GULFMARK OFFSHORE INC
Form 10-K405
March 11, 2002

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-K

[X] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE

SECURITIES EXCHANGE ACT OF 1934
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2001
OR

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE

SECURITIES EXCHANGE ACT OF 1934
COMMISSION FILE NUMBER 000-22853

GULFMARK OFFSHORE, INC.
(Exact name of Registrant as specified in its charter)

DELAWARE	76-0526032
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

4400 POST OAK PARKWAY, SUITE 1170 HOUSTON, TEXAS	77027
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code: (713) 963-9522
Securities registered pursuant to Section 12(b) of the Act: NONE
Securities registered pursuant to Section 12(g) of the Act:

COMMON STOCK, $0.01 PAR VALUE
(Title of class)

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 the Form 10-K or any amendment to this Form 10-K. YES [X]

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 filing requirements for the past 90 days. YES [X] NO

Aggregate market value of the voting stock held by nonaffiliates of the Registrant based upon the price at which the stock was sold as of March 5, 2002: $156,790,000.

Number of shares of common stock outstanding as of March 5, 2002: 8,199,137.

DOCUMENTS INCORPORATED BY REFERENCE

The information called for by Part III Items 10,11,12 and 13 will be included

in a proxy statement to be filed pursuant to Regulation 14A, and is incorporated herein by reference.
Exhibit Index Located on Page 41.

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PART I

ITEMS 1. AND 2. BUSINESS AND PROPERTIES

GENERAL BUSINESS

GulfMark Offshore, Inc. is a Delaware corporation that provides offshore marine services primarily to companies involved in offshore exploration and production of oil and natural gas. Our vessels transport drilling materials, supplies and personnel to offshore facilities, as well as move and position drilling structures. The majority of our operations are conducted in the North

Sea, with the balance in offshore Southeast Asia, Brazil and West Africa. Periodically, we will charter vessels into other regions to meet our customers' requirements.

Our principal executive offices are located at 4400 Post Oak Parkway, Suite 1170, Houston, Texas 77027-3414, and our telephone number at that address is (713) 963-9522.

THE COMPANY

OFFSHORE MARINE SERVICES INDUSTRY OVERVIEW

Our customers employ our vessels to provide services supporting the construction, positioning and ongoing operation of offshore oil and natural gas drilling rigs and platforms ("Offshore Marine Services"). This industry employs various types of vessels, referred to broadly as offshore support vessels, that are used to transport materials, supplies, equipment and personnel. Offshore Marine Service providers are employed by oil companies that are engaged in the offshore exploration and production of oil and natural gas and related services. Services provided by companies in this industry are performed in numerous locations worldwide. The Gulf of Mexico, the North Sea, offshore Southeast Asia, offshore West Africa and offshore Brazil are each major markets that employ a significant number of vessels. Vessel usage is also significant in other international areas, including India, Australia, the Persian Gulf and the Mediterranean Sea. The industry is relatively fragmented, with more than 20 major participants and numerous small regional competitors. Historically, few of these competitors have participated in all five of these major markets. We operate our fleet of 53 offshore supply vessels in four of the five major markets: 36 in the North Sea, 12 in Southeast Asia, 3 in Brazil and 2 in West Africa.

Our business is directly impacted by the level of activity in worldwide offshore oil and natural gas exploration, development and production, which, in turn, is impacted by trends in oil and natural gas prices. Oil and natural gas prices are affected by a host of geopolitical and economic forces, including the fundamental principles of supply and demand. Each of the major geographic offshore oil and gas production regions has unique characteristics that influence the economics of exploration and production and consequently the market for vessels in support of these activities. While there is some vessel interchangeability between geographic regions, barriers such as mobilization costs and vessel suitability restrict migration of vessels between regions. This is most notably the case in the North Sea, where vessel design requirements dictated by the harsh operating environment restrict migration of vessels into that market and, to a lesser degree, high operating costs restrict migration out of the market. The effect of these restrictions on vessel migration is to segment various regions into separate markets.

GROWTH IN SIZE OF VESSEL FLEET

The size of our vessel fleet has grown from 47 vessels on December 31, 2000 to 53 vessels on March 5, 2002, due in large part to three transactions in which we acquired eight existing vessels, plus the delivery of the first three of nine newbuild vessels. Our managed fleet was reduced by five vessels, three of which we acquired. The expansion of the owned fleet from 30 to 41 vessels during the same period was the major factor affecting operating income in 2001. This expansion is also expected to provide the opportunity for growth in operating income in future periods. The first of the transactions was the acquisition of the Stirling Fyne, renamed the Highland Patriot, for $6.9 million in April 2001, whereupon it was immediately chartered for one year, plus options of the charterer for extensions, at an attractive day rate. In June 2001, we acquired five vessels through the acquisition of Sea Truck Holding, AS ("Sea Truck") in Norway for approximately $61.8 million, of which $38.6 million was in cash and

$23.2 million was the assumption of existing Sea Truck debt. Four of the vessels (Stream Truck, Stout Truck, Sound Truck and Safe Truck) were under term charters at the time of the acquisition with the fifth vessel (Zacharias) under a bareboat charter with an obligation to sell the vessel in 2003. In July 2001, we took delivery of the Highland Fortress, the first of nine newbuild vessels to be delivered over the 2001-2003 period. This vessel immediately went on contract for a primary term of three years, with options at an attractive day rate. In August 2001 we acquired two previously managed vessels (Clwyd Supporter and Sefton Supporter) from Clear Seas Offshore, Ltd. ("Clear Seas"), for approximately $8.9 million in assumed debt. Both of these vessels have charters extending through June 2002, plus options. At the end of February 2002, we took delivery of two vessels under our newbuild program, the Highland Navigator and North Mariner. Both of these vessels are contracted under term charters beginning in March 2002,

for three and five year primary terms, respectively, with options. The following table reconciles the fleet size at the beginning of 2001 through March 5, 2002:

	OWNED VESSELS	BAREBOAT CHARTERED VESSELS	MANAGED VESSELS	TOTAL FLEET
JANUARY 1, 2001	30	4	13	47
Highland Patriot	1	--	--	1
Sea Truck Acquisition	5	--	(1)	4
Clear Seas Vessels	2	--	(2)	--
Newbuild Program	1	--	--	1
Other	--	--	(2)	(2)
DECEMBER 31, 2001	39	4	8	51
Newbuild Program	2	--	--	2
MARCH 5, 2002	41	4	8	53

VESSEL CLASSIFICATIONS

Offshore support vessels generally fall into seven functional classifications derived from their primary or predominant operating characteristics or capabilities. However, these classifications are neither precise nor rigid, and it is not unusual for a vessel to fit into more than one of the categories. These functional classifications are: (i) platform supply vessel, (ii) anchor handling, towing and supply vessel, (iii) construction support vessel, (iv) standby rescue vessel, (v) crewboat, (vi) specialty vessel and (vii) utility vessel.

- PLATFORM SUPPLY VESSELS ("PSVS") serve drilling and production facilities and support offshore construction and maintenance work. They are differentiated from other offshore support vessels by their cargo handling capabilities, particularly their large capacity and versatility. PSVs utilize space on deck and below deck and are used to transport supplies such as fuel, water, drilling fluids, equipment and provisions. PSVs range in size from 150' to 200'. Large PSVs ("LgPSVs") range up to 275' in length, with a few vessels somewhat larger, and are particularly suited for supporting large concentrations of offshore production locations because of their large, clear after deck and below deck capacities. The majority of

the LgPSVs we operate function primarily in this classification but are also capable of service in construction support.

- ANCHOR HANDLING, TOWING AND SUPPLY VESSELS ("AHTS") are used to set anchors for drilling rigs and tow mobile drilling rigs and equipment from one location to another. In addition, these vessels typically can be used in limited supply roles when they are not performing anchor handling and towing services. They are characterized by shorter after decks and special equipment such as towing winches. Vessels of this type with less than 10,000 brake horsepower ("BHP") are referred to as small AHTS vessels ("SmAHTS"), while AHTS vessels in excess of 10,000 BHP are referred to as large AHTS vessels ("LgAHTS"). The most powerful North Sea Class AHTS vessels have up to 25,000 BHP. From time to time, all of our AHTS vessels also function as PSVs.

- CONSTRUCTION SUPPORT VESSELS are vessels such as pipe-laying barges or specially designed vessels, such as pipe carriers, used to transport the large cargos of material and supplies required to support the construction and installation of offshore platforms and pipelines. A large number of our LgPSVs also function as pipe carriers. Our North Sea fleet has the distinction of being the only significant concentration of pipe carrier capable vessels outside of Scandinavian control.

- STANDBY RESCUE VESSELS ("STBY") perform a safety patrol function for an area and are required for all manned locations in the United Kingdom sector of the North Sea. These vessels typically remain on station to provide a safety backup to offshore rigs and production facilities and carry special equipment to rescue personnel. They are equipped to provide first aid and shelter and, in some cases, also function as supply vessels.

- CREWBOATS ("CREW") transport personnel and cargo to and from production platforms and rigs. Older crewboats (early 1980s build) are typically 100' to 120' in length and are designed for speed and to transport personnel. Newer crewboat designs are generally larger, 130' to 165' in length and can be longer with greater cargo carrying capacities. They are used primarily to transport cargo on a time-sensitive basis.

- SPECIALTY VESSELS ("SPV") generally have special features to meet the requirements of specific jobs. The special features include large deck spaces, high electrical generating capacities, slow controlled speed and varied propulsion thruster configurations, extra berthing facilities and long-range capabilities. These vessels are primarily used to support floating production storing and offloading ("FPSOs"), diving operations, remotely operated vehicles ("ROVs"), survey operations and seismic data gathering, as well as oil recovery, oil spill response and well stimulation. Some of our owned vessels frequently provide specialty functions, and two managed vessels are currently chartered for specialty functions.

- UTILITY VESSELS are typically 90' to 150' in length and are used to provide limited crew transportation, some transportation of oilfield support equipment and, in some locations, standby functions. We do not operate any vessels in this category.

THE NORTH SEA MARKET

We define the North Sea market as offshore Norway, Denmark, the Netherlands, Germany, Great Britain and Ireland, the Norwegian Sea and the area West of Shetlands. Historically, this has been the most demanding of all

exploration frontiers due to harsh weather, erratic sea conditions, significant water depth and long sailing distances. Exploration and production operators in the North Sea market are typically large and well-capitalized entities (such as major oil companies and state-owned oil companies), in large part because of the significant financial commitment required in this market. Projects in the region tend to be fewer in number but larger in scope, with longer planning horizons than projects in regions with less demanding environments, such as the Gulf of Mexico. Consequently, vessel demand in the North Sea has generally been steadier and less susceptible to abrupt swings than vessel demand in other regions.

This market can be broadly divided into three areas: exploration, production platform support and field development or construction. Support of the more volatile exploration segment of the market represents the primary demand for AHTS vessels. While supply vessels support the exploration segment, they also support the production and field construction segments, which generally are not affected by frequent short-term swings in demand. However, since AHTS vessels are capable of performing in a supply role, the availability of AHTS vessels during prolonged periods of weakness in the exploration segment, as was experienced during 1999 and the first half of 2000, can put downward pressure on PSV demand.

Our North Sea fleet is oriented toward supply vessels which work in the more stable segments of production platform support and field development or construction, and includes 28 owned and bareboat chartered vessels (22 PSVs, 2 AHTS vessels, and 4 SpV) and 8 managed vessels (4 PSVs, 1 AHTS vessels and 3 SpVs). Onshore bases in Aberdeen, Scotland and Liverpool, England support these vessels.

During the period of 1995-1998, the North Sea market experienced consistently high vessel utilization rates and increasing day rates. Increased drilling rig requirements during 1995 and 1996 led to a shortage of high specification drilling rigs. A number of long-term drilling contracts were signed during that period and, as demand increased in other regions, orders for new drilling rigs were placed. Accelerated activity in construction and development projects added to the demand for supply vessel services and by 1997 vessel demand was very strong. The positive market dynamics continued into the first quarter of 1998. A drop in oil prices in the latter half of 1998 and into the first quarter of 1999 resulted in significant reductions in spending plans for 1999 and caused demand for vessel services in 1999 to fall well below that experienced in 1997 and 1998. A number of the large integrated oil companies were merged and the consolidation process in the industry had an adverse near-term effect on the market for support vessel services. This slowdown in demand occurred in a period when a number of vessels entered the marketplace well ahead of the drilling rigs they were built to support. Most of these vessels were ordered in 1997 and 1998 in response to increased construction in the drilling industry and were delivered by the end of 1999. The vessel deliveries aggravated an oversupply condition caused by the reduction in development activity but was mitigated somewhat by vessels utilized in fiber optic cable installation and maintenance activity. In the second quarter of 2000, in response to higher commodity pricing and some increase in drilling activity, this market began to improve. This was at first evidenced by increased utilization rates for offshore support vessels and was followed by an improvement in day rates. The steady recovery continued throughout the balance of the year, with demand outside of the North Sea accelerating price recovery as deepwater locations in international markets competed for the available vessels. These factors allowed day rates and utilization to escalate to levels similar to those experienced during the high point of 1998. At the end of 2000 and throughout 2001, rates continued to improve, and, during the latter half of 2001, were above those experienced in the previous peak period of 1998, despite

lower oil and natural gas prices.

