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SEABULK INTERNATIONAL INC
Form 10-K
March 31, 2003

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K
ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF
THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2002

Commission File Number 0-28732

SEABULK INTERNATIONAL, INC.
(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

65-0966399
(I.R.S. Employer
Identification Number)

2200 Eller Drive, P.O. Box 13038
Ft. Lauderdale, Florida
(Address of principal executive offices)

33316
(Zip Code)

Registrant's telephone number, including area code: (954) 523-2200

Securities registered pursuant to Section 12(b) of the Act: None

Securities registered pursuant to Section 12(g) of the Act: Common Stock,
\$.01 par value

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 and (2) has been subject to such filing
requirements for the past 90 days. YES [X] NO ...

Indicate by check mark if disclosure of delinquent filers pursuant to Item
405 of Regulation S-K is not contained herein, and will not be contained, to the
best of registrant's knowledge, in definitive proxy or information statements
incorporated by reference in Part III of this Form 10-K or any amendment to this
Form 10-K. []

Indicate by check mark whether the registrant is an accelerated filer (as
defined in Rule 12b-2 of the Act). YES NO [X]

The aggregate market value of the voting stock held by non-affiliates of
the Registrant is approximately \$22,886,512 based upon the closing market price
on June 28, 2002 of \$7.84 per share of common stock on the NASDAQ National
Market as reported by the Wall Street Journal.

At March 1, 2003 there were 23,123,938 shares of the registrant's Common
Stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

DOCUMENT

WHERE INCORPORATED

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Proxy Statement for Annual Meeting
to be held May 16, 2003 (specified portions)

Part III

SEABULK INTERNATIONAL, INC.

2002 FORM 10-K

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PART I

ITEM 1. BUSINESS

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A. GENERAL

Seabulk International, Inc. is a competitor in each of its three main businesses - offshore energy support, marine transportation, and towing. Our offshore energy services fleet, numbering 129 vessels, is one of the world's largest and provides services to operators of offshore oil and gas exploration, development and production facilities in the Gulf of Mexico, the Arabian Gulf, offshore West Africa, South America and Southeast Asia. Our marine transportation fleet, numbering ten tankers, carries petroleum products, crude oil, and specialty chemicals in the U.S. domestic trade and includes five double-hull petroleum product and chemical carriers delivered in 1998 and 1999. Our towing fleet numbers 30 vessels and is one of the largest and most modern in the United States. We are the sole provider of commercial tug services at Port Canaveral, Florida; and a leading provider of those services in Port Everglades, Florida; Tampa, Florida; Mobile, Alabama; Lake Charles, Louisiana; and Port Arthur, Texas. We also provide offshore towing services primarily in the Gulf of Mexico. In March 2002, we sold the eight towboats and 14 barges in our marine transportation fleet, which was part of our Jacksonville, Florida-based Sun State Marine Services subsidiary. In March 2001, the Company changed its name from Hvide Marine Incorporated to Seabulk International, Inc. symbolizing the Company's transformation into new management and new ownership in 2000.

As used in this Report, the terms "we" and "the Company" refer to Seabulk International, Inc., a Delaware corporation, and its subsidiaries. Our principal executive offices are located at 2200 Eller Drive, P.O. Box 13038, Fort Lauderdale, Florida 33316, and our telephone number is (954) 523-2200.

B. PROJECTIONS AND OTHER FORWARD-LOOKING INFORMATION

This Report contains, and other communications by us may contain, projections or other "forward-looking" information. Forward-looking information includes all statements regarding our expected financial position, results of operations, cash flows, financing plans, business strategy, budgets, capital and other expenditures, competitive position, growth opportunities for existing or new services, management plans and objectives, and markets for securities. Like other businesses, we are subject to risks and other uncertainties that could cause our actual results to differ materially from any projections or that could cause other forward-looking information to prove incorrect. In addition to general economic and business risks, some of the specific risks to which our business is subject are:

- o declines in oil or gas prices, which tend to cause reductions in exploration, development and production activities and, in turn, reductions in the use of offshore energy support vessels and in the rates paid for their use;
- o increased construction of new offshore energy support vessels or construction of new Jones Act tankers by competitors, which can cause oversupply in the market and consequent reductions in the use of our offshore energy support vessels and Jones Act tankers and reductions in the rates paid for their use;
- o international political instability, which can lead to reductions in exploration, development and production activities, particularly in less developed regions;
- o fluctuations in weather, which can lead to declines in energy consumption

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and resulting declines in oil or gas prices;

- o changes in laws and regulations affecting the marine transportation industry, including any possible weakening of the Jones Act, which could result in increased competition from non-U.S. companies in our domestic offshore energy support, towing, and petroleum and chemical product transportation businesses;
- o changes in environmental laws and regulations, including any possible weakening of the U.S. Oil Pollution Act of 1990 ("OPA 90"), which could result in increased competition for the petroleum and chemical product transportation services provided by our modern double-hull fleet;
- o risks associated with potential oil spills or other environmental pollution incidents, which, although believed to be covered by liability insurance, may result in adverse market reaction and loss of business; and
- o terrorist attacks or hijackings, which could disable or destroy one of our vessels and result in significant loss of hire and revenue.

Additional information regarding these and other factors affecting our business appears elsewhere in this Report under "Business Risk Factors."

