

MARITRANS INC /DE/  
Form 10-Q  
August 08, 2006

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

(Mark One)

**Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934  
For the Quarterly Period ended June 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, 12,029,048 shares outstanding as of August 7, 2006.

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

	<b>June 30, 2006</b>	<b>December 31, 2005</b>
	(Unaudited)	As Adjusted (Note 2)
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 58,875	\$ 58,794
Trade accounts receivable	11,894	20,144
Claims and other receivables	8,467	2,527
Inventories	5,987	5,114
Prepaid expenses	1,023	1,737
Total current assets	86,246	88,316
Vessels and equipment	478,348	455,767
Less accumulated depreciation	229,476	222,126
Net vessels and equipment	248,872	233,641
Deferred costs, net	15,389	21,405
Goodwill	2,863	2,863
Other	206	211
Total assets	\$ 353,576	\$ 346,436
<b>LIABILITIES AND STOCKHOLDERS EQUITY</b>		
Current liabilities:		
Debt due within one year	\$ 4,086	\$ 3,973
Trade accounts payable	4,927	9,323
Accrued wages and benefits	4,305	5,007
Accrued insurance costs	6,449	2,385
Current income taxes	3,664	2,488
Other accrued liabilities	5,715	2,108
Total current liabilities	29,146	25,284
Long-term debt	53,329	55,400
Long-term tax payable	5,714	5,714
Other liabilities	4,216	3,721
Deferred income taxes	41,253	42,321
Stockholders' equity		
Common stock	176	176
Capital in excess of par value	174,265	174,595
Retained earnings	99,088	93,487
Unearned compensation		(1,027)

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Less: Cost of shares held in treasury	(53,611)	(53,235)
Total stockholders' equity	219,918	213,996
Total liabilities and stockholders' equity	\$ 353,576	\$ 346,436

*See notes to financial statements.*

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

	<b>Three Months Ended June 30,</b>	
	<b>2006</b>	<b>2005</b>
		As Adjusted (Note 2)
Revenues	\$ 43,903	\$ 46,330
Costs and expenses:		
Operations expense	27,094	25,242
Maintenance expense	1,649	1,426
General and administrative	2,287	2,423
Depreciation and amortization	8,056	9,271
Total operating expense	39,086	38,362
Operating income	4,817	7,968
Interest expense (net of capitalized interest of \$785 and \$217, respectively)	(108)	(733)
Interest income	761	115
Other income, net	63	4,037
Income before income taxes	5,533	11,387
Income tax provision	1,928	4,156
Net income	\$ 3,605	\$ 7,231
Basic earnings per share	\$ 0.30	\$ 0.86
Diluted earnings per share	\$ 0.30	\$ 0.84
Dividends declared per share	\$ 0.11	\$ 0.11
<i>See notes to financial statements</i>		

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

	<b>Six Months Ended June 30,</b>	
	<b>2006</b>	<b>2005</b>
		As Adjusted (Note 2)
Revenues	\$ 91,287	\$ 89,870
Costs and expenses:		
Operations expense	56,070	47,285
Maintenance expense	3,823	2,819
General and administrative	4,592	7,809
Depreciation and amortization	17,059	18,216
Gain on involuntary conversion of assets	(2,868)	
Gain on sale of assets		(647)
Total operating expense	78,676	75,482
Operating income	12,611	14,388
Interest expense (net of capitalized interest of \$1,419 and \$518 respectively)	(381)	(1,421)
Interest income	1,439	167
Other income, net	139	4,092
Income before income taxes	13,808	17,226
Income tax provision	4,849	6,287
Net income	\$ 8,959	\$ 10,939
Basic earnings per share	\$ 0.75	\$ 1.31
Diluted earnings per share	\$ 0.74	\$ 1.28
Dividends declared per share	\$ 0.22	\$ 0.22
<i>See notes to financial statements.</i>		

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

	<b>Six Months</b>	
	<b>Ended June 30,</b>	
	<b>2006</b>	<b>2005</b>
		As Adjusted (Note 2)
Cash flows from operating activities:		
Net income	\$ 8,959	\$ 10,939
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	10,202	11,215
Amortization of major maintenance costs	6,857	7,001
Expenditures for major maintenance costs	(1,914)	(7,391)
Deferred income taxes	(1,068)	(2,135)
Tax benefit on stock compensation		736
Stock compensation expense	419	112
Changes in receivables, inventories and prepaid expenses	2,515	(186)
Changes in current liabilities, other than debt	3,401	7,617
Changes in non-current assets and liabilities	496	2,274
Gain on involuntary conversion of assets	(2,868)	
Gain on sale of assets		(647)
Total adjustments to net income	18,040	18,596
Net cash provided by operating activities	26,999	29,535
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	(26,564)	(14,004)
Net cash used in investing activities	(22,564)	(13,357)
Cash flows from financing activities:		
Payment of long-term debt	(1,958)	(1,852)
Dividends declared and paid	(2,645)	(1,876)
Proceeds from exercise of stock option	45	34
Tax benefit on stock compensation	381	
Fees related to the issuance of stock	(177)	
Net cash used in financing activities	(4,354)	(3,694)
Net increase in cash and cash equivalents	81	12,484
Cash and cash equivalents at beginning of period	58,794	6,347
Cash and cash equivalents at end of period	\$ 58,875	\$ 18,831



*See notes to financial statements*

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**MARITRANS INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**June 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



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accounting changes, including changes in accounting principles. SFAS 154 is effective for accounting changes made in fiscal years beginning after December 15, 2005. This statement 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 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

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	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
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

	Three Months Ended June 30, 2005 as Reported	Effect of Change in Accounting Principle	Three Months Ended June 30, 2005 as Adjusted
Revenues	\$ 46,330		\$ 46,330
Costs and expenses:			
Operation expense	25,242		25,242
Maintenance expense	5,166	(3,740)	1,426
General and administrative	2,423		2,423
Depreciation and amortization	5,719	3,552	9,271
Total operating expenses	38,550	(188)	38,362
Operating income	7,780	188	7,968
Interest expense	(733)		(733)
Interest income	115		115
Other income, net	4,037		4,037
Income before income taxes	11,199	188	11,387
Income tax provision	4,088	68	4,156