The supply of vessels to the region has been a function of newbuild vessels delivered to the market and the migration of vessels to other markets, either permanently or for temporary assignments. The demand for existing vessels outside of the North Sea and the expanded role for deepwater projects in worldwide locations left the North Sea fleet largely in balance through the end of 1998. As oil and gas activity levels declined after the precipitous oil price drop in 1998-1999 and a number of newbuild vessels entered the market in advance of new deepwater drilling rigs which had been delayed, an excess of supply resulted and caused day rates and utilization to fall. The excess supply began to be absorbed in 2000 as vessels moved out of the North Sea in support of drilling rigs in other deepwater markets and as activity levels improved in the region. During the second half of 2000 and throughout 2001, many companies committed to a number of newbuild vessels with deliveries scheduled from 2001 through 2003. Industry sources have identified approximately 65 vessels outside of the United States and Canada which are scheduled to be delivered over the two year period 2002-2003. These newbuild vessels are generally designed to meet the expanding demand for deepwater support vessels not only in the North Sea but in the other major deepwater markets of the world.

THE SOUTHEAST ASIA MARKET

We define the Southeast Asia market as offshore Asia bounded roughly on the west by the Indian subcontinent and on the north by China. This market includes offshore Brunei, Cambodia, Indonesia, Malaysia, Myanmar, the Philippines, Singapore, Thailand and Vietnam. The design requirements for vessels in this market are generally similar to the requirements of the shallow water Gulf of Mexico. However, advanced exploration technology and rapid growth in energy demand among many Pacific Rim countries have led to more remote drilling locations, which has increased both the overall demand in this market and the technical requirements for vessels. We believe that a number of exploration and

production projects planned or underway could increase the future demand for Offshore Marine Services in the Southeast Asia market.

The Southeast Asia market differs country by country, but the competitive environment is broadly characterized by a large number of small companies, in contrast to many of the other major offshore exploration and production areas of the world, where a few large operators dominate the market. Affiliations with local companies are generally necessary to maintain a viable marketing presence. Our management has been involved in the region since the mid-1970s, and we currently maintain long-standing business relationships with a number of local companies.

Vessels in this market are typically smaller than those operating in areas such as the North Sea. Yet, the varying weather conditions, annual monsoons and long distances between supply centers in Southeast Asia have allowed for a variety of vessel designs to compete in this market, each suited for a particular set of operating parameters. Vessels designed for the Gulf of Mexico and other areas where moderate weather conditions prevail have historically made up the bulk of the Southeast Asian fleet. In the middle part of the 1990s there was pressure (most notably from Malaysia) to upgrade offshore vessel capabilities by establishing limits on the age of vessels working in certain countries' territorial waters and encouraging construction of new vessels designed particularly to operate in this region. Demand for new vessels is developing in the region where deepwater projects occur or where oil and gas

companies employ larger fleets of vessels. This trend toward newer vessels is less likely to be a factor in vessel selection during a period of reduced expenditures, as was experienced in part of 1999 and during much of 2000.

Changes in supply and demand dynamics have led at times, most recently during 1999, to an excess number of vessels in markets such as the Gulf of Mexico. It is possible that vessels currently located in the Arabian/Persian Gulf area, West Africa or the Gulf of Mexico could relocate to Southeast Asia. Not all vessels currently located in those regions would be able to operate in Southeast Asia. Furthermore, transferring a vessel from the Gulf of Mexico to Southeast Asia would involve a significant cash and opportunity cost. Historically, there has been some movement between these operating areas, but vessel movements have not been a major factor in the Southeast Asia vessel market.

Indonesia is the only member of OPEC in the region. Oil and natural gas exploration activity in Indonesia has historically focused on oil exploration. Several large projects have now been identified that would exploit gas reserves. Indonesian-based operations utilize the largest number of service vessels in the region. Demand in Indonesia has seen a number of peaks and valleys during the past decade. In 1992, demand softened as exploration activities were reduced while some of the major oil companies renegotiated their production royalty and tax structures with local authorities. This reversed somewhat in 1993 and 1994, as some agreements were reached. However, in 1995, the oil companies pressed for further modifications to their production royalty and tax structures and reduced their exploration budgets, resulting in lower-than-expected activity in 1995 and only marginal improvement in 1996 and 1997. The market improved in early 1998 as part of a general improvement throughout Southeast Asia but turned lower in 1999 as a result of an overall worldwide slowdown in exploration and development expenditures. During 2000, as markets in other regions rebounded, this market lagged behind with several brief upturns only to be followed by contractions back to the previously reduced levels. During 2001, activity levels improved and both day rates and utilization were consistently higher than at any time in the prior two years. Subsequent to the end of 2001, activity levels have remained relatively high and day rates have also continued to be steady.

In the first quarter of 2000, we secured a contract for one of the newbuild vessels completed in 1999 to work for a major oil company in Indonesia. This development was important because it marked a shift from the historical demand of the commodity type vessels which have dominated this market in the past to newer, more technologically advanced service vessels. This contract, which was originally for two years, was extended at a higher day rate until August of 2002.

THE BRAZILIAN MARKET

Similar to the North Sea, the Brazilian market requires highly sophisticated vessels due to the harsh operating environment. We have experienced success in meeting the market requirements through owned, managed and bareboat chartered vessels and will look to our existing and newbuild fleet to meet the expanding demand for vessels in this important market.

Over the last several years, the Brazilian government has opened up the petroleum industry to private investment. The early bid rounds resulted in extensive commitments by major international oil companies and consortiums of independents, which have explored and will continue to explore the offshore blocks awarded in the lease sales. This has created a demand for deepwater AHTS and PSV vessels in support of the drilling and exploration activities that has been met primarily from mobilization of vessels from other regions. As this activity increases throughout 2002-2003 to meet the commitments of the oil companies to the Brazilian government, there will be a growing demand for offshore support vessels. In addition, Petroleo Brasiliero S.A. ("Petrobras"),

the Brazilian national oil company, has announced expansion plans for the next several years which will create additional demand for offshore support vessels. We have been active in

bidding on additional work with both Petrobras and the consortiums and believe we will be successful in the award of a contract for additional vessels in the region.

The Seapower has been operating in Brazil since 1995 under a contract with Petrobras, which runs into October 2003. The Leopard Bay, an AHTS vessel built by Sanko Steamship Co. Ltd., ("Sanko") and bareboat chartered by us for three years, began a three-year contract with Petrobras in November 1998 which was extended into June 2002. During 2000, we exercised our option to extend the bareboat charter for this vessel for an additional year through June 2003. We contracted a third vessel, the Highland Scout, to Petrobras in January 2000 for an initial period of six months which was extended several times during that year. At the end of 2001, we extended the contract for an additional year at a higher day rate. In the first quarter of 2001, we mobilized two of our managed PSVs, the Torm Kestrel and Waveny Castle, to Brazil to work for BP in support of their drilling program offshore Belem, Brazil. Both of these vessels were returned to the North Sea on the completion of the drilling program in mid-2001.

THE WEST AFRICAN MARKET

During January 2000, we mobilized a bareboat chartered vessel from the North Sea market to Equatorial Guinea under a two-year contract with a major international oil company which was subsequently extended into 2003. This marked our entry into this market and was viewed as an important step for us in meeting the growing demand for deepwater capable vessels in the emerging West African Offshore Marine Services market. In 2001, we mobilized one of our managed AHTS vessels to West Africa in support of a construction/cable installation program. With the notable exploration successes which have been publicized by both major oil companies and independents operating in the area, we believe that the market in this region has one of the highest potentials for attracting North Sea capable vessels. The heightened level of offshore expenditures has created an increase in the demand for vessels to support drilling operations in this region, as evidenced by the increase in vessel contracts awarded over the period 1999-2001. We believe that further demand will be created for both AHTS vessels and PSVs as expenditures to further delineate and exploit the deepwater discoveries are initiated by the international oil companies. This has been further evidenced in the first several months of 2002 as bid activity has increased for projects in Nigeria, Angola and Equatorial Guinea. We will look to our current fleet of vessels in addition to our newbuild vessels to meet the requirements of this market.

NEW VESSEL CONSTRUCTION PROGRAM

In response to the improving worldwide market conditions, during the second half of 2000 we committed to the construction of nine new North Sea class vessels with a Norwegian shipbuilder. This shipyard previously constructed several of our other newbuilds including the UT 755 design PSVs. The program includes six PSVs and three AHTSs with all vessels designed to be multi-functional in that they will be capable of supporting underwater remotely operated vehicle ("ROV") operations as well as traditional offshore support operations. All of the vessels are being built to Rolls Royce/Ulstein specifications and include two UT 745 and four UT 755 PSVs plus three UT 722

AHTS vessels. The timing of this construction program was chosen based on the increased demand for deepwater and ultra-deepwater capable vessels. Many of the same construction supervisors utilized in our successful construction program during 1996 - 1999 have been mobilized to manage the new program. One PSV, the Highland Fortress was delivered in July 2001 and two vessels were delivered in February 2002. Two additional deliveries are scheduled in the third and fourth quarter of 2002. The remaining four vessels are scheduled for delivery in 2003. The first three vessels have been delivered on time and on budget. The remaining vessels to be delivered are anticipated to meet the same cost and delivery criteria. The delivery dates are expected to precede the termination dates of the four current bareboat chartered vessels. The total estimated cost of the program is approximately $185 million. To date we have spent $69.0 million, including $33.2 million in 2002. The construction cost for the vessels is based on a fixed price contract denominated in Norwegian Kroner. Additionally, we have systematically entered into forward contracts to minimize our foreign currency exchange risk. The following table outlines the cost and contracted delivery schedule of the program:

VESSEL	VESSEL TYPE	DELIVERY DATE	COST (MILLIONS)
UT 755L (Highland Fortress)..	PSV	July 12, 2001	$ 14.0
UT 745 (Highland Navigator)..	PSV	February 27, 2002	18.8
UT 745 (North Mariner).......	PSV	February 28, 2002	19.7
UT 755 (Highland Bugler).....	PSV	3rd Qtr. 2002	12.5
UT 722L (Highland Courage)...	AHTS	4th Qtr. 2002	30.2
UT 755L.....................	PSV	1st Qtr 2003	15.0
UT 755......................	PSV	2nd Qtr 2003	13.0
UT 722L.....................	AHTS	3rd Qtr 2003	31.0
UT 722L.....................	AHTS	4th Qtr 2003	31.0
Total Cost			$ 185.2

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OUR FLEET

Our existing fleet as of March 5, 2002 includes 53 vessels. Of these vessels, 41 are owned by us (one of which, the Zacharias, is under an installment sale which obligates the charterer to purchase the vessel not later than April 2003), four are bareboat chartered from other owners and eight are under management for other owners. Additionally, there are six remaining vessels to be delivered as part of our newbuild program in Norway. Several of these vessels may replace four of the bareboat chartered vessels, all of which will be returned during the years 2003-2004.

FLEET	VESSEL	TYPE (A)	FLAG	DELIVERY	LENGTH (FEET)	BHP (B)
NORTH SEA BASED (D)						
Owned	Clwyd Supporter	SpV	UK	1984	266	10,700
	Highland Champion	LgPSV	UK	1979	265	4,800

	Highland Drummer	LgPSV	UK	1997	221	5,450
	Highland Fortress	LgPSV	UK	2001	236	5,450
	Highland Legend	PSV	UK	1986	194	3,590
	Highland Navigator	LgPSV	UK	2002	275	9,600
	Highland Patriot	LgPSV	UK	1982	233	4,800
	Highland Pioneer	LgPSV	UK	1983	224	5,400
	Highland Piper	LgPSV	UK	1996	221	5,450
	Highland Pride	LgPSV	UK	1992	265	6,600
	Highland Rover	LgPSV	UK	1998	236	5,450
	Highland Spirit	SpV	UK	1998	202	6,000
	Highland Sprite	SpV	UK	1986	194	3,590
	Highland Star	LgPSV	UK	1991	265	6,600
	Highland Warrior	LgPSV	Bermuda	1981	265	5,300
	North Prince	LgPSV	UK	1978	259	6,000
	Safe Truck	LgPSV	UK	1996	221	5,450
	Sefton Supporter	SpV	UK	1971	250	1,620
	North Challenger	LgPSV	Norway	1997	221	5,450
	North Crusader	AHTS	Norway	1984	236	12,000
	North Fortune	LgPSV	Norway	1983	264	6,120
	North Mariner	LgPSV	Norway	2002	275	9,600
	North Vanguard	LgPSV	Norway	1990	265	6,600
	Sound Truck	LgPSV	Norway	1983	265	6,120
	Stout Truck	LgPSV	Norway	1998	221	5,450
	Stream Truck	LgPSV	Norway	1998	276	9,600
	Highland Bugler (e)	LgPSV	TBD	2002	221	5,450
	Highland Courage (e)	AHTS	TBD	2002	260	16,320
	TBN UT 755 (e)	LgPSV	TBD	2003	221	5,450
	TBN UT 755L (e)	LgPSV	TBD	2003	236	5,450
	TBN UT 722L (e)	AHTS	TBD	2003	260	16,320
	TBN UT 722L (e)	AHTS	TBD	2003	260	16,320
Chartered	Mercury Bay	LgPSV	Bermuda	1998	221	5,450
	Monarch Bay	LgPSV	Bermuda	1998	221	5,450
	Torm Heron (f)	AHTS	Bermuda	1999	241	15,000
SOUTHEAST ASIA BASED						
Owned	Highland Guide	LgPSV	US	1999	218	4,640
	Sea Conquest	SmAHTS	Panama	1977	185	3,850
	Sea Diligent	SmAHTS	Panama	1981	192	4,610
	Sea Eagle	SmAHTS	Panama	1976	185	3,850
	Sea Endeavor	SmAHTS	Panama	1981	191	4,000
	Sea Explorer	SmAHTS	Panama	1981	192	5,750
	Sea Searcher	SmAHTS	Panama	1976	185	3,850
	Searunner	Crew	Panama	1982	120	2,720
	Seawhip	SmAHTS	Panama	1983	192	3,900
	Seawitch	SmAHTS	Panama	1983	192	3,900
	Sem Courageous	SmAHTS	Malaysia	1981	191	4,000
	Sem Valiant	SmAHTS	Malaysia	1981	191	4,000
BRAZIL BASED						
Owned	Highland Scout	LgPSV	US	1999	218	4,640
	Seapower	SpV	Panama	1974	222	7,040
Chartered	Leopard Bay	AHTS	Bermuda	1998	241	15,000

(a) Legend: LgPSV - Large platform supply vessel
PSV - Platform supply vessel
AHTS - Anchor handling, towing and supply vessel
SmAHTS - Small anchor handling, towing and supply vessel
Crew - Crewboat
SpV - Specialty vessel, including towing and oil spill response

(b) Brake horsepower.

