

TRANSMONTAIGNE INC  
Form 10-Q  
November 14, 2003

Use these links to rapidly review the document

[TABLE OF CONTENTS](#)

---

---

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**

Washington, DC 20549

---

**FORM 10-Q**

(Mark One)

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

For the quarterly period ended 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

---

**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)

---

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.

---

---

---

**TABLE OF CONTENTS**

---

**Part I. Financial Information**

- Item 1. Unaudited Consolidated Financial Statements
- Consolidated Balance Sheets as of September 30, 2003 and June 30, 2003
- Consolidated Statements of Operations for the Three Months Ended September 30, 2003 and 2002
- Consolidated Statements of Preferred Stock and Common Stockholders' Equity for the Year Ended June 30, 2003 and Three Months Ended September 30, 2003
- Consolidated Statements of Cash Flows for the Three Months Ended September 30, 2003 and 2002
- Notes to Consolidated Financial Statements
- Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations
- Item 3. Qualitative and Quantitative Disclosures about Market Risk
- Item 4. Controls and Procedures

**Part II. Other Information**

- Item 6. Exhibits and Reports on Form 8-K

**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:

## Edgar Filing: TRANSMONTAIGNE INC - Form 10-Q

- > 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

3

---

- > 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.

4

## 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.

5

#### 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

Edgar Filing: TRANSMONTAIGNE INC - Form 10-Q

	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	78,927	79,329
<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)

	<b>Three months ended September 30,</b>	
	<b>2003</b>	<b>2002</b>
<b>Supply, distribution, and marketing:</b>		
Revenues	\$ 2,523,553	\$ 1,727,342
Cost of product sold	(2,511,890)	(1,686,783)
	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)	
	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)
	14,695	10,928
<b>Total net operating margins</b>	<b>26,405</b>	<b>18,540</b>
<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)
	(15,908)	(14,671)
<b>Operating income</b>	<b>10,497</b>	<b>3,869</b>
<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
	(7,203)	(3,004)
<b>Total other income (expenses)</b>	<b>(7,203)</b>	<b>(3,004)</b>

Edgar Filing: TRANSMONTAIGNE INC - Form 10-Q

	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)
	_____	_____
<b>Earnings (loss) per share:</b>		
Basic net earnings (loss) per common share	\$ 0.03	\$ (0.01)
	_____	_____
Diluted net earnings (loss) per common share	\$ 0.03	\$ (0.01)
	_____	_____
<b>Weighted average common shares outstanding:</b>		
Basic	39,177	39,031
	_____	_____
Diluted	39,758	39,031
	_____	_____

See accompanying notes to consolidated financial statements.

7

**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

Edgar Filing: TRANSMONTAIGNE INC - Form 10-Q

	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.

8

**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

## Edgar Filing: TRANSMONTAIGNE INC - Form 10-Q

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,

10

---

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 accounting for revenue and expenses. We generate revenues in our terminal, pipeline, and tug and barge operations from throughput fees, storage fees, transportation fees, ship-assist fees and fees from other ancillary services. Throughput revenue is recognized when the product is delivered to the customer; storage revenue is recognized ratably over the term of the storage contract; transportation revenue is recognized when the product has been delivered to the customer at the specified delivery location; ship-assist revenue is recognized when docking and other services are provided to marine vessels; and other service revenue is recognized as the services are performed.

Shipping and handling costs attributable to our terminal, pipeline, and tug and barge operations are included in direct operating costs and expenses in the accompanying consolidated statement of operations.

### **(d) Accounting for Supply, Distribution, and Marketing Activities**

In our supply, distribution and marketing operations, we purchase refined petroleum products primarily from refineries, schedule them for delivery to our terminals, as well as terminals owned by third parties, and then sell those products to our customers through rack sales, bulk sales, and contract sales. Revenue from our sales of physical inventory are recognized pursuant to the accrual method accounting (i.e., when cash becomes due and payable to us pursuant to the terms of the sales contracts). Revenue from rack sales and contract sales is recognized when the product is delivered to the customer through a truck loading rack or marine fueling equipment. Revenue from bulk sales is recognized when the title to the product is transferred to the customer, which generally occurs upon confirmation of the terms of the sale.

Shipping and handling costs attributable to our supply, distribution, and marketing operations are included in cost of product sold in the accompanying consolidated statement of operations.

**(e) Accounting for Supply Management Services Activities**

We provide supply management services to companies and governmental entities that desire to outsource their fuel supply function and to reduce the price volatility associated with their fuel supplies. We offer three types of supply management services: delivered fuel price management, retail price management, and logistical supply management services.

Delivered fuel price management contracts involve the sales of committed quantities of specific motor fuels delivered to our customer's proprietary fleet refueling locations, at fixed prices for terms up to three years. Under retail price management contracts, customers commit for terms up to 18 months to a specific monthly quantity of product within one or more metropolitan areas and agree to a net

11

---

settlement with us for the difference between a stipulated retail price index and our fixed contract price. Our logistical supply management arrangements permit our customers to use our proprietary web-based inventory management system for a fee, which typically is charged on a per gallon basis.

Revenue from sales made pursuant to delivered fuel price management contracts is recognized when title to the product is transferred to the customer, which generally occurs upon delivery of the product at the customer's proprietary fleet refueling location. Revenue from sales made pursuant to retail price management contracts is recognized when title to the product is transferred to the customer, which generally occurs upon lifting of the product by the customer at the retail gasoline station. Revenue from logistical supply management services fees is recognized on a straight-line basis over the term of the contract.

**(f) Accounting for Risk Management Activities**

We enter into risk management contracts, principally NYMEX futures contracts, to manage our exposure to changes in commodity prices. We evaluate our market risk exposure from an overall portfolio basis that considers changes in physical inventories discretionary volumes held for immediate sale or exchange, open positions in derivative contracts, and open positions in risk management contracts. We enter into risk management contracts that offset the changes in the values of our inventories discretionary volumes held for immediate sale or exchange and derivative contracts. At September 30, 2003 and June 30, 2003, our open positions in risk management contracts were NYMEX futures contracts (purchases and sales).

