

TRANSMONTAIGNE INC  
Form 10-Q  
November 14, 2003

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**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**

Washington, DC 20549

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**FORM 10-Q**

(Mark One)

**Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**

For the quarterly period ended September 30, 2003

OR

**Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**  
Commission File Number 001-11763

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**TRANSMONTAIGNE INC.**

**Delaware**  
(State or other jurisdiction of  
incorporation or organization)

**06-1052062**  
(I.R.S. Employer Identification No.)

**1670 Broadway**  
**Suite 3100**  
**Denver, Colorado 80202**  
(Address, including zip code, of principal executive offices)

**(303) 626-8200**  
(Telephone number, including area code)

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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 report), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Securities Exchange Act). Yes  No

As of October 31, 2003 there were 41,112,841 shares of the Registrant's Common Stock outstanding.

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**CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS**

This Quarterly Report contains certain forward-looking statements and information relating to TransMontaigne Inc., including the following:

- i. certain statements, including possible or assumed future results of operations, in "Management's Discussion and Analysis of Financial Condition and Results of Operations;"
- ii. any statements contained herein or therein regarding the prospects for our business or any of our services;
- iii. any statements preceded by, followed by or that include the words "may," "seeks," "believes," "expects," "anticipates," "intends," "continues," "estimates," "plans," "targets," "predicts," "attempts," "is scheduled" or similar expressions; and
- iv. other statements contained herein or therein regarding matters that are not historical facts.

Our business and results of operations are subject to risks and uncertainties, many of which are beyond our ability to control or predict. Because of these risks and uncertainties, actual results may differ materially from those expressed or implied by forward-looking statements, and investors are cautioned not to place undue reliance on such statements, which speak only as of the date thereof.

The following risk factors, discussed in more detail under the heading "Risk Factors" in our Current Report on Form 8-K filed on May 14, 2003, are important factors that could cause actual results to differ materially from our expectations and may adversely affect our business and results of operations, include, but are not limited to:

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- > volumes of refined petroleum products shipped in our pipelines and throughput or stored in our terminal facilities;
- > the availability of adequate supplies of and demand for petroleum products in the areas in which we operate;
- > the effect of any inability to attract customers for our supply management service business;
- > continued creditworthiness of, and performance by, contract counterparties;
- > the effects of competition;
- > our ability to renew customer contracts;
- > operational hazards;
- > availability and cost of insurance on our assets and operations;
- > the success of our risk management activities;
- > the effect of changes in commodity prices on our liquidity;
- > the impact of any failure of our information technology systems;
- > the impact of petroleum product price fluctuations;
- > the availability of acquisition opportunities;
- > successful integration and future performance of acquired assets;
- > the threat of terrorist attacks or war;
- > the impact of current and future laws and governmental regulations;
- > liability for environmental claims; and

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- > the impact of the departure of any key officers.

In addition, other factors such as the following also could cause actual results to differ materially from our expectations:

- >

general economic, market or business conditions; and

- > force majeure and acts of God.

We do not intend to update these forward-looking statements except as required by law.

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## Part I. Financial information

### ITEM 1. UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

The interim consolidated financial statements of TransMontaigne Inc. as of and for the three months ended September 30, 2003 are included herein beginning on the following page. The accompanying interim consolidated financial statements should be read in conjunction with our annual consolidated financial statements and related notes for the year ended June 30, 2003, together with our discussion and analysis of financial condition and results of operations, included in our Annual Report on Form 10-K filed on September 29, 2003.

TransMontaigne Inc. is a holding company with the following active wholly-owned subsidiaries during the three months ended September 30, 2003.

- > TransMontaigne Product Services Inc. ("TPSI")
- > TransMontaigne Transport Inc.
- > Coastal Fuels Marketing, Inc.
- > Coastal Tug and Barge, Inc.

We do not have any off-balance-sheet arrangements (other than operating leases) or special-purpose entities.