(c) Deadweight tons.

(d) The Zacharias, acquired as part of the Sea Truck acquisition, is under a bareboat charter and has a provision requiring the charterer to purchase the vessel no later than April 2003 and is not included herein.

(e) Vessel currently under construction in Norwegian shipyard.

(f) Operated pursuant to 50/50 joint venture agreement with Torm U.K. Limited, through May 2002

Note: Eight additional vessels are under management agreements for other owners.

CUSTOMERS, CONTRACT TERMS AND COMPETITION

Our principal customers are major integrated oil companies and large independent oil and natural gas exploration, production companies working in international markets, and foreign government owned or controlled oil companies, as well as companies that provide logistic, construction and other services to such oil companies and foreign government organizations. During 2001, under multiple contracts in the ordinary course of business, one customer accounted for more than 10% of total consolidated revenues: Aberdeen Services Company ("ASCO") at 19.0%. ASCO is a logistics coordinator primarily serving major international oil companies. The contracts are industry standard time charters involving several of our vessels for periods ranging from a few days or months to more than a year. The contracts are generally not cancelable except for unsatisfactory performance by the vessel. The loss of a major customer could have a material adverse effect on our financial condition and results of operations if a replacement is not obtained.

Contract or charter durations vary from single-day to multi-year in length, based upon many different factors that vary by market. Historically, term charters in the Offshore Marine Services industry have generally extended from six months to one year in length. Additionally, there are "evergreen" charters (also known as "life of field" or "forever" charters), and at the other end of the spectrum, there are "spot" charters and "short duration" charters, which can vary from single voyage to charters of less than six months. Longer duration charters are more common where equipment is not as readily available or specific equipment is required. In the North Sea, multi-year charters have been more common, and we believe that term charters constitute the majority of the market. Term charters in Southeast Asia are currently somewhat less common than in the North Sea and generally are two years or shorter in length. In the developing Brazil and West Africa markets, term charters are relatively common due to the harsh operating conditions, the scarcity of quality equipment and the distance to larger markets. In addition, charters for vessels in support of floating production, FPSOs are typically "life of field" or "full production horizon charters". Because of frequent renewals, the stated duration of charters may have little correlation with the length of time the vessel is actually contracted to a particular customer.

Bareboat charters are contracts for vessels, generally for a term in excess of one year, whereby the owner transfers all market exposure for the vessel to the charterer in exchange for an arranged fee. The charterer has the right to market the vessel without direction from the owner. In addition to bareboat charter fees paid to the owner, the charterer is responsible for providing the crew and all operating costs for the vessel. No depreciation expense is borne by

the charterer. Bareboat chartered vessels, in comparison to identical owned vessels with the same day rate, generate the same revenue but less operating income since bareboat charter expense is generally higher than depreciation expense and less operating cash flow since bareboat charter expense is a cash cost.

Managed vessels add to the market presence of the manager but provide limited direct financial contribution. Management fees are typically based on a per diem rate and are not subject to fluctuations in the charter hire rates. The manager is typically responsible for disbursement of funds for operating the vessel on behalf of the owner. Depending on the level of service provided by the manager, fees for services range from $5,000 to $10,000 per month per vessel.

Substantially all of our charters are fixed in British pounds, Norwegian Kroner and U.S. dollars. We attempt to reduce currency risk by matching each vessel's contract revenue to the currency matching its operating expenses. See "Management's Discussion and Analysis of Financial Condition and Results of Operations - Currency Fluctuations and Inflation."

We compete with approximately 15-20 companies in the North Sea market and numerous small and large competitors in the Southeast Asia market principally on the basis of suitability of equipment, price and service. Also, in certain foreign countries, preferences are given to vessels owned by local companies. We have attempted to mitigate some of the impact of such preferences through affiliations with local companies. Some of our competitors have significantly greater financial resources than we do.

FLEET AVAILABILITY

A significant portion of our available fleet is committed under contracts of various terms. This represents the highest level of forward contract cover in our history for the current year as well as for one year out. The following table outlines the percentage of our forward days under contract as of March 5, 2001 and 2002:

	AS OF MARCH 5, 2001		AS OF MARCH 5, 2002	
	2001 VESSEL DAYS	2002 VESSEL DAYS	2002 VESSEL DAYS	2003 VESSEL D
North Sea Based Fleet	82.0%	43.9%	88.1%	56.3%
Southeast Asia Based Fleet	43.4%	1.4%	38.0%	5.4%
Brazil Based Fleet	86.6%	0.0%	80.2%	26.3%
Overall Fleet	68.9%	25.6%	73.5%	40.0%

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ENVIRONMENTAL AND GOVERNMENT REGULATION

We must comply with extensive government regulation in the form of international conventions, federal and state laws and regulations in jurisdictions where our vessels operate and/or are registered. These conventions, laws and regulations govern matters of environmental protection, worker health and safety, and the manning, construction and operation of

vessels. We believe that we are in material compliance with all applicable laws and regulations. The International Maritime Organization recently made the regulations of the International Safety Management ("ISM") Code mandatory. The ISM Code provides an international standard for the safe management and operation of ships, pollution prevention and certain crew and vessel certifications which is effective, unless extended by governmental authorities, on July 1, 2002. While we believe the company will be in compliance on the effective date, no assurance can be given that compliance will be completed on a timely basis. The risks of incurring substantial compliance costs, liabilities and penalties for non-compliance are inherent in offshore marine operations. Compliance with environmental, health and safety laws and regulations increases our cost of doing business. Additionally, environmental, health and safety laws change frequently. Therefore, we are unable to predict the future costs or other future impact of environmental, health and safety laws on our operations. There is no assurance that we can avoid significant costs, liabilities and penalties imposed as a result of governmental regulation in the future.

OPERATIONAL RISKS AND INSURANCE

Our operations are subject to various operating hazards and risks, including:

- adverse sea and weather conditions;
- mechanical failure;
- navigation errors;
- collision;
- oil and hazardous substance spills, containment and clean up;
- labor shortages and strikes;
- damage to and loss of drilling rigs and production facilities; and
- war, sabotage and terrorism risks.

These risks present a threat to the safety of personnel and to our vessels, cargo, equipment under tow and other property, as well as the environment. We could be required to suspend our operations or request that others suspend their operations as a result of these hazards. Third parties may have significant claims against us for damages due to personal injury, death, property damage, pollution and loss of business.

We maintain customary insurance coverage for casualty and liability risks. We have renewed our primary insurance program for the insurance year 2002-2003. As a result of the events of September 11, 2001, the cost to cover war risks on our vessels has increased and could substantially increase over prior years' policies. We will evaluate the need to maintain this coverage as it applies to our fleet in the future. There is no assurance that our insurance coverage will be available, or affordable in the future, and if available whether it will be adequate to cover future claims that may arise.

FOREIGN OPERATIONS

During the past five years, we derived substantially all of our revenues from foreign sources. We therefore face risks inherent in conducting business internationally, such as:

- foreign currency exchange fluctuations or imposition of currency exchange controls;

- legal and governmental regulatory requirements;
- potential vessel seizure or nationalization of assets;
- import-export quotas or other trade barriers;
- difficulties in collecting accounts receivable and longer collection periods;
- political and economic instability;
- politically adverse tax consequences;
- difficulties and costs of staffing and managing international operations; and
- language and cultural differences.

In the past, these conditions or events have not materially affected our operations. However, we cannot predict whether any such conditions or events might develop in the future. Also, we organized our subsidiary structure and our operations in part based on certain assumptions about various foreign and domestic tax laws, currency exchange requirements,

and capital repatriation laws. While we believe our assumptions are correct, there can be no assurance that taxing or other authorities will reach the same conclusion. If our assumptions are incorrect, or if the relevant countries change or modify such laws or the current interpretation of such laws, we may suffer adverse tax and financial consequences, including the reduction of cash flow available to meet required debt service and other obligations. Any of these factors could materially adversely affect our international operations and, consequently, our business, operating results and financial condition.

SEASONALITY OF BUSINESS

Our fleet operations are subject to seasonal factors. Operations in the North Sea are generally at their highest level during the months from April to August and at their lowest levels during November to February. Vessels operating in Southeast Asia are generally at their lowest utilization rates during the monsoon season, which moves across the Asian continent between September and early March. The actual monsoon season for a specific Southeast Asian location is about two months. In addition, operations in any market may be affected by unusually long or short construction seasons due to, among other things, abnormal weather conditions.

EMPLOYEES

At December 31, 2001, we had 300 employees located in the United States, the United Kingdom, Norway, Southeast Asia and Brazil. Additionally, through our contract with a crewing agency, we participate in collective bargaining arrangements with 753 contract crew members working on our North Sea vessels under evergreen employment agreements with wages renegotiated annually in June. We have no other collective bargaining agreements. Relations with our employees are considered satisfactory. To date, our operations have not been interrupted by strikes or work stoppages.

PROPERTIES

Our principal executive offices are located in Houston, Texas, while operations are headquartered in Lafayette, Louisiana. For local support, we have offices and warehouse facilities in Singapore and Aberdeen, Scotland. All facilities except one owned facility in Aberdeen, Scotland are under lease. Our operations generally do not require highly specialized facilities, and suitable facilities are generally available on a lease basis as required.

ADDITIONAL INFORMATION

We file annual, quarterly, and special reports, proxy statements and other information with the SEC. Our SEC filings are available to the public over the Internet on our website at http://www.gulfmark.com and at the SEC's website at http://www.sec.gov. You may also read and copy any document we file at the SEC's Public Reference Room at the following location: 450 Fifth Street, N.W., Washington, D.C. 20549. You may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330.

ITEM 3. LEGAL PROCEEDINGS

GENERAL

Various legal proceedings and claims that arise in the ordinary course of business may be instituted or asserted against us relating to the Offshore Marine Services operations. Additionally, we may be subject to claims for indemnification by Weatherford International, Inc. ("Weatherford") under our indemnity obligations described below. Although the outcome of litigation cannot be predicted with certainty, we believe, based on discussions with legal counsel and in consideration of reserves recorded, that the outcome of these legal actions, if any, would not have a material adverse effect upon our consolidated financial position and results of our operations. We cannot predict whether any such claims may be made in the future.

DISTRIBUTION AGREEMENT INDEMNITIES

We were formed as a spin-off from our predecessor and began separate trading on May 1, 1997. The assets remaining with the predecessor included a domestic erosion control business known as "Ercon" and an investment in the common stock of Weatherford. In effecting the spin-off, we agreed to indemnify Weatherford and certain of its affiliates against:

- liabilities for all past and future claims and litigation against Weatherford stemming from the predecessor's or our offshore marine services operations;
- liabilities for claims and litigation against Weatherford or its current or past subsidiaries and affiliates, including Ercon, arising out of acts or omissions prior to May 1, 1997; and
- any tax liabilities in the event the spin-off and related transactions are determined to be taxable.

We have established an accrual on our financial statements and maintain insurance coverage, which we believe is adequate, to cover any contingent liabilities that may arise under the indemnity. During 2001, we reached an agreement with Ercon and Weatherford related to prior warranty claims asserted

against Ercon by their customers. This had the effect of reducing the accrual we had established in 1997; however, there is no assurance that the remaining accrual is adequate. Any future successor of GulfMark would be required to assume these indemnity obligations, which may have the effect of delaying, deferring or preventing a change of control.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

NONE

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

Our common stock is traded on the NASDAQ National Market under the symbol "GMRK." The following table sets forth the range of high and low sales prices for our common stock for the periods indicated, as reported:

	2001		2000	
	HIGH	LOW	HIGH	LOW
Quarter ended March 31..............	$35.00	$23.75	$ 22.50	$ 11.50
Quarter ended June 30...............	$39.99	$27.40	$ 26.25	$ 16.75
Quarter ended September 30..........	$34.00	$22.00	$ 31.75	$ 18.50
Quarter ended December 31...........	$30.45	$23.10	$ 31.00	$ 21.00

For the quarter ended March 31, 2002 (through March 5, 2002), the range of low and high sales prices was $26.21 and $39.75, respectively. On March 5, 2002, the closing sale price of our common stock as reported by the NASDAQ National Market was $38.50 per share. As of March 7, 2002, there were 788 shareholders of record.