**(g) Accounting for Derivative Contracts**

Our bulk sales, contract sales, delivered fuel price management, retail price management and risk management contracts qualify as derivative instruments pursuant to the requirements of Statement of Financial Accounting Standards No. 133 ("SFAS No. 133"), *Accounting for Derivative Instruments and Hedging Activities*. All derivative contracts are required to be reported as assets and liabilities at fair value in the accompanying consolidated balance sheet in accordance with SFAS No. 133. The fair value of our derivative contracts is included in "Unrealized gains or losses on derivative contracts" in the accompanying consolidated balance sheet. At September 30, 2003 and June 30, 2003, there were no unrealized gains or losses on risk management contracts because NYMEX futures contracts require daily settlement for changes in commodity prices on open futures contracts. Changes in the fair value of our derivative contracts are included in net operating margins attributable to our supply, distribution and marketing operations.

Effective April 1, 2002, the estimated fair value of our delivered fuel price management and retail price management contracts at origination is deferred because our estimate of the fair value is not evidenced by quoted market prices or current market transactions for the contracts in their entirety. The deferred revenue is amortized into income over the respective terms of the contracts as the products are delivered to the ground fleet customers. Subsequent changes in the fair value of our delivered fuel price management and retail price management contracts are included in net operating margins attributable to our supply, distribution, and marketing operations.

**(h) Accounting for Inventories Discretionary Volumes**

Our inventories discretionary volumes consist of refined petroleum products, primarily gasolines, distillates, and No. 6 oil. On October 25, 2002, the Emerging Issues Task Force reached a consensus

on Issue No. 02-03 ("EITF 02-03"), *Issues Involved in Accounting for Derivative Contracts Held for Trading Purposes and Contracts Involved in Energy Trading and Risk Management Activities*, that concluded that all physical inventories, including inventory volumes associated with energy trading activities, be carried at the lower of cost or market pursuant to Accounting Research Bulletin ("ARB") No. 43, *Chapter 4 Inventory Pricing*. Inventories discretionary volumes are presented in the accompanying consolidated balance sheet as current assets and are carried at the lower of cost (first-in, first-out) or market (replacement cost) for periods subsequent to September 30, 2002. Prior to October 1, 2002, our inventories discretionary volumes held for immediate sale or exchange were carried at fair value with the changes in the fair value included in net margins attributable to our supply, distribution and marketing operations. Inventories discretionary volumes are as follows (in thousands):

	September 30, 2003		June 30, 2003	
	Amount	Bbls	Amount	Bbls
Volumes held for immediate sale or exchange	\$ 191,322	5,964	\$ 130,492	3,890
Volumes held for base operations	94,578	2,922	96,426	2,922
<b>Inventories discretionary volumes</b>	<b>\$ 285,900</b>	<b>8,886</b>	<b>\$ 226,918</b>	<b>6,812</b>

At September 30, 2003 and June 30, 2003, the market value of our volumes held for immediate sale or exchange exceeded their cost basis by approximately \$3.1 million and \$5.9 million, respectively.

We enter into exchange agreements with major oil companies. Exchange agreements generally are fixed term agreements that involve our receipt of a specified volume of product at one location in exchange for delivery by us of product at a different location. At September 30, 2003 and June 30, 2003, current liabilities include inventory due to others under exchange agreements of approximately 0.5 million barrels and 1.0 million barrels, respectively, with a fair value of approximately \$16.5 million and \$35.1 million, respectively. The amount recorded represents the fair value of inventory due to others under exchange agreements at the balance sheet date.

#### (i) Accounting for Inventories Minimum Volumes

Our inventories minimum volumes are required to be held for operating balances in the conduct of our overall operating activities. We do not intend to sell or exchange these inventories in the ordinary course of business and, therefore, we do not hedge the market risks associated with this minimum inventory.

At September 30, 2003 and June 30, 2003, our inventories minimum volumes are presented in the accompanying consolidated balance sheet as non-current assets and are carried at the lower of cost

(weighted average) or market (replacement cost). Inventories minimum volumes are as follows (in thousands):

	September 30, 2003		June 30, 2003	
	Amount	Bbls	Amount	Bbls
Gasolines	\$ 12,994	497	\$ 13,020	497
Distillates	7,449	319	7,449	319
No. 6 oil	1,542	61	1,548	61

Edgar Filing: TRANSMONTAIGNE INC - Form 10-Q

	September 30, 2003		June 30, 2003			
Inventories - minimum volumes	\$	21,985	877	\$	22,017	877

At September 30, 2003 and June 30, 2003, the weighted average adjusted cost basis of our inventories - minimum volumes was approximately \$0.60 per gallon. During the three months ended September 30, 2003 and 2002, we recognized impairment losses of approximately \$32,000 and \$nil, respectively, due to lower of cost or market write-downs on our inventories - minimum volumes.

**(j) Cash and Cash Equivalents**

Restricted cash represents cash deposits held by our commodity broker to cover initial margin requirements related to open NYMEX futures contracts.

**(k) Deferred Debt Issuance Costs**

Deferred debt issuance costs are as follows (in thousands):

	June 30, 2003		Additions	Amortization	September 30, 2003	
Working capital credit facility	\$	5,941	12	(556)	\$	5,397
Senior subordinated notes		6,967	143	(257)		6,853
	\$	12,908	\$	155	\$	(813)
					\$	12,250

**(l) Environmental Obligations**

At September 30, 2003 and June 30, 2003, we have accrued environmental reserves of approximately \$5.5 million and \$5.6 million, respectively, representing our best estimate of our remediation obligations (see Note 7 of Notes to consolidated financial statements). During the three months ended September 30, 2003, we made payments of approximately \$0.1 million towards our environmental remediation obligations. During the three months ended September 30, 2003 and 2002, we did not revise our estimate of our future environmental remediation obligations. During the three months ended September 30, 2003 and 2002, we received insurance recoveries of approximately \$0.8 million and \$nil, respectively, which are recorded as a reduction of direct operating costs and expenses in the accompanying consolidated statements of operations.