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Net income	\$	7,111	\$	120	\$	7,231
Basic earnings per share	\$	0.85	\$	0.01	\$	0.86
Diluted earnings per share	\$	0.83	\$	0.01	\$	0.84

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	Six Months Ended June 30, 2006 Pre Adoption	Effect of Change in Accounting Principle	Six Months Ended June 30, 2006 as Reported
Revenues	\$ 91,287		\$ 91,287
Costs and expenses:			
Operation expense	56,070		56,070
Maintenance expense	10,208	(6,385)	3,823
General and administrative	4,592		4,592
Depreciation and amortization	10,202	6,857	17,059
Gain on involuntary conversion of assets	(2,868)		(2,868)
Total operating expenses	78,204	472	78,676
Operating income	13,083	(472)	12,611
Interest expense	(381)		(381)
Interest income	1,439		1,439
Other income, net	139		139
Income before income taxes	14,280	(472)	13,808
Income tax provision	5,019	(170)	4,849
Net income	\$ 9,261	\$ (302)	\$ 8,959
Basic earnings per share	\$ 0.78	\$ (0.03)	\$ 0.75
Diluted earnings per share	\$ 0.77	\$ (0.03)	\$ 0.74

	Six Months Ended June 30, 2005 as Reported	Effect of Change in Accounting Principle	Six Months Ended June 30, 2005 as Adjusted
Revenues	\$ 89,870		\$ 89,870
Costs and expenses:			
Operation expense	47,285		47,285
Maintenance expense	10,091	(7,272)	2,819
General and administrative	7,809		7,809
Depreciation and amortization	11,215	7,001	18,216
Gain on sale of assets	(647)		(647)
Total operating expenses	75,753	(271)	75,482
Operating income	14,117	271	14,388
Interest expense	(1,421)		(1,421)
Interest income	167		167
Other income, net	4,092		4,092
Income before income taxes	16,955	271	17,226

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Income tax provision		6,189		98		6,287
Net income	\$	10,766	\$	173	\$	10,939
Basic earnings per share	\$	1.29	\$	0.02	\$	1.31
Diluted earnings per share	\$	1.26	\$	0.02	\$	1.28

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	June 30, 2006 Pre Adoption	Effect of Change in Accounting Principle	June 30, 2006 as Reported
<b>ASSETS</b>			
Current assets	\$ 93,779	\$ (7,533)	\$ 86,246
Vessels and equipment, net	248,872		248,872
Deferred costs, net		15,389	15,389
Goodwill	2,863		2,863
Other	687	(481)	206
Total assets	\$ 346,201	\$ 7,375	\$ 353,576
<b>LIABILITIES AND STOCKHOLDERS EQUITY</b>			
Current liabilities	\$ 35,613	\$ (6,467)	\$ 29,146
Non-current liabilities	109,669	(5,157)	104,512
Stockholders equity	200,919	18,999	219,918
Total liabilities and stockholders equity	\$ 346,201	\$ 7,375	\$ 353,576

	December 31, 2005 as Reported	Effect of Change in Accounting Principle	December 31 2005 as Adjusted
<b>ASSETS</b>			
Current assets	\$ 94,474	\$ (6,158)	\$ 88,316
Vessels and equipment, net	233,572	69	233,641
Deferred costs, net		21,405	21,405
Goodwill	2,863		2,863
Other	1,094	(883)	211
Total assets	\$ 332,003	\$ 14,433	\$ 346,436
<b>LIABILITIES AND STOCKHOLDERS EQUITY</b>			
Current liabilities	\$ 31,867	\$ (6,583)	\$ 25,284
Non-current liabilities	106,153	1,003	107,156
Stockholders equity	193,983	20,013	213,996
Total liabilities and stockholders equity	\$ 332,003	\$ 14,433	\$ 346,436

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	Six Months Ended June 30, 2006 Pre Adoption	Effect of Change in Accounting Principle	Six Months Ended June 30, 2006 as Reported
Cash flows from operating activities:			
Net income	\$ 9,261	\$ (302)	\$ 8,959
Total adjustments to net income	17,852	233	18,085
Net cash provided by operating activities	27,113	(69)	27,044
Cash flows from investing activities:			
Net cash used in investing activities	(22,633)	69	(22,564)
Cash flows from financing activities:			
Net cash used in financing activities	(4,399)		(4,399)
Net increase in cash and cash equivalents	81		81
Cash and cash equivalents at beginning of period	58,794		58,794
Cash and cash equivalents at end of period	\$ 58,875	\$	\$ 58,875

	Six Months Ended June 30, 2005 as Reported	Effect of Change in Accounting Principle	Six Months Ended June 30, 2005 as Adjusted
Cash flows from operating activities:			
Net income	\$ 10,766	\$ 173	\$ 10,939
Total adjustments to net income	18,769	(173)	18,596
Net cash provided by operating activities	29,535		29,535
Cash flows from investing activities:			
Net cash used in investing activities	(13,357)		(13,357)
Cash flows from financing activities:			
Net cash used in financing activities	(3,694)		(3,694)
Net increase in cash and cash equivalents	12,484		12,484
Cash and cash equivalents at beginning of period	6,347		6,347
Cash and cash equivalents at end of period	\$ 18,831	\$	\$ 18,831

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	Twelve Months Ended December 31, 2005 as Reported	Effect of Change in Accounting Principle	Twelve Months Ended December 31, 2005 as Adjusted
Revenues	\$ 180,710		\$ 180,710
Costs and expenses:			
Operation expense	98,701		98,701
Maintenance expense	20,320	(14,075)	6,245
General and administrative	12,478		12,478
Depreciation and amortization	23,201	12,711	35,912
Gain on sale of assets	(628)		(628)
Total operating expenses	154,072	(1,364)	152,708
Operating income	26,638	1,364	28,002
Interest expense	(2,846)		(2,846)
Interest income	393		393
Other income, net	4,203		4,203
Income before income taxes	28,388	1,364	29,752
Income tax provision	8,509	491	9,000
Net income	\$ 19,879	\$ 873	\$ 20,752
Basic earnings per share	\$ 2.33	\$ 0.10	\$ 2.43
Diluted earnings per share	\$ 2.28	\$ 0.10	\$ 2.38
	Twelve Months Ended December 31, 2005 as Reported	Effect of Change in Accounting Principle	Twelve Months Ended December 31, 2005 as Adjusted
Cash flows from operating activities:			
Net income	\$ 19,879	\$ 873	\$ 20,752
Total adjustments to net income	19,731	(804)	18,927
Net cash provided by operating activities	39,610	69	39,679
Cash flows from investing activities:			
Net cash used in investing activities	(64,222)	(69)	(64,291)
Cash flows from financing activities:			
Net cash provided by financing activities	77,059		77,059
Net increase in cash and cash equivalents	52,447		52,447
Cash and cash equivalents at beginning of year	6,347		6,347