We have not declared or paid dividends during the past five years. Pursuant to the terms of the indenture under which the Notes (as hereinafter defined) are issued, we may be restricted from declaring or paying dividends; however, we currently anticipate that, for the foreseeable future, any earnings will be retained for the growth and development of our business. The declaration of dividends is at the discretion of our Board of Directors. Our dividend policy will be reviewed by the Board of Directors at such time as may be appropriate in light of future operating conditions, dividend restrictions of subsidiaries and investors, financial requirements, general business conditions and other factors.

ITEM 6. SELECTED CONSOLIDATED FINANCIAL DATA

The Consolidated Financial Statements included herein, as well as the financial data presented in the table following, present the net assets and results of operations of Ercon and the common stock of Weatherford owned by our predecessor as discontinued operations for all periods presented. The data that

follows should be read in conjunction with our Consolidated Financial Statements and the notes thereto included in Item 8 and "Management's Discussion and Analysis of Financial Condition and Results of Operations."

	YEAR ENDED DE		
	2001	2000	1999
	(IN THOUSANDS, EXCEPT		
OPERATING DATA :			
Revenues	$ 114,063	$ 77,702	$ 72,2
Direct operating expenses	43,403	34,060	34,1
Bareboat charter expense	8,931	6,661	7,0
General and administrative expenses	7,623	6,328	6,0
Depreciation and amortization	15,327	12,613	12,4
Operating income	38,779	18,040	12,5
Gain on sale of assets	--	3,651	
Interest expense, net	(11,569)	(10,731)	(9,5
Loss from unconsolidated venture	--	(214)	(8
Minority interest	(1,524)	--	
Other income (expense), net	23	217	
Income tax (provision) benefit	12,213	(3,056)	(3
Income from continuing operations	37,922	7,907	1,8
Loss from discontinued operations, net of taxes	--	--	
Loss on disposal of segment, net of taxes	--	--	
Net income	$ 37,922	7,907	$ 1,8
Earnings per share from continuing operations (basic)	$ 4.63	$ 0.97	$ 0.
Weighted average common shares (basic)	8,194	8,163	8,1
Earnings per share from continuing operations (diluted) (a)	$ 4.51	$ 0.95	$ 0.
Weighted average common shares (diluted) (a)	8,403	8,326	8,2
STATEMENT OF CASH FLOWS DATA:			
Cash provided by operating activities of continuing operations	$ 41,755	$ 14,349	$ 16,3
Cash used in investing activities	(85,241)	(6,240)	(19,7
Cash provided by financing activities	31,530	110	
Effect of exchange rate changes on cash	(812)	(2,178)	(
OTHER DATA:			
EBITDA (b)	$ 54,106	$ 30,653	$ 24,9
Cash dividends per share	--	--	
Total vessels in fleet (c)	50	47	
Average number of owned or chartered vessels(d)	38.0	33.6	31

AS OF DECEMBER 31,				
2001	2000	1999	1998	1997

BALANCE SHEET DATA:					
Cash and cash equivalents	$ 21,923	$ 34,691	$ 28,650	$ 32,007	$ 25,885
Vessels and equipment, net ...	262,364	182,628	195,358	192,615	105,262
Total assets	352,051	263,914	270,582	271,369	154,661
Long-term debt (e)	180,669	130,097	130,128	130,136	42,918
Total stockholders' equity ...	133,392	97,587	104,678	108,490	85,272

(a) Earnings per share is based on the weighted average number of shares of Common Stock and common stock equivalents outstanding.

(b) As used herein, EBITDA is operating income plus depreciation and amortization. EBITDA is used by management as a supplemental financial measurement in the evaluation of our business and in establishing our capital budget and should not be considered as an alternative to net income, as an indicator of our operating performance, as an alternative to cash flows or as a measure of liquidity. Because EBITDA is not uniformly calculated among and across industry groups, this measure may not be comparable to similarly titled measures reported by other companies. EBITDA is presented here to provide additional information.

(c) Includes managed vessels in addition to those that are owned and chartered. See page and 9 for further information concerning our fleet.

(d) Includes owned and chartered vessels only. Adjusted for additions and dispositions occurring during each period. See page 8 for further information concerning our fleet.

(e) Excludes current portion of long-term debt.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

This information should be read in conjunction with our Consolidated Financial Statements, including the notes thereto, contained herein. See also "Selected Consolidated Financial Data."

GENERAL

Our operations are affected primarily by day rates, fleet utilization and the number and type of vessels in our fleet. These factors are driven by trends within the oil and natural gas exploration and production industry, which generally affect the demand for vessels, as well as by trends impacting the broader economy and capital markets, which generally affect the supply of vessels. While offshore support vessels service existing oil and natural gas production platforms and exploration and development activities, incremental demand depends primarily upon drilling activity, which, in turn, is related to both short-term and long-term trends in oil and natural gas prices. As a result, trends in oil and natural gas prices may significantly affect fleet utilization and day rates. There were significant declines in oil and gas prices during 1998

followed by equally significant increases subsequent to the first quarter of 2000. Although commodity prices have rebounded from the levels of 1998-1999, they have remained somewhat volatile, albeit at a higher average level than at any sustained time over the past decade. The volatility of prices will continue to be a factor in the planning for future oil and gas exploration and development expenditures and the consequent demand for our vessels.

An additional factor affecting operating earnings is the mix of vessels owned versus bareboat chartered by us. Owned and bareboat chartered vessels generate operating revenues and may incur expenses at similar rates. However, chartered vessels also incur bareboat charter hire expense instead of depreciation expense. Depreciation expense is generally less than bareboat charter expense.

In addition, we provide management services to other vessel owners for a fee. Only the management fee charged by us is included in our operating revenues. The day rates for these vessels are excluded for purposes of calculating fleet rates per day worked and utilization in all years.

Our operating costs are primarily a function of fleet size and utilization levels. The most significant direct operating costs are wages paid to vessel crews, maintenance and repairs and marine insurance. Generally, fluctuations in vessel utilization affect only that portion of our direct operating costs that is incurred when the vessels are active. As a result, direct operating costs as a percentage of revenues may vary substantially due to changes in day rates and utilization.

In addition to these variable costs, we incur fixed charges related to the depreciation of our fleet and costs for routine drydock inspections and maintenance and repairs designed to ensure compliance with applicable regulations and to maintain certifications for our vessels with various international classification societies. The aggregate number of drydockings and other repairs undertaken in a given period generally determines maintenance and repair expenses and marine inspection amortization charges. Costs incurred for drydock inspection and regulatory compliance are capitalized and amortized over 30 months, which approximates the period between required drydockings.

Under applicable maritime regulations, vessels must be drydocked twice in a five-year period for inspection and certification. Should we undertake a large number of drydockings in a particular fiscal period, comparative results may be affected. For the year ended December 31, 2001, we completed the drydocking of 15 vessels at an aggregate cost of $4.9 million, versus 11 vessels at an aggregate cost of $2.4 million in 2000 and 10 vessels drydocked at an aggregate cost of $2.6 million in 1999.

Over the last several years, we have been actively expanding our fleet through the construction of new vessels, acquisition of existing equipment from the resale market and by bareboat chartering vessels owned by others. We contracted with a Norwegian shipbuilder for the construction of nine North Sea class vessels for a total of approximately $185 million. Projected cash outflows for this program for 2002 is $74.2 million, of which $33.2 million has been expended as of March 5, 2002. To complete this program in 2003, projected cash outflows are $75.2 million.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The Consolidated Financial Statements and Notes to Consolidated Financial Statements contain information that is pertinent to management's discussion and analysis. The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of any contingent assets and liabilities. Management believes these

accounting policies involve judgment due to the sensitivity of the methods, assumptions and estimates necessary in determining the related asset and liability amounts. We believe we have exercised proper judgment in determining these estimates based on the facts and circumstances available to management at the time the estimates were made.

Revenue Recognition

Revenues from charters for offshore marine services are recognized as performed based on contractual charter rates. Currently, charter terms range from several days to as long as five years in duration. Management services revenue is recognized as performed in the period in which the services are provided.

Deferred Drydocking and Deferred Financing Costs

Costs incurred in connection with drydocking are capitalized and amortized over 30 months, which approximates the period between required drydockings. Deferred financing costs are capitalized as incurred and are amortized over the expected term of the related debt.

Goodwill

Goodwill primarily relates to the 1998 acquisition of Brovig Supply and the June 2001 acquisition of Sea Truck and has been allocated based on the estimated fair market value of net tangible assets acquired. We assess the recoverability of the carrying value of goodwill periodically or when events or circumstances indicate the potential for impairment. Our assessment is based upon the fair value of the goodwill which is based upon our estimate of future cash flows. If our estimated undiscounted cash flows are less than the carrying value of the related goodwill, an impairment would be recognized based upon the discounted value of such cash flows. Changes in economic conditions of our business could affect our estimate of future cash flows. Any impairment in goodwill would be recognized in our operating results.

RESULTS OF OPERATIONS

COMPARISON OF THE FISCAL YEARS ENDED DECEMBER 31, 2001 AND DECEMBER 31, 2000.

Our results for 2001 have continued to follow the general pattern of the principal markets in which we operate. Although the U.S. market for Marine Offshore Services fell off during the second half of 2001, we have no presence in the this market. However, our international markets remained quite strong with both the North Sea and Southeast Asia regions demonstrating much higher utilization when compared to 2000. This activity level was reflected in day rate increases in both the term and spot markets in the North Sea as well as term rate increases in Southeast Asia. Because of the strong term market, we fixed a number of our North Sea vessels on multi-year contracts with options for extensions beyond the primary term and had a number of options for contract extensions declared by charterers under existing agreements. This has in turn produced the highest level of forward contract cover in our history.

For the year ended December 31, 2001, we reported net income of $37.9 million, $4.51 per diluted share. Our 2001 results include the pre-2001 deferred tax recapture of $15.7 million, or $1.87 per share (diluted) recognized in the second quarter of 2001 for adoption of the tonnage tax regime in the U.K. and Norway. Excluding the recapture, net income was $22.2 million, or $2.64 per

share (diluted), on revenues of $114.1 million compared to $7.9 million, or $0.95 per share (diluted) on revenues of $77.7 million for the preceding year.

The increase in revenue was attributable primarily to the expansion of the fleet during the year through the three separate acquisition transactions (Highland Patriot, Sea Truck and Clear Seas vessels), the delivery of the Highland Fortress in July 2001 and the inclusion of the joint venture revenue from the vessel Torm Heron due to consolidating of the joint venture as a result of our increased managerial authority over vessel operations. Of the $36.4 million increase in revenue, 41% was due to the increased size of the fleet while the revenue from the joint venture represented an additional 20% of the increase. While consolidation of the Torm Heron joint venture resulted in increased revenue and operating income, it did not affect our net income. Both higher day rates in all regions and increased utilization in both the North Sea and Southeast Asia accounted for the balance of the increase in revenue of 23% and 16% respectively. Operating expenses increased $9.3 million in 2001. Of this increase, 84% was due to the increased size of the fleet including the joint venture vessel with the balance resulting from higher operating costs primarily on the North Sea vessels. Bareboat charter expense increased by $2.3 million over the previous year due principally to the inclusion of $2.0 million in bareboat charter fees related to inclusion of the joint venture vessel. General and administrative expenses increased $1.3 million in 2001 primarily due to the addition of the Norwegian operating base acquired in the Sea Truck acquisition. Depreciation expense also increased in 2001 when compared to 2000 by $2.7 million and was related solely to the increase in the size of the fleet. Net interest expense reflected an increase of $0.8 million due to increased borrowings related to the Sea Truck acquisition and a decrease in interest income due to lower average cash balances, offset in part, by an increase in the amount of capitalized interest related to the newbuild vessel program. The 2000 period also reflected a pre-tax gain of $3.7 million primarily reflecting the gain on the sale of the old Highland Fortress. Minority interest increased by $1.5 million and reflects the distribution of profits from the joint venture vessel included in the operating income categories of the Statements of

Income. The following table summarizes average day rates, overall utilization and average vessels owned or chartered for the comparable periods:

	YEAR ENDED DECEMBER 31,		
	2001	2000	INCREASE (DECREASE)
Average Rates Per Day Worked (a) (b):			
North Sea Based Fleet (c)	$ 10,932	$ 9,101	$ 1,831
Southeast Asia Based Fleet	4,353	4,039	314
Brazil Based Fleet	9,576	8,382	1,194
Overall Utilization (a) (b):			
North Sea Based Fleet (c)	96.9%	92.8%	4.1%
Southeast Asia Based Fleet	86.4%	67.2%	19.2%
Brazil Based Fleet	93.7%	95.9%	(2.2)%
Average Owned or Chartered Vessels (a) (d):			
North Sea Based Fleet	23.0	18.6	4.4
Southeast Asia Based Fleet	12.0	12.0	--

Brazil Based Fleet	3.0	3.0	-- .4
Total	38.0	33.6	4

(a) Includes all owned or bareboat chartered vessels as well as the joint venture bareboat chartered vessel. Managed vessels are not included.

(b) Average rates per day worked is defined as total charter revenues divided by number of days worked. Overall utilization rate is defined as the total number of days worked divided by the total number of days of availability in the period.

(c) Revenues for vessels in our North Sea fleet are primarily earned in British pounds ((pound)) and have been converted to U.S. dollars at the average exchange rate ($/(pound)) for the periods indicated. The average exchange rates for the years ended December 31, 2001, and 2000 were (pound) = $1.44 and (pound) = $1.52, respectively. The North Sea Based Fleet includes the Monarch Bay which is working in West Africa.