**(m) Equity-Based Compensation Plans**

We account for our employee stock option plans and restricted stock awards using the intrinsic value method pursuant to APB Opinion No. 25, *Accounting for Stock Issued to Employees*. We recognize

deferred compensation on the date of grant if the quoted market price of the underlying common stock exceeds the exercise price (zero exercise price in the case of an award of restricted common stock). Accordingly, no compensation cost has been recognized for the granting of stock options to employees because the exercise price was equal to the quoted market price of the underlying common stock on the date of grant. If compensation cost for our stock-based compensation plans had been determined based on the fair value at the grant dates for awards under those plans pursuant to SFAS 123, *Accounting for Stock-Based Compensation*, our net earnings and earnings per common share would have been reduced to the pro forma amounts indicated below (in thousands, except for per share amounts):

Three months ended September 30,	
2003	2002

Three months ended  
September 30,

	Three months ended September 30,	
<b>Net earnings (loss) attributable to common stockholders:</b>		
As reported	\$ 1,285	\$ (459)
Amortization of the fair value of stock options granted to employees	(62)	(104)
Pro forma	\$ 1,223	\$ (563)
<b>Earnings (loss) per common share:</b>		
As reported		
Basic	\$ 0.03	\$ (0.01)
Diluted	\$ 0.03	\$ (0.01)
Pro forma		
Basic	\$ 0.03	\$ (0.01)
Diluted	\$ 0.03	\$ (0.01)

There were no options granted during the three months ended September 30, 2003 and the year ended June 30, 2003. The weighted average fair value at grant dates for options granted during the years ended June 30, 2002 and 2001 was \$3.08 and \$2.12, respectively. The primary assumptions used to estimate the fair value of options granted on the date of grant using the Black-Scholes option-pricing model during the years ended June 30, 2002 and 2001 were as follows: no dividend yield, expected volatility of 79% and 61%, risk-free rates of 4.49% and 4.95%, and expected lives of 4 years, and 5 years, respectively.

Deferred compensation is amortized to income over the related vesting period on an accelerated basis pursuant to FASB Interpretation No. 28.

#### (q) Earnings (Loss) Per Common Share

Basic earnings (loss) per common share is calculated based on the weighted average number of common shares outstanding during the period, excluding restricted common stock subject to continuing vesting requirements. Diluted earnings (loss) per share is calculated based on the weighted average number of common shares outstanding during the period and, when dilutive, potential common shares from the exercise of stock options and warrants to purchase common stock and restricted common stock subject to continuing vesting requirements pursuant to the treasury stock method. Diluted earnings (loss) per share also gives effect, when dilutive, to the conversion of the preferred stock pursuant to the if-converted method.

## (2) ACQUISITIONS

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 El Paso CGP Company ("CGP") along with the rights to and operations of the southeast marketing division of El Paso Merchant Energy Petroleum Company ("EPME-PC"). The acquisition included five Florida terminals, with aggregate capacity of approximately 4.9 million barrels, and a related tug and barge operation (collectively, the "Coastal Fuels assets"). The Coastal Fuels assets primarily provide sales and storage of bunker fuel, No. 6 oil, diesel fuel and gasoline at Cape Canaveral, Port Manatee/Tampa, Port Everglades/Ft. Lauderdale and Fisher Island/Miami, and storage of asphalt at Jacksonville, Florida. The purchase price for the acquisition was approximately \$156.0 million, including approximately \$37.0 million of product inventory. The consolidated financial statements include the results of operations of the Coastal Fuels assets from the closing date of the transaction (February 28, 2003).

On January 31, 2003, we acquired for cash consideration of approximately \$6.4 million a 500,000-barrel products terminal in Fairfax, Virginia. The terminal increases our presence in the Mid-Atlantic market and supplies product to the Washington, D.C. market.

On July 31, 2002, we acquired for cash consideration of approximately \$0.6 million a products terminal in Brownsville, Texas. The 25,000-barrel terminal provides us with additional storage and rail car handling facilities in Brownsville, Texas.

## Edgar Filing: TRANSMONTAIGNE INC - Form 10-Q

The purchase price of each transaction was allocated to the assets and liabilities acquired based upon the estimated fair value of the assets and liabilities as of the acquisition date. The purchase price was preliminarily allocated as follows (in thousands):

	Coastal Fuels	Fairfax	Brownsville
Discretionary inventory volumes	\$ 30,625	\$	\$
Prepaid expenses and other current assets	2,259		
Property, plant and equipment	121,287	6,773	630
Other assets acquired intangible	2,500		
Minimum inventory volumes	6,311		
Trade accounts payable due diligence costs	(1,350)		
Acquisition related liabilities	(5,664)	(420)	
	<u>          </u>	<u>          </u>	<u>          </u>
Cash paid	\$ 155,968	\$ 6,353	\$ 630
	<u>          </u>	<u>          </u>	<u>          </u>

### (3) CONCENTRATION OF CREDIT RISK AND TRADE ACCOUNTS RECEIVABLE

Trade accounts receivable, net consists of the following (in thousands):

	September 30, 2003	June 30, 2003
Trade accounts receivable	\$ 234,943	\$ 279,282
Less allowance for doubtful accounts	(670)	(1,922)
	<u>          </u>	<u>          </u>
	\$ 234,273	\$ 277,360
	<u>          </u>	<u>          </u>

During the three months ended September 30, 2003 and 2002, we increased the allowance for doubtful accounts through a charge to income of approximately \$0.1 million and \$0.3 million, respectively.