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Cash and cash equivalents at end of year	\$	58,794	\$	\$	58,794
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	Twelve Months Ended December 31, 2004 as Reported	Effect of Change in Accounting Principle	Twelve Months Ended December 31, 2004 as Adjusted
Revenues	\$ 149,718		\$ 149,718
Costs and expenses:			
Operation expense	80,517		80,517
Maintenance expense	20,761	(13,073)	7,688
General and administrative	11,709		11,709
Depreciation and amortization	22,193	15,582	37,775
Total operating expenses	135,180	2,509	137,689
Operating income	14,538	(2,509)	12,029
Interest expense	(2,318)		(2,318)
Interest income	254		254
Other income, net	333		333
Income before income taxes	12,807	(2,509)	10,298
Income tax provision	2,975	(903)	2,072
Net income	\$ 9,832	\$ (1,606)	\$ 8,226
Basic earnings per share	\$ 1.20	\$ (0.20)	\$ 1.00
Diluted earnings per share	\$ 1.16	\$ (0.19)	\$ 0.97
	Twelve Months Ended December 31, 2004 as Reported	Effect of Change in Accounting Principle	Twelve Months Ended December 31, 2004 as Adjusted
Cash flows from operating activities:			
Net income	\$ 9,832	\$ (1,606)	\$ 8,226
Total adjustments to net income	18,578	1,606	20,184
Net cash provided by operating activities	28,410		28,410
Cash flows from investing activities:			
Net cash used in investing activities	(25,111)		(25,111)
Cash flows from financing activities:			
Net cash provided by in financing activities	(566)		(566)
Net increase in cash and cash equivalents	2,733		2,733
Cash and cash equivalents at beginning of year	3,614		3,614

Cash and cash equivalents at end of year	\$	6,347	\$	\$	6,347
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**Table of Contents****3. Earnings Per Share**

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2006	2005	2006	2005
	(000 s)		(000 s)	
Income available to common stockholders used in basic EPS	\$ 3,605	\$ 7,231	\$ 8,959	\$ 10,939
Weighted average number of common shares used in basic EPS	11,892	8,400	11,877	8,371
Effect of dilutive stock options and restricted shares	150	171	162	174
Weighted number of common shares and dilutive potential common stock used in diluted EPS	12,042	8,571	12,039	8,545

**4. 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 the 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 are 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 is 900,000 and the shares are issued from treasury stock. Options granted under the 99 Plan are exercisable at a price not less than the market value of the shares on the date of grant. Options vest over a period of 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 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 is 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.



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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 and six months ended June 30, 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 now 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 six months ended June 30, 2006 and 2005 was \$419,000 and \$467,000, respectively and is included in general and administrative expenses.

The following table presents a summary of the stock options for the six months ended June 30, 2006:

	Number of Options	Exercise Price	Weighted Average Exercise Price
Outstanding at 12/31/05	229,928	\$5.75-14.20	\$ 8.79
Granted			
Exercised	29,395	\$8.55-14.20	\$ 11.88
Cancelled or forfeited			
Expired			
Outstanding at 6/30/06	200,533	\$5.75-14.20	\$ 8.34
Exercisable December 31, 2005	171,905	\$5.75-14.20	\$ 6.81
June 30, 2006	184,709	\$5.75-14.20	\$ 6.77

During the six months ended June 30, 2006, 29,395 shares were issued upon the exercise of options. The exercise price of these options ranged from \$8.55 to \$14.20. During the six months ended June 30, 2005, 111,035 shares were issued as a result of the exercise of options. The exercise price of these options ranged from \$5.375 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 six months ended June 30, 2006 was \$22.94. The weighted average grant date fair value of nonvested shares granted during the six months ended June 30, 2005 was \$18.45.

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The following table presents a summary of the nonvested restricted shares for the six months ended June 30, 2006:

	Number of Shares	Weighted Average Grant Date Fair Value
Nonvested at December 31, 2005	142,900	\$ 15.46
Granted	34,731	\$ 22.94
Vested	42,840	\$ 13.42
Cancelled or forfeited		
Nonvested at June 30, 2006	134,791	\$ 18.04

As of June 30, 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.

**5. 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.

**6. Retirement Plans**

Net periodic pension cost includes the following components:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2006	2005	2006	2005
	(\$000s)		(\$000s)	
Service cost of current period	\$ 117	\$ 54	\$ 234	\$ 222
Interest cost on projected benefit obligation	497	504	994	973
Expected return on plan assets	(502)	(510)	(1,004)	(1,019)
Amortization of prior service cost	35	34	70	69
Net periodic pension cost	\$ 147	\$ 82	\$ 294	\$ 245

**7. 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 June 30, 2006 will not have a material adverse effect on the Company's financial condition.

and results of operations.

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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.

**8. Loss of Vessel**

On January 18, 2006, the seagoing tug VALOUR, 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 the Company's protection and indemnity insurance. 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.

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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, opportunity, growth, expect, intend, plan, focus, through, strategy, provide, meet, allow, represent, commitment, result, seek, increase, establish, work, perform, make, continue, can, will, include, or the negative or 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;



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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 primarily 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 June 30, 2006, we employed a fleet of 11 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 July 2006, our tanker PERSEVERANCE reached her OPA retirement date and was redeployed to the transportation of non-petroleum cargo. 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. In May 2006, we entered into an 20 month time charter for the SEA SWIFT, a 6,000 horsepower tug-boat owned by Crowley Marine. The vessel joined the fleet in June 2006 and was deployed in the clean products trade. In September 2005, we entered into a shipbuilding agreement with Bender Shipbuilding & Repair Co., Inc. or Bender to build three new articulated tug/barge or ATB units, each having a carrying capacity of 335,000 barrels. In May 2006, we entered into a shipbuilding agreement with Bender to build two new 8000-horsepower tugboats.