C. LIQUIDITY

At December 31, 2002, the Company had working capital of approximately \$26.3 million. Day rates and utilization for offshore vessels working in the Gulf of Mexico continued to be weak, a trend that began in September 2001. The slowdown in the domestic offshore market was offset in part by continued strength in the Company's international offshore operations, where day rates remained strong during the year and contributed to increased revenue in West Africa and the Middle East, and in part by the improved performance of the marine transportation segment. The increased revenue in the offshore business in West Africa and the Middle East was driven by exploration and production spending as major oil companies continued to proceed with oil exploration and development programs outside the U.S. Since the September 11, 2001 attacks, the subsequent war on terrorism and then commencement of the war in Iraq, the U.S. economy continues to be subject to pressure. As we enter 2003, the timing of a recovery in the domestic offshore segment is still not certain. However, the increases in oil and natural gas prices during the fourth quarter of 2002 and the early part of 2003 reinforce the potential for an upturn in domestic exploration and development activity in the latter half of 2003. We do expect earnings in 2003 from the offshore segment to improve compared to 2002. The Company also expects to benefit in 2003 from higher earnings in its marine transportation business as a result of a full year of higher time charter rates for certain tankers.

The Company's capital requirements arise primarily from its need to service debt, fund working capital and maintain and improve its vessels. The Company anticipates capital requirements for debt service, vessel maintenance and fleet improvements in 2003 to total approximately \$98 million and expects that cash flow from operations will continue to be a significant source of funds for its working capital and capital requirements.

The Company's credit agreement contains certain restrictive financial covenants that among other things requires minimum levels of EBITDA and tangible net worth. The Company is in compliance with such covenants at December 31, 2002 and expects to be in compliance through the balance of 2003 based on current financial projections. However, the Company's financial projections contain assumptions with respect to economic recovery beginning in the second quarter of 2003 in the underperforming U.S. Gulf offshore market. If

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the economic recovery does not occur or occurs later or to a lesser extent than the current forecast, the Company will need to reduce operating expenses to maintain compliance.

Management continues implementation of certain initiatives in an effort to improve profitability and liquidity. These initiatives include (1) selective acquisitions and charters of additional vessels, (2) repositioning certain vessels to take advantage of higher day rates, (3) selling unprofitable vessels, and (4) eliminating non-essential operating and overhead expenses. Management believes that its expense reduction initiatives will be sufficient to meet its financial covenants if the forecasted U.S. Gulf is other than expected.

Management recognizes that unforeseen events or business conditions, including unexpected deterioration in its markets, could prevent the Company from having sufficient liquidity to fund its operation or meeting targeted financial covenants.

If unforeseen events or business conditions prevent the Company from having sufficient liquidity to fund its operations, the Company has alternative sources including additional asset sales, and deferral of capital expenditures, which should enable it to satisfy essential capital requirements. If the Company does not meet its financial covenants, the Company would be required to seek an amendment or waiver to avoid default. While the Company believes it could successfully implement alternative plans, if necessary, there can be no assurance that such alternatives would be available or that the Company would be successful in their implementation.

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D. RECENT DEVELOPMENTS

In January 2003, the Company took delivery of the Seabulk Africa, a newbuild, state-of-the-art, 236-foot, 5500 horsepower UT-755L platform supply vessel. The vessel is expected to join the Company's West African fleet. The Seabulk Africa was acquired for cash of approximately \$16 million and will be financed in April 2003 by means of a sale leaseback arrangement with TransAmerica Capital for a lease term of 10 years, after which the Company will have an option to acquire the vessel.

The Company also took delivery of two newbuild vessels as bareboat charterer in February and March 2003. The Seabulk Badamyar is a 3800-horsepower anchor handling tug/supply vessel and Seabulk Nilar is a 3800-horsepower platform supply vessel. The Company is bareboat chartering the vessels from the shipbuilder, the Labroy Group in Indonesia, for deployment under time charters with a major international oil company in the Southeast Asia market. The term of each bareboat charter is three years with an option to purchase.

On March 7, 2003, the Company formed a joint venture company in Nigeria, named Modant Seabulk Nigeria Limited, with CTC International, Inc., a company owned by Nigerian interests. The Company will have a minority interest in the joint venture. The Company will sell five of its crewboats operating in Nigeria to a related joint venture with CTC International in April 2003. Modant Seabulk Nigeria Limited will operate crewboats in Nigeria. The Company will provide certain management services for the joint venture.

In March 2003, the Company signed a memorandum of agreement to purchase a Brazilian flag line handling vessel for operations in Brazil. The purchase, which is subject to certain conditions, is expected to close by July 2003. The Company is also in discussions with a Brazilian shipyard for the construction of a modern platform supply vessel for offshore energy support operations in

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Brazil. In anticipation of such operations, the Company is establishing a Brazilian subsidiary called Seabulk Offshore do Brazil S.A.

In January 2003, Larry D. Francois succeeded Andrew W. Brauninger as President of Seabulk Offshore. In February 2003 Mr. Francois was also named a corporate Senior Vice President of the Company. Also in March 2003, John Teague and Gerald Gray were hired as Senior Vice President -

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Seabulk Offshore Americas, and Senior Vice President - Seabulk Offshore International Operations, respectively.

On March 27, 2003, the Canaveral Port Authority served a sixty day notice of termination of the exclusive franchise to Port Canaveral Towing. Port Canaveral Towing intends to continue its operations on a non-exclusive basis at Port Canaveral.

E. FLEET OVERVIEW

The following table lists the types of vessels we owned, operated, or chartered as of March 1, 2003:

	VESSELS IN FLEET

OFFSHORE ENERGY SUPPORT	
Domestic Offshore Energy Support:	
Anchor Handling Tug Supply/Supply Boats	21
Crew/Utility Boats	27
Geophysical Boats	2

Total Domestic Offshore Energy Support	50
International Offshore Energy Support:	
Anchor Handling Tug Supply/Supply Boats	46
Anchor Handling Tugs/Tugs	11
Crew/Utility Boats	14
Other	8

Total International Offshore Energy Support.	79

Total Offshore Energy Support	129
MARINE TRANSPORTATION	
Petroleum/Chemical Product Carriers	10
TOWING	30

TOTAL VESSELS	169
	===

For financial information about our business segments and geographic areas

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of operation, see Note 12 to our consolidated financial statements.