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#### Transmontaigne Inc. and subsidiaries Consolidated balance sheets

(In thousands)

	September 30, 2003	June 30, 2003
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 17,944	\$ 27,969
Restricted cash held by commodity broker	7,202	5,155
Trade accounts receivable, net	234,273	277,360
Inventories discretionary volumes	285,900	226,918
Unrealized gains on derivative contracts	16,372	16,817
Prepaid expenses and other	2,014	5,775

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	September 30, 2003	June 30, 2003
	563,705	559,994
Property, plant and equipment, net	372,604	371,735
Inventories minimum volumes	21,985	22,017
Unrealized gains on derivative contracts	660	1,885
Investments in petroleum related assets	10,131	10,131
Deferred tax assets		482
Deferred debt issuance costs, net	12,250	12,908
Other assets, net	6,791	6,917
	<u>\$ 988,126</u>	<u>\$ 986,069</u>

**LIABILITIES, PREFERRED STOCK, AND COMMON STOCKHOLDERS' EQUITY**

<b>Current liabilities:</b>		
Commodity margin loan	\$	\$ 4,534
Working capital credit facility	195,000	175,000
Trade accounts payable	168,434	144,443
Unrealized losses on derivative contracts	15,944	20,151
Inventory due to others under exchange agreements	16,497	35,121
Excise taxes payable	66,614	86,421
Other accrued liabilities	29,416	25,562
Deferred revenue supply management services	3,771	4,816
	<u>495,676</u>	<u>496,048</u>
<b>Other liabilities:</b>		
Long-term debt	200,000	200,000
Deferred tax liabilities	832	
Unrealized losses on derivative contracts	483	423
	<u>696,991</u>	<u>696,471</u>
Series B Redeemable Convertible Preferred stock	<u>78,927</u>	<u>79,329</u>
<b>Common stockholders' equity:</b>		
Common stock	407	407
Capital in excess of par value	249,296	249,339
Deferred stock-based compensation	(3,246)	(3,943)
Accumulated deficit	(34,249)	(35,534)
	<u>212,208</u>	<u>210,269</u>
	<u>\$ 988,126</u>	<u>\$ 986,069</u>

See accompanying notes to consolidated financial statements.

**Transmontaigne Inc. and subsidiaries**  
**Consolidated statements of operations**  
(In thousands, except per share amounts)

	Three months ended September 30,	
	2003	2002
<b>Supply, distribution, and marketing:</b>		
Revenues	\$ 2,523,553	\$ 1,727,342
Cost of product sold	(2,511,890)	(1,686,783)
Net margin before other direct costs and expenses	11,663	40,559
<b>Other direct costs and expenses:</b>		
Net losses on risk management activities	(384)	(18,508)
Change in unrealized gains (losses) on derivative contracts	2,311	(14,439)
Lower of cost or market write-downs on base operating volumes	(1,848)	
Lower of cost or market write-downs on inventories - minimum volumes	(32)	
Net operating margins	11,710	7,612
<b>Terminals, pipelines, and tugs and barges:</b>		
Revenue	27,021	17,395
Direct operating costs and expenses	(12,326)	(6,467)
Net operating margins	14,695	10,928
Total net operating margins	26,405	18,540
<b>Costs and expenses:</b>		
Selling, general and administrative	(10,371)	(9,331)
Depreciation and amortization	(5,537)	(4,256)
Corporate relocation and transition		(1,084)
Total costs and expenses	(15,908)	(14,671)
Operating income	10,497	3,869
<b>Other income (expenses):</b>		
Dividend income	6	374
Interest income	28	69
Interest expense	(6,424)	(3,293)
<b>Other financing costs:</b>		
Amortization of deferred debt issuance costs	(813)	(229)
Gain on interest rate swap		75
Total other income (expenses)	(7,203)	(3,004)

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	Three months ended September 30,	
Earnings before income taxes	3,294	865
Income tax expense	(1,318)	(329)
Net earnings	1,976	536
Preferred stock dividends, net	(691)	(995)
Net earnings (loss) attributable to common stockholders	\$ 1,285	\$ (459)
Earnings (loss) per share:		
Basic net earnings (loss) per common share	\$ 0.03	\$ (0.01)
Diluted net earnings (loss) per common share	\$ 0.03	\$ (0.01)
Weighted average common shares outstanding:		
Basic	39,177	39,031
Diluted	39,758	39,031

See accompanying notes to consolidated financial statements.

