MARITRANS INC /DE/
Form 10-Q
May 07, 2004

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

(Mark One)

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

For the Quarterly Period ended March 31, 2004

or

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

For the Transition Period from ________ to ________

Commission File Number 1-9063

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

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

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

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

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

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

Yes No

Indicate by checkmark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act).

Yes No

Common Stock $.01 par value, 8,369,907 shares outstanding as of April 30, 2004

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PART I: FINANCIAL INFORMATION
MARITRANS INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
($000)

	March 31, 2004 (Unaudited)	December 31, 2003 (Note 1)
ASSETS		
Current assets:		
Cash and cash equivalents	$ 4,451	$ 3,614
Trade accounts receivable	8,170	6,139
Other accounts receivable	2,522	3,140
Inventories	3,035	2,854
Deferred income tax benefit	9,074	9,074
Prepaid expenses	1,925	3,210
Total current assets	29,177	28,031
Vessels and equipment	376,775	364,134
Less accumulated depreciation	188,598	183,406
Net vessels and equipment	188,177	180,728
Note receivable	3,211	7,815
Goodwill	2,863	2,863
Other	873	1,092
Total assets	$ 224,301	$ 220,529
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Debt due within one year	$ 2,567	$ 2,533
Trade accounts payable	3,242	5,649
Accrued shipyard costs	5,393	4,315
Accrued wages and benefits	4,403	3,191
Other accrued liabilities	5,309	5,257
Total current liabilities	20,914	20,945
Long-term debt	58,905	57,560
Accrued shipyard costs	8,089	6,473
Other liabilities	3,361	3,229
Deferred income taxes	47,148	47,148
Stockholders’ equity:		

Common stock	136	136
Capital in excess of par value	82,686	82,527
Retained earnings	52,094	51,205
Unearned compensation	(688)	(614)
Less: Cost of shares held in treasury	(48,344)	(48,080)
Total stockholders’ equity	85,884	85,174
Total liabilities and stockholders’ equity	$ 224,301	$ 220,529

See notes to financial statements.

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

	Three Months Ended March 31, 2004	Three Months Ended March 31, 2003
Revenues	$ 34,661	$ 35,929
Costs and expenses:		
Operations expense	18,587	18,880
Maintenance expense	5,299	4,330
General and administrative	2,417	2,165
Depreciation and amortization	5,192	5,111
Total operating expense	31,495	30,486
Operating income	3,166	5,443
Interest expense	(405)	(608)
Other income	98	211
Income before income taxes	2,859	5,046
Income tax provision	1,072	1,867
Net income	$ 1,787	$ 3,179
Basic earnings per share	$ 0.22	$ 0.40
Diluted earnings per share	$ 0.21	$ 0.37
Dividends declared per share	$ 0.11	$ 0.11

See notes to financial statements.

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

	Three Months Ended March 31, 2004	Three Months Ended March 31, 2003
Cash flows from operating activities:		
Net income	$ 1,787	$ 3,179
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	5,192	5,111
Changes in receivables, inventories and prepaid expenses	(309)	388
Changes in current liabilities, other than debt	(65)	3,614
Non-current changes, net	1,788	1,318
Total adjustments to net income	6,606	10,431
Net cash provided by operating activities	8,393	13,610
Cash flows from investing activities:		
Collections on notes receivable	4,604	378
Purchase of vessels and equipment	(12,641)	(3,841)
Net cash used in investing activities	(8,037)	(3,463)
Cash flows from financing activities:		
Payment of long-term debt	(621)	(1,250)
Net borrowings (repayments) under credit facilities	2,000	(5,500)
Purchase of treasury stock	—	(344)
Dividends declared and paid	(898)	(900)
Net cash provided by (used in) financing activities	481	(7,994)
Net increase in cash and cash equivalents	837	2,153
Cash and cash equivalents at beginning of period	3,614	239
Cash and cash equivalents at end of period	$ 4,451	$ 2,392

See notes to financial statements

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MARITRANS INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2004

1. **Basis of Presentation/Organization**

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

In the opinion of management, the accompanying condensed consolidated financial statements of Maritrans Inc., which are unaudited (except for the Condensed Consolidated Balance Sheet as of December 31, 2003, which is derived from audited financial statements), include all adjustments (consisting of normal recurring accruals) necessary to present fairly the financial statements of the consolidated entities.

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

Pursuant to the rules and regulations of the Securities and Exchange Commission, the unaudited condensed consolidated financial statements do not include all of the information and notes normally included with annual financial statements prepared in accordance with GAAP. These financial statements should be read in conjunction with the consolidated historical financial statements and notes thereto included in the Company's Form 10-K for the period ended December 31, 2003.

Certain amounts in the prior year financial statements have been reclassified to conform to their current year presentation.

