MARITRANS INC /DE/
Form 10-Q
May 09, 2006

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

(Mark One)

þ **Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**
For the Quarterly Period ended March 31, 2006

or

o **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 þ No o

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 o Accelerated filer þ Non-accelerated filer o

Yes þ No o

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

Yes o No þ

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, 12,020,437 shares outstanding as of May 5, 2006.

MARITRANS INC.
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PART I: FINANCIAL INFORMATION

MARITRANS INC.
CONSOLIDATED BALANCE SHEETS
($000)

	March 31, 2006 (Unaudited)	December 31, 2005 (Note 1)
ASSETS		
Current assets:		
Cash and cash equivalents	$ 55,698	$ 58,794
Trade accounts receivable	21,334	20,144
Claims and other receivables	8,099	2,527
Inventories	5,012	5,114
Deferred income tax benefit	5,116	4,656
Prepaid expenses	2,820	3,239
Total current assets	98,079	94,474
Vessels and equipment	462,784	455,698
Less accumulated depreciation	224,518	222,126
Net vessels and equipment	238,266	233,572
Goodwill	2,863	2,863
Other	879	1,094
Total assets	$ 340,087	$ 332,003
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Debt due within one year	$ 4,029	$ 3,973
Trade accounts payable	5,265	9,323
Accrued shipyard costs	5,940	6,583
Accrued wages and benefits	3,822	5,007
Accrued insurance costs	6,843	2,385
Current income taxes	4,041	2,488
Other accrued liabilities	3,213	2,108
Total current liabilities	33,153	31,867
Long-term debt	54,372	55,400
Accrued shipyard costs	7,870	5,562
Long-term tax payable	5,714	5,714
Other liabilities	3,991	3,721
Deferred income taxes	36,640	35,756
Stockholders equity:		
Common stock	176	176
Capital in excess of par value	173,763	174,595
Retained earnings	77,925	73,474

Unearned compensation		(1,027)
Less: Cost of shares held in treasury	(53,517)	(53,235)
Total stockholders equity	198,347	193,983
Total liabilities and stockholders equity	$ 340,087	$ 332,003

See notes to financial statements.

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

	Three Months Ended March 31,	
	2006	**2005**
Revenues	$ 47,384	$ 43,540
Costs and expenses:		
Operations expense	28,976	22,043
Maintenance expense	5,277	4,925
General and administrative	2,305	5,386
Depreciation	5,244	5,496
Gain on involuntary conversion of assets	(2,868)	
Gain on sale of assets		(647)
Total operating expense	38,934	37,203
Operating income	8,450	6,337
Interest expense (net of capitalized interest of $634 and $302, respectively)	(273)	(688)
Interest income	678	52
Other income, net	76	55
Income before income taxes	8,931	5,756
Income tax provision	3,157	2,101
Net income	$ 5,774	$ 3,655
Basic earnings per share	$ 0.49	$ 0.44
Diluted earnings per share	$ 0.48	$ 0.43
Dividends declared per share	$ 0.11	$ 0.11

See notes to financial statements.

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

	Three Months Ended March 31,	
	2006	**2005**
Cash flows from operating activities:		
Net income	$ 5,774	$ 3,655
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	5,244	5,496
Deferred income taxes	424	(1,025)
Stock compensation expense	151	8
Changes in receivables, inventories and prepaid expenses	(6,241)	(74)
Changes in current liabilities, other than debt	987	3,751
Changes in non-current asset and liability	2,792	3,062
Gain on involuntary conversion	(2,868)	
Gain on sale of assets		(647)
Total adjustments to net income	489	10,571
Net cash provided by operating activities	6,263	14,226
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	(11,069)	(7,974)
Net cash used in investing activities	(7,069)	(7,327)
Cash flows from financing activities:		
Payment of long-term debt	(972)	(919)
Dividends declared and paid	(1,322)	(937)
Tax benefit on stock compensation	181	233
Fees related to the issuance of stock	(177)	
Net cash used in financing activities	(2,290)	(1,623)
Net (decrease)/increase in cash and cash equivalents	(3,096)	5,276
Cash and cash equivalents at beginning of period	58,794	6,347
Cash and cash equivalents at end of period	$ 55,698	$ 11,623

See notes to financial statements

MARITRANS INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 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 in the transportation of oil and related products, 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.