(d) Adjusted for vessel additions and dispositions occurring during each period.

COMPARISON OF THE FISCAL YEARS ENDED DECEMBER 31, 2000 AND DECEMBER 31, 1999.

Our results for 2000 reflected an increase in activity as energy commodities have shown consistently strong pricing. During the first half of 2000, we were unwilling to fix our fleet on long-term contracts based on our belief that there would be a recovery in the market during the second half of the year. Exploration and development expenditures began to show the effects of the recovery in commodity prices during the second quarter of 2000. Accordingly, we began fixing our vessels on term work and as such, the utilization levels were at near capacity in the North Sea fleet and Brazil for the last two quarters of 2000. Likewise, Southeast Asia began to show improvements in utilization as the year 2000 progressed, which further caused the day rates in the region to climb.

We recognized net income of $7.9 million in 2000 compared to $1.9 million in 1999. Revenues increased to $77.7 million and operating income increased to $18.0 million in 2000, compared to $72.3 million and $12.5 million in 1999, respectively. The increase in revenue was attributable to the 1999 expansion of the fleet with the full year effect of the Highland Guide, Highland Scout and Highland Pioneer as well as the significant improvement in utilization. These increases more than offset the impact of the sale of the 1982-built PSV, the Highland Fortress, in July 2000 and the slight decrease in average day rate. Operating expenses remained virtually unchanged in part due to our cost control measures and the weaker exchange rates in both the U.K. and Norway. Net interest expense reflected an increase of $1.2 million due to a decrease in interest income of $0.3 million coupled with a reduction in the amount of interest capitalized of $0.9 million. The 2000 period also reflected a pre-tax gain of $3.7 million primarily reflecting the gain on sale of the Highland Fortress. The following table summarizes average day rates, overall utilization and average vessels owned or chartered for the comparable periods:

	YEAR ENDED DECEMBER 31,		
	2000	1999	INCREASE (DECREASE)
Average Rates Per Day Worked (a) (b):			
North Sea Based Fleet (c)	$ 9,101	$ 9,489	$ (388)
Southeast Asia Based Fleet	4,039	4,184	(145)
Brazil Based Fleet	8,382	9,529	1,147)
Overall Utilization (a) (b):			
North Sea Based Fleet (c)	92.8%	88.2%	4.6%
Southeast Asia Based Fleet	67.2%	62.9%	4.3%
Brazil Based Fleet	95.9%	76.9%	19.0%
Average Owned or Chartered Vessels (a) (d):			
North Sea Based Fleet	18.6	18.1	0.5
Southeast Asia Based Fleet	12.0	11.4	0.6
Brazil Based Fleet	3.0	2.3	0.7
Total	33.6	31.8	1.8

(a) Includes all owned or bareboat chartered vessels, except the joint venture bareboat chartered vessel. Managed vessels are not included.

(b) Average rates per day worked is defined as total charter revenues divided by number of days worked. Overall utilization rate is defined as the total number of days worked divided by the total number of days of availability in the period.

(c) Revenues for vessels in our North Sea fleet are primarily earned in British pounds ((pound)) and have been converted to U.S. dollars at the average exchange rate ($/(pound)) for the periods indicated. The average exchange rates for the years ended December 31, 2000, and 1999 were (pound) = $1.52 and (pound) = $1.62, respectively. The North Sea Based Fleet includes the Monarch Bay which is working in West Africa.

(d) Adjusted for vessel additions and dispositions occurring during each period.

LIQUIDITY AND CAPITAL RESOURCES

Our ongoing liquidity requirements arise primarily from our need to service debt, fund working capital, acquire or improve equipment and make other investments. Since inception, we have been active in the acquisition of additional vessels through both the resale market and new construction. As of March 5, 2002, we have six new vessels under construction in Norway. Historically, bank financing and internally generated funds have provided funding for these activities. Our existing credit facility provides for borrowings up to $47 million in two separate tranches. The amount outstanding under the existing credit facility is $43.6 million. We have recently executed a commitment letter for a new $100 million credit facility (the "New Credit Facility") which will replace the existing facility. This New Credit Facility is expected to close on March 31, 2002. Estimated cash flow from operations, cash balances on hand and the New Credit Facility should be adequate to meet the requirements of the newbuild program and routine capital expenditures for drydocking and enhancements to our existing fleet.

The New Credit Facility will be with three banks and will be secured by certain assets. The maximum commitment amount will be limited to $100 million depending on the value of the assets included in the borrowing base. Interest on outstanding balances accrues at LIBOR plus a margin ranging from 1.2% to 1.5%

depending on our ratio of funded debt to total capitalization ("Leverage Ratio"). Based on the Leverage Ratio in effect as of December 31, 2001, the margin would be 1.3%. The New Credit Facility will begin quarterly reductions in availability of $4 million 30 months after closing with a final reduction of $40 million at maturity, six years after closing. The New Credit Facility will also require us not to exceed a maximum Leverage Ratio and to maintain a specified interest coverage ratio and a minimum net worth.

LONG TERM DEBT

Our current debt structure includes $130 million of senior unsecured notes (the "Notes"). We pay interest semi-annually each June 1 and December 1 at the annual coupon rate of 8.75%. The Notes do not require payments of principal prior to their maturity on June 1, 2008, but we are required to make offers to purchase the Notes upon the occurrence of certain events, such as asset sales or a change in control of the Company.

The Notes are general unsecured obligations and rank equally in right of payment with all existing and future unsecured senior indebtedness and are senior to all future subordinated indebtedness. The Notes will be effectively subordinated to all future secured obligations to the extent of the assets securing such obligations and all existing and future indebtedness and other obligations of our subsidiaries and trade payables incurred in the ordinary course of business. Under certain circumstances, our payment obligations under the Notes may be jointly and severally guaranteed on a senior unsecured basis by one or more of our subsidiaries.

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The indenture under which the Notes are issued imposes operating and financial restrictions on us. These restrictions affect, and in many cases limit or prohibit, among other things, our ability to incur additional indebtedness, make capital expenditures, create liens, sell assets and make dividend or other payments.

We also have two credit facilities relating to each of our recent acquisitions of Sea Truck and Clear Seas. The Sea Truck debt, consisting of three tranches, each secured by a vessel, totaled $21.7 million as of December 31, 2001. This debt amortizes in various quarterly amounts until maturity in 2008. The debt related to the acquisition from Clear Seas totaled $8.4 million and is secured by two vessels. This debt amortizes quarterly until its maturity in 2006.

CURRENT YEAR CASH FLOW

As of December 31, 2001, we had cash on hand of $21.9 million. Cash flows from operations for the year ended December 31, 2001, were $41.8 million compared to $14.3 million in the previous year. The increase in operating cash flow was attributable to the improvements in operating income in the year.

Cash flows used for investing activities for the years ended December 31, 2001 and 2000 were $85.2 million and $6.2 million, respectively. Our capital expenditures in 2001 included $45.7 million related to vessel and other fixed assets and $34.7 million for the acquisition of Sea Truck shares. Subsequent to year end, in February 2002, we took delivery of two additional vessels in our newbuild program. The aggregate of these final payments was approximately $31.1 million, $18.8 million of which was funded from our existing credit facility, with the balance funded from cash on hand. The number of vessels required to be drydocked also impacts investing activities as vessels must be drydocked every

two to three years to meet regulatory requirements. In 2001, there were 15 vessels drydocked at an aggregate cost of $4.9 million compared to 11 vessels drydocked in 2000 at an aggregate cost of $2.4 million. We have budgeted approximately $6.0 million to drydock 21 vessels in 2002.

Substantially all of our tax provision is for deferred taxes. The tonnage tax regime in lieu of income taxes in both the U. K. and Norway substantially reduces the cash required for taxes in each of these regions. We have estimated that based on the number of vessels working wholly within their respective tonnage tax regions, our overall effective tax rate for 2002 will be approximately 12%.

DEBT AND OTHER CONTRACTUAL OBLIGATIONS

The following table summarizes our contractual obligations at December 31, 2001 and the effect these obligations are expected to have on liquidity and cash flows in future periods (In millions).

	2002	2003	2004	2005	2006
Repayment of Long-Term Debt	$ 4.4	$ 4.5	$ 4.6	$ 4.7	$ 4.8
Newbuild Program Commitments	74.2	75.2	--	--	--
Bareboat Charter Commitments	8.5	6.9	1.0	--	--
Non-Cancelable operating leases ..	0.2	0.1	0.1	--	--
Total	$ 87.3	$ 86.7	$ 5.7	$ 4.7	$ 4.8

We believe that our current reserves of cash and short-term investments, cash flows from operations and access to various credit arrangements will provide sufficient resources to finance our operating requirements. However, our ability to fund working capital, capital expenditures and debt service in excess of cash on hand will be dependent upon the success of our operations. To the extent that existing sources are insufficient to meet those cash requirements, we would seek other debt or equity financing; however, we can give no assurances that such debt or equity financing would be available on acceptable terms.

OTHER COMMITMENTS

We execute letters of credit, performance bonds and other guarantees in the normal course of business that ensure our performance or payments to third parties. The aggregate notional value of these instruments was $3.0 million at December 31, 2001. All of these instruments have an expiration date within one year. In the past, no significant claims have been made against these financial instruments. Management believes the likelihood of demand for payment under these instruments is minimal and expects no material cash outlays to occur in connection with these instruments.

CURRENCY FLUCTUATIONS AND INFLATION

Substantially all of our operations are conducted overseas; therefore we are exposed to currency fluctuations and exchange rate risks. Contracts for vessels in the North Sea fleet are primarily denominated in British pounds. Operating

costs for these vessels are generally in either British pounds or Norwegian Kroner. The North Sea fleet generated 77.7% of our total consolidated revenue for the year ended December 31, 2001. In 2001, the British pound/U.S. dollar exchange rate ranged from a high of (pound) = U.S. $1.50 to a low of (pound) = U.S. $1.37 with an average of (pound) = U.S. $1.44 for the year. As of March 5, 2002, the exchange rate was (pound) = U.S. $1.43.

With the issuance of the Notes in June 1998, our debt is primarily denominated in U.S. dollars, while a substantial portion of our revenue continues to be generated in British pounds. We have evaluated these conditions and have determined that it is in our interest not to use any financial instruments to hedge this exposure under present conditions. Our strategy is in part based on a number of factors including the following:

(i) the cost of using such instruments in relation to the risks of currency fluctuations;

(ii) the propensity for adjustments in British pounds denominated vessel day rates over time to compensate for changes in the purchasing power of British pounds as measured in U.S. dollars;

(iii) our strong cash position substantially held in U.S. dollars;

(iv) the level of dollar denominated borrowings available to us; and

(v) the conditions in our dollar generating regional markets.

One or more of these factors may change and, in response, we may begin to use financial instruments to hedge risks of currency fluctuations.

We will from time to time hedge known liabilities denominated in foreign currencies to reduce the effects of exchange rate fluctuations on our financial results. At December 31, 2001, we had several contracts to hedge specific obligations to make payments in Norwegian Kroner related to our current construction program effectively fixing our purchase price in U.S. dollars. Based on the exchange rate on December 31, 2001, the unrealized gain from the hedge contracts totaled approximately $0.3 million. Upon delivery of the vessels, any exchange rate benefit (cost) will be reflected in the net purchase price of the vessels.

Reflected in the accompanying balance sheet at December 31, 2001, is a $24.7 million cumulative translation adjustment primarily relating to the lower British pounds and Norwegian Kroner exchange rate as of December 31, 2001 in comparison to the exchange rate when we invested capital in our subsidiaries. Changes in the cumulative translation adjustment are non-cash items that are primarily attributable to investments in vessels and dollar denominated inter-company loans.

To date, general inflationary trends have not had a material effect on our operating revenues or expenses. One of the major consumables for the fleet is diesel fuel, the price of which has escalated significantly over the last year. Except for one contract which has a cost flow-through provision, fuel is provided by our customers; therefore, escalating fuel prices have not and will not adversely affect our operating cost structure.

ACCOUNTING PRONOUNCEMENTS

In June 2001, the Financial Accounting Standards Board ("FASB") issued Statements of Financial Accounting Standards No. 141, Business Combinations ("SFAS No. 141") and No. 142, Goodwill and Other Intangible Assets ("SFAS No. 142"). SFAS 141 requires the use of the purchase method of accounting for all

business combinations initiated after June 30, 2001. The adoption of this statement had no impact on our consolidated results of operations and financial position for the year ended December 31, 2001. SFAS No. 142 is effective for fiscal years beginning after December 15, 2001. We will adopt the statement effective January 1, 2002. Under SFAS No. 142, goodwill and intangible assets deemed to have indefinite lives will no longer be amortized but will be subject to annual impairment tests. The effect of eliminating goodwill amortization would have increased 2001 net income, before income taxes, by $0.5 million or $0.05 per share (diluted). Other intangible assets will continue to be amortized over their useful lives. In 2002, we will perform the first step of the required two-step impairment tests of goodwill and indefinite-lived intangible assets as of January 1, 2002 and have not yet determined what the effect of these tests will be on our consolidated results of operations and financial position.