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F. LINES OF BUSINESS

(1) OFFSHORE ENERGY SUPPORT (SEABULK OFFSHORE)

The offshore energy support business accounted for approximately 53% of our total revenue in 2002. Offshore energy support vessels are used primarily to transport materials, supplies, equipment, and personnel to drilling rigs and to support the construction, positioning and ongoing operation of oil and gas production platforms. These vessels are hired, or "chartered," by oil companies and others engaged in offshore exploration and production activities.

The market for these services is fundamentally driven by the offshore exploration, development, and production activities of oil and gas companies worldwide. The level of these activities depends primarily on the capital expenditures of oil and gas producers, which has traditionally been a function of current and anticipated oil and gas prices. Oil and gas prices are influenced by a variety of factors, including worldwide demand, production levels, inventory levels, governmental policies regarding exploration and development of reserves, and political factors in producing countries.

Offshore energy support services are provided primarily by the following types of vessels:

- o Supply boats (also called workboats) are generally steel-hull vessels of at least 150 feet in length. They serve exploration and production facilities and support offshore construction and maintenance activities and are differentiated from other vessel types by cargo flexibility and capacity. In addition to transporting deck cargo, such as drill pipe and heavy equipment, supply boats transport liquid mud, potable and drilling water, diesel fuel, dry bulk cement, and dry bulk mud. With their relatively large liquid mud and dry bulk cement capacity and large areas of open deck space, they are generally in greater demand than other types of support vessels for exploration and workover drilling activities.
- o Anchor handling vessels, which include anchor handling tug/supply vessels and some tugs, are more powerful than supply boats and are used to tow and position drilling rigs, production facilities and construction barges. Some of these vessels are specially equipped to assist tankers while they are loading from single-point buoy mooring systems, and others are used in place of supply boats when not performing towing and positioning functions.
- o Crewboats (also called crew/supply boats) are faster and smaller than supply boats and are used primarily to transport personnel and light cargo, including food and supplies, to and among production platforms, rigs and other offshore installations. These vessels are chartered together with supply boats to support drilling or construction operations or, separately, to serve the various requirements of offshore production platforms. Crewboats are typically aluminum-hull vessels and generally have longer useful lives than steel-hull supply boats. Crewboats also provide a cost-effective alternative to helicopter transportation services and can operate reliably in all but the most severe weather conditions. However, the Company's strategy is to focus on higher-value, higher-margin vessels and reduce the smaller, lower-margin crewboat business. As a result, the Company sold nine crewboats during 2002 and its strategy is to continue to de-emphasize its crewboat business in 2003.

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About 28% of our 2002 offshore revenue was derived from domestic operations under U.S.-flag vessel registration in the Gulf of Mexico, directed from offices in Lafayette, Louisiana. The balance was derived from international operations, including offshore West Africa, the Arabian Gulf and adjacent areas, and Southeast Asia. We also operate offshore energy support vessels in other regions, including Central and South America and, to a limited extent, Europe. Operations in the Arabian Gulf, Southeast Asia and adjacent areas are directed from facilities in Dubai, United Arab Emirates; operations in offshore

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West Africa and certain other international areas are directed from facilities in Nyon, Switzerland; and operations in Mexico are directed from our Lafayette, Louisiana facilities. We also have sales offices and/or maintenance and other facilities in many of the countries where our vessels operate.

The following table shows the deployment of our offshore energy support fleet at March 1, 2003.

LOCATION -----	VESSELS -----
Domestic Offshore Energy Support	
U.S. Gulf of Mexico	49
Other	1

	50
International Offshore Energy Support	
West Africa	40
Middle East	21
Southeast Asia	9
Other	9

Total International Offshore Energy Support	79

Total	129
	===

The average age of our offshore energy support vessels, based on the later of the date of construction or rebuilding, is approximately 17 years. About 25% of the offshore fleet is 10 or less years old, and approximately 53% is 20 or more years old. After a vessel has been in service for approximately 30 years, the costs of repair, vessel certification and maintenance may not be economically justifiable.

(2) MARINE TRANSPORTATION (SEABULK TANKERS)

We provide marine transportation services, principally for petroleum products and specialty chemicals, in the U.S. domestic or "coastwise" trade, a market largely insulated from direct international competition under the Jones Act. Marine transportation includes our ten tankers, five of which are double-hulled, and our inland tug-and-barge operation, Sun State Marine Services, which was sold in March 2002. This business accounted for approximately 37% of our total revenue in 2002.

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Petroleum Product Transportation. In the domestic energy transportation trade, oceangoing and inland-waterway vessels transport fuel and other petroleum products, primarily from refineries and storage facilities along the coast of the U.S. Gulf of Mexico to utilities, waterfront industrial facilities and distribution facilities along the U.S. Gulf of Mexico, the Atlantic and Pacific coasts and inland rivers, as well as transportation of petroleum crude and product between Alaska, the West Coast and Hawaii. The number of U.S.-flag oceangoing vessels eligible to participate in the U.S. domestic trade and capable of transporting fuel or petroleum products has steadily decreased since 1980, as vessels have reached the end of their useful lives and the cost of constructing vessels in the United States (a requirement for U.S. domestic trade participation) has substantially increased. The decline in the number of available vessels has tightened the supply/demand balance and put upward pressure on freight rates, thereby benefiting the Company and our fleet of relatively young tankers.