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. 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,	
	2006	2005
	(000 s)	
Income available to common stockholders	$ 5,774	$ 3,655
Weighted average number of common shares used in basic EPS	11,870	8,333
Effect of dilutive stock options and restricted shares	168	177
Weighted number of common shares and dilutive potential common stock used in diluted EPS	12,038	8,510

3. Stock-Based Compensation

Maritrans Inc. has a stock incentive plan (the Plan), under which non-employee directors, officers and other key employees may be granted stock, stock options and, in certain cases, receive cash under the Plan. Any outstanding options granted under the Plan are exercisable at a price not less than market value of the shares on

the date of grant. The maximum aggregate number of shares available for issuance under the Plan was 1,750,000. The Plan provided for the automatic grant, on a biannual basis, of non-qualified stock options to non-employee directors. The number of options non-employee directors received was equal to two multiplied by the aggregate number of shares distributed to such non-employee director under the Plan during the preceding

calendar year. In April 2003, the Plan expired. Therefore there were no remaining shares or options reserved for grant under the plan.
In May 1999, the Company adopted the Maritrans Inc. 1999 Directors and Key Employees Equity Compensation Plan (the 99 Plan), which provides non-employee directors, officers and other key employees with certain rights to acquire common stock and stock options. The aggregate number of shares available for issuance under the 99 Plan were 900,000 and the shares are issued from treasury stock. Options granted under the 99 Plan are exercisable at a price not less than market value of the shares on the date of grant. Options vest over a period from 1 to 5 years and the stock options have a contractual life of 7 to 10 years. The shares are subject to forfeiture under certain circumstances. Compensation expense, representing the fair value of the shares at the date of issuance, is amortized to general and administrative expense on a straight-line basis over the vesting period for grants that cliff vest at the end of the grant term. For grants that vest over a graded vesting period the Company uses the accelerated attribution method.

In April 2005, the Company adopted a new plan, the Maritrans Inc. 2005 Omnibus Equity Compensation Plan (2005 Plan), which also provides non-employee directors, officers and other key employees with certain rights to acquire common stock and stock options. The aggregate number of shares available for issuance under the 2005 Plan were 300,000 and the shares are issued from treasury stock. There are no outstanding options under the 2005 Plan. The shares are subject to forfeiture under certain circumstances. Compensation expense, representing the fair value of the shares at the date of issuance, is amortized to general and administrative expense on a straight-line basis over the vesting period for grants that cliff vest at the end of the grant term. For grants that vest over a graded vesting period the Company uses the accelerated attribution method.

The Company adopted the fair-value-based method of accounting for share-based payments effective January 1, 2003 using the prospective method described in Statement of Financial Accounting Standards (SFAS) No. 148, *Accounting for Stock-Based Compensation- Transition and Disclosure*. The Company has not granted stock options since 2003. If the Company were to issue options, the Company would use the Black-Scholes formula to estimate the value of stock options granted.

Effective January 1, 2006, the Company adopted SFAS No. 123 (revised 2004), *Share-Based Payment*, (SFAS 123(R)) which requires the measurement and recognition of compensation expense for all share-based payment awards made to employees and directors including employee stock options based on estimated fair values. SFAS 123(R) supersedes the Company s previous accounting under SFAS 123 for periods beginning in fiscal 2006. In March 2005, the Securities and Exchange Commission issued Staff Accounting Bulletin No. 107 (SAB 107) relating to SFAS 123(R). The Company has applied the provisions of SAB 107 in its adoption of SFAS 123(R).