Approximately 75% 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 3.4 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, the cost of fuel use in our vessels, 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





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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 and is expected to return to service in the fourth quarter of 2006.

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. Since that time the M192 returned to service accompanied by another tugboat that we own. In June 2006, we have chartered a substitute tugboat until the replacement tugboat that we are building is completed. We continue to work with the US Coast Guard on the investigation into the cause of the VALOUR 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 our Consolidated Balance Sheets.

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. 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.

**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 products transported by our vessels.

Clean oil refers to refined petroleum products.

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**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 single-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 June 30, 2006 compared to the quarter ended June 30, 2005 was as follows:

	June 30, 2006	June 30, 2005
Voyage revenue	\$ 43,903	\$ 46,330
Voyage costs	10,344	11,667
Time Charter Equivalent	\$ 33,559	\$ 34,663
Vessel utilization	77.5%	81.8%
Available days	1,308	1,203
Revenue days	1,127	1,117

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TCE revenue decreased from \$34.7 million for the quarter ended June 30, 2005 to \$33.6 million for the quarter ended June 30, 2006, a decrease of \$1.1 million, or 3.2%, due primarily to idle time both in our spot fleet and in our non-petroleum fleet.

**Rates**

Voyage revenue consists of revenue generated under term contracts as well as revenue generated for spot market transportation. Rates in each of these markets are significant drivers in the amount of revenue we generate.

Contract revenue for the second quarter of 2005 was \$31.2 million compared to \$32.0 million for the second quarter of 2006. The increase in contract revenue resulted from higher rates and deployment in the Gulf Coast market offsetting lower volumes moved for Delaware River refineries.

Spot market revenue for the second quarter of 2005 was \$15.1 million compared to \$9.8 million for the second quarter of 2006. This decrease was caused by lower utilization, as discussed below, experienced by our spot fleet during the 2006 period. Refinery production in the Gulf of Mexico was lower than the second quarter of 2005. The decreased production was driven by lower production at a number of Gulf refineries impacted by the 2005 hurricane season and shut-downs for maintenance and retooling to prepare for the new ultra low sulfur diesel specifications. The decreased level of refinery production resulted in an increase in the volume of imported products moved by foreign flag vessels and a decrease in the volume of cargo we carried. Due to these factors, we experienced 52 days of out of service for idle time in our spot fleet in the second quarter of 2006 as compared to 7 days in the same quarter of 2005.

We expect spot market rates will continue to increase in 2006 as more refinery output is being produced and is available to move, combined with strong product demand in the markets we serve. In addition, the supply of Jones Act vessels will decline in the second half of 2006 and the first half of 2007 with six vessels reaching their OPA retirement dates during this period, one of which is our tanker, PERSEVERANCE. We expect our exposure to the spot market in 2006 to be generally consistent with our exposure in 2005. Although our spot market exposure inherently brings with it potential for reduced utilization and revenues, we believe that anticipated market demand and the continuing reduction in the size of the US Jones Act fleet lessens this risk.

Non-petroleum revenue consists of revenue from the ALLEGIANCE which reached her OPA retirement date in late 2005 and is currently working in the grain trade. Due to the cyclical nature of the grain market, we experienced 49 days of out of service for idle time for the ALLEGIANCE in the second quarter of 2006. Late in the second quarter of 2006, the ALLEGIANCE embarked on a grain cargo to Port Sudan, which is scheduled to complete discharging in August and return to the US west coast by early September. Non-petroleum revenue was \$2.1 million for the second quarter of 2006. Early in the third quarter of 2006, the PERSEVERANCE reached her OPA retirement date and was also redeployed to the transportation of non-petroleum cargo. No voyages have been booked for the PERSEVERANCE and we anticipate the vessel may remain idle for 30 to 45 days.

**Utilization**

Vessel utilization is also a driver in the amount of revenue we generate. Utilization decreased from 81.8% in the second quarter of 2005 to 77.5% for the second quarter of 2006. In January 2006, the M210 entered the shipyard for her double-hull rebuild. The M210 is expected to return to service in the fourth quarter of 2006 renamed the M242. Upon completion of the M210, the OCEAN 211 will enter the shipyard for her double-hull rebuild. The OCEAN 211 is expected to return to service late in the second quarter of 2007 renamed the M243. These are the seventh and eighth barges to be rebuilt since the inception of our rebuilding program in 1998.

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We incurred approximately 140 days of out of service time for maintenance and capital projects, including barge rebuilding, during the second quarter of 2006 compared to 154 days in the second quarter of 2005. In the second quarter of 2006, we also incurred 52 days of out of service time for idle time in our spot fleet due to refinery outages and maintenance noted above in our discussion of rates. This compares to 7 days out of service time for idle time in the second quarter of 2005. In the Delaware River lightering operation, refinery maintenance at one refinery, as well as changes in the crude oil sourcing patterns of two lightering customers, resulted in lightering volumes that were lower than the second quarter of 2005.

We expect to have at least 184 days of out of service time during the third quarter of 2006 as compared to 140 days in the current period, which includes scheduled maintenance and double-hull rebuilding but not unscheduled out of service time. We expect less Delaware River refinery maintenance activity in upcoming quarters, and are working with our customers towards increasing our lightering fleet volumes. Early in the third quarter of 2006, the PERSEVERANCE reached her OPA retirement date and also was redeployed to the transportation of non-petroleum cargo. We anticipate the vessel may remain idle for 30 to 45 days.

Barrels of cargo transported decreased from 44 million for the second quarter of 2005 to 41 million for the second quarter of 2006. Barrels transported decreased primarily due to the aforementioned reduction in lightering volumes in 2006.

**Operations expense**

Voyage costs decreased from \$11.7 million for the second quarter of 2005 to \$10.3 million for the second quarter of 2006 a decrease of \$1.4 million, or 12.0%. The cost of fuel used in our vessels decreased \$0.8 million, or 10.0%, compared to the same period in 2005. Although the average price of fuel increased 22.2%, the gallons used were 26% less than the same period in 2005. Port charges decreased \$0.6 million, or 14.5%. The decrease in fuel and port charges was due to the idle time discussed in utilization above.