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At March 1, 2003 we operated the following petroleum product carriers:

NAME OF VESSEL -----	CAPACITY (IN BARRELS) -----	TONNAGE (IN D WEIGHT -----
Seabulk Trader	360,000	49
Seabulk Challenge	360,000	49
S/R Bristol Bay (formerly known as Ambrose Channel) ..	341,000	45
Seabulk Arctic	340,000	46
Seabulk Mariner	340,000	46
Seabulk Pride	340,000	46
Defender	260,000	36

Since January 2002, the S/R Bristol Bay has been operated by a major oil company on a bareboat charter.

The S/R Bristol Bay, Seabulk Arctic, Seabulk Mariner and Seabulk Pride are four of our five double-hull carriers. These vessels are the newest and most technologically advanced product carriers in the Jones Act market. The fifth double-hull, Brenton Reef, is listed below under chemical tankers.

We acquired the Defender in March 1998. Under OPA 90, this vessel cannot be used to transport petroleum and petroleum products in U.S. commerce after 2008. We acquired the Seabulk Challenge and Seabulk Trader in August 1996. Their OPA 90 retirement date is 2011. The four double-hulls have no retirement date under OPA 90.

At March 1, 2003, six of our petroleum product carriers were operating under time charters and one under a bareboat charter.

Chemical Transportation. In the U.S. domestic chemical transportation trade, vessels carry chemicals, primarily from chemical manufacturing plants and storage tank facilities along the coast of the U.S. Gulf of Mexico to industrial users in and around Atlantic and Pacific coast ports. The chemicals transported consist primarily of caustic soda, alcohol, chlorinated solvents, paraxylene, alkylates, toluene, ethylene glycol, methyl tertiary butyl ether (MTBE) and lubricating oils. Some of the chemicals transported must be carried in vessels with specially coated or stainless steel cargo tanks; many of them are very

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sensitive to contamination and require special cargo-handling equipment.

At March 1, 2003, we operated three vessels in the chemical trade:

NAME OF VESSEL -----	CAPACITY (IN BARRELS) -----	TONNAGE (IN DEAD- WEIGHT TONS OR "DWT") -----
Brenton Reef	341,000	45,000
Seabulk Magnachem	297,000	39,300
Seabulk America	297,000	46,300

Delivered in 1999, the Brenton Reef is a double-hull carrier in which we have a 100% equity interest. We operate the Seabulk Magnachem under a bareboat charter expiring in February 2007. We own a 67% equity interest in the Seabulk America; the remaining 33% interest is owned by Stolt Tankers (U.S.A.), Inc.

The Seabulk Magnachem and Seabulk America have full double bottoms (as distinct from double hulls). Double bottoms provide increased protection over single-hull vessels in the event of a grounding.

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Delivered in 1977, the Seabulk Magnachem is a CATUG (or catamaran tug) integrated tug and barge, or ITB, which has a higher level of dependability, propulsion efficiency and performance than an ordinary tug and barge. The Seabulk America's stainless steel tanks were constructed without internal structure, which greatly reduces cargo residue from transportation and results in less cargo degradation. Stainless steel tanks, unlike epoxy-coated tanks, also do not require periodic sandblasting and recoating, which the Company deems to be a competitive advantage.

All three chemical carriers have from 13 to 24 cargo segregations which are configured, strengthened, and coated to handle various sized parcels of a wide variety of industrial chemical and petroleum products, giving them the ability to handle a broader range of chemicals than chemical-capable product carriers. Many of the chemicals we transport are hazardous substances. Current voyages are generally conducted from the Houston and Corpus Christi, Texas, and Lake Charles, Louisiana areas to such ports as New York, Philadelphia, Baltimore, Wilmington, North Carolina, Charleston, South Carolina, Los Angeles, San Francisco, and Kalama, Washington. Our chemical carriers are also suitable for transporting other cargoes, including grain.

Pursuant to OPA 90, the Seabulk America and Seabulk Magnachem cannot be used to transport petroleum and petroleum products in U.S. commerce after 2015 and 2007, respectively. The Brenton Reef has no retirement date under OPA 90.

We believe that the total capacity of these carriers represents a substantial portion of the capacity of the domestic specialty chemical carrier fleet. The two chemical carriers, Seabulk America and Seabulk Magnachem, can also be used as petroleum tankers. They are among the last independently owned carriers scheduled to be retired under OPA 90.

We book cargoes either on a spot (movement-by-movement) or contract of affreightment basis. Approximately 75.0% of contracts for cargo are committed on a 12- to 30-month basis, with minimum and maximum cargo tonnage specified over the period at fixed or escalating rates per ton. We are often able to generate

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additional revenue by chartering cargo space on competitors' vessels.

Sun State. Our Sun State Marine Services subsidiary owned and operated a petroleum transportation fleet of eight towboats and 14 barges, all of which were primarily engaged in fuel transportation along the Atlantic intracoastal waterway and the St. Johns River in Florida.

The majority of Sun State's revenue was derived from a fuel transportation contract with Colonial Oil Industries (Colonial) (formerly known as Steuart Petroleum Company). In March 2002, Colonial acquired the eight tow boats and 14 barges, in which Sun State was responsible for handling all marine deliveries including the servicing of Colonial's paper mill, electric utility and vessel bunker customers. The remainder of Sun State's marine transportation revenue was derived from fuel transportation and towing contracts with other customers along with its marine maintenance, repair, drydocking and construction facility.

