

MARITRANS INC /DE/
Form 10-Q
November 06, 2006

Table of Contents

**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 September 30, 2006
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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer Non-accelerated filer

Indicate by checkmark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No

Indicate the number of shares outstanding of each of the issuer's classes of common stock as of the latest practicable date

Common Stock \$.01 par value, 12,029,060 shares outstanding as of November 1, 2006.

Table of Contents

**MARITRANS INC.
INDEX**

	Page	
<u>PART I.</u>	<u>FINANCIAL INFORMATION</u>	
Item 1.	Financial Statements (Unaudited)	
	<u>Consolidated Balance Sheets September 30, 2006 and December 31, 2005</u>	4
	<u>Consolidated Statements of Income Three months ended September 30, 2006 and 2005</u>	5
	<u>Consolidated Statements of Income Nine months ended September 30, 2006 and 2005</u>	6
	<u>Consolidated Statements of Cash Flows Nine months ended September 30, 2006 and 2005</u>	7
	<u>Notes to Consolidated Financial Statements</u>	8
<u>Item 2.</u>	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	21
<u>Item 3.</u>	<u>Qualitative and Quantitative Disclosures About Market Risk</u>	34
<u>Item 4.</u>	<u>Controls and Procedures</u>	34
<u>PART II.</u>	<u>OTHER INFORMATION</u>	
<u>Item 1A.</u>	<u>Risk Factors</u>	34
<u>Item 6.</u>	<u>Exhibits</u>	35
<u>SIGNATURES</u>		36
	<u>EXCESS BENEFIT PLAN - MERGER AGREEMENT</u>	
	<u>CERTIFICATION OF CHIEF EXECUTIVE OFFICER</u>	
	<u>CERTIFICATION OF CHIEF FINANCIAL OFFICER</u>	
	<u>CERTIFICATION OF CHIEF EXECUTIVE OFFICER PURSUANT TO 18 U.S.C. SECTION 1350</u>	
	<u>CERTIFICATION OF CHIEF FINANCIAL OFFICER PURSUANT TO 18 U.S.C. SECTION 1350</u>	

Table of Contents**PART I: FINANCIAL INFORMATION**

MARITRANS INC.
CONSOLIDATED BALANCE SHEETS
(\$000)

	September 30, 2006	December 31, 2005
	(Unaudited)	As Adjusted (Note 2)
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 42,782	\$ 58,794
Trade accounts receivable	17,238	20,144
Claims and other receivables	8,368	2,527
Inventories	5,832	5,114
Prepaid expenses	4,165	1,737
Total current assets	78,385	88,316
Vessels and equipment	490,191	455,767
Less accumulated depreciation	234,629	222,126
Net vessels and equipment	255,562	233,641
Deferred costs, net	19,913	21,405
Goodwill	2,863	2,863
Other	196	211
Total assets	\$ 356,919	\$ 346,436
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Debt due within one year	\$ 4,144	\$ 3,973
Trade accounts payable	10,855	9,323
Accrued wages and benefits	2,253	5,007
Accrued insurance costs	5,976	2,385
Current income taxes		2,488
Other accrued liabilities	6,472	2,108
Total current liabilities	29,700	25,284
Long-term debt	52,271	55,400
Long-term tax payable	4,414	5,714
Other liabilities	4,138	3,721
Deferred income taxes	43,481	42,321
Stockholders' equity		
Common stock	176	176
Capital in excess of par value	174,572	174,595
Retained earnings	101,778	93,487
Unearned compensation		(1,027)

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

Less: Cost of shares held in treasury	(53,611)	(53,235)
Total stockholders' equity	222,915	213,996
Total liabilities and stockholders' equity	\$ 356,919	\$ 346,436

See notes to financial statements.

Table of Contents

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

	Three Months	
	Ended September 30,	
	2006	2005
		As Adjusted (Note 2)
Revenues	\$ 49,161	\$ 44,930
Costs and expenses:		
Operations expense	33,062	23,233
Maintenance expense	2,072	1,804
General and administrative	2,231	2,208
Depreciation and amortization	8,209	8,963
Total operating expense	45,574	36,208
Operating income	3,587	8,722
Interest expense (net of capitalized interest of \$837 and \$124, respectively)	(43)	(838)
Interest income	680	114
Other income, net	58	59
Income before income taxes	4,282	8,057
Income tax provision	272	1,654
Net income	\$ 4,010	\$ 6,403
Basic earnings per share	\$ 0.34	\$ 0.76
Diluted earnings per share	\$ 0.33	\$ 0.74
Dividends declared per share	\$ 0.11	\$ 0.11
<i>See notes to financial statements</i>		