16

### (4) UNREALIZED GAINS AND LOSSES ON DERIVATIVE CONTRACTS

Unrealized gains and losses on derivative contracts are as follows (in thousands):

	September 30, 2003	June 30, 2003
Unrealized gains current	\$ 16,372	\$ 16,817
Unrealized gains long-term	660	1,885
	<u>          </u>	<u>          </u>
Unrealized gains asset	17,032	18,702
	<u>          </u>	<u>          </u>
Unrealized losses current	(15,944)	(20,151)
Unrealized losses long-term	(483)	(423)
	<u>          </u>	<u>          </u>
Unrealized losses liability	(16,427)	(20,574)
	<u>          </u>	<u>          </u>
Net asset (liability) position	\$ 605	\$ (1,872)
	<u>          </u>	<u>          </u>

At September 30, 2003 and June 30, 2003, there were no unrealized gains or losses on risk management contracts because NYMEX futures contracts require daily settlement for changes in commodity prices on open futures contracts.

**(5) PROPERTY, PLANT AND EQUIPMENT**

Property, plant and equipment, net is as follows (in thousands):

	September 30, 2003	June 30, 2003
Land	\$ 46,616	\$ 46,477
Terminals, pipelines and equipment	369,596	365,379
Technology and equipment	13,993	13,426
Tugs and barges	15,914	15,914
Furniture, fixtures and equipment	6,919	6,539
Construction in progress	5,103	4,125
	<u>458,141</u>	<u>451,860</u>
Less accumulated depreciation	(85,537)	(80,125)
	<u>\$ 372,604</u>	<u>\$ 371,735</u>

**(6) OTHER ASSETS**

Other assets are as follows (in thousands):

	September 30, 2003	June 30, 2003
Prepaid transportation	\$ 3,021	\$ 3,021
Acquired intangible, net of accumulated amortization of \$292 and \$167, respectively	2,208	2,333
Commodity trading membership	1,500	1,500
Deposits and other assets	62	63
	<u>\$ 6,791</u>	<u>\$ 6,917</u>

17

Prepaid transportation relates to our contractual transportation and deficiency agreements with three interstate product pipelines (see Note 13 of Notes to consolidated financial statements).

Acquired intangible represents the right to use the Coastal Fuels trade name for a period of five years. The cost of the acquired intangible is being amortized on a straight-line basis over five years.

Commodity trading membership represents the purchase price we paid to acquire two seats on the NYMEX.

**(7) ACCRUED LIABILITIES**

Accrued liabilities are as follows (in thousands):

	September 30, 2003	June 30, 2003
Accrued environmental obligations	\$ 5,484	\$ 5,577
Accrued lease abandonment	2,891	3,178
Accrued transportation and deficiency obligations	1,384	2,013
Dividend payable - preferred stock	1,093	1,093
Accrued interest payable	6,199	1,788



Edgar Filing: TRANSMONTAIGNE INC - Form 10-Q

	September 30, 2003	June 30, 2003
Accrued expenses and other	12,365	11,913
	<u>\$ 29,416</u>	<u>\$ 25,562</u>

*Accrued Lease Abandonment.* In connection with our corporate relocation and transition, we entered into an operating lease for new office space in Denver, Colorado. The new lease was executed on April 19, 2002. We vacated our office space in Denver, Colorado during June 2003 and we vacated our excess space in Atlanta, Georgia during October 2002. In connection with our acquisition of the Coastal Fuels assets, we vacated a sales office in Coral Gables, Florida. The accrual for the abandonment of the office leases represents the excess of the remaining lease payments subsequent to vacancy of the space by us over the estimated sublease rentals to be received based on current market conditions. At September 30, 2003 and June 30, 2003, the accrued liability for lease abandonment costs was approximately \$2.9 million and \$3.2 million, respectively.

(in thousands)	Accrued liability at June 30, 2003	Amounts paid during the period	Accrued liability at September 30, 2003
Accrued lease abandonment	\$ 3,178	(287)	\$ 2,891

18

We expect to pay the accrued liability of approximately \$2.9 million, net of estimated sublease rentals, as follows (in thousands):

Years ending June 30:	Lease payments	Estimated sublease rentals	Accrued liability
2004 (Remainder of the year)	\$ 974	\$ (200)	\$ 774
2005	1,079	(548)	531
2006	1,108	(557)	551
2007	928	(454)	474
2008	370	(187)	183
Thereafter	763	(385)	378
	<u>\$ 5,222</u>	<u>\$ (2,331)</u>	<u>\$ 2,891</u>

**(8) DEFERRED REVENUE SUPPLY MANAGEMENT SERVICES**

At September 30, 2003 and June 30, 2003, our deferred revenue associated with logistical supply management services was approximately \$0.9 million and \$1.0 million, respectively. We amortize the deferred revenue from these contracts into revenues attributable to our supply, distribution and marketing operations on a straight-line basis over the respective terms of the contracts. During the three months ended September 30, 2003 and 2002, we recognized approximately \$150,000 in net revenues attributable to our supply, distribution and marketing operations from the amortization of the deferred revenues.

During the three months ended September 30, 2003 and 2002, we originated retail and delivered fuel price management contracts with an estimated fair value of approximately \$0.2 million and \$0.8 million, respectively, representing the excess of the amounts we expect to receive from the ground fleet customers over our estimate of the forward price curve of the underlying commodity adjusted for basis differentials. We have deferred the estimated fair value of these contracts at origination because our estimate of the fair value is not evidenced by quoted market prices or current market transactions for the contracts in their entirety. We amortize the deferred revenue into net revenues attributable to our supply, distribution, and marketing operations over the respective terms of the contracts as the products are delivered to the ground fleet customers. During the three months ended September 30, 2003 and 2002, we recognized approximately \$1.1 million and \$nil, respectively, in revenues attributable to our supply, distribution and marketing operations from the amortization of the deferred revenue from these contracts.