Operations expenses, excluding voyage costs discussed above, increased from \$13.6 million for the second quarter of 2005 to \$16.7 million for the second quarter of 2006, an increase of \$3.1 million, or 22.8%. During the fourth quarter of 2005, the SEABROOK entered service for us in the clean product trade and in the second quarter of 2006 the SEA SWIFT entered service for us as a chartered tugboat to replace lost tugboat capacity. Costs related to these time-charters in the second quarter of 2006 were \$2.9 million. Crew expenses increased \$0.4 million due to seagoing salary and benefit increases as well as an increased number of crewmembers compared to the same period in 2005. Shoreside support expenses increased \$0.2 million primarily due to increased headcount. Vessel related insurance costs decreased \$0.2 million compared to the same period of 2005, offsetting the above listed increases.

**Maintenance expense**

Maintenance expense increased from \$1.4 million for the second quarter of 2005 to \$1.6 million for the second quarter of 2006, an increase of \$0.2 million or 14.3% primarily due to an increase in unplanned maintenance for our fleet.

**General and Administrative expense**

General and administrative expenses decreased from \$2.4 million for the second quarter of 2005 to \$2.3 million for the second quarter of 2006, a decrease of \$0.1 million, or 4.2% primarily as a result of decreased legal fees compared to the same period in 2005, most of which were incurred in connection with patent litigation with pending at that time.

**Operating Income**

As a result of the aforementioned changes in revenue and expenses, operating income decreased from \$8.0 million for the second quarter of 2005 to \$4.8 million for the second quarter of 2006, a decrease of \$3.2 million, or 40.0%.

**Table of Contents****Other Income**

Other income for the second quarter of 2005 included a \$4.0 million settlement received from Penn Maritime Inc. and Penn Tug & Barge Inc. (together Penn Maritime ) on our claim for patent infringement and misappropriation of trade secrets. Penn Maritime agreed to pay us \$4.0 million to settle all of our claims, and received a license to use our patented double-hulling process on their then existing fleet. We did not have any similar transactions in 2006.

**Income Tax Provision**

Income tax provision decreased from \$4.2 million for the second quarter of 2005 to \$1.9 million for the second quarter of 2006, a decrease of \$2.3 million, or 54.8%. We record reserves for income taxes based on the estimated amounts that we will likely have to pay based on our taxable income. We periodically review our position based on the best available information and adjust our income tax reserve accordingly.

**Net Income**

Net income decreased from \$7.2 million for the second quarter of 2005 to \$3.6 million for the second quarter of 2006, a decrease of \$3.6 million, or 50.0%, as a result from the aforementioned changes in revenue and expenses.

**Six Month Comparison***Revenues*

TCE revenue for the six months ended June 30, 2006 compared to the six months ended June 30, 2005 was as follows:

	June 30, 2006	June 30, 2005
Voyage revenue	\$ 91,287	\$ 89,870
Voyage costs	22,008	20,596
Time Charter Equivalent	\$ 69,279	\$ 69,274
Vessel utilization	78.5%	81.8%
Available days	2,615	2,392
Revenue days	2,271	2,223

TCE revenue stayed consistent at \$69.3 million for the six months ended June 30, 2006 with the same period in 2005.

**Rates**

Voyage revenue consists of revenue generated under term contracts as well as revenue generated for spot market transportation. Rates in each of these markets are significant drivers in the amount of revenue we generate.

Contract revenue for the six months ended June 30, 2005 was \$63.5 million compared to \$65.0 million for the six months ended June 30, 2006. The increase in contract revenue resulted from higher rates and deployment in the Gulf Coast market offsetting lower volumes moved for Delaware River refineries.

Spot market revenue for the six months ended June 30, 2005 was \$26.5 million compared to \$19.2 million for the six months ended June 30, 2006. The decrease was caused by lower utilization, as discussed below, experienced by our spot fleet in the first half of 2006. Refinery production in the Gulf of Mexico during the first six months of 2006 was lower than the first six months of 2005. The decreased production was driven by lower production at a number of Gulf refineries impacted by the 2005 hurricane season and shut-downs for maintenance and retooling to prepare for the new ultra low sulfur diesel specifications. The decreased level of refinery production

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resulted in an increase in the volume of imported products moved by foreign flag vessels and a decrease in the volume of cargo we carried. Due to these factors, we experienced 132 days of out of service for idle time in our spot fleet during the first six months of 2006 as compared to 12 days during the 2005 period.

Non-petroleum revenue consists of revenue from the ALLEGIANCE which reached her OPA retirement date late in 2005 and is currently working in the grain trade. Due to the cyclical nature of the grain market, we experienced 49 days of out of service for idle time for the ALLEGIANCE in the first half of 2006. Late in the second quarter of 2006, the ALLEGIANCE embarked on a grain cargo to Port Sudan, which is scheduled to complete discharging in August and return to the US west coast by early September. Non-petroleum revenue was \$7.1 million for the six months ended June 30, 2006. Early in the third quarter of 2006, the PERSEVERANCE reached her OPA retirement date and was also redeployed to the transportation of non-petroleum cargo. No voyages have been booked for the PERSEVERANCE and we anticipate the vessel may remain idle for 30 to 45 days.

**Utilization**

Vessel utilization is also a driver in the amount of revenue we generate. Utilization decreased from 81.8% in the six months ended June 30, 2005 to 78.5% for the six months ended June 30, 2006. In January 2006, the M210 entered the shipyard for her double-hull rebuild. The M210 is expected to return to service in the third quarter of 2006 renamed the M242. Upon completion of the M210, the OCEAN 211 will enter the shipyard for her double-hull rebuild. The OCEAN 211 is expected to return to service in the second quarter of 2007 renamed the M243. These are the seventh and eighth barges to be rebuilt since the inception of our rebuilding program in 1998.

We incurred approximately 248 days of out of service time for planned maintenance and capital projects, including barge rebuilding, during the six months ended June 30, 2006 compared to 299 days in the six months ended June 30, 2005. In the six months ended June 30, 2006, we also incurred 132 days of out of service time for idle time in our spot fleet due to refinery outages and maintenance noted above in our discussion of rates. This compares to 12 days out of service time for idle time for the six months ended June 30, 2006. In the Delaware River lightering operation, there were three refineries undergoing scheduled maintenance for a portion of the first quarter and early part of the second quarter of 2006. As a result, barrels delivered to our crude-oil lightering customers during the six months ended June 30, 2006 decreased compared to the six months ended June 30, 2005.