Table of Contents

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

	Nine Months	
	Ended September 30,	
	2006	2005
		As Adjusted (Note 2)
Revenues	\$ 140,448	\$ 134,800
Costs and expenses:		
Operations expense	89,132	70,518
Maintenance expense	5,894	4,623
General and administrative	6,823	10,017
Depreciation and amortization	25,267	27,179
Gain on involuntary conversion of assets	(2,868)	
Gain on sale of assets		(647)
Total operating expense	124,248	111,690
Operating income	16,200	23,110
Interest expense (net of capitalized interest of \$2,255 and \$643 respectively)	(425)	(2,259)
Interest income	2,119	281
Other income, net	197	4,151
Income before income taxes	18,091	25,283
Income tax provision	5,122	7,941
Net income	\$ 12,969	\$ 17,342
Basic earnings per share	\$ 1.09	\$ 2.07
Diluted earnings per share	\$ 1.08	\$ 2.03
Dividends declared per share	\$ 0.33	\$ 0.33

See notes to financial statements.

Table of Contents

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

	Nine Months	
	Ended September 30,	
	2006	2005
		As Adjusted (Note 2)
Cash flows from operating activities:		
Net income	\$ 12,969	\$ 17,342
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	15,355	17,162
Amortization of major maintenance costs	9,912	10,017
Expenditures for major maintenance costs	(9,499)	(8,314)
Deferred income taxes	1,160	(601)
Changes in long-term tax payable	(1,300)	(1,161)
Tax benefit on stock compensation		813
Stock compensation expense	818	673
Changes in receivables, inventories and prepaid expenses	(5,718)	(647)
Changes in current liabilities, other than debt	3,898	1,232
Changes in non-current assets and liabilities	436	1,855
Gain on involuntary conversion of assets	(2,868)	
Gain on sale of assets		(647)
Total adjustments to net income	12,194	20,382
Net cash provided by operating activities	25,163	37,724
Cash flows from investing activities:		
Proceeds from sale of marine vessels and equipment		647
Proceeds from involuntary conversion	4,000	
Purchase of marine vessels and equipment	(38,407)	(39,828)
Net cash used in investing activities	(34,407)	(39,181)
Cash flows from financing activities:		
Payment of long-term debt	(2,958)	(2,797)
Payments under revolving credit facility		(3,500)
Borrowings under revolving credit facility		5,000
Dividends declared and paid	(3,968)	(2,816)
Proceeds from exercise of stock option	45	34
Tax benefit on stock compensation	290	
Fees related to the issuance of stock	(177)	
Net cash used in financing activities	(6,768)	(4,079)
Net increase in cash and cash equivalents	(16,012)	(5,536)

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

Cash and cash equivalents at beginning of period	58,794	6,347
Cash and cash equivalents at end of period	\$ 42,782	\$ 811

See notes to financial statements

Table of Contents

**MARITRANS INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
September 30, 2006**

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 tankers used to provide marine transportation services, primarily along the Gulf and Atlantic Coasts of the United States.

In the opinion of management, the accompanying consolidated financial statements of Maritrans Inc., which are unaudited (except for the Consolidated Balance Sheet as of December 31, 2005, 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. Interim results are not necessarily indicative of results for a full year.

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.

Certain amounts from prior period financial statements have been reclassified to conform to their current year presentation. See Note 2, Accounting Change for Planned Major Maintenance Activities, for a detailed explanation of the change and the effect on the Company's financial statements.

Pursuant to the rules and regulations of the Securities and Exchange Commission, the unaudited 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, 2005.

2. Accounting Change for Planned Major Maintenance Activities

As of April 1, 2006, the Company changed its method of accounting for planned major maintenance activities from the accrual method to the deferral method. Previously, the Company made provisions for the cost of upcoming major periodic overhauls of vessels and equipment in advance of performing the related maintenance and repairs. The costs expected to be paid in the upcoming year were included in accrued shipyard costs as a current liability with the remainder classified as a long-term liability. Under the deferral method, costs actually incurred are amortized on a straight-line basis over the period beginning at the completion of the maintenance event and ending at the commencement of the next scheduled regulatory drydocking. Management believes the deferral method is the preferable method for accounting for planned major maintenance activities because (i) it better matches the expenses incurred with the revenues generated, (ii) the deferral method improves comparability with the Company's industry since the majority of the Company's competitors use this method and (iii) the deferral method best fits the Company's business circumstances because the Company has a small fleet of vessels, the expenditures for planned major maintenance activities are not continuous and the expenditures are not consistent across periods due to the timing of regulatory drydockings.

