

Edgar Filing: MARITRANS INC /DE/ - Form 10-Q

MARITRANS INC /DE/
Form 10-Q
August 14, 2002

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 June 30, 2002

or

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

For the Transition Period from _____ to _____

Commission File Number 1-9063

MARITRANS INC.

(Exact name of registrant as specified in its charter)

DELAWARE

51-0343903

(State or other jurisdiction of
incorporation or organization)

(Identification No.
I.R.S. Employer)

TWO HARBOUR PLACE
302 KNIGHTS RUN AVENUE
SUITE 1200
TAMPA, FLORIDA 33602

(Address of principal executive offices)
(Zip Code)

(813) 209-0600

Registrant's telephone number, including area code

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

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

Yes No

Edgar Filing: MARITRANS INC /DE/ - Form 10-Q

Common Stock \$.01 par value, 8,194,576 shares outstanding as of August 9,
2002

1

MARITRANS INC.
INDEX

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements (Unaudited)

Condensed Consolidated Balance Sheets - June 30, 2002 and December 31, 2001

Condensed Consolidated Statements of Income - Three months ended June 30, 2002
and 2001

Condensed Consolidated Statements of Income - Six months ended June 30, 2002
and 2001

Condensed Consolidated Statements of Cash Flows - Six months ended June 30, 2002
and 2001

Notes to Condensed Consolidated Financial Statements

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

Item 3. Qualitative and Quantitative Disclosures About Market Risk

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

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

Item 6. Exhibits and Reports on Form 8-K

SIGNATURES

2

PART I: FINANCIAL INFORMATION

MARITRANS INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
(\$000)

June 30,
2002

Decemb
200

Edgar Filing: MARITRANS INC /DE/ - Form 10-Q

	(Unaudited)	(Note
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 1,658	\$ 3
Trade accounts receivable	8,701	8
Other accounts receivable	4,016	3
Inventories	2,684	2
Deferred income tax benefit	7,258	7
Prepaid expenses	2,958	2
	-----	-----
Total current assets	27,275	28
Vessels and equipment	319,546	307
Less accumulated depreciation	153,116	144
	-----	-----
Net vessels and equipment	166,430	163
Note receivable	4,026	4
Goodwill	2,863	2
Other	1,273	1
	-----	-----
Total assets	\$ 201,867	\$ 200
	=====	=====
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Debt due within one year	\$ 5,250	\$ 10
Trade accounts payable	1,983	
Accrued shipyard costs	4,099	6
Accrued wages and benefits	3,001	2
Other accrued liabilities	5,431	2
	-----	-----
Total current liabilities	19,764	22
Long-term debt	59,500	32
Deferred shipyard costs	6,149	9
Other liabilities	3,715	3
Deferred income taxes	44,791	44
Stockholders' equity:		
Common stock	135	
Capital in excess of par value	81,034	79
Retained earnings	34,060	29
Unearned compensation	(1,100)	
Less: Cost of shares held in treasury	(46,181)	(20)
	-----	-----
Total stockholders' equity	67,948	88
	-----	-----
Total liabilities and stockholders' equity	\$ 201,867	\$ 200
	=====	=====

See notes to financial statements.

Edgar Filing: MARITRANS INC /DE/ - Form 10-Q

CONDENSED CONSOLIDATED STATEMENTS OF INCOME (Unaudited) (\$000, except per share amounts)

	April 1 to June 30, 2002	April 1 to June 30, 2001
Revenues	\$32,468	\$31,834
Costs and expenses:		
Operation expense	17,287	16,325
Maintenance expense	3,634	3,780
General and administrative	2,058	1,911
Depreciation and amortization	4,751	4,482
	-----	-----
Total operating expense	27,730	26,498
	-----	-----
Operating income	4,738	5,336
Interest expense	(555)	(1,392)
Other income	232	820
	-----	-----
Income before income taxes	4,415	4,764
Income tax provision	1,656	1,810
	-----	-----
Net income	\$ 2,759	\$ 2,954
	=====	=====
Basic earnings per share	\$ 0.35	\$ 0.29
Diluted earnings per share	\$ 0.32	\$ 0.28
Dividends declared per share	\$ 0.10	\$ 0.10

See notes to financial statements.