In October 2001, the FASB issued Statement of Financial Accounting Standards No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets. The statement is effective for fiscal years beginning after December 15, 2001. We will adopt this statement effective January 1, 2002. This statement establishes a single accounting model for long-lived assets to be disposed of by sale, whether previously held and used or newly acquired. Additionally, the statement expands the definition of a discontinued operation from a segment of business to a component of an entity that has been disposed of or is classified as held for sale and can be clearly distinguished, operationally and for reporting purposes, from the rest of the entity. The results of operations of a component classified as held for sale shall be reported in discontinued operations in the period incurred. Adoption of this statement will not have a significant effect on our consolidated results of operations and financial position.

FORWARD-LOOKING STATEMENTS

This Form 10-K, particularly the sections entitled "Management's Discussion and Analysis of Financial Condition and Results of Operations" and "Business," contains certain forward-looking statements and other statements that are not historical facts concerning, among other things, market conditions, the demand for marine support services and future capital expenditures. Such statements are subject to certain risks, uncertainties and assumptions, including, without limitation, operational risk, dependence on the oil and natural gas industry, delay or cost overruns on construction projects, ongoing capital expenditure requirements, uncertainties surrounding environmental and government regulation, risks relating to leverage, risks of foreign operations, risk of war, sabotage or terrorism, assumptions concerning competition, and risks of currency fluctuations and other matters. There can be no assurance that we have accurately identified and properly weighed all of the factors which affect market conditions and demand for our vessels, that the information upon which we have relied is accurate or complete, that our analysis of the market and demand for our vessels is correct or that the strategy based on such analysis will be successful. Important factors that could cause actual results to differ materially from our expectations are disclosed within the sections entitled "Management's Discussion and Analysis of Financial Condition and Results of Operations", "Business" and elsewhere in this Form 10-K.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

INTEREST RATE SENSITIVITY

Our financial instruments that are potentially sensitive to changes in

interest rates include the Notes, which are due June 1, 2008. They have a stated interest rate of 8.75% and an effective interest rate of 8.8%. At December 31, 2001, the fair value of these notes, based on quoted market prices, was approximately $119.6 million, as compared to a carrying amount of $129.7 million.

EXCHANGE RATE SENSITIVITY

Other than trade accounts receivable and trade accounts payable, we do not currently have financial instruments that are sensitive to foreign currency exchange rates. Other information required under Item 7A has been provided in Management's Discussion and Analysis of Financial Condition and Results of Operations.

ITEM 8. CONSOLIDATED FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

REPORT OF INDEPENDENT AUDITORS

To the Board of Directors and Stockholders of GulfMark Offshore, Inc.:

We have audited the accompanying consolidated balance sheets of GulfMark Offshore, Inc., and subsidiaries as of December 31, 2001 and 2000, and the related consolidated statements of income, stockholders' equity, comprehensive income, and cash flows for each of the two years in the period ended December 31, 2001. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of GulfMark Offshore, Inc. and subsidiaries as of December 31, 2001 and 2000, and the consolidated results of their operations and their cash flows for each of the two years in the period ended December 31, 2001, in conformity with accounting principles generally accepted in the United States.

Ernst & Young LLP

Houston, Texas
February 26, 2002
except for Note 4, as to which the date is
March 1, 2002

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To GulfMark Offshore, Inc.:

We have audited the accompanying consolidated statements of income, stockholders' equity, comprehensive income, and cash flows for the year ended December 31, 1999 of GulfMark Offshore, Inc., a Delaware corporation, and subsidiaries. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the results of operations and cash flows of GulfMark Offshore, Inc. and subsidiaries for the year ended December 31, 1999, in conformity with accounting principles generally accepted in the United States.

Arthur Andersen LLP

Houston, Texas
March 8, 2000

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GULFMARK OFFSHORE, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

ASSETS

	D
	2001
	(IN
CURRENT ASSETS:	
Cash and cash equivalents	$ 21,9
Accounts receivable, net	29,2
Prepaids and other	2,0
Total current assets	53,2
VESSELS AND EQUIPMENT, at cost, net of accumulated depreciation of $56,182,000 in 2001 and $45,101,000 in 2000	262,3
INVESTMENT IN UNCONSOLIDATED VENTURE	
GOODWILL, net of accumulated amortization	22,1
LONG-TERM NOTE RECEIVABLE AND OTHER	14,3

	$ 352,0

LIABILITIES AND STOCKHOLDERS' EQUITY

CURRENT LIABILITIES:	
Short-term borrowings and current portion of long-term debt	$ 4,3
Accounts payable	10,0
Accrued personnel costs	1,5
Accrued interest expense	1,3
Other accrued liabilities	4,6
Total current liabilities	21,9
LONG-TERM DEBT	180,6
DEFERRED TAX LIABILITIES	13,6
OTHER LIABILITIES	1,2
MINORITY INTEREST	1,1
COMMITMENTS AND CONTINGENCIES	
STOCKHOLDERS' EQUITY:	
Preferred stock, no par value; 2,000,000 shares authorized; no shares issued	
Common stock, $0.01 par value; 15,000,000 shares authorized; 8,199,137 and 8,185,968 shares issued and outstanding, respectively	
Additional paid-in capital	63,2
Treasury stock	(2
Deferred compensation expense	2
Retained earnings	94,7
Cumulative translation adjustment	(24,6
Total stockholders' equity	133,3
	$ 352,0

The accompanying notes are an integral part of these consolidated financial statements.

GULFMARK OFFSHORE, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME

	YEAR ENDED DECEMBER 31,		
	2001	2000	1999
	(IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)		
REVENUES	$ 114,063	$ 77,702	$ 72,258

COST AND EXPENSES:			
Direct operating expenses	43,403	34,060	34,127
Bareboat charter expense	8,931	6,661	7,089
General and administrative expenses	7,623	6,328	6,087
Depreciation and amortization	15,327	12,613	12,420
	75,284	59,662	59,723
OPERATING INCOME	38,779	18,040	12,535
OTHER INCOME (EXPENSES):			
Interest expense	(12,590)	(12,239)	(11,388)
Interest income	1,021	1,508	1,887
Loss from unconsolidated venture	--	(214)	(865)
Minority interest	(1,524)	--	--
Gain on sale of assets	--	3,651	--
Other	23	217	--
	(13,070)	(7,077)	(10,366)
INCOME BEFORE INCOME TAXES	25,709	10,963	2,169
INCOME TAX (PROVISION) BENEFIT	12,213	(3,056)	(308)
NET INCOME	$ 37,922	$ 7,907	$ 1,861
EARNINGS PER SHARE:			
Basic	$ 4.63	$ 0.97	$ 0.23
Diluted	$ 4.51	$ 0.95	$ 0.22
WEIGHTED AVERAGE SHARES OUTSTANDING:			
Basic	8,194	8,163	8,129
Diluted	8,403	8,326	8,271

The accompanying notes are an integral part of these consolidated financial statements.

GULFMARK OFFSHORE, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
FOR THE THREE YEARS ENDED DECEMBER 31, 2001

	Common Stock at $0.01 Par	Additional Paid-In	Retained	Cumulative Translation	Treas ------

	Value	Capital	Earnings	Adjustment	Shares
				(In thousands)	
Balance at December 31, 1998	$ 81	$ 62,812	$ 47,060	$ (1,463)	--
Net income	--	--	1,861	--	--
Issuance of common stock	--	101	--	--	--
Translation adjustment	--	--	--	(5,774)	--
Balance at December 31, 1999	81	62,913	48,921	(7,237)	--
Net income	--	--	7,907	--	--
Issuance of common stock	1	150	--	--	--
Translation adjustment	--	--	--	(15,149)	--
Balance at December 31, 2000	82	63,063	56,828	(22,386)	--
Net income	--	--	37,922	--	--
Issuance of common stock	--	176	--	--	--
Deferred compensation plan	--	--	--	--	(7
Translation adjustment	--	--	--	(2,293)	--
Balance at December 31, 2001	$ 82	$ 63,239	$ 94,750	$ (24,679)	(7

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	YEAR ENDED DECE	
	2001	2000
	(IN THOUSAND	
Net income	$ 37,922	$ 7,907
Comprehensive income (loss):		
Foreign currency loss, net of tax of $(199), $(6,492), and $(2,475) ..	(2,293)	(15,149
Total comprehensive income (loss)	$ 35,629	$ (7,242

The accompanying notes are an integral part of these consolidated financial statements.

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GULFMARK OFFSHORE, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

	YEAR ENDED DECEMBER 31,		
	2001	2000	
	(IN THOUSANDS)		
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income	$ 37,922	$ 7,907	$
Adjustments to reconcile income from operations to net cash provided by operations--			
Depreciation and amortization	15,327	12,613	
Amortization of deferred financing costs	579	570	
Deferred and other income tax provision	(12,650)	2,983	
Gain on sale of equipment	--	(3,651)	
Minority interest	1,128	--	
Change in operating assets and liabilities--			
Accounts receivable	(3,113)	(3,629)	
Prepaids and other	(732)	(370)	
Accounts payable	3,744	(1,485)	
Other accrued liabilities	(1,144)	(546)	
Other, net	698	(43)	
Net cash provided by operating activities	41,759	14,349	
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchase of vessels and equipment	(45,691)	(12,330)	
Investment in Sea Truck Holding AS, net of cash acquired	(34,672)	--	
Expenditures for drydocking and main engine overhaul	(4,878)	(2,360)	
Proceeds from disposition of equipment	--	8,450	
Net cash used in investing activities	(85,241)	(6,240)	
CASH FLOWS FROM FINANCING ACTIVITIES:			
Proceeds from debt, net of direct financing costs	38,523	--	
Repayments of debt	(7,173)	(41)	
Proceeds from issuance of stock	176	151	
Net cash provided by financing activities	31,526	110	
Effect of exchange rate changes on cash	(812)	(2,178)	
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(12,768)	6,041	
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	34,691	28,650	
CASH AND CASH EQUIVALENTS AT END OF YEAR	$ 21,923	$ 34,691	$
SUPPLEMENTAL CASH FLOW INFORMATION:			
Interest paid, net of interest capitalized	$ 11,029	$ 11,275	$
Income taxes paid (refunded), net	$ 437	$ (147)	$

The accompanying notes are an integral part of these consolidated financial statements.

GULFMARK OFFSHORE, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(1) NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

GulfMark Offshore, Inc., ("GulfMark" or the "Company") owns and operates offshore support vessels, principally in the North Sea, Southeast Asia, Brazil and West Africa. The vessels provide transportation of materials, supplies and personnel to and from offshore platforms and drilling rigs. Some of these vessels also perform anchor handling and towing services.

Principles of Consolidation

The consolidated financial statements include the accounts of GulfMark and its majority owned subsidiaries. Investments in unconsolidated ventures are accounted for using the equity method. All significant intercompany accounts and transactions between GulfMark and its subsidiaries have been eliminated.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

Cash and Cash Equivalents

U.S. Government securities and commercial paper with original maturities of up to three months are included in cash and cash equivalents in the accompanying consolidated balance sheets and consolidated statements of cash flows.

Liquidity

The Company's management currently expects that its cash flow from operations in combination with cash on hand and other sources will be sufficient to satisfy the Company's short-term and long-term working capital needs, planned investments, capital expenditures, debt and other payment obligations.

Vessels and Equipment

Vessels and equipment are stated at cost, net of accumulated depreciation, which is provided by the straight-line method over the estimated useful life of 25 years. Interest is capitalized in connection with the construction of vessels. The capitalized interest is included as part of the asset to which it relates and is amortized over the asset's estimated useful life. In 2001, 2000, and 1999, interest of $1.5 million, $0.1 million, and $1.0 million was capitalized, respectively. Office equipment, furniture and fixtures are depreciated over two to five years. Maintenance and repairs that do not extend the useful life of the asset and are not attributable to drydockings of vessels are charged to operations as incurred. Major renovation costs and modifications are capitalized and amortized over the estimated remaining useful life. Included in the consolidated statements of income for 2001, 2000, and 1999 are $4.0 million, $3.3 million, and $3.7 million, respectively, for costs for maintenance and repairs.

Investments

In 1999 the Company entered into a joint venture with another operator

which has bareboat chartered the Torm Heron from Sanko Steamship Co., Ltd of Japan ("Sanko") through May 2002 (the "Torm Heron JV"). During 2001, the joint venture partner relinquished its participatory rights of management of the venture in anticipation of the dissolution of the venture in May 2002; thus giving the Company effective control of the venture. Accordingly, the activity of the joint venture is consolidated in the period ended December 31, 2001. At the conclusion of the joint venture, the Company will continue to operate the vessel for an additional two years to May 2004.

Other Assets

Other assets consist primarily of deferred drydocking costs, a long-term receivable related to a vessel acquired in the Sea Truck acquisition and deferred financing costs. Costs incurred in connection with drydocking are capitalized and amortized over 30 months, which approximates the period between required drydockings. Deferred financing costs are amortized over the expected term of the related debt.

Goodwill

Goodwill primarily relates to the 1998 acquisition of Brovig Supply AS and the June 2001 acquisition of Sea Truck Holding AS ("Sea Truck"). During 2001, amortization was computed based on a 40 year life. Accumulated amortization at December 31, 2001 and 2000 totaled $1.6 million and $1.1 million, respectively. In June 2001, the Financial Accounting Standards Board ("FASB") issued Statements of Financial Accounting Standards No. 141, Business Combinations ("SFAS No. 141") and No. 142, Goodwill and Other Intangible Assets ("SFAS No. 142"). SFAS 141 requires the use of the purchase method of accounting for all business combinations initiated after June 30, 2001. The adoption of this statement had no impact on the Company's consolidated results of operations and financial position for the year ended December 31, 2001. SFAS No. 142 is effective for fiscal years beginning after December 15, 2001. The Company will adopt the statement effective January 1, 2002. Under SFAS No. 142, goodwill and intangible assets deemed to have indefinite lives will no longer be amortized but will be subject to annual impairment tests. Other intangible assets will continue to be amortized over their useful lives. The Company will perform the first step of the required two-step impairment tests of goodwill and indefinite-lived intangible assets as of January 1, 2002 and has not yet determined what the effect of these tests will be on its consolidated results of operations and financial position.