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**Transmontaigne Inc. and subsidiaries**  
**Consolidated statements of preferred stock and common stockholders' equity**  
**Year ended June 30, 2003 and three months ended September 30, 2003**  
(In thousands)

	Preferred stock		Common stock	Capital in excess of par value	Deferred stock-based compensation	Accumulated deficit	Total common stockholders' equity
	Series A	Series B					
<b>Balance at June 30, 2002</b>	\$ 24,421	\$ 80,939	\$ 399	\$ 245,844	\$ (2,540)	\$ (38,353)	\$ 205,350
Common stock issued for options exercised				12			12
Common stock repurchased from employees for withholding taxes				(214)			(214)
Net tax effect arising from stock-based compensation				70			70
Forfeiture of restricted stock awards prior to vesting				(238)	238		
Deferred compensation related to restricted stock awards			8	3,605	(3,613)		
Deferred compensation related to non-employee stock options				260	(260)		
Amortization of deferred stock-based compensation					2,232		2,232
Preferred stock dividends						(5,594)	(5,594)
Amortization of premium on Series B Redeemable Convertible Preferred stock		(1,610)				1,610	1,610

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	Preferred stock		Capital in excess of par value	Deferred stock-based compensation	Total common stockholders' equity	
Repurchase of Series A Convertible Preferred stock	(24,421)					
Net earnings					6,803	6,803
<b>Balance at June 30, 2003</b>	79,329	407	249,339	(3,943)	(35,534)	210,269
Common stock issued for options exercised			123			123
Common stock repurchased from employees for withholding taxes			(73)			(73)
Forfeiture of restricted stock awards prior to vesting			(93)	93		
Amortization of deferred stock-based compensation				604		604
Preferred stock dividends					(1,093)	(1,093)
Amortization of premium on Series B Redeemable Convertible Preferred stock	(402)				402	402
Net earnings					1,976	1,976
<b>Balance at September 30, 2003</b>	\$ 78,927	\$ 407	\$ 249,296	\$ (3,246)	\$ (34,249)	\$ 212,208

See accompanying notes to consolidated financial statements.

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**Transmontaigne Inc. and subsidiaries**  
**Consolidated statements of cash flows**  
(In thousands)

	Three months ended September 30,	
	2003	2002
<b>Cash flows from operating activities:</b>		
Net earnings	\$ 1,976	\$ 536
Adjustments to reconcile net earnings to net cash provided (used) by operating activities:		
Amortization of deferred revenue	(1,212)	(150)
Depreciation and amortization	5,537	4,256
Deferred tax expense	1,314	243
Net tax effect arising from stock-based compensation		64
Amortization of deferred stock-based compensation	604	401
Amortization of debt issuance costs	813	229
Unrealized gain on interest rate swap		(75)
Net change in unrealized gains/losses on long-term derivative contracts	1,389	406
Lower of cost or market write-down on base operating inventory volumes	1,848	
Lower of cost or market write-down on inventories - minimum volumes	32	
Changes in operating assets and liabilities, net of effects from acquisitions:		
Trade accounts receivable, net	43,087	(25,953)
Inventories - discretionary volumes	(60,830)	(5,072)
Prepaid expenses and other	1,501	4
Trade accounts payable	25,341	35,772