OTHER SERVICES

Sun State owned and operated a small vessel maintenance, repair and construction drydocking facility in Green Cove Springs, Florida, which was engaged principally in the maintenance and construction of tugs and barges, offshore support vessels, and other small vessels. The Sun State facility was shut down in August 2002 and equipment at the facility was sold for \$450,000.

The Company owned a 40-acre facility in Port Arthur, Texas that served as a regional office for our towing business, storage and supply base, and a facility for topside repairs of oceangoing vessels.

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This facility was sold in May 2002. The regional office for the Port Arthur towing business continues to operate from a portion of the facility on a rental basis.

(3) TOWING (SEABULK TOWING)

Towing is the smallest of our three businesses and represents about 10% of our total revenue in 2002. Our harbor tugs serve seven ports in Florida, Alabama, Texas and Louisiana, where they assist petroleum product carriers, barges, container ships and other cargo vessels in docking and undocking and in proceeding within the port areas and harbors. We also operate four tugs with offshore towing capabilities that conduct a variety of offshore towing services in the Gulf of Mexico, Guayanilla, Puerto Rico, and the Atlantic Ocean. Our tug fleet consists of 20 conventional tugs and 10 tractor tugs, including four Ship Docking Module(TM) tractor tugs, known as SDMs(TM). SDMs(TM) are innovative ship docking vessels, designed and patented by us, that are more maneuverable, efficient and flexible, and require fewer crew members than conventional harbor tugs.

In August 2002, we bareboat-chartered the tug Hollywood for a term of one year to Signet for operations in the port of Brownsville, Texas. The name was subsequently changed to Signet Enterprise. In December 2002, we bareboat-chartered the tug Condor to Moran Towing for operations in New York harbor for a term of one year. The Signet Enterprise formerly operated in Tampa and the Condor formerly operated in Mobile.

Harbor Tug Operations. In most U.S. ports, competition is unregulated. However, a few ports grant non-exclusive franchises to harbor tug operators. These include Port Manatee (near Tampa), Florida, where we are currently the sole franchisee, and Port Everglades, Florida, where we are currently the

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leading provider of tug services and one of two franchise holders. Port Canaveral is currently in settlement discussions with the Federal Maritime Commission to terminate its franchise system in which Seabulk Towing has been the sole franchise holder. Rates are unregulated in all ports that we serve, including the franchised ports. Generally, harbor tugs can be moved from port to port.

Port Everglades. Port Everglades is the second largest petroleum non-refining storage and distribution center in the United States, providing substantially all of the petroleum products for South Florida. Between 1958, when our tug operations commenced, and December 2001, we operated the franchise as the sole provider of docking services in the port. In August 2001, a second franchise was issued to a competitor by the port, who commenced operations in the port in December 2001. Seabulk Towing's franchise was amended in January 2002 to require Seabulk Towing to maintain a minimum of three tractor tugs in the port, rather than five tugs previously required. The franchise is not exclusive and expires in 2007. While we are regarded as a high-standards operator, there is no assurance the franchise will be renewed. As of March 1, 2003, we operated five tugs in Port Everglades.

Tampa. We expanded our harbor towing services to Tampa through the October 1997 acquisition of an established operator in the port. Because the port is comprised of three "sub-ports" (including Port Manatee) and a distant sea buoy, a greater number of tugs is required to be a competitive operator in Tampa than in other ports of similar size. On March 1, 2003, we operated eight tugs, including two tractor tugs and two SDMs(TM), in the port (including Port Manatee).

Port Canaveral. In Port Canaveral, we have been the sole franchise holder to provide harbor-docking services. We provide docking and undocking services for commercial cargo vessels serving central Florida and, on a very limited basis, for cruise ships, as well as for Navy vessels. The Canaveral Port Authority is currently in settlement discussions with the Federal Maritime Commission to terminate Seabulk Towing's franchise agreement as a result of a complaint filed against the Canaveral Port Authority by the Federal Maritime Commission, which means that Seabulk Towing may face competition

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at Port Canaveral. In March 2003, the Canaveral Port Authority served a sixty day notice of termination of the exclusive franchise to Port Canaveral Towing. Port Canaveral Towing intends to continue its operations on a non-exclusive basis at Port Canaveral. We operate four tugs in Port Canaveral.

Mobile. At this port, we provide docking and undocking services primarily to commercial cargo vessels, including vessels transporting coal and other bulk exports. We operate two tugs at this port. There is a competing provider.

Port Arthur and Lake Charles. At these ports we operate seven tugs. Currently, four of these tugs serve Port Arthur, Texas; two serve Lake Charles, Louisiana, and one serves both harbors. Each of these ports has a competing provider of harbor tug services.

Offshore Towing Operations. We currently have two tugs working in the offshore towing market that conduct a variety of offshore towing services in the Gulf of Mexico and the Atlantic Ocean. Demand for towing services depends on vessel traffic and oilfield activity, which is in turn generally dependent on local, national and international economic conditions, including the volume of world trade.

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G. CUSTOMERS AND CHARTER TERMS

We offer our offshore energy support services primarily to oil companies and large drilling companies. Consistent with industry practice, our U.S. Gulf of Mexico operations are conducted primarily in the "term" market pursuant to short-term (less than six months) charters at varying day rates. Generally, such short-term charters can be terminated either by us or our customers upon notice of five days or less. Charters in our international markets have terms ranging from a few days to several years.

The primary purchasers of petroleum product transportation services are utilities, oil companies, and large industrial consumers of fuel with waterfront facilities. The primary purchasers of chemical transportation services are chemical and oil companies. Both services are generally contracted for on the basis of short-term or long-term time charters, voyage charters, contracts of affreightment, or other transportation agreements tailored to the shipper's requirements. CITGO and TESORO each accounted for 7% of our 2002 revenue, and represented our largest customers in 2002.