The Company adopted SFAS 123(R) using the modified prospective transition method, which requires the application of the accounting standard as of January 1, 2006, the first day of the Company s fiscal 2006 year. The Company s consolidated financial statements as of and for the three months ended March 31, 2006 reflect the impact of SFAS 123(R). The effect of adopting SFAS 123(R) on net income and earnings per share was minimal compared to the prior year as the Company had already adopted the fair value recognition provisions of SFAS 123. Prior to the adoption of SFAS 123(R), the Company presented all tax benefits of deductions resulting from stock compensation as operating cash flows in the Statements of Cash Flows. In accordance with SFAS 123(R), tax benefit cash flows are presented as financing cash flows. In accordance with the modified prospective transition method, the Company s consolidated financial statements for prior periods have not been restated to reflect, and do not include, the impact of SFAS 123(R). Share-based compensation expense recorded for the three months ended March 31, 2006 and March 31, 2005 was $151,000 and $288,000, respectively and is included in general and administrative expenses.

The following table summarizes the stock option activity as of March 31, 2006:

	Number of Options	Exercise Price	Weighted Average Exercise Price
Outstanding at 12/31/05	229,928	$ 5.750-14.200	$ 8.79
Granted			
Exercised	18,686	11.450 - 12.330	11.74
Cancelled or forfeited			
Expired			
Outstanding at 3/31/06	211,242	$ 5.750-14.200	$ 8.53
Exercisable			
December 31, 2005	171,905	$ 5.750-14.200	$ 6.81
March 31, 2006	182,163	$ 5.750-14.200	$ 6.92

During the first quarter of 2006, 18,686 shares were issued upon the exercise of options. The exercise price of these options ranged from $11.45 to $12.33. During the first quarter of 2005, 92,794 shares were issued as a result of the exercise of options. The exercise price of these options ranged from $5.75 to $14.20. The Company issues treasury shares or new shares, depending on the plan from which the original grant was made, to satisfy option exercises. The Company can not estimate the amount of future option exercises that will be made.

The fair value of restricted stock is determined based on the closing price of the Company s common stock on the grant date. The weighted average grant-date fair value of nonvested shares granted during the three months ended March 31, 2006 was $22.55. The weighted average grant date fair value of nonvested shares granted during the three months ended March 31, 2005 was $19.70.

The following table summarizes the nonvested share activity as of March 31, 2006:

	Number of Shares	Weighted Average Grant Date Fair Value
Nonvested at December 31, 2005	142,900	$ 15.46
Granted	28,344	$ 22.55
Vested	25,128	$ 12.33
Cancelled or forfeited		
Nonvested at March 31, 2006	146,116	$ 17.37

As of March 31, 2006, there was $1.3 million of total unrecognized compensation costs related to nonvested share-based compensation arrangements that is expected to be recognized over the remaining vesting period which ranges from 1 to 4 years.

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.

The Company records reserves for income taxes based on the estimated amounts that it would likely have to pay based on its taxable net income. The Company periodically reviews its position based on the best available information and adjusts its income tax reserve accordingly.

5. Retirement Plans

Net periodic pension cost includes the following components:

	Three Months Ended March 31,	
	2006	2005
	($000s)	
Service cost of current period	$ 117	$ 168
Interest cost on projected benefit obligation	497	469
Expected return on plan assets	(502)	(509)
Amortization of prior service cost	35	35
Net periodic pension cost	$ 147	$ 163

6. Contingencies

In the ordinary course of its business, claims are filed against the Company for alleged damages in connection with its operations. Claims arising from the ordinary course of its business are marine-related claims, lawsuits and labor arbitrations. Marine-related claims are covered by insurance, subject to applicable policy deductibles that are not material as to any type of insurance coverage. Management is of the opinion that the ultimate outcome of such claims outstanding at March 31, 2006 will not have a material adverse effect on the consolidated financial statements.

The Company has been named in approximately 164 cases in which individuals alleged unspecified damages for exposure to asbestos and, in most of these cases, tobacco smoke. The status of many of these claims is uncertain. Although the Company believes these claims are without merit, it is impossible at this time to predict the final outcome of any such suit and therefore the Company has not recorded a loss contingency with respect to these claims. Management believes that any material liability would be adequately covered by applicable insurance and would not have a material adverse effect on the Company s financial condition and results of operations.