(in thousands)

Edgar Filing: TRANSMONTAIGNE INC - Form 10-Q

	Deferred revenue at June 30, 2003	Additions during the period	Amounts amortized during the period	Deferred revenue at September 30, 2003
Logistical supply management services	\$ 1,000		(150)	\$ 850
Retail price management contracts	2,047	167	(512)	1,702
Delivered fuel price management contracts	1,769		(550)	1,219
	<u>\$ 4,816</u>	<u>167</u>	<u>(1,212)</u>	<u>\$ 3,771</u>

19

**(9) DEBT**

Debt is as follows (in thousands):

	September 30, 2003	June 30, 2003
Commodity margin loan	\$ 4,534	\$ 4,534
Working capital credit facility	195,000	175,000
Senior subordinated notes	200,000	200,000
	<u>395,000</u>	<u>379,534</u>
Less debt classified as current	<u>(195,000)</u>	<u>(179,534)</u>
Long-term debt	<u>\$ 200,000</u>	<u>\$ 200,000</u>

*Commodity Margin Loan.* We currently have a commodity margin loan agreement with Salomon Smith Barney that allows us to borrow up to \$20 million to fund certain initial and variation margin requirements in commodities accounts maintained by us with Salomon Smith Barney. The entire unpaid principal amount of the loan, together with accrued interest, is due and payable on demand. Outstanding loans bear interest at the average 90-day Treasury Bill rate plus 1.75% (2.70% at September 30, 2003).

*Working Capital Credit Facility.* On February 28, 2003, we executed a Credit Agreement with UBS AG that initially provided for a \$250 million revolving line of credit ("Working Capital Credit Facility") and a \$200 million senior secured term loan ("Term Loan"). The Working Capital Credit Facility currently provides for a maximum borrowing line of credit that is the lesser of (i) \$275 million and (ii) the borrowing base (as defined; \$423 million at September 30, 2003). The maximum borrowing amount is reduced by the amount of letters of credit that are outstanding (\$15.3 million at September 30, 2003). Borrowings under the Working Capital Credit Facility bear interest (at our option) based on a base rate plus a specified margin, or LIBOR plus a specified margin; the specified margins are a function of our leverage ratio (as defined). Accrued interest on the outstanding borrowings is due monthly. The weighted average interest rate on the borrowings under the Working Capital Credit Facility was 3.9% during the three months ended September 30, 2003. Borrowings under the Working Capital Credit Facility are secured by substantially all of our current assets. The terms of the Working Capital Credit Facility include financial covenants relating to fixed charge coverage, current ratio, consolidated tangible net worth, capital expenditures, cash distributions and open inventory positions that are tested on a quarterly and annual basis. As of September 30, 2003, we were in compliance with all covenants included in the Working Capital Credit Facility. The Working Capital Credit Facility matures February 28, 2006. In the accompanying consolidated balance sheets at September 30, 2003 and June 30, 2003, we have classified the outstanding borrowings under the Working Capital Credit Facility as a current liability because we have pledged our current assets as security for the facility and because currently it is our expectation that we will repay the outstanding borrowings within one year of the balance sheet date.

*Senior Secured Term Loan.* The Term Loan provided for a one-time borrowing of \$200 million with a scheduled maturity of February 28, 2006. The proceeds from the Term Loan were used primarily to finance the acquisition of the Coastal Fuels assets. The Term Loan was repaid in full on May 30, 2003 with the proceeds from the Senior Subordinated Notes.

20

## Edgar Filing: TRANSMONTAIGNE INC - Form 10-Q

*Former Bank Credit Facility.* On February 28, 2003 we repaid in full our former bank credit facility. Our former bank credit facility consisted of a \$300 million revolving credit facility that was scheduled to mature on June 27, 2005.

*Senior Subordinated Notes.* On May 30, 2003, we consummated the sale and issuance of \$200 million aggregate principal amount of 9<sup>1</sup>/<sub>8</sub>% Senior Subordinated Notes due 2010 and received proceeds of \$194.5 million (net of underwriters' discounts of \$5.5 million). The Senior Subordinated Notes mature on June 1, 2010 and interest is payable semi-annually in arrears on each June 1 and December 1 commencing on December 1, 2003. The Senior Subordinated Notes are unsecured and subordinated to all of our existing and future senior debt. Upon certain change of control events, each holder of the Senior Subordinated Notes may require us to repurchase all or a portion of its notes at a purchase price equal to 101% of the principal amount thereof, plus accrued interest. The indenture governing the Senior Subordinated Notes contains covenants that, among other things, limit our ability to incur additional indebtedness, pay dividends on, redeem or repurchase our common stock, make investments, make certain dispositions of assets, engage in transactions with affiliates, create certain liens, and consolidate, merge, or transfer all or substantially all of our assets. The Senior Subordinated Notes are fully and unconditionally guaranteed on a joint and several basis by our subsidiaries other than minor subsidiaries that are inactive and have no assets or operations. We are a holding company for our subsidiaries, with no independent assets or operations. Accordingly, we are dependent upon the distribution of the earnings of our subsidiaries, whether in the form of dividends, advances or payments on account of inter-company obligations, to service our debt obligations. There are no restrictions on our ability or any subsidiary guarantor to obtain funds from our subsidiaries.