Our towing services are offered to vessel owners and operators and their agents. Our rates for harbor towing services are set forth in published tariffs and may be modified at any time, subject to competitive factors. We also grant volume discounts to major users of harbor services. Offshore towing services are priced based upon the service required on an ad hoc basis.

H. COMPETITION

We operate in a highly competitive environment in all our operations. The principal competitive factors in each of the markets in which we operate are suitability and reliability of equipment, safety record, personnel, price, service, and reputation. Competitive factors in the offshore energy support segment also include operating conditions and intended vessel use (both of which determine the suitability of vessel type), shallow water versus deepwater needs, the complexity of maintaining logistical support and the cost of transferring equipment from one market to another. Our vessels that provide marine transportation services compete with both other vessel operators and, in some areas and markets, with alternative modes of transportation, such as pipelines, rail tank cars, and tank trucks. Moreover, the users of such services are placing increased emphasis on safety, the environment and quality, partly due to heightened liability for the cargo owner in addition to the vessel owner/operator under OPA 90. With respect to towing services, we compete with other providers of tug services in all but two of the ports in which we operate. A new competitor entered the harbor tug market in Tampa in 1999, and another in

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Port Everglades at the end of 2001. In March 2003 our franchise agreement with the Canaveral Port Authority was terminated and we may face tug competitors in Port Canaveral. Additional competitors may enter our markets in the future. While U.S. flag, coastwise-operated vessels are protected under the Jones Act and the Outer Continental Shelf Act, foreign-built, foreign-manned and foreign-owned vessels could be eligible to compete with our vessels operating in the domestic trade if the Jones Act were repealed or waived. There are no current indications that this will occur.

I. ENVIRONMENTAL AND OTHER REGULATIONS

Our operations are subject to significant federal, state, and local regulations, the principal provisions of which are described below.

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Environmental. Our operations are subject to federal, state and local laws and regulations relating to safety and health and environmental protection, including the generation, storage, handling, emission, transportation, and discharge of hazardous and non-hazardous materials. The recent trend in environmental legislation and regulation is generally toward stricter standards, and this trend will likely continue. We believe that our operations currently are in substantial compliance with applicable environmental regulations.

Governmental authorities have the power to enforce compliance with applicable regulations, and violators are subject to fines, injunction, and consent agreements. We do not expect that we will be required in the near future to make capital expenditures that are material to our financial condition or operations by reason of environmental laws and regulations; however, because such laws and regulations are frequently changed and may impose increasingly stricter requirements, we cannot predict the ultimate cost of complying with these laws and regulations.

OPA 90. OPA 90 established an extensive regulatory and liability regime for the protection of the environment from oil spills. OPA 90 affects owners and operators of facilities operating near navigable waters and owners and operators of vessels operating in United States waters, which include the navigable waters of the United States and the 200-mile exclusive economic zone of the United States. Although it applies in general to all vessels, for purposes of its liability limits and financial-responsibility and response-planning requirements, OPA 90 differentiates between tank vessels (which include our chemical and petroleum product carriers) and "other vessels" (which include our tugs and offshore energy support vessels).

Under OPA 90, owners and operators of facilities and owners, operators and certain charterers of vessels are "responsible parties" and are jointly, severally and strictly liable for removal costs and damages arising from oil spills relating to their facilities and vessels, unless the spill results solely from the act or omission of a third party, an act of God or an act of war. Damages are defined broadly to include (i) natural resources damages and the costs of remediation thereof; (ii) damages for injury to, or economic losses resulting from the destruction of, real and personal property; (iii) the net loss of taxes, royalties, rents, fees and profits by the U.S. government, a state or political subdivision thereof; (iv) lost profits or impairment of earning capacity due to property or natural resources damage; (v) the net costs of providing increased or additional public services necessitated by a spill response, such as protection from fire, safety or other hazards; and (vi) the loss of subsistence use of natural resources.

For facilities, the statutory liability of responsible parties is limited to \$350.0 million. For tank vessels, the statutory liability of responsible parties is limited to the greater of \$1,200 per gross ton or \$10.0 million (\$2.0 million for a vessel of 3,000 gross tons or less) per vessel; for any "other vessel," such liability is limited to the greater of \$600 per gross ton or \$500,000 per vessel. Such liability limits do not apply, however, to an incident caused by violation of federal safety, construction or operating regulations

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or by the responsible party's gross negligence or willful misconduct, or if the responsible party fails to report the incident or provide reasonable cooperation and assistance as required by a responsible official in connection with oil removal activities. Although we currently maintain maximum available pollution liability insurance, a catastrophic spill could result in liability in excess of available insurance coverage, resulting in a material adverse effect on our business.

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Under OPA 90, with certain limited exceptions, all newly built or converted oil tankers operating in United States waters must be built with double hulls, and existing single-hull, double-side or double-bottom vessels must be phased out at some point, depending upon their size, age and place of discharge, through 2015 unless retrofitted with double hulls. As a result of this phase-out requirement, as interpreted by the U.S. Coast Guard, our five single-hull chemical and petroleum product carriers will be required to cease transporting petroleum products by 2015 with the first vessel phased out in 2007 and the last vessel phased out in 2015.