7. Impact of Recent Accounting Pronouncements

In May 2005, the Financial Accounting Standards Board (FASB) issued SFAS No. 154, *Accounting Changes and Error Correction*s, a replacement of APB Opinion No. 20, *Accounting Changes*, and SFAS No. 3, *Accounting Changes in Interim Financial Statements*, which provides guidance on the accounting for and the reporting of accounting changes, including changes in principle, accounting estimates and the reporting entity, as well as, corrections of errors in previously issued financial statements. SFAS 154 is effective for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005. This statement requires retrospective application of accounting changes where retrospective application is defined as the application of a different accounting principle to prior accounting periods as if that principle had always been used or as the adjustment of previously issued financial statements to reflect a change in the reporting entity.

8. Loss of Vessel

On January 18, 2006, the seagoing tug VALOUR, which is owned and operated by an indirect wholly owned subsidiary of Maritrans Inc., sank off of Cape Fear, North Carolina. Three crew members lost their lives in the incident. The VALOUR was towing the tank barge M192, a double-hulled petroleum barge that is also owned and operated by an indirect wholly owned subsidiary of Maritrans Inc. The cause of the sinking is undetermined and is under investigation. The VALOUR is covered by the Company s hull insurance policy and costs of the incident are covered by protection and indemnity insurance carried by the Company. Hull insurance proceeds of approximately $4.0 million were received in the first quarter of 2006, which exceed the carrying value of the tugboat of approximately $1.1 million, resulting in a $2.9 million gain recorded in the Company s Consolidated Statements of Income. Estimated insurance recoveries and costs related to protection and indemnity expenses are recorded as current assets and current liabilities, respectively, on the Company s Consolidated Balance Sheets.

9. Subsequent Event

In April 2006, the Company entered into a letter of intent and is close to finalizing a contract with Bender Shipbuilding & Repair Co., Inc. to build two new 8,000-horsepower tugboats. The two new tugboats are expected to be delivered in the fourth quarter of 2008 and the first quarter of 2009. The total cost for the two tugboats is expected to be $32 million. Once delivered, one of the tugboats will replace the tugboat VALOUR. The Company has entered into a charter to lease a substitute tugboat for the VALOUR until the new tugboat is delivered. The Company plans to pair the second newbuild tugboat with the M215, the final single-hulled barge slated for rebuilding.

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

Forward Looking Information

Certain statements in this Quarterly Report on Form 10-Q, are 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, 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. In some cases you can identify forward-looking statements by terminology such as may, seem, should, believe, future, potential, estimate, offer, oppor growth, expect, intend, plan, focus, through, strategy, provide, meet, allow, represent, comm result, seek, increase, establish, work, perform, make, continue, can, will, include, or the negat comparable terminology. These forward-looking statements inherently involve certain risks and uncertainties, although they are based on our current plans or assessments that are believed to be reasonable as of the date of this prospectus. The forward-looking statements are subject to a number of risks and uncertainties including those discussed herein under Risk Factors and include the following:

- demand for, or level of consumption of, oil and petroleum products;
- future spot market charter rates;
- ability to attract and retain experienced, qualified and skilled crewmembers;
- competition that could affect our market share and revenues;
- risks inherent in marine transportation;
- the cost and availability of insurance coverage;
- delays or cost overruns in the building of new vessels, the double-hulling of our remaining single-hull vessels and scheduled shipyard maintenance;
- decrease in demand for lightering services;
- environmental and regulatory conditions;
- reliance on a limited number of customers for revenue;
- the continuation of federal law restricting United States point-to-point maritime shipping to US vessels (the US Jones Act);
- asbestos related lawsuits;
- fluctuating fuel prices;
- high fixed costs;

capital expenditures required to operate and maintain a vessel may increase due to government regulations;

reliance on unionized labor;

federal laws covering our employees that may subject us to job-related claims; and

significant fluctuations of our stock price.