The Company assesses the recoverability of the carrying value of goodwill periodically or when events or circumstances indicate the potential for impairment. This assessment is based upon the fair value of the goodwill which is based upon the estimated future cash flows. If the Company's estimated undiscounted cash flows are less than the carrying value of the related goodwill, an impairment would be recognized based upon the discounted value of such cash flows. Changes in economic conditions of the business could affect the Company's estimate of future cash flows. Any impairment in goodwill would be recognized in the operating results of the Company.

Earnings Per Share

Basic EPS is computed by dividing net income by the weighted average number of shares of common stock outstanding during the year. Diluted EPS is computed using the treasury stock method for common stock equivalents. The detail of the earnings per share calculations for continuing operations for the years ended December 31, 2001, 2000 and 1999 is as follows (in thousands except per share data):

	YEAR ENDED DECEMB	
	INCOME	SHARES
Income from continuing operations per share, basic	$ 37,922	8,19
Dilutive effect of common stock options	--	20
Income from continuing operations per share, diluted	$ 37,922	8,40

	YEAR ENDED DECEMB	
	INCOME	SHARES
Income from continuing operations per share, basic	$ 7,907	8,16
Dilutive effect of common stock options	--	16
Income from continuing operations per share, diluted	$ 7,907	8,32

	YEAR ENDED DECEMB	
	INCOME	SHARES
Income from continuing operations per share, basic	$ 1,861	8,12
Dilutive effect of common stock options	--	14
Income from continuing operations per share, diluted	$ 1,861	8,27

GULFMARK OFFSHORE, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (CONTINUED)

Revenue Recognition

Revenues from charters for offshore marine services are recognized as performed based on contractual charter rates. Currently, charter terms range from several days to as long as five years in duration. Management services revenue is recognized in the period in which the services are performed.

Income Taxes

The Company recognizes deferred tax assets and liabilities for the expected future tax consequences of events that have been recognized in the financial statements or tax returns. Under this method, deferred tax assets and liabilities are determined based on the difference between the financial statement carrying amounts and tax bases of assets and liabilities using enacted tax rates and laws in effect in the years in which the differences are expected to reverse. The likelihood and amount of future taxable income is included in the criteria used to determine the timing and amount of tax benefits recognized for net operating losses and tax credit carryforwards in the financial statements.

Foreign Currency Translation

Assets and liabilities of the Company's foreign affiliates, other than those located in highly inflationary countries, are translated at year-end exchange rates, while income and expenses are translated at average rates for the period. For entities in highly inflationary countries, a combination of current and historical rates is used to determine currency gains and losses resulting from financial statement translation and those resulting from transactions. Translation gains and losses are reported as a component of stockholders' equity, except for those associated with highly inflationary countries, which are reported directly in the consolidated statements of income. Transaction gains and losses are reported directly in the consolidated statements of income.

Concentration of Credit Risk

The Company extends credit to various companies in the energy industry that may be affected by changes in economic or other external conditions. The Company's policy is to manage its exposure to credit risk through credit approvals and limits. Historically, write-offs for doubtful accounts have been insignificant. At December 31, 2001 and 2000, the Company's allowance for doubtful accounts was $52,000 and $65,000, respectively.

Recent and Pending Pronouncements

Effective January 1, 2001, the Company adopted Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities." ("SFAS No. 133") SFAS No. 133 requires that all derivatives, including foreign currency exchange contracts, be recognized as assets or liabilities in the consolidated balance sheet and measured at fair value. The Company has entered into forward contracts to hedge the payments related to the construction of vessels in Norway (See Note 2) denominated in Norwegian Krone to limit the effect of exchange rate fluctuations on its acquisition price for these vessels. These forward contracts are designated as fair value hedges and

are expected to be highly effective as the terms of the forward contracts are generally the same as the purchase commitments. Any gains or losses resulting from changes in fair value would be recognized in income with an offsetting adjustment to income for changes in the fair value of the hedged item. The adoption of SFAS 133 did not result in a material impact to the Company's consolidated financial statements.

On the date the Company enters into a derivative contract, management designates the derivative as a hedge of the identified exposure. The Company formally documents all relationships between hedging instruments and hedged items, as well as its risk-management objective and strategy for undertaking various hedge transactions. In this documentation, the Company specifically identifies the asset, liability, firm commitment, or forecasted transaction that has been designated as a hedged item and states how the hedging instrument is expected to hedge the risks related to this item. The Company formally measures effectiveness of its hedging relationships both at the inception of the hedge and on an ongoing basis in accordance with its risk management policy. For all qualifying and highly effective fair value hedges, the changes in the fair value of a derivative and the loss or gain on the hedged asset or liability relating to the risk being hedged are recorded currently in earnings. As of December 31, 2001, an unrealized benefit of $0.3 million on the forward contracts, and an offsetting unrealized cost of $0.3 million on the underlying hedged transactions, were recorded as a liability and asset, respectively, in the consolidated financial statements.

In October 2001, the FASB issued Statement of Financial Accounting Standards No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets. The statement is effective for fiscal years beginning after December 15, 2001. The Company will adopt this statement effective January 1, 2002. This statement establishes a single accounting

model for long-lived assets to be disposed of by sale, whether previously held and used or newly acquired. Additionally, the statement expands the definition of a discontinued operation from a segment of business to a component of an entity that has been disposed of or is classified as held for sale and can be clearly distinguished, operationally and for reporting purposes, from the rest of the entity. The results of operations of a component classified as held for sale shall be reported in discontinued operations in the period incurred. Adoption of this statement is not expected to have a significant effect on the Company's consolidated results of operations and financial position.

Reclassifications

Certain reclassifications of previously reported information have been made to conform with current year presentation.

(2) VESSEL ACQUISITIONS

From its inception, the Company has been active in expanding its fleet through the purchase of existing vessels as well as new construction. During 2001, the Company owned fleet grew by eight vessels. Four vessels were acquired in conjunction with the acquisition of Sea Truck (See Note 3). Two vessels, the

Clywd Supporter and the Sefton Supporter, (the "Clear Seas Vessels") were acquired in conjunction with a put agreement with a bank (See Note 6). The Highland Patriot, a 1982 -built PSV, was acquired in the second quarter and one additional vessel, the Highland Fortress, was delivered as part of the Company's newbuild construction program which began in 2000. The Company's newbuild program is with a Norwegian shipbuilder for the construction of a total of nine vessels. The total cost of this program is expected to be approximately $185 million. As of December 31, 2001, total payments totaling $35.8 million had been made. Funding for this newbuild program is anticipated to come from existing cash and future cash flows supplemented by proceeds from the Company's credit facility.

VESSEL	DELIVERY DATE
UT 755L (Highland Fortress)..	July 17, 2001
UT 745 (North Mariner).......	February 27, 2002
UT 745 (Highland Navigator)..	February 28, 2002
UT 755 (Highland Bugler).....	Q4 2002
UT 722L (Highland Courage)...	Q4 2002
TBN UT 755L.................	Q1 2003
TBN UT 755	Q2 2003
TBN UT 722L	Q3 2003
TBN UT 722L	Q4 2003

(3) SEA TRUCK HOLDING ACQUISITION

In June 2001, the Company acquired 100% of the outstanding shares of common stock in Sea Truck, a privately held vessel operator in Sandnes, Norway. Total consideration paid was approximately $61.8 million including the assumption of $23.2 million of assumed debt. Approximately $18.4 million of the $38.6 million cash portion of the purchase price was funded from the Company's $75 million credit facility with the balance funded by cash on hand. Sea Truck owned five offshore support vessels, including one that is subject to a purchase commitment from its current bareboat charterer under an installment sales agreement which matures in April 2003. Accordingly, the Consolidated Balance Sheet as of December 31, 2001, reflects a receivable of approximately $6.5 million of which $5.2 million is included in Long-term Note Receivable and Other.

The acquisition has been accounted for as a purchase and as such, the purchase price has been allocated to the assets and liabilities of Sea Truck based on their estimated fair market values on June 21, 2001. The excess of the purchase price over the fair market value of the net tangible assets acquired has been recorded as goodwill ($6.7 million) and is subject to final determination. Prior to the adoption of SFAS 142 in January 2002, this amount was amortized based on a 40 year life. A final determination of required purchase accounting adjustments for the acquisition including the allocation of purchase price to the assets acquired and liabilities assumed based on their fair values has not yet been made.

The consolidated financial statements included herein include the results of Sea Truck from June 21, 2001. The following unaudited pro forma results of operations have been prepared assuming that the acquisition had occurred at the beginning of each period. This pro forma information is not necessarily indicative of the results of operations that would have occurred had the acquisition been made on those dates, or of results which may occur in the future.

GULFMARK OFFSHORE, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (CONTINUED)

	YEAR ENDED DECEMBER 31, (IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)	
	2001	2000
Revenues	$ 123,358	$ 96,026
Operating income	42,268	22,256
Net income	40,115	7,109
Per share data:		
Net income (basic)	$ 4.90	$ 0.87
Net income (diluted) ...	4.77	0.88

(4) LONG-TERM DEBT

The Company's long-term debt at December 31, 2001 and 2000, consisted of the following:

	2001
	(
Revolving Bank Credit Facility; secured by shares of Sea Truck, maturing in 2003, interest rate of LIBOR plus 0.8% to 1.25% (weighted average interest rate 3.0% at December 31, 2001)	24
Bank debt assumed in Sea Truck acquisition; payable in British pounds; secured by mortgages on three vessels; maturing at various dates from 2006 and 2008; interest rate of LIBOR plus 1.0% to 1.125% (weighted average interest rate 5.3% at December 31, 2001)...	21,
Bank debt payable in British pounds; secured by mortgages on two vessels, maturing in 2006, interest rate of LIBOR plus 1.25% (5.3% at December 31, 2001)	8
Loan facility payable in British pounds; secured by Aberdeen office building; to be repaid in 120 equal monthly payments through 2008; interest rate of LIBOR plus 2.25% (6.25% as of December 31, 2001)	
8.75% Senior Notes due 2008, interest payable semi-annually	$ 130
	185
Less: Current maturities of long-term debt	(4
Debt discount, 8.75% Senior Notes due 2008, net	
	$ 180

======

The following is a summary of scheduled debt maturities by year (in thousands):

2002	$ 4,360
2003	4,498
2004	4,572
2005	4,675
2006	4,804
Thereafter	162,397
Total	$ 185,306

8.75% SENIOR NOTES DUE 2008

The Company has an aggregate principal of $130 million of 8.75% Senior Unsecured Notes which mature on June 1, 2008, issued at a discount to yield 8.8%. The market value of the Notes is potentially sensitive to changes in interest rates. At December 31, 2001, the fair value of the Notes, based on quoted market prices, was approximately $119.6 million, as compared to a carrying amount of $129.7 million, net of discount.

Interest on the Notes is payable semi-annually on June 1 and December 1 of each year through June 1, 2008. The Notes are redeemable in whole or in part, at redemption prices expressed as a percentage of principal amounts plus accrued and unpaid interest, if any. If redeemed during the twelve month period beginning on June 1 of the years indicated below, the redemption amount is as follows:

YEAR	PERCENTAGE
2003......................	104.375%
2004......................	102.917%
2005......................	101.450%
2006 and thereafter........	100.000%

The Company incurred approximately $4.8 million of costs associated with the sale of the Notes. These debt issuance costs are included in other assets in the consolidated balance sheets and are being amortized over the term of the Notes. The Notes were issued under an indenture (the "Indenture") between the Company and State Street Bank and Trust Company, N.A., as Trustee. The Indenture contains covenants including, among other provisions, limitations on the ability

of the Company to incur additional indebtedness, make capital expenditures, create liens, sell assets and make dividend and other payments.

BANK CREDIT FACILITY

The Company maintains a multi-currency reducing revolving credit facility with certain banks for a total of $75 million. The credit facility contains an unsecured tranche and a secured tranche.

Subsequent to year end, on March 1, 2002, the Company has executed a commitment letter for a new credit facility (the "New Credit Facility") replacing the above facility. The New Credit Facility will be for a maximum of $100 million and will be secured by certain assets. The New Credit Facility is expected to close by March 31, 2002 and will begin reducing by $4 million per quarter beginning 30 months after the closing, with a final reduction of $40 million at maturity, six years after closing. The interest rate ranges from LIBOR plus a margin of 1.2% to 1.5% depending on the leverage ratio of the Company. Based on the Leverage Ratio in effect as of December 31, 2001, the margin would be 1.3%. The New Credit Facility includes a commitment fee of 1-half the margin on any undrawn portion of the available facility. The New Credit Facility also requires the Company, on a consolidated basis, to not exceed a maximum Leverage Ratio and to maintain a specified interest coverage ratio and a minimum net worth. The previous table of scheduled debt maturities includes the expected effect of the New Credit Facility.