2. **Earnings per Common Share**

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

	Three Months Ended March 31,	
	2004	**2003**
	(000’s)	
Income available to common stockholders used in basic EPS	$ 1,787	$ 3,179
Weighted average number of common shares used in basic EPS	8,020	7,883
Effect of dilutive stock options and restricted shares	403	633
Weighted number of common shares and dilutive potential common stock used in diluted EPS	8,423	8,516

3. **Stock-Based Compensation**

In December 2002, the FASB issued Statement of Financial Accounting Standards No. 148, “*Accounting for Stock-Based Compensation Transition and Disclosure*” (“SFAS 148”). SFAS 148 amends Statement of Financial Accounting Standards No. 123, “*Accounting for Stock-Based Compensation*” (“SFAS 123”), to provide three alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation. In addition, SFAS 148 also amends the disclosure provisions of SFAS 123 and Accounting Principles Board ("APB") Opinion No. 28, "*Interim Financial Reporting*". SFAS 148 is effective for fiscal years ending after December 15, 2002, with certain disclosure requirements effective for interim periods beginning after December 15, 2002. The Company adopted the transition provision of SFAS 148 using the prospective method beginning January 1, 2003. The prospective method requires the Company to apply the fair value based method to all employee stock awards granted, modified or settled in its consolidated statements of income beginning on the date of adoption.

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For purposes of pro forma disclosures, the estimated fair value of the options is amortized to expense over the options vesting period. The Company’s pro forma information for the quarters ended March 31 is as follows:

	2004		2003	
	($000, except per share data)			
Net income as reported	$	1,787	$	3,179
Add: Stock based compensation included in net income, net of tax		15		7
Deduct: Total stock based compensation determined under the fair value based method, net of tax		25		30
Pro forma net income	$	1,777	$	3,156
Basic earnings per share as reported	$	0.22	$	0.40
Pro forma basic earnings per share	$	0.22	$	0.40
Diluted earnings per share as reported	$	0.21	$	0.37
Pro forma diluted earnings per share	$	0.21	$	0.37

4. **Income Taxes**

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

5 **Share Buyback Program**

On February 9, 1999, the Board of Directors authorized a share buyback program (the “Program”) for the acquisition of up to one million shares of the Company’s common stock. In February 2000 and again in February 2001, the Board of Directors authorized the acquisition of an additional one million shares in the Program. The total authorized shares under the Program is three million. As of March 31, 2004, 2,485,442 shares have been repurchased.

6. **Impact of Recent Accounting Pronouncements**

In September 2001, the rule making body of the AICPA issued an Exposure Draft on a Statement of Position, “*Accounting for Certain Costs and Activities Related to Property, Plant, and Equipment*” (the “SOP”). This group, referred to as AcSEC, approved the SOP in September 2003. The SOP was presented at a clearance meeting with the Financial Accounting Standards Board (“FASB”) in April 2004. At that time, the FASB voted unanimously not to clear the SOP. The FASB will reconsider the SOP during the 2005-2006 time frame.

If the existing SOP is issued, it would require the Company to modify its accounting policy for maintenance and repairs. Such costs would no longer be accrued in advance of performing the related maintenance and repairs; rather, the SOP requires these costs to be expensed as incurred, unless they meet the capitalization provisions of the SOP, in which case the costs will be depreciated over their estimated useful life. The Company has not yet quantified the impact of adopting the SOP on its financial statements; however, the Company's preliminary assessment is that the adoption of this pronouncement would decrease the shipyard accrual and increase stockholders' equity of the Company.

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7. **Retirement Plans**

Net periodic pension cost included the following components for the quarters ended March 31 is as follows:

	2004	2003
	($000)	
Service cost of current period	$ 157	$ 130
Interest cost on projected benefit obligation	463	459
Expected return on plan assets	(476)	(416)
Amortization of prior service cost	35	34
Net periodic pension cost	$ 179	$ 207

8. **Subsequent Events**

In December 1999, the Company sold vessels to Vane Line Bunkering, Inc. for a total of $14 million, $10 million in cash and $4 million in the form of a promissory note maturing in December 2009. On April 2, 2004, Vane paid the $2.7 million outstanding under the note.

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

Forward Looking Information

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

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

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

The following discussion should be read in conjunction with the unaudited financial statements and notes thereto included in Part I Item 1 of this Form 10-Q and the audited financial statements and notes thereto and Management’s Discussion and Analysis of Financial Condition and Results of Operations for the year ended December 31, 2003 contained in the Company’s Annual Report on Form 10-K for the year ended December 31, 2003.

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Results of Operations

Time Charter Equivalent ("TCE") is a commonly used industry measure where direct voyage costs are deducted from revenue. Maritrans enters into various types of charters, some of which involve the customer paying substantially all voyage costs, while other types of charters involve Maritrans paying some or substantially all of the voyage costs. The Company's management believes that the presentation of TCE revenue provides useful information regarding the Company's financial condition and results of operations because TCE revenue essentially nets the voyage costs and voyage revenue to yield a measure that is comparable between periods regardless of the types of contracts utilized. These voyage costs are included in the "Operations expense" line item on the Consolidated Statements of Income. TCE revenue is a non-GAAP financial measure and a reconciliation of TCE revenue to revenue, the most directly comparable GAAP measure, is set forth below.