Scheduled maturities of debt at September 30, 2003 are as follows (in thousands):

**Years ending June 30:**

2004	\$
2005	
2006	195,000
2007	
2008	
Thereafter	200,000
	\$ 395,000

**(10) PREFERRED STOCK**

At September 30, 2003 and June 30, 2003, we have authorized the issuance of up to 2,000,000 shares of preferred stock. Preferred stock is as follows (in thousands, except share data):

	September 30, 2003	June 30, 2003
Series B Redeemable Convertible Preferred stock, par value \$0.01 per share, 100,000 shares authorized, 72,890 shares issued and outstanding, liquidation preference of \$72,890	\$ 78,927	\$ 79,329

At September 30, 2003 and June 30, 2003, there are 72,890 shares of Series B Redeemable Convertible Preferred Stock outstanding. The Series B Redeemable Convertible Preferred Stock has a liquidation value of \$1,000 per share, bears dividends at the rate of 6% per annum of the liquidation value, and is mandatorily redeemable between June 30, 2007 and December 31, 2007 for shares of

common stock and/or cash at our option, subject to limitations on the total number of common shares permitted to be used in the exchange and issued to any shareholder. Dividends are cumulative and payable quarterly. The dividends are payable in cash, unless precluded by contract or the Working Capital Credit Facility, in which case dividends are payable in additional shares of Series B Redeemable Convertible Preferred Stock. The Series B Redeemable Convertible Preferred Stock may be put to us, at the option of the holder, for cash equal to the greater of its liquidation value or conversion value upon the future occurrence of a fundamental change (including those relating to sale of substantially all of the assets, delisting of our common stock from a national exchange, change in control, bankruptcy filing, and an event of default that accelerates

## Edgar Filing: TRANSMONTAIGNE INC - Form 10-Q

the repayment of our debt). We may call the outstanding shares of Series B Redeemable Convertible Preferred Stock after June 30, 2005 if certain specified conditions are met. The Series B Redeemable Convertible Preferred Stock is convertible, at the option of the holder, into common stock at \$6.60 per share, subject to adjustment upon the occurrence of specified future events. The holders of the Series B Redeemable Convertible Preferred Stock have the right to vote on all matters (except the election of directors) with the holders of the common stock (voting collectively as a single class).

On June 30, 2003, we redeemed the remaining outstanding shares of Series A Convertible Preferred stock and warrants for approximately \$24.4 million in cash.

Preferred stock dividends on the Series A Convertible Preferred stock were \$nil and \$0.3 million for the three months ended September 30, 2003 and 2002, respectively. Preferred Stock dividends on the Series B Redeemable Convertible Preferred Stock were \$0.7 million for each of the three months ended September 30, 2003 and 2002. The amount of the Series B Redeemable Convertible Preferred Stock dividend recognized for financial reporting purposes for each of the three months ended September 30, 2003 and 2002, is composed of the amount of the dividend payable and paid to the holders of the Series B Redeemable Convertible Preferred Stock of \$1.1 million offset by the amortization of the premium on the carrying amount of the Series B Redeemable Convertible Preferred Stock of \$0.4 million.

At its issuance date (June 28, 2002), the fair value of the Series B Redeemable Convertible Preferred stock exceeded its liquidation value. The initial carrying amount of the Series B Redeemable Convertible Preferred Stock of approximately \$80.9 million will be decreased ratably over its 5-year term until it equals its liquidation value of approximately \$72.9 million with an equal reduction in the amount of preferred stock dividends recorded for financial reporting purposes.

### (11) COMMON STOCK

At September 30, 2003 and June 30, 2003, we were authorized to issue up to 80,000,000 shares of common stock with a par value of \$0.01 per share. At September 30, 2003 and June 30, 2003, there were 40,677,098 shares and 40,685,690 shares issued and outstanding, respectively. Our Working Capital Credit Facility, Senior Subordinated Notes and the certificate of designations of our Series B Redeemable Convertible Preferred stock contain restrictions on the payment of dividends on our common stock.

We have a restricted stock plan that provides for awards of common stock to certain key employees, subject to forfeiture if employment terminates prior to the vesting dates. The market value of shares awarded under the plan is recorded in common stockholders' equity as deferred stock-based

22

compensation. Information about restricted common stock activity for the three months ended September 30, 2003, and the year ended June 30, 2003 is as follows:

	Total shares	Vested shares	Unvested shares
Outstanding at June 30, 2002	1,074,716	160,748	913,968
Granted	840,500		840,500
Cancelled	(51,080)		(51,080)
Repurchased	(49,437)	(49,437)	
Vested		187,209	(187,209)
	<hr/>	<hr/>	<hr/>
Outstanding at June 30, 2003	1,814,699	298,520	1,516,179
Cancelled	(20,160)		(20,160)
Repurchased	(12,432)	(12,432)	
Vested		40,000	(40,000)
	<hr/>	<hr/>	<hr/>
Outstanding at September 30, 2003	1,782,107	326,088	1,456,019
	<hr/>	<hr/>	<hr/>

Amortization of deferred compensation of approximately \$0.6 million and \$0.4 million is included in selling, general and administrative expense for the three months ended September 30, 2003 and 2002, respectively.

**(12) STOCK OPTIONS**

Information about stock option activity for the three months ended September 30, 2003 and the years ended June 30, 2003, is as follows:

	Terminated Plans		1997 Plan	
	Shares	Weighted average exercise price	Shares	Weighted average exercise price
Outstanding at June 30, 2002	230,450	5.50	1,062,780	4.52
Granted				
Cancelled	(230,450)	5.50	(55,080)	4.69
Exercised			(3,200)	3.75
Outstanding at June 30, 2003			1,004,500	4.51
Cancelled			(10,150)	3.75
Exercised			(24,000)	5.13
Outstanding at September 30, 2003			970,350	4.51
Exercisable at September 30, 2003			364,900	4.92

23

Information about stock options outstanding at September 30, 2003 is as follows:

	Range of exercise prices	Number outstanding	Weighted average remaining life in years	Options exercisable		
				Weighted average exercise prices	Number exercisable	Weighted average exercise prices
1997 Plan	\$ 3.75 - 7.25	955,850	7.3	\$ 4.39	350,400	\$ 4.63
	\$11.00 - 13.50	13,500	4.5	\$ 11.56	13,500	\$ 11.56
	\$ 17.25	1,000	3.9	\$ 17.25	1,000	\$ 17.25
		970,350			364,900	

**(13) COMMITMENTS AND CONTINGENCIES**

*Transportation and Deficiency Agreements.* In connection with our sale of two product distribution facilities in Little Rock, Arkansas, we are potentially liable for payments of up to \$725,000 per year for a five-year period through June 30, 2006. At June 30, 2003, we recognized an accrued liability of approximately \$0.8 million representing our estimate of the future amounts we expect to pay for the shortfall in our actual volumes and our estimated shortfall in volumes for the remainder of the term of the agreement. During the three months ended September 30, 2003, we paid approximately \$0.2 million as settlement for our shortfall in volumes for the year ended June 30, 2003. Based on actual throughput volumes for the three months ended September 30, 2003, we decreased our accrued liabilities by \$0.2 million resulting in a total accrued liability of \$0.4 million as of and for the three months ended September 30, 2003.