4

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

	January 1 to June 30, 2002	January 1 to June 30, 2001
Revenues	\$ 63,791	\$ 63,401
Costs and expenses:		
Operation expense	32,919	32,966
Maintenance expense	7,458	7,488
General and administrative	3,993	3,801

Edgar Filing: MARITRANS INC /DE/ - Form 10-Q

Depreciation and amortization	9,372	8,913
	-----	-----
Total operating expense	53,742	53,168
	-----	-----
Operating income	10,049	10,233
Interest expense	(1,361)	(2,987)
Other income, net	458	1,809
	-----	-----
Income before income taxes	9,146	9,055
Income tax provision	3,430	3,441
	-----	-----
Net income	\$ 5,716	\$ 5,614
	=====	=====
Basic earnings per share	\$ 0.70	\$ 0.55
Diluted earnings per share	\$ 0.64	\$ 0.52
Dividends declared per share	\$ 0.20	\$ 0.20

See notes to financial statements.

5

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

	Six M
	2002

Cash flows from operating activities:	
Net income	\$ 5,716
Adjustments to reconcile net income to net cash provided by (used in) operating activities:	
Depreciation and amortization	9,372
Stock compensation	76
Changes in receivables, inventories and prepaid expenses	(924)
Changes in current liabilities, other than debt	3,012
Non-current changes, net	(3,041)
(Gain) loss on sale of fixed assets	-

	8,495

Net cash provided by operating activities	14,211
Cash flows from investing activities:	
Release of cash and cash equivalents - restricted	-
Collections on notes receivable	520
Cash proceeds from sale of equipment	-
Purchase of vessels and equipment	(12,485)

Edgar Filing: MARITRANS INC /DE/ - Form 10-Q

Net cash provided by (used in) investing activities	(11,965)

Cash flows from financing activities:	
Borrowings under long term debt	9,000
Payment of long-term debt	(8,238)
Net borrowings under revolving credit facilities	21,000
Purchase of treasury stock	(25,147)
Proceeds from exercise of stock options	879
Dividends declared and paid	(1,640)

Net cash used in financing activities	(4,146)

Net decrease in cash and cash equivalents	(1,900)
Cash and cash equivalents at beginning of period	3,558

Cash and cash equivalents at end of period	\$ 1,658
	=====

See notes to financial statements

6

MARITRANS INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2002

1. Basis of Presentation/Organization

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

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

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

Pursuant to the rules and regulations of the Securities and Exchange Commission, the unaudited condensed consolidated financial statements do not include all of the information and notes normally included with annual financial statements prepared in accordance with generally

Edgar Filing: MARITRANS INC /DE/ - Form 10-Q

accepted accounting principles. These financial statements should be read in conjunction with the consolidated historical financial statements and notes thereto included in the Company's Form 10-K for the period ended December 31, 2001.

7

2. Earnings per Common Share

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

	Three Months Ended June 30,		Six Months E June 30,
	2002	2001	2002
	----	----	----
	(000's)		(000's)
Income available to common stockholders used in basic EPS	\$ 2,759	\$ 2,954	\$ 5,716
Weighted average number of common shares used in basic EPS	7,889	10,023	8,205
Effect of dilutive securities:			
Stock options and restricted shares	699	537	678
Weighted number of common shares and dilutive potential common stock used in diluted EPS	8,588	10,560	8,883

3. Income Taxes

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

4. Share Buyback Program

On February 9, 1999, the Board of Directors authorized a share buyback program for the acquisition of up to one million shares of the Company's common stock. In February 2000 and again in February 2001, the Board of Directors authorized the acquisition of an additional one million shares in the program. The total authorized shares under the program is three million. As of June 30, 2002, 2,398,700 shares have been repurchased under the plan and were financed from internally generated funds, leaving 601,300 shares authorized for repurchase.