The Company recorded this change in accounting principle in accordance with SFAS No. 154, *Accounting Changes and Error Corrections*, which provides guidance on the accounting for and the reporting of

Table of Contents

accounting changes, including changes in accounting principles. SFAS 154 is effective for accounting changes made in fiscal years beginning after December 15, 2005. SFAS 154 requires retrospective application of accounting changes which is defined as the application of a different accounting principle to prior accounting periods as if that principle had always been used.

Pursuant to SFAS No. 154, the Company is required to apply the new accounting principle to all prior periods that the Company will report upon in the Annual Report on Form 10-K for the year ended December 31, 2006. Therefore, this accounting principle was retrospectively applied to the period of January 1, 2004 and to each period thereafter. The cumulative effect of the retrospective change to this accounting principle as of January 1, 2004 was a \$17.9 million increase in total assets, a \$2.7 million decrease in total liabilities and a \$20.6 million increase in retained earnings.

The following presents the effect of the retrospective application of this change in accounting principle on the Company's income statement and balance sheet as of and for the respective periods.

	Three Months Ended September 30, 2006 Pre Adoption	Effect of Change in Accounting Principle	Three Months Ended September 30, 2006 as Reported
Revenues	\$ 49,161	\$	\$ 49,161
Costs and expenses:			
Operation expense	33,062		33,062
Maintenance expense	5,457	(3,385)	2,072
General and administrative	2,231		2,231
Depreciation and amortization	5,154	3,055	8,209
Total operating expenses	45,904	(330)	45,574
Operating income	3,257	330	3,587
Interest expense	(43)		(43)
Interest income	680		680
Other income, net	58		58
Income before income taxes	3,952	330	4,282
Income tax provision	153	119	272
Net income	\$ 3,799	\$ 211	\$ 4,010
Basic earnings per share	\$ 0.32	\$ 0.02	\$ 0.34
Diluted earnings per share	\$ 0.31	\$ 0.02	\$ 0.33

Table of Contents

	Three Months Ended June 30, 2006 Pre Adoption	Effect of Change in Accounting Principle	Three Months Ended June 30, 2006 as Reported
Revenues	\$ 43,903	\$	\$ 43,903
Costs and expenses:			
Operation expense	27,094		27,094
Maintenance expense	4,931	(3,282)	1,649
General and administrative	2,287		2,287
Depreciation and amortization	4,958	3,098	8,056
Total operating expenses	39,270	(184)	39,086
Operating income	4,633	184	4,817
Interest expense	(108)		(108)
Interest income	761		761
Other income, net	63		63
Income before income taxes	5,349	184	5,533
Income tax provision	1,862	66	1,928
Net income	\$ 3,487	\$ 118	\$ 3,605
Basic earnings per share	\$ 0.29	\$ 0.01	\$ 0.30
Diluted earnings per share	\$ 0.29	\$ 0.01	\$ 0.30
	Three Months Ended March 31, 2006 as Reported	Effect of Change in Accounting Principle	Three Months Ended March 31, 2006 as Adjusted
Revenues	\$ 47,384	\$	\$ 47,384
Costs and expenses:			
Operation expense	28,976		28,976
Maintenance expense	5,277	(3,103)	2,174
General and administrative	2,305		2,305
Depreciation and amortization	5,244	3,759	9,003
Gain on involuntary conversion of assets	(2,868)		(2,868)
Total operating expenses	38,934	656	39,590
Operating income	8,450	(656)	7,794
Interest expense	(273)		(273)
Interest income	678		678
Other income, net	76		76
Income before income taxes	8,931	(656)	8,275
Income tax provision	3,157	(236)	2,921

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

Net income	\$	5,774	\$	(420)	\$	5,354
Basic earnings per share	\$	0.49	\$	(0.04)	\$	0.45
Diluted earnings per share	\$	0.48	\$	(0.03)	\$	0.45

9

Table of Contents

	Nine Months Ended September 30, 2006 Pre Adoption	Effect of Change in Accounting Principle	Nine Months Ended September 30, 2006 as Reported
Revenues	\$ 140,448	\$	\$ 140,448
Costs and expenses:			
Operation expense	89,132		89,132
Maintenance expense	15,664	(9,770)	5,894
General and administrative	6,823		6,823
Depreciation and amortization	15,355	9,912	25,267
Gain on involuntary conversion of assets	(2,868)		(2,868)
Total operating expenses	124,106	142	124,248
Operating income	16,342	(142)	16,200
Interest expense	(425)		(425)
Interest income	2,119		2,119
Other income, net	197		197
Income before income taxes	18,233	(142)	18,091
Income tax provision	5,173	(51)	5,122
Net income	\$ 13,060	\$ (91)	\$ 12,969
Basic earnings per share	\$ 1.10	\$ (0.01)	\$ 1.09
Diluted earnings per share	\$ 1.09	\$ (0.01)	\$ 1.08