Barrels of cargo transported decreased from 90 million for the six months ended June 30, 2005 to 84 million for the six months ended June 30, 2006. Barrels transported decreased primarily due to the aforementioned reduction in lightering volumes in 2006.

**Operations expense**

Voyage costs increased from \$20.6 million for the six months ended June 30, 2005 to \$22.0 million for the six months ended June 30, 2006 an increase of \$1.4 million, or 6.8%. The cost of fuel used in our vessels increased \$0.9 million, or 6.3%, compared to the same period in 2005. Although the average price of fuel increased 22.9%, the gallons used were 13.5% less than the same period of 2005. Port charges increased \$0.5 million, or 8.1%, principally due to the redeployment of the ALLEGIANCE in 2005 to the grain trade partially offset by days out of service for idle time in our non-petroleum and spot fleets.

Operations expenses, excluding voyage costs discussed above, increased from \$26.7 million for the six months ended June 30, 2005 to \$34.1 million for the six months ended June 30, 2006, an increase of \$7.4 million, or 27.7%. During the fourth quarter of 2005, the SEABROOK entered service for us in the clean products trade and in the second quarter of 2006, the SEA SWIFT entered service for us as a chartered tugboat to replace lost tugboat capacity. Costs related to these time-charters in the six months ended June 30, 2006 were \$5.5 million. Crew expenses increased \$1.5 million due to seagoing salary and benefit increases. Shoreside support expenses increased \$0.8 million, primarily as a result of an increase in personnel and employment related expenses and professional fees compared to the same period in 2005. Vessel related insurance costs decreased \$0.5 million compared to the same period in 2005, offsetting the above increases.

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**Maintenance expense**

Maintenance expense increased from \$2.8 million for the six months ended June 30, 2005 to \$3.8 million for the six months ended June 30, 2006, an increase of \$1.0 million, or 35.7% primarily due to the increase of unplanned maintenance for the first six months of 2006 compared to 2005.

**General and Administrative expense**

General and administrative expenses decreased from \$7.8 million for the six months ended June 30, 2005 to \$4.6 million for the six months ended June 30, 2006, a decrease of \$3.2 million, or 41.0%. In the first quarter of 2005, Stephen Van Dyck retired as Executive Chairman of our Board of Directors. As a result, in the first quarter of 2005 we recorded a \$2.4 million charge related to a consulting agreement and the acceleration of Mr. Van Dyck's enhanced retirement benefit. The remaining decreases from 2005 were related to reductions in professional fees, most of which were incurred in connection with patent litigation occurring at that time. The litigation was subsequently settled in May 2005.

**Gain on Sale and Involuntary Conversion of Assets**

Gain on sale of assets for the first quarter of 2005 of \$0.6 million consisted of a pre-tax gain on the sale of a tug, the Port Everglades, which had been idle and not operating as a core part of our fleet.

On January 18, 2006, our sea-going tug, VALOUR, sank off the coast of Cape Fear, North Carolina. The VALOUR was covered by a hull insurance policy and costs of the incident were covered by protection and indemnity insurance. Hull insurance proceeds of approximately \$4.0 million, which exceeded the carrying value of the tugboat of \$1.1 million for a gain of \$2.9 million, were received in the first quarter of 2006.

**Operating Income**

As a result of the aforementioned changes in revenue and expenses, operating income decreased from \$14.4 million for the six months ended June 30, 2005 to \$12.6 million for the six months ended June 30, 2006, a decrease of \$1.8 million, or 12.5%.

**Other Income**

Other income for the six months ended June 30, 2005 included a \$4.0 million settlement received from Penn Maritime Inc. and Penn Tug & Barge Inc. (together Penn Maritime) on our claim for patent infringement and misappropriation of trade secrets. Penn Maritime agreed to pay us \$4.0 million to settle all of our claims, and received a license to use our patented double-hulling process on their then existing fleet. We did not have any similar transactions in 2006.

**Income Tax Provision**

Income tax provision decreased from \$6.3 million for the six months ended June 30, 2005 to \$4.8 million for the six months ended June 30, 2006, a decrease of \$1.5 million, or 23.8%. We record reserves for income taxes based on the estimated amounts that we will likely have to pay based on our taxable income. We periodically review our position based on the best available information and adjust our income tax reserve accordingly.

**Table of Contents****Net Income**

Net income decreased from \$10.9 million for the six months ended June 30, 2005 to \$9.0 million for the six months ended June 30, 2006, a decrease of \$1.9 million, or 17.4%, resulting from the aforementioned changes in revenue and expenses.

**Liquidity and Capital Resources****General**

For the six months ended June 30, 2006, net cash provided by operating activities was \$27.0 million. These funds were sufficient to meet debt service obligations and loan agreement covenants, to make capital improvements and to allow us to pay dividends for the first six months of 2006. We believe funds provided by operating activities, augmented by our Revolving Credit Facility, described below, the proceeds from our December 2005 common stock offering and investing activities, will be sufficient to finance operations, routine capital expenditures, lease payments and required debt repayments in the foreseeable future. Dividends are authorized at the discretion of our Board of Directors and although dividends have been made quarterly in each of the last three years, we cannot assure you that the dividend will continue. The ratio of debt to total capitalization was 0.21:1 at June 30, 2006.

On December 14, 2005, we sold 3,000,000 shares of our common stock under our shelf registration statement in an underwritten public offering at \$26 per share. On December 28, 2005, we issued an additional 450,000 shares at \$26 per share upon the exercise of the underwriters' over-allotment option. Proceeds from the equity offering were approximately \$84.5 million after underwriters' discounts and commissions and expenses.

**Debt Obligations and Borrowing Facility**

At June 30, 2006, we had \$57.4 million in total outstanding debt, which is secured by mortgages on some of our fixed assets. The current portion of this debt at June 30, 2006 was \$4.1 million.