5. Tender Offer

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

6. Impact of Recent Accounting Pronouncements

In June 2001, the Financial Accounting Standards Board issued Statements of Financial Accounting Standards No. 141, Business Combinations, and No. 142, Goodwill and Other Intangible Assets, effective for fiscal years beginning after December 15, 2001. Under the new rules, goodwill is no longer amortized but is subject to the annual impairment tests in accordance with the Statements. Other intangible assets continue to be amortized over their useful lives. The Company adopted the new rules on accounting for goodwill and other intangible assets on January 1, 2002. A reconciliation of net income for the three and six months ended June 30, 2001 had goodwill not been amortized pursuant to FASB No. 142 is as follows:

	Three Months Ended June 30, 2001 -----	Six Months Ended June 30, 2001 -----
	(\$000)	
Net income as reported	\$2,954	\$5,614
Elimination of goodwill amortization	70	140
	-----	-----
Adjusted net income	\$3,024	\$5,754
	=====	=====
Adjusted basic earnings per share	\$.30	\$.57
	=====	=====
Adjusted diluted earnings per share	\$.29	\$.53
	=====	=====

The Company has completed the first of the required impairment tests of goodwill as of January 1, 2002 and the Company has concluded that there is no impairment of goodwill recorded on the accompanying balance sheet.

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.

Edgar Filing: MARITRANS INC /DE/ - Form 10-Q

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

Although the Company believes that the expectations in the forward-looking statements are reasonable, the Company cannot guarantee future results, levels of activity, performance, growth, earnings per share or achievements. However, neither the Company nor any other person assumes responsibility for the accuracy and completeness of such statements.

10

The Company is under no duty to update any of the forward-looking statements after the date of this 10-Q to conform such statements to actual results.

The following discussion should be read in conjunction with the unaudited financial statements and notes thereto included in Part I Item 1 of this Form 10-Q and the audited financial statements and notes thereto and Management's Discussion and Analysis of Financial Condition and Results of Operations for the year ended December 31, 2001 contained in the Company's Annual Report on Form 10-K for the year ended December 31, 2001.

Results of Operations

Time Charter Equivalent ("TCE") is a commonly used industry measure where direct voyage costs are deducted from revenue. Maritrans enters into various types of charters, some of which involve the customer paying substantially all voyage costs, while other types of charters involve Maritrans paying some or substantially all of the voyage costs. The Company monitors the TCE basis because it essentially nets the voyage costs and voyage revenue to yield a measure that is comparable between periods regardless of the types of charters utilized. The Company began reporting on the TCE basis in the first quarter of 2002. For comparison purposes, the following table lists the TCE revenue for all quarters in 2002 and 2001:

Edgar Filing: MARITRANS INC /DE/ - Form 10-Q

	6/30/02	3/31/02	12/31/01	9/30/01	6/30/01	3/31/01
	-----	-----	-----	-----	-----	-----
Voyage revenue	\$32,468	\$31,323	\$31,716	\$28,276	\$31,826	\$31,558
Voyage costs	4,970	4,381	4,803	4,995	5,707	5,997
	-----	-----	-----	-----	-----	-----
Time Charter Equivalent	\$27,498	\$26,942	\$26,913	\$23,281	\$26,119	\$25,561
	=====	=====	=====	=====	=====	=====

Three Month Comparison

TCE revenue for the quarter ended June 30, 2002 compared to the quarter ended June 30, 2001 is as follows:

	6/30/02	6/30/01
	-----	-----
Voyage revenue	\$32,468	\$31,826
Voyage costs	4,970	5,707
	-----	-----
Time Charter Equivalent	\$27,498	\$26,119
	=====	=====

TCE revenue increased from \$26.1 million in the second quarter of 2002 to \$27.5 million, or 5 percent, over the comparable quarter in 2001. Vessel utilization, as measured by revenue days divided by calendar days available,

11

decreased from 87.1 percent in the second quarter of 2001 to 82.6 percent in the second quarter of 2002. Utilization decreased due to more vessel out of service time in the second quarter of 2002 compared to the second quarter of 2001 as a result of vessel maintenance and the OCEAN 250 rebuild. In late May 2002, the OCEAN 250 went out of service for her double hull rebuild and is scheduled to re-enter service in the fourth quarter 2002.