(5) INCOME TAXES

In June, 2001, the Company qualified for a special tax incentive in the U.K. This incentive, known as a "Tonnage Tax", replaces the UK corporate tax with one based on a deemed profit per net vessel ton. The UK Tonnage Tax incorporates several key features of the Norwegian and Danish shipping tax regimes. The Company also reevaluated its Norwegian tax position and long-term Norwegian investment strategy in conjunction with the Sea Truck acquisition. As a result of this review and approval of entry into the UK Tonnage Tax regime, the Company reversed certain deferred taxes previously provided in each of those locations. A total of $15.7 million of deferred taxes related to periods prior to 2001 was reversed during the quarter ended June 30, 2001.

Income from operations before income taxes attributable to domestic and foreign operations was (in thousands):

	YEAR ENDED DECEMBER 31,		
	2001	2000	1999
U.S.	$ (5,441)	$ (5,209)	$ (3,281)
Foreign	31,149	16,172	5,450
	$ 25,708	$ 10,963	$ 2,169

The components of the Company's tax provisions attributable to income from operations are as follows for the year ended of December 31, (in thousands):

2001	2000	

	CURRENT	DEFERRED AND OTHER	TOTAL	CURRENT	DEFERRED AND OTHER	TOTAL	CURRENT	DE AN
U.S.	$ --	$ 1,495	$ 1,495	$ --	$ 54	$ 54	$ --	$
Foreign	437	(14,145)	(13,708)	73	2,929	3,002	149	
	$ 437	$(12,650)	$(12,213)	$ 73	$ 2,983	$ 3,056	$ 149	$

GULFMARK OFFSHORE, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (CONTINUED)

The difference between the provision at the statutory U.S. federal income tax rate and the tax provision attributable to income from continuing operations in the accompanying Consolidated Financial Statements is analyzed as follows:

	2001	2000	1999
U.S. federal statutory income tax rate ..	34.0%	34.0%	34.0%
Effect of international operations	(20.5)	(7.3)	(25.3)
Impact of tonnage tax adoption	(61.3)	--	--
Impact of permanent differences	0.3	1.2	5.5
	(47.5)%	27.9%	14.2%

Deferred income taxes reflect the impact of temporary differences between the amount of assets and liabilities for financial reporting purposes and such amounts as measured by tax laws and regulations. The components of the net deferred tax liability as of December 31, 2001 and 2000 are as follows:

	DECEMBER 31, 2001	DECEMBER 31, 2000
	(IN THOUSANDS)	
Deferred tax assets--		
Net operating loss carryforwards	$ 2,831	$ 6,822
Non-deductible accruals	360	5,812
	3,191	12,634
Deferred tax liabilities--		
Depreciation	(87)	(23,364)
Foreign income not currently recognizable ..	(16,662)	(13,292)
Other	(139)	(865)
	(16,888)	(37,521)

Net deferred tax liability	$ (13,697)	$ (24,887)

As of December 31, 2001, the Company had the following carry forward losses and credits for U.S. income tax purposes totaling $8.3 million that is, subject to certain limitations, available to offset future taxable income. These NOLs begins to expire in 2019.

(6) COMMITMENTS AND CONTINGENCIES

The Company has entered into agreements to bareboat charter the following vessels from Sanko Steamship, Ltd. for various terms:

VESSEL NAME	BAREBOAT CHARTER EXPIRATION
Leopard Bay	July 2003
Mercury Bay	July 2003
Monarch Bay	October 2003
Torm Heron*	May 2004

* Operated under a 50/50 joint venture with Torm U.K. Limited through May 2002 (See Note 1 - Investments)

Future commitments under these bareboat charters are as follows (in thousands):

2002	$ 8,531
2003	6,865
2004	1,014
2005 & thereafter ..	--
Total	$ 16,410

On February 1, 1999, the Company agreed to an arrangement between a bank and Clear Seas Offshore, Ltd., the owner of the Clwyd Supporter and the Sefton Supporter, whereby under certain circumstances the bank would have the right to put the vessels to the Company. On August 31, 2001, the Company acquired the vessels, in accordance with the put agreement in exchange for the assumption by the Company of approximately $8.7 million of debt. The two vessels operate in Liverpool Bay in support of the pollution control/standby efforts of an existing charterer. The Company previously managed these vessels in the UK for six years where they currently operate under an ongoing contract.

On December 20, 2000, the Company purchased for its short-term investment account $5.3 million principal amount of commercial paper issued by Pacific Gas & Electric Company. On January 19, 2001, the principal amount plus accrued interest came due and Pacific Gas & Electric Company failed to pay the maturing debt. On March 29, 2001, the commercial paper was sold without any material adverse effect on the Company's business or financial position.

At December 31, 2001, the Company had long-term operating leases for office space, automobiles, and office equipment. Aggregate operating lease expense for the years ended December 31, 2001, 2000 and 1999 was $350,000, $355,000, and $368,000, respectively. Future minimum rental commitments under these leases are as follows (in thousands):

2002	$ 168
2003	147
2004	96
2005	35
2006	35
2007 & thereafter	104
Total	$ 585

The Company is subject to legal proceedings and claims that arise in the ordinary course of its business. Management believes, based on discussions with its legal counsel and in consideration of reserves recorded, that the outcome of these legal actions will not have a material adverse effect upon the consolidated financial position or results of operations of the Company.

During 1997, the Company was spun-off from its predecessor. In conjunction with that transaction, the Company agreed to indemnify its predecessor against liabilities for claims and litigation relating to periods prior to May 1, 1997. The Company has established accruals and maintains insurance, which it believes to be adequate to cover such claims. Management believes that claims, if any, would not have a material adverse effect on the consolidated financial position and results of operations of the Company.

(7) STOCKHOLDERS' EQUITY

Under the terms of the Company's Amended and Restated 1993 Non-Employee Director Stock Option Plan (the "Director Plan"), options to purchase 10,000 shares of the Company's Common Stock were granted to each of the Company's five non-employee directors in 1993, 1996 and 1999, and to a newly appointed director in 2000. Additionally, options to purchase 10,000 shares of Common Stock are to be granted to each new non-employee director upon his or her election. The exercise price of options granted under the Director Plan is fixed at the market price at the date of grant. A total of 400,000 shares were reserved for issuance under this Plan. The options are for a term of ten years.

Under the terms of the Company's 1987 Employee Stock Option Plan (the "1987 Employee Plan"), options were granted to employees to purchase the Company's Common Stock at specified prices. The 1987 Employee Plan also provides for stock appreciation rights that give the optionee the right, subject to certain conditions, to surrender an option and receive cash and/or shares of Common Stock having a value equal to the appreciation from date of grant of such option. On May 20, 1997, the 1987 Employee Plan expired and, therefore, as of December 31, 1998, no additional shares were reserved for granting of options

under this plan.

In May 1998, the stockholders approved the GulfMark Offshore, Inc. 1997 Incentive Equity Plan (the "1997 Plan"), which replaced the 1987 Employee Plan. A total of 350,000 shares were reserved for issuance of options or awards of restricted stock under this plan. Stock options generally become exercisable in 1/3 increments over a three year period and to the extent not exercised, expire on the tenth anniversary of the date of grant.

	2001		2000		
	SHARES	WEIGHTED AVERAGE EXERCISE PRICE	SHARES	WEIGHTED AVERAGE EXERCISE PRICE	SHARE
Outstanding at beginning of Year......................	440,070	$ 13.20	420,208	$ 11.80	314,
Granted.......................	105,000	32.65	69,000	14.48	130,
Exercised.....................	(13,169)	3.78	(49,138)	3.05	(13,
Forfeitures...................	--	--	--	--	(11,
Outstanding at end of year.....	531,901	$ 17.27	440,070	$ 13.20	420,

Exercisable shares and weighted average exercise price as of December 31, 2001............ 355,
Shares available for future grants as of December 31, 2001................. 159,

The following table summarizes information about stock options outstanding at December 31, 2001:

RANGE OF EXERCISE PRICES	NUMBER OUTSTANDING	WEIGHTED AVERAGE EXERCISE PRICE
$3.00 to $7.94	142,001	$ 5.30
$13.16 to $20.12	239,900	$ 14.74
$26.19 to $38.75	150,000	$ 32.64
	531,901	$ 17.27

Historically, the Company has used stock options as a long-term incentive for its employees, officers and directors under the above-mentioned stock option plans. The exercise price of options granted is equal to or greater than the market price of the underlying stock on the date of the grant. Accordingly, consistent with the provisions of Accounting Principles Board No. 25, "Accounting for Stock Issued to Employees" ("APB No. 25"), no compensation expense has been recognized in the accompanying financial statements.

In October 1995, the Financial Accounting Standards Board issued SFAS No. 123, "Accounting for Stock-Based Compensation". SFAS No. 123 establishes financial accounting and reporting standards for stock-based employee compensation. The pronouncement defines a fair-value based method of accounting for an employee stock option or similar equity instrument. SFAS No. 123 also allows an entity to continue to measure compensation cost for those instruments using the intrinsic value-based method of accounting prescribed by APB No. 25. The Company has elected to follow APB No. 25 and related interpretations in accounting for employee stock options because the valuation models prescribed for use by SFAS No. 123 to determine the fair value of options were not developed for use in valuing employee stock options and do not consider factors such as vesting periods or other selling limitations.

Pro forma information regarding net income and earnings per share is required by SFAS No. 123 and has been determined as if the Company had accounted for its employee stock options under the fair-value method described above. The fair value calculations at the date of grant using the Black-Scholes option pricing model were calculated with the following weighted average assumptions:

	2001	2000	1999
Risk-free interest rate...........	4.5%	6.0%	5.5%
Volatility factor of stock price..	0.21	0.50	0.06
Dividends.........................	--	--	--
Option life.......................	4 years	4 years	4 years
Calculated fair value per share...	$ 8.18	$ 6.61	$ 7.34

For purposes of pro forma disclosure, the estimated fair value of the options is amortized to expense over the options' vesting period. Set forth below is a summary of the Company's net income and earnings per share as reported and pro forma as if the fair-value based method of accounting defined in SFAS No. 123 had been applied. The pro forma information is not meant to be representative of the effects on reported net income for future years, because, as

provided by SFAS No. 123, only the effects of awards granted after 1994 are required to be considered in the pro forma calculations.

2001	2000	1

	AS REPORTED	PRO FORMA	AS REPORTED	PRO FORMA	AS REPORTED
	(IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)				
Net income	$ 37,922	$ 37,466	$ 7,907	$ 7,464	$ 1,861
Earnings per common share (basic)	$ 4.63	$ 4.57	$ 0.97	0.91	$ 0.23
Earnings per common share (diluted)	$ 4.51	$ 4.46	$ 0.95	0.90	$ 0.22

Preferred Stock

The Company is authorized by its Certificate of Incorporation to issue up to 2,000,000 shares of no par value preferred stock. No shares have been issued.

Executive Deferred Compensation Plan

In 2001, the Company implemented an executive deferred compensation plan (the "EDC Plan"). Under the EDC Plan, a portion of the compensation for certain key employees of the Company, including officers and directors, can be deferred for payment after retirement or termination of employment. Under the EDC Plan, deferred compensation can be used to purchase Company common stock or may be retained by the Company and earn interest at Prime plus 2%. The first 7.5% of compensation deferred must be used to purchase common stock and may be matched by the Company. As of December 31, 2001, a total of $0.2 million had been deferred into the Prime plus 2% portion of the plan.

The Company has established a "Rabbi" trust to fund the stock portion of benefits under the EDC Plan. The funds provided to the trust are invested by a trustee independent of the Company in GulfMark common stock, which is purchased by the trustee on the open market. The assets of the trust are available to satisfy the claims of all general creditors of the Company in the event of bankruptcy or insolvency. Accordingly, the common stock held by the trust and the liability of the Company under the EDC Plan are included in the accompanying Consolidated Balance Sheets as Treasury Stock and Deferred Compensation.

(8) OPERATING SEGMENT INFORMATION

Business Segments

The operations of GulfMark Offshore, Inc. are contained in a single business segment -- offshore marine services. The business operates offshore support vessels, principally in the North Sea, Southeast Asia, Brazil and West Africa. The vessels provide transportation of materials, supplies and personnel to and from offshore platforms and drilling rigs. Some of the vessels also perform anchor handling and towing services.

Geographic Regions

Information by geographical area is based on the location where services were performed. General corporate expenses incurred in the United States have not been allocated to foreign operations for purposes of this disclosure.

	UNITED STATES	EUROPE (PRIMARILY UK)	FAR EAST	BRAZIL	WEST AFRICA AND OTHER
	(IN THOUSANDS)				

2001 --					
Revenues	$ 1,652	$ 82,114	$ 16,660	$ 9,578	$ 4,059
Long-lived assets	539	224,015	25,816	11,994	--
2000 --					
Revenues	$ --	$ 49,027	$ 16,762	$ 8,563	$ 3,350
Long-lived assets	323	128,288	41,673	12,344	--
1999 --					
Revenues	$ --	$ 49,919	$ 11,602	$ 6,056	$ 4,681
Long-lived assets	80	155,267	27,428	12,583	--

Major Customers

For the years ended December 31, 2001, 2000, and 1999, the Company had major customers who comprised more than 10% of revenues. The loss of a major customer could have an adverse effect on the Company's financial condition and results of operations until new charters are obtained.

	FOR THE YEAR E DECEMBER 3	
	2001	2000
Customer A..	19.0%	18.2%
Customer B..		