We have a revolving credit facility ( Revolving Credit Facility ) with Citizens Bank and a syndicate of other financial institutions ( Lenders ). Pursuant to the terms of the amended credit and security agreement, we may borrow up to \$60 million under the Revolving Credit Facility and have the ability to increase that amount to \$120 million through additional bank commitments in the future. Interest is variable based on either the LIBOR rate plus an applicable margin (as defined in the Revolving Credit Facility) or the prime rate. The amended Revolving Credit Facility expires in October 2010. We have granted first preferred ship mortgages and a first security interest in some of our vessels and other collateral in connection with the Revolving Credit Facility. At June 30, 2006, there were no amounts outstanding under the Revolving Credit Facility. The Revolving Credit Facility requires us to maintain our properties in a specific manner, maintain specified insurance on our properties and business, and abide by other covenants which are customary with respect to such borrowings. The Revolving Credit Facility also requires us to meet certain financial covenants. If we fail to comply with any of the covenants contained in the Revolving Credit Facility, the Lenders may declare the entire balance outstanding, if any, immediately due and payable, foreclose on the collateral and exercise other remedies under the Revolving Credit Facility. We were in compliance with all covenants at June 30, 2006.

We have additional financing agreements consisting of (1) a \$7.3 million term loan with Lombard US Equipment Financing Corp. with a 5-year amortization that accrues interest at an average fixed rate of 5.14% ( Term Loan A ) and (2) a \$29.5 million term loan with Fifth Third Bank with a 9.5-year amortization and a 50% balloon payment at the end of the term ( Term Loan B ). Term Loan B accrues interest at an average fixed rate of 5.98% on \$6.5 million of the loan and 5.53% on \$23.0 million of the loan. Principal payments on Term Loan A are required on a quarterly basis and began in January 2004. Principal payments on Term Loan B are required on a monthly basis and began in November 2003. We have granted first preferred ship mortgages and a first security interest in some of our vessels and other collateral to Lombard US Equipment Financing Corp. and Fifth Third Bank as a guarantee of the loan agreements. The loan agreements require us to maintain our properties in a specific manner, maintain specified insurance on our properties and business, and abide by other covenants, which are customary with respect to such



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borrowings. The loan agreements also require us to meet certain financial covenants that began in the quarter ended December 31, 2003. If we fail to comply with any of the covenants contained in the loan agreements, Lombard US Equipment Financing Corp. and Fifth Third Bank may call the entire balance outstanding on the loan agreements immediately due and payable, foreclose on the collateral and exercise other remedies under the loan agreements. We were in compliance with all such covenants at June 30, 2006.

In June 2004, we entered into an additional \$29.5 million term loan with Fifth Third Bank ( Term Loan C ). Term Loan C has a 9.5-year amortization and a 55% balloon payment at the end of the term and accrues interest at a fixed rate of 6.28%. A portion of the proceeds of Term Loan C were used to pay down existing borrowings under the Revolving Credit Facility. Principal payments on Term Loan C are required on a monthly basis and began in August 2004. We have granted first preferred ship mortgages and a first security interest in the M214 and its married tugboat, the HONOUR, to secure Term Loan C. Term Loan C requires us to maintain the collateral in a specific manner, maintain specified insurance on our properties and business, and abide by other covenants which are customary with respect to such borrowings. If we fail to comply with any of the covenants contained in Term Loan C, Fifth Third Bank may foreclose on the collateral or call the entire balance outstanding on Term Loan C immediately due and payable. We were in compliance with all applicable covenants at June 30, 2006.

As of June 30, 2006, we had the following amounts outstanding under our debt agreements:

\$3.9 million under Term Loan A;

\$26.1 million under Term Loan B; and

\$27.4 million under Term Loan C.

**Contractual Obligations**

Total future commitments and contingencies related to our outstanding debt obligations, noncancellable operating leases and purchase obligations, as of June 30, 2006, were as follows:

		(\$000s)			
	Total	Less than one year	One to three years	Three to five years	More than five years
Debt Obligations	\$ 57,415	\$ 4,086	\$ 8,057	\$ 6,384	\$ 38,888
Operating Leases	2,191	549	1,154	488	
Purchase Obligations*	248,981	112,394	136,587		
Total	\$ 308,587	\$ 117,029	\$ 145,798	\$ 6,872	\$ 38,888

\* Purchase obligations represent amounts due under existing vessel rebuild contracts, new ATB build contracts and new tugboat contracts.

In July 2005, we awarded contracts to rebuild the M210 and the OCEAN 211 to double-hull configurations. These are our seventh and eighth single-hulled barges to be rebuilt to double-hull configurations. The rebuild of the M210 is expected to have a total cost of approximately \$30.0 million; of which \$24.0 million is a fixed contract with the

shipyard and the remainder of the equipment is to be furnished by us. The rebuild of the OCEAN 211 is also expected to have a total cost of approximately \$30.0 million; of which \$23.0 million is a fixed contract with the shipyard and the remainder of the equipment is to be furnished by us. The rebuilds of the M210 and OCEAN 211 will also include the insertions of mid-bodies that will increase their capacity by approximately 38,000 barrels each. We expect to finance the projects with a combination of internally generated funds and borrowings under our Revolving Credit Facility, proceeds from the equity offering in December 2005 and additional debt or equity financings as necessary. The rebuilds of the M210 and the OCEAN 211 are expected to be completed in the fourth quarter of 2006 and late in the second quarter of 2007, respectively. The M210 will re-enter service renamed the M242 and the OCEAN 211 will re-enter service renamed the M243. As of June 30, 2006, \$17.4 million and \$5.2 million had been spent on the rebuilds, respectively.

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On September 2, 2005, we entered into a shipbuilding contract with Bender Shipbuilding & Repair Co., Inc., or Bender. Under the shipbuilding contract, Bender will construct and deliver three ATBs, each having a carrying capacity of 335,000 barrels (98% capacity), for a total cost to us, including owner-furnished materials, of approximately \$232.5 million. We expect to finance the construction of the three ATBs with a combination of internally generated funds, borrowings under our Revolving Credit Facility, a portion of the proceeds from the equity offering in December 2005 and additional debt or equity financing as necessary. As of June 30, 2006, \$37.9 million has been paid to Bender. The ATBs are scheduled for delivery on October 1, 2007, May 1, 2008 and December 1, 2008, subject in each case to permitted postponements under the contract.