Three Month Comparison

Revenues

TCE revenue for the quarter ended March 31, 2004 compared to the quarter ended March 31, 2003 is as follows:

	March 31, 2004	**March 31, 2003**
Voyage revenue	$ 34,661	$ 35,929
Voyage costs	6,008	7,085
Time Charter Equivalent	$ 28,653	$ 28,844
Vessel utilization	80.0%	89.5%
Available days	1,186	1,297
Revenue days	1,092	1,208

TCE revenue of $28.8 million for the quarter ended March 31, 2003 was consistent with TCE revenue for the quarter ended March 31, 2004 of $28.7 million. Vessel utilization decreased 9.5% from the prior period. The decrease in utilization had a negative impact on voyage revenue and was the result of vessel out of service time for maintenance in the quarter ended March 31, 2004. The OCEAN STATES was taken out of service early in September 2003 for her double-hull rebuild and is expected to return to service in the second quarter of 2004. Therefore she was out of service in the entire first quarter of 2004. There were no vessels out of service for double-hull rebuilding during the first quarter of 2003. Late in the fourth quarter of 2003, several design issues were identified on three of the double-hull rebuilt 250,000 barrel class barges that led the Company to remove these vessels from service and further inspect and re-analyze the original rebuild designs. Working with industry experts and the American Bureau of Shipping, the Company identified structural enhancements that would improve the long-term strength of these three barges. The Company acted in the first quarter of 2004 to make these repairs and enhancements and the vessels returned to service during the first quarter. Though the Company has fewer vessels scheduled for routine shipyard maintenance periods in 2004, the Company anticipates that utilization in 2004 will be similar to 2003 reflecting the Company's expectation of more out of service time for double-hull rebuilding in 2004. Barrels of cargo transported decreased from 45.5 million in the quarter ended March 31, 2003 to 42.9 million in the quarter ended March 31, 2004.

The majority of the Company's fleet was deployed in contract business in the first quarter of 2004. Contract rates remained strong and were comparable to 2003. Demand for the Company's services in its contract business during the current year increased compared to 2003. However, this was offset by a decline in volumes of cargo transported in the Northeast in the first quarter of 2004 as a result of cyclical dredging at customer refining facilities. The Company believes its 2004 contract rates will be similar to 2003.

The Company had limited exposure to the spot market in the first quarter of 2004 and had less exposure than in the same period in 2003. Spot market rates were significantly higher than in the same period of 2003 driven primarily by the impact of world and oil industry events. During the quarter there were an increased number of vessels transporting cargos from the Gulf of Mexico to the West Coast due to increased gasoline demand and refinery problems in that area. Low product inventories in the areas the Company serves also helped to increase spot rates. In addition, higher demand for transportation fuels in Europe in the quarter plus higher international transportation rates caused by the strong world economy decreased the amount of European imports and had a positive impact on spot rates.

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The Company expects exposure to the spot market to be higher in the remainder of 2004 than in 2003 due to fewer vessels on contract than in the same period of 2003. The Company believes spot rates will decrease following normal seasonal trends in the second and third quarters of 2004 and should strengthen in the fourth quarter of 2004. Imports from Europe are expected to increase which will have a negative effect on rates.

Operations expense

Voyage costs decreased from $7.1 million for the quarter ended March 31, 2003 to $6.0 million for the quarter ended March 31, 2004, a decrease of $1.1 million or 15 percent. Fuel costs decreased $1.3 million, or 27 percent, compared to 2003. Fuel consumption decreased as a result of the out of service time experienced in the first quarter. There were also more vessels on time charter in the quarter in which the customer pays for the voyage costs. The average price per gallon of fuel decreased approximately 7 percent compared to 2003. Port charges increased $0.3 million although much of those amounts were billed back to customers under contracts.

Operations expenses, excluding voyage costs discussed above, increased from $11.8 million for the quarter ended March 31, 2003 to $12.6 million for the quarter ended March 31, 2004, an increase of $0.8 million or 7 percent. Crew expenses increased $0.3 million due to seagoing salary and benefit increases as well as a higher level of training compared to the same period in 2003. Shoreside support expenses increased $0.2 million, primarily as a result of an increase in personnel and higher shoreside related insurance premiums. The cost of supplies for the vessels also increased $0.2 million from 2003.

Maintenance expense

Maintenance expenses increased $1.0 million, or 22 percent, from $4.3 million for the quarter ended March 31, 2003 to $5.3 million for the quarter ended March 31, 2004. Routine maintenance incurred during voyages and in port increased $0.3 million from 2003 to 2004. Expenses accrued for maintenance in shipyards increased $0.7 million from the quarter ended March 31, 2003 to the quarter ended March 31, 2004. The Company continuously reviews upcoming shipyard maintenance costs and adjusts the shipyard accrual rate to reflect the expected costs. Increases in regulatory and customer vetting requirements, which increases the scope and frequency of maintenance performed in the shipyard, result in higher shipyard costs.

Operating Income

As a result of the aforementioned changes in revenue and expen