Term contract rates renewed with customers in 2001 were renewed at higher levels than those experienced in 2000 on long-term contracts. The increase in these rates resulted from a more stable supply/demand relationship in the Jones Act trade. These rate increases had a positive impact on the second quarter of 2002 revenue. Spot market rates were significantly lower in the second quarter of 2002 than the same period in 2001 due to high gasoline inventories and a decreased demand for jet fuel. The Company believes the spot market continues to be weak due to the decrease in demand for distillate, particularly jet fuel, and to an increase in the amount of gasoline imported into the United States, which results in less demand for the Company's services. The Company currently expects spot rates to continue to be depressed for the remainder of 2002. Barrels of cargo transported decreased from 48.9 million in the second quarter of 2001 to 43.3 million in the second quarter of 2002, due to decreases in demand and utilization during the quarter (as discussed above).

Voyage costs decreased from \$5.7 million in the second quarter of 2001 to \$5.0 million in the second quarter of 2002, a decrease of \$0.7 million or 12 percent. The primary decrease in voyage costs was in fuel costs, which resulted from the downturn in the economy in the later part of 2001. The average price per gallon of fuel decreased approximately 14 percent compared to the same quarter in 2001.

Edgar Filing: MARITRANS INC /DE/ - Form 10-Q

Operating expenses, excluding voyage costs discussed above, increased from \$10.6 million in the second quarter of 2001 to \$12.3 million in the second quarter of 2002, an increase of \$1.7 million or 16 percent. Insurance costs increased in the second quarter of 2002 compared to the second quarter of 2001 as the result of increased premiums charged by the insurance companies on policies renewed and to additional incidents in the current quarter. Charter hire expense increased in the second quarter of 2002 compared to the second quarter of 2001 as the result of the Company chartering in equipment from third parties to replace a tug/barge unit that was out of service for scheduled maintenance. In the second quarter of 2002, the Company engaged in a synthetic rope replacement program for most of the tugboats, resulting in an increase in supplies expense compared to the second quarter of 2001. Routine maintenance expenses incurred during voyages and in port have declined in the second quarter of 2002 compared to the second quarter of 2001, while expenditure levels for maintenance incurred in shipyards has increased. This reflects efforts being made to meet increased regulatory and customer vetting requirements. These expenses are expected to continue to increase and result in higher maintenance accruals in 2002 compared to 2001. Professional fees increased in the second quarter 2002 compared to the second quarter 2001 for consulting fees incurred to review port security and other security issues. Seagoing salary increases, which took effect early in 2002, increased crew costs in the second quarter of 2002 compared to the second quarter of 2001.

12

General and administrative fees increased due to increased professional fees including higher litigation costs in the second quarter 2002 compared to the second quarter 2001. These litigation costs arose from both immaterial litigation arising in the ordinary course of business and the proceedings described in Part II Item I of this Form 10-Q.

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

Interest expense in the second quarter of 2002 of \$0.6 million decreased compared to \$1.4 million in the second quarter of 2001 as a result of the refinancing of debt that took place in the fourth quarter of 2001. The new debt has a variable interest rate, which is lower than the fixed interest rate of 9.25 percent on most of the previously held debt and therefore resulted in decreased interest expense when compared to the second quarter of 2001.

Other income in the second quarter of 2002 was \$0.2 million compared to other income in the second quarter of 2001 of \$0.8 million. Other income is made up primarily of interest income. Interest income decreased due to a lower amount of cash invested in the second quarter of 2002 compared to the second quarter of 2001. The decrease in the average cash balance is primarily the result of the debt refinancing discussed above.

Net income for the quarter ended June 30, 2002 decreased compared to the quarter ended June 30, 2001 due to the aforementioned changes in revenue and expenses.

Six Month Comparison

TCE revenue for the six months ended June 30, 2002 compared to the six months ended June 30, 2001 is as follows:

	6/30/02	6/30/01
	-----	-----
Voyage revenue	\$63,791	\$63,384

Edgar Filing: MARITRANS INC /DE/ - Form 10-Q

Voyage costs	9,351	11,704
	-----	-----
Time Charter Equivalent	\$54,440	\$51,680
	=====	=====

TCE revenue increased from \$51.7 million in the six months ended June 30, 2001 to \$54.4 million in the six months ended June 30, 2002, or 5 percent. Vessel utilization, as measured by revenue days divided by calendar days available, decreased from 87.4 percent in the six months ended June 30, 2001 to 82.8 percent in the six months ended June 30, 2002. Utilization decreased due to more vessel out of service time in the six months ended June 30, 2002 compared to the six

13

months ended June 30, 2001 as a result of vessel maintenance and the OCEAN 250 rebuild. In late May 2002, the OCEAN 250 went out of service for her double hull rebuild and is scheduled to re-enter service in the fourth quarter 2002.