On May 26, 2006, we entered into a shipbuilding contract with Bender 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. We plan to pair the second newbuild tugboat with the M 215, the final single-hulled barge scheduled for rebuilding. As of June 30, 2006, \$3.2 million had been spent on the newbuilds.

**Impact of Recent Accounting Pronouncements**

Effective January 1, 2006, we 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 our 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). We have applied the provisions of SAB 107 in its adoption of SFAS 123(R).

We 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 our fiscal 2006 year. Our consolidated financial statements as of and for the six months ended June 30, 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 we had already adopted the fair value recognition provisions of SFAS 123. Prior to the adoption of SFAS 123(R), we 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, our consolidated financial statements for prior periods have not been restated to reflect, and do not include, the impact of SFAS 123(R).

In May 2005, the Financial Accounting Standards Board (FASB) issued SFAS No. 154, *Accounting Changes and Error Corrections*, a replacement of APB Opinion No. 20, *Accounting Changes*, and SFAS No. 3, *Accounting Changes in Interim Financial Statements* ( SFAS 154 ), 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.

**ITEM 3. QUALITATIVE AND QUANTITATIVE DISCLOSURES ABOUT MARKET RISK**

The principal market risk to which we are exposed is a change in interest rates on our Revolving Credit Facility. We manage our exposure to changes in interest rate fluctuations by optimizing the use of fixed and variable rate debt. The table below presents principal cash flows by year of maturity. We had only fixed rate debt at June 30, 2006. Variable interest rates would fluctuate with LIBOR and federal fund rates. The weighted average interest rate on our outstanding debt at June 30, 2006 was 5.91%.

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Liabilities (\$000s)	Expected Years of Maturity					
	2006*	2007	2008	2009	2010	Thereafter
Fixed Rate	\$2,014	\$4,202	\$4,445	\$3,007	\$3,191	\$40,556
Average Interest Rate	5.92%	5.94%	5.97%	5.97%	5.97%	6.07%

\* For the period  
July 1, 2006  
through  
December 31,  
2006

**ITEM 4. CONTROLS AND PROCEDURES****Evaluation of Disclosure Controls and Procedures**

The Company's management, with the participation of the Company's Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of the Company's disclosure controls and procedures as of the end of the period covered by this report. Based on that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures as of the end of the period covered by this report have been designed and are functioning effectively to provide reasonable assurance that the information required to be disclosed by the Company in reports filed under the Securities Exchange Act of 1934 is (i) recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms and (ii) accumulated and communicated to the Company's management including the Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding disclosure.

**Internal Control over Financial Reporting**

No change in the Company's internal control over financial reporting occurred during the Company's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

**Part II: OTHER INFORMATION****ITEM 1A. Risk Factors**

There have been no material changes in our risk factors from those disclosed in our 2005 Annual Report on Form 10-K dated December 31, 2005.

**ITEM 2. Unregistered Sales of Equity Securities and Use of Proceeds**

The following table summarizes the Company's purchases of its common stock for the three months ended June 30, 2006:

**Issuer Purchases of Equity Securities**

Period	(a) Total Number of Shares Purchased (1)	(b) Average Price Paid per share (or Units)	(c) Total	(d) Maximum
			Number of Shares (or Units) Purchased as Part of Publicly Announced Plans or Programs	Number (or Approximate Dollar Value) of Shares (or Units) that May Yet Be Purchased Under the Plans or Programs
April 1 - 30, 2006				
May 1 - 31, 2006	3,968	26.33		
June 1 - 30, 2006	3,440	24.82		

Total	7,408	25.63
	31	

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(1) These amounts consist of shares we purchased from our officers, non-employee directors and other employees who elected to pay the exercise price or withholding taxes upon the exercise of stock options or vesting of restricted stock by delivering (and, thus, selling) shares of Maritrans Inc. common stock in accordance with the terms of our equity compensation plans. We purchased these shares at their fair market value, as determined by reference to the closing price of the common stock on the day of exercise or vesting.

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

The Annual Meeting of Stockholders of the Company (the Meeting ) was held on April 28, 2006. At the Meeting, the following nominees were re-elected as directors of the Company to serve until the Annual Meeting of Stockholders in 2009. The votes are set forth after their names below.

The voting results for all matters at the meeting were as follows:

1. Election of Directors

Name of Nominee	For	Withheld
Mr. William A. Smith	9,582,709	53,239

Mr. Jonathan P. Whitworth	9,204,705	431,243
Mr. Gary K. Wright	9,582,719	53,229

The terms of office of the following directors continued after the meeting in accordance with the Company's Certificate of Incorporation: Dr. Craig E. Dorman, Mr. Frederick C. Haab, Mr. Robert J. Lichtenstein and Mr. Brent A. Stienecker.

2. The Maritrans Inc. Annual Incentive Plan was approved receiving 5,304,580 votes for approval and 179,298 votes against approval with 28,156 votes abstaining. Broker non-votes were not permitted with respect to this proposal.

3. The ratification of the selection by the Board of Directors of Ernst & Young LLP as the Company's independent registered public accounting firm for 2006 was approved receiving 9,143,200 votes for approval and 481,530 votes against approval with 11,218 votes abstaining. Broker non-votes were not permitted with respect to this proposal.

ITEM 6. Exhibits

- 10.1 Shipbuilding contract between Maritrans Operating Company, L.P. and Bender Shipbuilding & Repair Co., Inc. \*
  
- 18 Letter, dated August 4, 2006, from Ernst & Young LLP, regarding change in accounting principle for planned major maintenance activities
  
- 31.1 Certification of Chief Executive Officer, pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934.
  
- 31.2 Certification of Chief Financial Officer, pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934.
  
- 32.1 Certification of Chief Executive Officer, pursuant to 18 U.S.C. Section 1350.
  
- 32.2 Certification of Chief Financial Officer, pursuant to 18 U.S.C. Section 1350.

\* Confidential  
Treatment  
Requested

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**SIGNATURES**

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

MARITRANS INC.  
(Registrant)

By: /s/ Walter T. Bromfield

Dated: August 8, 2006

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

By: /s/ Judith M. Cortina

Dated: August 8, 2006

Judith M. Cortina  
Director of Finance and Controller  
(Principal Accounting Officer)