We also are subject to three transportation and deficiency agreements ("T&D's") with three separate interstate pipeline companies. At June 30, 2003, we recognized an accrued liability of approximately \$1.2 million representing our estimate of the future amounts we expect to pay for our estimated shortfall in volumes for the remainder of the term of the agreements. During the three months ended September 30, 2003, we recognized a reduction in our accrued liability of approximately \$0.2 million representing a change in our estimate of the future amounts we expect to pay for the estimated shortfall in volumes for the remainder of the terms of the T&D agreements resulting in a total accrued liability of \$1.0 million as of and for the three months ended September 30, 2003.

Edgar Filing: TRANSMONTAIGNE INC - Form 10-Q

At September 30, 2003 and June 30, 2003, we included approximately \$3.0 million and \$3.0 million, respectively, of prepaid transportation in other assets since we have a contractual right, after the end of the term of the T&D agreements, to apply the amounts to charges for using the interstate pipeline in the future (see Note 6 of Notes to consolidated financial statements).

(in thousands)	June 30, 2003	Payments during the period	Change in estimate during the period	September 30, 2003
Other assets prepaid transportation	\$ 3,021	\$	\$	\$ 3,021
Accrued liability T&D obligations	\$ (2,013)	\$ 238	\$ 391	\$ (1,384)
	24			

*Operating Leases.* At September 30, 2003, future minimum lease payments under our non-cancelable operating leases are as follows (in thousands):

Years ending June 30:	Office space	Terminal and pipeline capacity	Property and equipment
2004 (Remainder of the year)	\$ 1,061	\$ 2,128	\$ 161
2005	1,558	2,318	157
2006	1,574	601	120
2007	1,541	162	58
2008	1,507		
Thereafter	5,574		
	\$ 12,815	\$ 5,209	\$ 496

Rental expense under operating leases was \$1.1 million and \$0.9 million for the three months ended September 30, 2003 and 2002, respectively.

**(14) EARNINGS PER SHARE**

The following table reconciles the computation of basic and diluted weighted average shares (in thousands):

	Three months ended September 30,	
	2003	2002
Basic weighted average shares	39,177	39,031
Effect of dilutive securities:		
Restricted common stock subject to continuing vesting requirements	324	
Stock options	257	
Diluted weighted average shares	39,758	39,031

We exclude potentially dilutive securities from our computation of diluted earnings per share when their effect would be anti-dilutive. The following securities were excluded from the dilutive earnings per share computation for the three months ended September 30, 2003, as their inclusion would have been anti-dilutive (in thousands):

September 30,  
2003

September 30,  
2003

Restricted common stock subject to continuing vesting requirements	61
Common stock issuable upon exercise of stock options	71
Common stock issuable upon conversion of Series B Redeemable Convertible Preferred stock	11,044
	11,176

For the three months ended September 30, 2003, the stock options had a weighted average exercise price of \$8.22 per share and the Series B Redeemable Convertible Preferred stock was convertible into shares of common stock at a conversion price of \$6.60 per common share.

25

## (15) BUSINESS SEGMENTS

Our chief operating decision maker is our chief executive officer ("CEO"). Our CEO reviews financial performance presented on a consolidated basis, accompanied by disaggregated information about net operating margins by operating activity for purposes of making operating decisions and assessing financial performance. Accordingly, we present net operating margins for our two business segments: (i) terminals, pipelines, and tugs and barges and (ii) supply, distribution and marketing.

Within the supply, distribution and marketing segment, our CEO manages and evaluates the performance of that segment from an overall portfolio basis that considers the changes in the fair value of our discretionary inventory volumes held for immediate sale or exchange, derivative sales and purchase contracts and risk management contracts. Our CEO assesses the financial performance of our supply, distribution, and marketing segment using financial information that is prepared pursuant to the mark-to-market method of accounting (referred to by us as "operating results for debt covenant compliance"). For purposes of computing our operating results for debt covenant compliance, our inventories discretionary volumes held for immediate sale or exchange are reflected at market value, which matches the treatment of our derivative and risk management contracts. The effects of changes in the fair value of our supply, distribution, and marketing activities are included in net operating margins in the period of the change in value. We believe that "operating results for debt covenant compliance" is an important measure of the profit and loss for our reportable segments. We consider this measure important because it reflects the ability of our operations to generate funds to pay our fixed obligations, including interest and principal on our debt, as they become due. Operating results for debt covenant compliance also is used as a measure of our compliance with the financial covenants included in our borrowing arrangements.

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. We conduct business in the following business segments:

- > *Supply, distribution and marketing* consists of services for the supply and distribution of refined petroleum products through rack sales, bulk sales and contract sales in the physical and derivative markets, with retail, wholesale, industrial and commercial customers using our truck terminal rack locations and marine refueling equipment, and providing related value-added fuel procurement and supply management services.
- > *Terminals, pipelines, and tugs and barges* consists of an extensive terminal and pipeline infrastructure that handles refined petroleum products with transportation connections via pipelines, barges, vessels, rail cars and trucks to our facilities or to third-party facilities with an emphasis on transportation connections primarily through the Colonial, Plantation, TEPPCO, Explorer and Williams pipeline systems.
- > *Corporate* consists of our investments in non-controlled business ventures and general corporate items that are not allocated to specific segments (e.g., financing costs and income taxes).