Term contract rates renewed with customers in 2001 were renewed at higher levels than those experienced in 2000 on long-term contracts. The increase in these rates resulted from a more stable supply/demand relationship in the Jones Act trade. These rate increases had a positive impact on 2002 revenue. Spot market rates were significantly lower in the six months ended June 30, 2002 than in the same period in 2001 due to high gasoline inventories and a decreased demand for jet fuel. In addition, warm weather in the Northeast reduced the demand for heating oil. The Company believes the spot market continues to be weak due to the decrease in demand for distillate, particularly jet fuel, and to an increase in the amount of gasoline imported into the United States, which results in less demand for the Company's services. The Company currently expects spot rates to continue to be depressed in the remainder of 2002. Barrels of cargo transported decreased from 95.1 million in the six months ended June 30, 2001 to 86.2 million in the six months ended June 30, 2002, due to decreases in demand and utilization (as discussed above).

Voyage costs decreased from \$11.7 million in the six months ended June 30, 2001 to \$9.4 million in the six months ended June 30, 2002, a decrease of \$2.3 million or 20 percent. The primary decrease in voyage costs was in fuel costs, which resulted from the downturn in the economy in the later part of 2001. The average price per gallon of fuel decreased approximately 28 percent compared to the same six months in 2001. Slightly offsetting the decrease in fuel costs, was an increase in port charges. During the first quarter of 2002, one of the Company's tankers made numerous trips through the Panama Canal, which resulted in increased port charges.

Operating expenses, excluding voyage costs discussed above, increased from \$21.3 million in the six months ended June 30, 2001 to \$23.6 million in the six month ended June 30, 2002, an increase of \$2.3 million or 11 percent. Insurance costs increased in the six months ended June 30, 2002 compared to the six months ended June 30, 2001 as the result of increased premiums charged by the insurance companies on policies renewed and to additional incidents in the current year. Charter hire expense increased in the six months ended June 30, 2002 compared to the six months ended June 30, 2001 as the result of the Company chartering in equipment in the second quarter of 2002 from third parties to replace a tug/barge that was out of service for scheduled maintenance. In the six months ended June 30, 2002, the Company engaged in a synthetic rope replacement program for most of the tugboats resulting in an increase in supplies expense compared to the same period in 2001. Routine maintenance expenses incurred during voyages and in port have declined in the six months ended June 30, 2002 compared to the six months ended June 30, 2001, while expenditure levels for maintenance

Edgar Filing: MARITRANS INC /DE/ - Form 10-Q

incurred in shipyards has increased. This reflects efforts being made to meet increased regulatory and customer vetting requirements. These expenses are expected to continue to increase and result in higher maintenance accruals in 2002 compared to 2001. Professional fees increased in the six months ended June 30, 2002 compared to the six months ended June 30, 2001 for consulting fees incurred to review port security and other security issues. Seagoing salary increases, which took effect

14

early in 2002, increased crew costs in the six months ended June 30, 2002 compared to the six month ended June 30, 2001.

General and administrative fees increased due to increased professional fees including higher litigation costs in the six months ended June 30, 2002 compared to the six months ended June 30, 2001. These litigation costs arose from both immaterial litigation arising in the ordinary course of business and the proceedings described in Part II Item I of this Form 10-Q.

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

Interest expense in the six months ended June 30, 2002 of \$1.4 million decreased compared to \$3.0 million in the six months ended June 30, 2001 as a result of the refinancing of debt that took place in the fourth quarter of 2001. The new debt has a variable interest rate, which is lower than the fixed interest rate of 9.25 percent on most of the previously held debt and therefore resulted in decreased interest expense when compared to the same period in 2001.

Other income in the six months ended June 30, 2002 was \$0.5 million compared to other income in the six months ended June 30, 2001 of \$1.8 million. Other income is made up primarily of interest income. Interest income decreased due to a lower amount of cash invested in the first half of 2002 compared to the first half of 2001. The decrease in the average cash balance is primarily the result of the debt refinancing discussed above.