Given these uncertainties, you should not place undue reliance on these forward-looking statements. You should read this Quarterly Report on Form 10-Q completely and with the understanding that our actual future results may be materially different from what we expect. These forward-looking statements represent our estimates and assumptions only as of the date of this Quarterly Report on Form 10-Q. Except for our ongoing obligations to disclose material information under the federal securities laws, we are not obligated to update these forward-looking statements, even though our situation may change in the future. We qualify all of our forward-looking statements by these cautionary statements.

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, 2005 contained in our Annual Report on Form 10-K for the year ended December 31, 2005.

Overview

We serve the oil and petroleum industries by providing marine transportation services along the Gulf and Atlantic Coasts of the United States. We operate the largest OPA-compliant double-hulled fleet in our vessel size range and one of the largest fleets serving the US coastwise trade. As of March 31, 2006 we employed a fleet of 10 tugs, 11 barges and five tankers. One of these vessels, our tanker ALLEGIANCE, was redeployed to the transportation of non-petroleum cargo in 2005. In August 2005, we entered into a three-year time charter for the SEABROOK, a single-hull tanker owned and operated by Seabrook Carriers Inc., a wholly owned subsidiary of Fairfield-Maxwell Ltd. of New York. The vessel joined the fleet in November 2005 and was deployed in the clean products trade. Approximately 69% of our oil carrying fleet capacity is double-hulled. Our largest vessel has a capacity of approximately 410,000 barrels and our current oil carrying fleet capacity aggregates approximately 3.6 million barrels. For each of the last five years, we have transported over 173 million barrels of crude oil and petroleum products for our customers. We provide marine transportation services for refined petroleum and petroleum products, or clean oil, from refineries located primarily in Texas, Louisiana and Mississippi to distribution points along the Gulf and Atlantic Coasts, generally south of Cape Hatteras, North Carolina and particularly into Florida, and, to a lesser extent, to the West Coast. We are currently a leading transporter of clean oil into Florida. We also provide lightering services primarily to refineries on the Delaware River.

Many factors affect the number of barrels we transport and may affect our future results. Such factors include our vessel and fleet size and average trip lengths, the continuation of federal law restricting United States point-to-point maritime shipping to US vessels under the US Jones Act, domestic oil consumption, environmental laws and regulations, oil companies decisions as to the type and origination point of the crude oil that they process, changes in the amount of imported petroleum products, competition, labor and training costs, liability insurance costs and maintenance costs.

Demand for our services is driven primarily by the demand for refined petroleum products in Florida and the Northeastern US and crude oil in the Northeastern US. This demand is impacted by domestic consumption of petroleum products, US refining levels, product inventory levels and weather conditions in the Northeast. In addition, competition from foreign imports of refined petroleum products in our primary markets, as well as demand for refined petroleum product movements from the Gulf Coast refining system to the West Coast also impact demand for our services.

Since 1998, we have converted six of our original nine single-hulled barges to double-hull configurations utilizing our patented double-hulling process, which allows us to convert our single-hulled barges to double-hulls for significantly less cost and in approximately half the time required to build new vessels. In addition, we have entered into contracts to rebuild our seventh and eighth single-hull barges to double-hull configurations, including the insertion of a 38,000-barrel mid-body to each, at a total cost of approximately $30 million per barge. Our seventh barge, the M210, entered the shipyard in January 2006 to begin her rebuild.