	Three months ended September 30,	
	2003	2002
Inventory due to others under exchange agreements	(18,624)	17,016
Unrealized (gain) loss on derivative contracts	(3,699)	14,149
Excise taxes payable and other accrued liabilities	(15,951)	(13,087)
	<u>          </u>	<u>          </u>
Net cash provided (used) by operating activities	(16,874)	28,739
<b>Cash flows from investing activities:</b>		
Acquisition of terminals, pipelines, and tugs and barges		(630)
Additions to property, plant and equipment expansion of facilities	(4,836)	(861)
Additions to property, plant and equipment maintain existing facilities	(1,478)	(489)
Decrease (increase) in restricted cash held by commodity broker	(2,047)	(734)
Other	942	61
	<u>          </u>	<u>          </u>
Net cash (used) by investing activities	(7,419)	(2,653)
<b>Cash flows from financing activities:</b>		
Net borrowings (repayments) of debt	20,000	(47,000)
Net borrowings (repayments) of commodity margin loan	(4,534)	5,775
Deferred debt issuance costs	(155)	(29)
Common stock issued for options exercised	123	11
Common stock repurchased from employees for withholding taxes	(73)	(50)
Preferred stock dividends paid in cash	(1,093)	
	<u>          </u>	<u>          </u>
Net cash provided (used) by financing activities	14,268	(41,293)
	<u>          </u>	<u>          </u>
(Decrease) in cash and cash equivalents	(10,025)	(15,207)
Cash and cash equivalents at beginning of period	27,969	30,852
	<u>          </u>	<u>          </u>
Cash and cash equivalents at end of period	\$ 17,944	\$ 15,645
	<u>          </u>	<u>          </u>

See accompanying notes to consolidated financial statements.

## Transmontaigne Inc. and subsidiaries

### Notes to consolidated financial statements

#### September 30, 2003 and June 30, 2003

#### (1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

##### (a) Principles of Consolidation and Use of Estimates

The accompanying consolidated financial statements in this Quarterly Report on Form 10-Q have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission. Accordingly, these statements reflect adjustments (consisting only of normal recurring entries), which are, in our opinion, necessary for a fair presentation of the financial results for the interim periods presented. Certain information and notes normally included in annual financial statements have been condensed in or omitted from these interim financial statements pursuant

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to such rules and regulations. These consolidated financial statements should be read in conjunction with the consolidated financial statements and related notes for the year ended June 30, 2003, together with our discussion and analysis of financial condition and results of operations, included in our Annual Report on Form 10-K filed on September 29, 2003.

Our accounting and financial reporting policies conform to accounting principles and practices generally accepted in the United States of America. The accompanying consolidated financial statements include the accounts of TransMontaigne Inc. and its majority-owned subsidiaries. All significant inter-company accounts and transactions have been eliminated in consolidation, except for throughput fees, storage fees, pipeline transportation fees, tug and barge fees and other fees charged to our supply, distribution and marketing operations by our terminals, pipelines, and tugs and barges. The related inter-company revenues and costs offset within total net operating margins in the accompanying consolidated statement of operations.

The preparation of financial statements in conformity with generally accepted accounting principles requires us 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 periods. The following estimates, in our opinion, are subjective in nature, require the exercise of judgment, and involve complex analysis: allowance for doubtful accounts; fair value of inventories discretionary volumes held for immediate sale or exchange (as of and for periods prior to October 1, 2002); fair value of derivative contracts; prepaid transportation costs; accrued lease abandonment costs; accrued transportation and deficiency obligations; and accrued environmental obligations. Changes in these estimates and assumptions will occur as a result of the passage of time and the occurrence of future events. Actual results could differ from these estimates.

### **(b) Nature of Business and Basis of Presentation**

TransMontaigne Inc., a Delaware corporation ("TransMontaigne") based in Denver, Colorado, was formed in 1995 to create an independent refined petroleum products distribution and supply company. We are a holding company that conducts operations in the United States primarily in the Gulf Coast, Midwest, and East Coast regions. We provide integrated terminal, transportation, storage, supply, distribution, and marketing services to refiners, wholesalers, distributors, marketers, and industrial and commercial end-users of refined petroleum products. Our principal activities consist of (i) terminal,

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pipeline, and tug and barge operations, (ii) supply, distribution, and marketing, and (iii) supply management services.

On February 28, 2003, we acquired all of the outstanding shares of capital stock of Coastal Fuels Marketing, Inc. and its subsidiary, Coastal Tug and Barge, Inc., from a wholly-owned subsidiary of El Paso Merchant Energy Petroleum Company ("EPME-PC"), along with the rights to and operations of the southeast marketing division of EPME-PC (see Note 2 of Notes to consolidated financial statements).

### **(c) Accounting for Terminal, Pipeline, and Tug and Barge Activities**

In connection with our terminal, pipeline, and tug and barge operations, we utilize the accrual method of ac