OPA 90 expanded pre-existing financial responsibility requirements and requires vessel owners and operators to establish and maintain with the United States Coast Guard evidence of insurance or qualification as a self-insurer or other evidence of financial responsibility sufficient to meet their potential liabilities under OPA 90. Coast Guard regulations require evidence of financial responsibility demonstrated by insurance, surety bond, self-insurance, or guaranty. The regulations also implement the financial responsibility requirements of the Comprehensive Environmental Response, Compensation and Liability Act of 1980 ("CERCLA"), which imposes liability for discharges of hazardous substances such as chemicals, in an amount equal to \$300 per gross ton, thus increasing the overall amount of financial responsibility from \$1,200 to \$1,500 per gross ton. We have obtained "Certificates of Financial Responsibility" pursuant to the Coast Guard regulations for our product and chemical carriers through self-insurance and commercial insurance.

OPA 90 also amended the federal Water Pollution Control Act to require the owner or operator of certain facilities or the owner or operator of a tank vessel to prepare facility or vessel response plans and to contract with oil spill removal organizations to remove to the maximum extent practicable a worst-case discharge. We have complied with these requirements. As is customary, our oil spill response contracts are executory in nature and are not activated unless required. Once activated, our pollution liability insurance covers the cost of spill removal subject to overall coverage limitations and deductibles.

OPA 90 does not prevent individual states from imposing their own liability regimes with respect to oil pollution incidents occurring within their boundaries, and many states have enacted legislation providing for unlimited liability for oil spills. Some states have issued implementing regulations addressing oil spill liability, financial responsibility, and vessel and facility response planning requirements. We do not anticipate that such legislation or regulations will have any material impact on our operations.

In addition to OPA 90, the following are examples of environmental, safety and health laws that relate to our operations:

Water. The Federal Water Pollution Control Act ("FWPCA") or Clean Water Act ("CWA") imposes restrictions and strict controls on the discharge of pollutants into navigable waters. Such discharges are typically regulated by National Pollutant Discharge Elimination System ("NPDES") permits. The FWPCA provides for civil, criminal and administrative penalties for any unauthorized discharges and imposes substantial potential liability for the costs of removal, remediation, and damages. State laws for the control of water pollution also provide varying civil, criminal and administrative penalties and liabilities in the case of a discharge of petroleum, its derivatives, hazardous substances, wastes and pollutants into state waters. In addition, the Coastal Zone Management Act authorizes state

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implementation and development of programs of management measures for non-point source pollution to restore and protect coastal waters.

We manage our exposure to losses from potential discharges of pollutants through the use of well-maintained and well-managed facilities; well-maintained and well-equipped vessels; safety and environmental programs, including a maritime compliance program and our insurance program; and we believe we will be able to accommodate reasonably foreseeable environmental regulatory changes. There can be no assurance, however, that any new regulations or requirements or any discharge of pollutants by the Company will not have an adverse effect on us.

Solid Waste. Our operations may generate and result in the transportation, treatment and disposal of both hazardous and non-hazardous solid wastes that are subject to the requirements of the federal Resource Conservation and Recovery Act ("RCRA") and comparable state and local requirements. In August 1998, the EPA added four petroleum refining wastes to the list of RCRA hazardous wastes.

Remediation of Sun State. We have agreed to remediate certain portions of the former Sun State Marine facility in Green Cove Springs, Florida in cooperation with the state of Florida Department of Environmental Protection and the owner of the property. The Company has expended approximately \$100,000 to date in remediation expenses and anticipates approximately another \$100,000 to complete the project over the first nine months of 2003.

Clean Air Regulations. The federal Clean Air Act of 1970, as amended by the Clean Air Act Amendments of 1990, requires the EPA to promulgate standards applicable to the emission of volatile organic compounds and other air pollutants. Our vessels are subject to vapor control and recovery requirements when loading, unloading, ballasting, cleaning and conducting other operations in certain ports. Our chemical and petroleum product carriers are equipped with vapor control systems that satisfy these requirements. In addition, it is anticipated that the EPA will issue regulations addressing air emission requirements applicable to marine engines. Adoption of such standards could require modifications to existing marine diesel engines in some cases.

Coastwise Laws. A substantial portion of our operations is conducted in the U.S. domestic trade, which is governed by the coastwise laws of the United States (commonly referred to as the Jones Act). The coastwise laws reserve marine transportation (including harbor tug services) between points in the United States (including drilling rigs fixed to the ocean floor on the U.S. outer continental shelf, under the Outer Continental Shelf Act) to vessels built in and documented under the laws of the United States (U.S. flag) and owned and manned by U.S. citizens, with an exception to the ownership requirement with respect to foreign owned financial entities which own and lease U.S. vessels to U.S. citizen operators. Generally, a corporation is deemed a U.S. citizen so long as (i) it is organized under the laws of the U.S. or a state, (ii) each of its president or other chief executive officer and the chairman of its board of directors is a citizen, (iii) no more than a minority of the number of its directors necessary to constitute a quorum for the transaction of business are non-citizens, and (iv) 75.0% of the interest and voting power in the corporation is held by U.S. citizens. Because we could lose the privilege of operating our vessels in the U.S. domestic trade if non-citizens were to own or control in excess of 25.0% of our outstanding capital stock, our Certificate of Incorporation contains restrictions concerning foreign ownership and control of our stock.

Under the citizenship provisions of the U.S. Merchant Marine Act of 1920 (Jones Act) and the Shipping Act of 1916, the Company would lose the privilege of engaging in U.S. coastwise trade if more than 25% of the Company's outstanding stock was owned by non-U.S. citizens. The Company has a dual stock certificate system to prevent non-U.S. citizens from owning more than 25% of its

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common stock. In addition, the Company's charter provides the Company with certain remedies with respect to any

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transfer or purported transfer of shares of the Company's common stock that would result in the ownership by non-U.S. citizens of more than 25% of its common stock.