On January 18, 2006, our seagoing tug, VALOUR, sank off the coast of Cape Fear, North Carolina. Three crew members lost their lives in the incident. At the time of the incident, the VALOUR was transporting the tank barge M192, a double-hull petroleum barge. Following an evaluation by the US Coast Guard, which concluded that there was no damage to the M192 and there was no loss of cargo from the tank barge, the vessel was cleared to return to service and discharge her cargo. When the barge M210 entered the shipyard for her double-hull rebuilding, her married tugboat COLUMBIA was available to work, and we have utilized this tugboat to temporarily fill the tugboat shortage caused by the loss of the VALOUR. We have entered into an agreement with Bender Shipbuilding & Repair Co Inc. to build two new tugboats. Prior to the delivery of the new tugboat, we will charter to lease a substitute tugboat. We continue to work with the US Coast Guard on the investigation into the cause of the incident. The VALOUR is covered by our hull insurance policy and costs of the incident are covered by protection and indemnity insurance carried by us. Hull insurance proceeds of approximately $4.0 million, which exceed the carrying value of the tugboat of approximately $1.1 million, were received in the first quarter of 2006. Estimated insurance recoveries and costs related to protection and indemnity expenses are recorded as current assets and current liabilities, respectively, on the our Consolidated Balance Sheets.

Definitions

In order to facilitate your understanding of the disclosure contained in the results of operations, the following are definitions of some commonly used industry terms used herein:

Available days refers to the number of days the fleet was not out of service for maintenance or other operational requirements and therefore was available to work.

Barge rebuild program refers to our program to rebuild our single-hull barges to a double-hull configuration to conform with OPA utilizing our patented process of computer assisted design and fabrication.

CAP refers to the Condition Assessment Program of ABS Consulting, a subsidiary of the American Bureau of Shipping, which evaluates a vessel s operation, machinery, maintenance and structure using the ABS Safe Hull Criteria. A CAP 1 rating indicates that a vessel meets the standards of a newly built vessel.

Cargo refers to the petroleum products transported by our vessels.

Clean oil refers to refined petroleum products.

Jones Act refers to the federal law restricting United States point-to-point maritime shipping to vessels built in the United States, owned by U.S. citizens and manned by U.S. crews.

Lightering refers to the process of off-loading crude oil or petroleum products from deeply laden inbound tankers into smaller tankers and/or barges.

OPA refers to the Oil Pollution Act of 1990 which is a federal law prohibiting the operation of singe-hull vessels in U.S. waters based on a retirement schedule that began on January 1, 1995 and ends on January 1, 2015.

Revenue days refers to the number of days the fleet was working for customers.

Spot market refers to a term describing a one-time, open-market transaction where transportation services are provided at current market rates.

Superbarge refers to a barge with a carrying capacity in excess of 150,000 barrels.
Term contract refers to a contract with a customer for specified services over a specified period for a specified price.
Time Charter Equivalent (TCE) refers to the measure where direct voyage costs are deducted from revenue. TCE yields a measure that is comparable regardless of the type of contract utilized.
Vessel utilization refers to the ratio, expressed as a percentage, of the days the fleet worked and is calculated as the number of revenue days divided by the number of calendar days, each in a specified time period.
Voyage costs refer to the expenses incurred for fuel and port charges.

Results of Operations

To supplement our financial statements prepared in accordance with GAAP, we use the financial measure of TCE. We enter into various types of charters, some of which involve the customer paying substantially all voyage costs, while other types of charters involve us paying some or substantially all of the voyage costs. We have presented TCE in this discussion to enhance an investor s overall understanding of the way management analyzes financial performance. Specifically, management uses the presentation of TCE revenue to allow for a more meaningful comparison of our 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. The presentation of this additional information is not meant to be considered in isolation or as a substitute for results prepared in accordance with GAAP.

Three Month Comparison

Revenues

TCE revenue for the quarter ended March 31, 2006 compared to the quarter ended March 31, 2005 was as follows:

	March 31, 2006	March 31, 2005
Voyage revenue	$ 47,384	$ 43,540
Voyage costs	11,664	8,929
Time Charter Equivalent	$ 35,720	$ 34,611
Vessel utilization	79.5%	81.8%
Available days	1,307	1,189
Revenue days	1,144	1,104

TCE revenue increased from $34.6 million for the quarter ended March 31, 2005 to $35.7 million for the quarter ended March 31, 2006, an increase of $1.1 million, or 3.2%, due primarily to an increase in revenue days, which reflected an additional vessel working in the fleet.

Rates

Voyag