFAS No. 144 as of January 1, 2002 with no material financial statement impact.

In April 2002, the FASB issued SFAS No. 145, RESCISSION OF FASB STATEMENTS NO. 4, 44 AND 64, AMENDMENT OF FASB STATEMENT NO. 14, AND TECHNICAL CORRECTIONS, which eliminates the requirement that gains and losses from the extinguishment of debt aggregated and, if material, classified as extraordinary item, net of the related income tax effect and eliminates an inconsistency between the accounting for sale-leaseback transactions and certain lease modifications that have economic effects that are similar to sale-leaseback transactions. Generally, SFAS No. 145 is effective for transactions occurring after May 15, 2002. The adoption of the standard will have no impact to the Company.

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In June 2002, the FASB issued SFAS No. 146, ACCOUNTING FOR COSTS ASSOCIATED WITH EXIT OR DISPOSAL ACTIVITIES, which addresses the financial accounting and reporting for costs associated with exit or disposal activities. SFAS No. 146 is effective for fiscal years beginning after December 31, 2002. The adoption of the standard will have no impact on the Company.

Item 3. Quantitative and Qualitative Disclosures of Market Risk

Information about the Company's exposure to market risk was disclosed in its 2001 Annual Report on Form 10-K, which was filed with the Securities and Exchange Commission on March 29, 2002. There have been no material quantitative or qualitative changes in market risk exposures since the date of that filing.

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PART II. OTHER INFORMATION

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Item 1. Legal Proceedings

For information concerning certain legal proceedings see Note 8 of the financial statements.

Item 2. Changes in Securities

None.

Item 3. Defaults Upon Senior Securities

None.

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

The Company held its annual meeting of shareholders on May 14, 2002. At the meeting, the shareholders elected the following individuals to three year terms as Class III members of the Board of Directors: Peter H. Cressy, Gerhard E. Kurz and Donald R. Shepherd.

The shareholders also approved amendment of the Company's Amended and Restated Equity Ownership Plan to increase the number of shares of the Company's common stock available for issuance under the Plan from 800,000 to 1,300,000.

The voting results of the election of directors, amendment of the Plan and the appointment of Ernst & Young LLP as independent public auditors for the year 2002 voted upon at the meeting are as follows:

Election of Directors:

| Nominee | Votes For | Authority Withheld |
|--------------------|-----------|--------------------|
| Peter H. Cressy | 8,959,155 | 139,413 |
| Gerhard E. Kurz | 7,389,324 | 1,709,244 |
| Donald R. Shepherd | 8,959,255 | 139,313 |

To approve amendment of the Company's Amended and Restated Equity Ownership Plan to increase the number of shares of the Company's common stock available for issuance under the Plan from 800,000 to 1,300,000:

| Votes For | Votes Against | Votes Abstaining |
|-----------|---------------|------------------|
| 8,481,468 | 608,410 | 8,690 |

To ratify the appointment of Ernst & Young LLP as the Company's independent public accountants for the year ending December 31, 2002:

| Votes For | Votes Against | Votes Abstaining |
|-----------|---------------|------------------|
| 9,079,139 | 19,429 | 0 |

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Item 5. Other Information

None.

Item 6. Exhibits and Reports on Form 8-K

Current Report on Form 8-K filed with the Securities and Exchange

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Commission on June 19, 2002.

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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
VP - Finance and Corporate Controller
(Principal Accounting Officer)
Date: August 14, 2002

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