Net income for the six months ended June 30, 2002 increased compared to the six months ended June 30, 2001 due to the aforementioned changes in revenue and expenses.

Liquidity and Capital Resources

For the six months ended June 30, 2002, net cash provided by operating activities was \$14.2 million. These funds, augmented by the Company's Credit Facility, were sufficient to meet debt service obligations and loan agreement restrictions, to make capital acquisitions and improvements and to allow Maritrans Inc. to pay a dividend in the current quarter. Management believes funds provided by operating activities, augmented by the Company's Credit Facility, described below, and investing activities, will be sufficient to finance operations, anticipated capital expenditures, lease payments and required debt repayments in the foreseeable future. While dividends have been made quarterly in each of the last three years, there can be no assurances that the dividend will continue. The ratio of total debt to capitalization is .49:1 at June 30, 2002.

15

On February 9, 1999, the Board of Directors authorized a share buyback program

Edgar Filing: MARITRANS INC /DE/ - Form 10-Q

for the acquisition of up to one million shares of the Company's common stock, which represented approximately 8 percent of the 12.1 million shares outstanding at that time. In February 2000 and again in February 2001, the Board of Directors authorized the acquisition of an additional one million shares in the program. The total authorized shares under the buyback program is three million. As of June 30, 2002, 2,398,700 shares had been purchased under the plan and financed by internally generated funds. The Company intends to hold the majority of the repurchased shares as treasury stock; although some shares will be used for employee compensation plans and others may be used for acquisition currency and/or other corporate purposes.

In August 2000, the Company awarded a contract to rebuild a third large single hull barge, the OCEAN CITIES, to a double hull configuration. In February 2002, this vessel was completed and put back into service as the MARITRANS 252. The total cost of the rebuild and other improvements made while in the shipyard was \$17.5 million. The Company financed this project from internally generated funds.

In September 2001, the Company awarded a contract to rebuild a fourth large single hull barge, the OCEAN 250, to a double hull configuration. The Company expects the total cost of the rebuild and other improvements will be approximately \$18.0 million. As of June 30, 2002, \$8.2 million has been paid to the shipyard contractor for prefabrication and other advance design work. The Company has financed, and expects to continue the financing of, this project from a combination of internally generated funds and borrowings under the Company's Credit Facility.

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

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

In July 2002, the Company received a \$0.5 million litigation award that will be recorded as other income in the third quarter. Also, in July, the Company entered into an agreement to sell property not currently used in operations, which would result in an after tax gain of approximately \$0.8 million. There are various closing conditions that need to be met before this sale is completed, therefore it will be recorded in other income in the period the transaction is consummated.

Debt Obligations and Borrowing Facility

In November 2001, the Company entered into an \$85 million credit and security agreement ("Credit Facility") with Citizens Bank (formerly Mellon Bank N.A.) and a syndicate of other financial institutions ("Lenders"). Pursuant to the terms of the Credit Facility, the Company can borrow up to \$45 million of term loans and up to \$40 million under a revolving credit facility. Interest is variable based on either the LIBOR rate or prime rate plus an applicable margin (as defined in the loan documents). Principal payments on the term loans are required on a quarterly basis. The Credit Facility expires in January 2007. The

Edgar Filing: MARITRANS INC /DE/ - Form 10-Q

Company has granted first preferred ship mortgages and a first security interest in certain vessels and other collateral to the Lenders as a guarantee of the debt. At June 30, 2002, there was \$43.8 million of term loans outstanding under the Credit Facility and \$21 million outstanding under the revolving Credit Facility.

Critical Accounting Policies

Accounting policies that management believes are most critical to the Company's financial condition and operating results pertain to the valuation of accounts receivable, notes receivable, goodwill and the accrual for maintenance and repairs (discussed below). In developing estimates management considered available information and used judgment.

Maintenance and Repairs

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

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

17

Impact of Recent Accounting Pronouncements

The Company adopted Statement of Financial Accounting Standards ("SFAS") No. 142 "Goodwill and Intangible Assets" as of January 1, 2002. SFAS No. 142 provides that goodwill and intangible assets with indefinite lives will not be amortized. As such, the Company did not record goodwill amortization for the three months and six months ended June 30, 2002. Rather, the Company performed an impairment test on its net carrying value as of January 1, 2002, its initial test, as required by SFAS No. 142. The Company was not required to record an impairment charge based on its test. The test required estimates, assumptions and judgments and results could be materially different if different estimates, assumptions and judgments had been used.