The laws of the United States provide that once a vessel is registered under a foreign flag it cannot thereafter engage in the U.S. coastwise trade. Therefore, the Company's non-U.S. flag vessels must continue to be operated abroad, and if the Company was not able to secure charters or contracts abroad for them, and work would otherwise have been available for them in the United States, its operations would be adversely affected. Of the total vessels owned or operated by the Company at March 1, 2003, 78 were registered under foreign flags and 91 were registered under the U.S. flag.

The Company's offshore vessels are subject to international safety and classification standards. U.S. flag tanker and offshore support vessels operating in the U.S. are required to undergo periodic inspections and to be recertified under drydock examination at least every five years. Vessels registered under flags other than the United States are subject to similar regulations as governed by the laws of the applicable jurisdictions.

There have been repeated efforts aimed to repeal or significantly change the Jones Act. Although we believe it is unlikely that the Jones Act will be substantially modified or repealed, there can be no assurance that Congress will not substantially modify or repeal it or that Coast Guard interpretations of it may weaken it. Such changes could have a material adverse effect on our operations and financial condition.

Occupational Health Regulations. Our shoreside facilities and, as of 2001, our U.S.-based vessels, are subject to occupational safety and health regulations issued by the U.S. Occupational Safety and Health Administration (OSHA) and comparable state programs. Such regulations currently require us to maintain a workplace free of recognized hazards, observe safety and health regulations, maintain records and keep employees informed of safety and health practices and duties. Our vessel operations are also subject to occupational safety and health regulations issued by the U.S. Coast Guard and, to an extent, OSHA. Such regulations currently require us to perform monitoring, medical testing and record keeping with respect to mariners engaged in the handling of the various cargoes transported by our chemical and petroleum product carriers.

Vessel Condition. Our chemical and petroleum product carriers, offshore energy support vessels, and certain of our tugs are subject to periodic inspection and survey by, and drydocking and maintenance requirements of, the Coast Guard and/or the American Bureau of Shipping and other marine classification societies.

We believe we are currently in compliance in all material respects with the environmental and other laws and regulations, including health and safety requirements, to which our operations are subject and are unaware of any pending or threatened litigation or other judicial, administrative or arbitration proceedings against us occasioned by any alleged non-compliance with such laws or regulations. We are currently conducting remediation of certain portions of the former Sun State Marine facility in cooperation with the State of Florida Department of Environmental Protection. The risks of substantial costs, liabilities, and penalties for environmental accidents and compliance are, however, inherent in marine operations, and there can be no assurance that

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significant costs, liabilities or penalties for will not be incurred by or imposed on us in the future.

International Laws and Regulations. Our vessels that operate internationally are subject to various international conventions, including certain safety, environmental and construction standards. Among the more significant of the conventions applicable to the fleet are: (i) the International Convention for the Prevention of Pollution from Ships, 1973, 1978 Protocol, (ii) the International Convention on the

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Safety of Life at Sea, 1978 Protocol, including the International Management Code for the Safe Operation of Ships and for Pollution Prevention, which went into effect for tank vessels on July 1, 1998, and (iii) the International Convention on Standards of Training, Certification and Watchkeeping for Seafarers, 1978, as amended in 1995. These conventions govern oil spills and other matters of environmental protection, worker health and safety, and the manning, construction and operation of vessels. Generally, surveys and inspections are performed by internationally recognized classification societies. The vessels that operate internationally are registered primarily in the Marshall Islands, Liberia and Panama.

Although we believe we are in substantial compliance with all applicable requirements, the risks of incurring substantial compliance costs and liabilities and penalties for noncompliance are inherent in offshore energy support operations and there can be no assurance that significant costs, liabilities and penalties will not be incurred by us or imposed on us in the future.

J. INSURANCE

Our marine transportation operations are subject to the normal hazards associated with operating vessels carrying large volumes of cargo and rendering services in a marine environment. These hazards include the risk of loss of or damage to our vessels, damage to third parties as a result of collision, loss, or contamination of cargo, personal injury of employees and third parties, and pollution and other environmental damages. We maintain insurance coverage against these hazards with certain deductibles for which we are responsible. Risk of loss of or damage to our vessels is insured through hull and machinery insurance policies in amounts that approximate fair market value, also subject to certain deductibles. Vessel operating liabilities, such as collision, cargo, environmental, and personal injury, are insured primarily through our participation in a mutual insurance association, the Steamship Mutual Underwriting Association (Bermuda) Limited. Because we maintain mutual insurance, we are subject to additional premiums for prior years due to funding requirements and coverage shortfalls in the event claims exceed available funds, reserves and reinsurance, and to future premium increases based on prior underwriting loss experience. Potential claims liabilities are recorded as insurance expense reserves when they become probable and can be reasonably estimated.

The Company carries workers' compensation, maritime employer's liability, general liability and other insurance customary in the industry. The Company also carries War Risk insurance for all of its vessels for both hull and machinery damage to the vessels and protection and indemnity liability. This insurance provides coverage for marine perils including war, terrorism, sabotage, riots, seizure and piracy.

The terrorist attacks on the United States on September 11, 2001 and the

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continued threat of terrorist activity, together with significant investment losses due to the poor investment performance by most insurance companies, have created uncertainty in the insurance markets. It is also possible that acts of terrorism could be directed against U.S. companies such as ours. These uncertainties have contributed to significant increases in the premiums quoted for our insurance coverages, which in turn has also contributed to substantial increases in the Company's insurance deductibles and self insured retention levels.

In December 2001, the Company was notified by Steamship Mutual, its protection and indemnity ("P&I") marine insurance club (the "Club"), of additional insurance calls in the projected amount of \$4.1 million due to the Club's investment losses. The Company accrued the full \$4.1 million in 2001. Actual payments of these additional call