ITEM 3. QUALITATIVE AND QUANTITATIVE DISCLOSURES ABOUT MARKET RISK

The principal market risk to which the Company is exposed is a change in interest rates on debt instruments. The Company manages its exposure to changes in interest rate fluctuations by optimizing the use of fixed and variable rate debt. The table below presents principal cash flows and the related interest

Edgar Filing: MARITRANS INC /DE/ - Form 10-Q

rates by year of maturity. Variable interest rates disclosed fluctuate with the LIBOR and federal fund rates and represent the weighted average rate at June 30, 2002.

EXPECTED YEARS OF MATURITY

(Dollars in \$000's)

	2002*	2003	2004	2005	2006	2007
	----	----	----	----	----	----
Long-term debt, including current portion:						
Variable rate	2,500	5,750	7,500	11,000	13,500	24,500
Average interest rate (%)	3.99	3.99	3.99	3.99	3.99	3.99

*for the period July 1, 2002 to December 31, 2002.

18

Part II: OTHER INFORMATION

ITEM 1. Legal Proceedings

In 1996, Maritrans filed suit against the United States government under the Fifth Amendment to the U.S. Constitution for "taking" Maritrans' tank barges without just compensation. The Fifth Amendment specifically prohibits the United States government from taking private property for public use without just compensation. Maritrans asserts that its vessels were taken by Section 4115 of the Oil Pollution Act of 1990 ("OPA"), which prohibits all existing single-hull tank vessels from operating in U.S. waters under a retirement schedule that began January 1, 1995, and ends on January 1, 2015. This provision will force Maritrans to remove its single-hull barges from service commencing on January 1, 2005 or rebuild them, thus depriving the Company of their continued use for a significant portion of their remaining economic lives. In December 2001, the United States Court of Federal Claims ruled that the OPA double hull requirement did not constitute a taking of Maritrans' vessels. The Company is currently appealing the decision.

The Company is engaged in litigation instituted by a competitor to challenge its double-hull patent. Penn Maritime, Inc. v. Maritrans Inc., was filed in the U.S. District Court for the Eastern District of New York on September 6, 2001. The Plaintiff is seeking damages of \$3 million and an injunction restraining Maritrans from enforcing its patent, which if awarded, would have a material adverse effect on the Company. However, management believes the suit to be without merit. Maritrans is challenging the jurisdiction of the Court to hear the matter in New York and upon resolution of the jurisdictional issue, intends to seek affirmative damages from Penn Maritime, Inc. for infringement of its patent as well as other claims arising from the conduct of Penn Maritime, Inc.'s double hull program.

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

The Annual Meeting of Stockholders of the Company (the "Meeting") was

Edgar Filing: MARITRANS INC /DE/ - Form 10-Q

held on May 14, 2002. At the Meeting, the following nominees were re-elected as directors of the Company to serve until the Annual Meeting of Stockholders in 2005 and until their successors shall have been elected and qualified and received the votes set forth after their names below:

Name of Nominee	For	Against
Dr. Craig E. Dorman	7,152,840	289,980
Mr. Brent A. Stienecker	7,152,840	289,980

The terms of office of the following directors continued after the meeting in accordance with the Company's Certificate of Incorporation: Mr. Stephen A. Van Dyck, Dr. Robert E. Boni, Mr. Fred Haab and Mr. Robert J. Lichtenstein.

ITEM 6. Exhibits and Reports on Form 8-K

(a) Exhibits

- 99.1 - Certification of Chief Executive Officer
- 99.2 - Certification of Chief Financial Officer

(b) Reports on Form 8-K

On June 27, 2002, Maritrans Inc. filed a report on Form 8-K. In that Form 8-K under Item 5 "Other Events", the Company reported on the adoption of a new shareholder rights plan to be effective August 1, 2002.

SIGNATURES

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

MARITRANS INC.
(Registrant)

By: /s/ Walter T. Bromfield

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

Dated: August 14, 2002

By: /s/ Judith M. Cortina

Judith M. Cortina
Controller
(Principal Accounting Officer)

Dated: August 14, 2002