26

## Edgar Filing: TRANSMONTAIGNE INC - Form 10-Q

The operating performance of our business segments, including a reconciliation of the segments' operating performance to earnings before income taxes as presented in the accompanying consolidated statements of operations is as follows (in thousands):

	Three months ended September 30, 2003	Three months ended September 30, 2002
<b>Net Operating Margins:</b>		
Terminals, pipelines, and tugs and barges:		
Historical facilities	\$ 11,132	\$ 10,928
Coastal Fuels assets	3,563	
	<u>14,695</u>	<u>10,928</u>
Supply, distribution and marketing:		
Light oil marketing:		
Rack sales margins	1,533	1,175
Contract sales margins	1,468	1,752
Rolling risk management contracts to future months	(719)	(1,570)
	<u>2,282</u>	<u>1,357</u>
Light oil margins	2,282	1,357
Basis activities	2,348	4,468
Trading activity, net	2,132	(2,595)
Supply management services	2,600	4,382
Heavy oil margins	1,440	
	<u>10,802</u>	<u>7,612</u>
Total supply, distribution and marketing	10,802	7,612
	<u>25,497</u>	<u>18,540</u>
Total net operating margins	25,497	18,540
Selling, general and administrative expenses	(10,371)	(9,331)
Corporate relocation and transition		(1,084)
Dividend income	6	374
	<u>15,132</u>	<u>8,499</u>
Operating results for debt covenant compliance	\$ 15,132	\$ 8,499
<b>Reconciliation to Earnings Before Income Taxes:</b>		
Operating results for debt covenant compliance	\$ 15,132	\$ 8,499
<b>Inventory adjustments:</b>		
Gains recognized on beginning inventories discretionary volumes	5,855	
Gains deferred on ending inventories discretionary volumes	(3,067)	
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)	
<b>Other Items:</b>		
Depreciation and amortization	(5,537)	(4,256)
Dividend income	(6)	(374)
	<u>10,497</u>	<u>3,869</u>
Operating income	10,497	3,869
Other income (expense), net	(7,203)	(3,004)
	<u>3,294</u>	<u>865</u>
Earnings before income taxes	\$ 3,294	\$ 865



Edgar Filing: TRANSMONTAIGNE INC - Form 10-Q

Three months ended  
September 30, 2003

Three months ended  
September 30, 2002

27

Three months ended September 30, 2003

	Product supply, distribution, and marketing	Terminals, pipelines, tugs and barges	Corporate	Total consolidated
Revenues from external customers	\$ 2,523,553	\$ 11,632	\$	\$ 2,535,185
Inter-segment revenues		15,389		15,389
<b>Revenues</b>	<b>2,523,553</b>	<b>27,021</b>		<b>2,550,574</b>
Direct operating costs and expenses	(2,511,843)	(12,326)		(2,524,169)
<b>Net operating margins</b>	<b>11,710</b>	<b>14,695</b>		<b>26,405</b>
Selling, general and administrative	(5,302)	(3,336)	(1,733)	(10,371)
Depreciation and amortization	(291)	(5,005)	(241)	(5,537)
	(5,593)	(8,341)	(1,974)	(15,908)
<b>Operating income (loss)</b>	<b>\$ 6,117</b>	<b>\$ 6,354</b>	<b>\$ (1,974)</b>	<b>10,497</b>
Other income (expense), net				(7,203)
<b>Earnings before income taxes</b>				<b>\$ 3,294</b>
Capital expenditures	\$ 68	\$ 5,935	\$ 311	\$ 6,314

Three months ended September 30, 2002

	Product supply, distribution, and marketing	Terminals and pipelines	Corporate	Total consolidated
Revenues from external customers	\$ 1,727,342	\$ 7,791	\$	\$ 1,735,133
Inter-segment revenues		9,604		9,604
<b>Revenues</b>	<b>1,727,342</b>	<b>17,395</b>		<b>1,744,737</b>
Direct operating costs and expenses	(1,719,730)	(6,467)		(1,726,197)
<b>Net operating margins</b>	<b>7,612</b>	<b>10,928</b>		<b>18,540</b>
Selling, general and administrative	(5,287)	(2,191)	(1,853)	(9,331)
Depreciation and amortization	(258)	(3,783)	(215)	(4,256)
Corporate relocation and transition	(1,084)			(1,084)
	(6,629)	(5,974)	(2,068)	(14,671)

Edgar Filing: TRANSMONTAIGNE INC - Form 10-Q

Three months ended September 30, 2002

Operating income (loss)	\$	983	\$	4,954	\$	(2,068)	3,869
Other income (expense), net							(3,004)
Earnings before income taxes						\$	865
Capital expenditures	\$		\$	1,980	\$		\$ 1,980

28

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

The following discussion and analysis of the results of operations and financial condition should be read in conjunction with the accompanying consolidated financial statements.

**CRITICAL ACCOUNTING POLICIES AND ESTIMATES**

A summary of the significant accounting policies that we have adopted and followed in the preparation of our consolidated financial statements is detailed in our consolidated financial statements for the year ended June 30, 2003 included in our Annual Report on Form 10-K filed on September 29, 2003 (see Note 1 of Notes to the consolidated financial statements). Certain of these accounting policies require the use of estimates. 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. These estimates are based on our knowledge and understanding of current conditions and actions we may take in the future. Changes in these estimates will occur as a result of the passage of time and the occurrence of future events. Subsequent changes in these estimates may have a significant impact on our financial condition and results of operations.

**SIGNIFICANT DEVELOPMENTS DURING THE THREE MONTHS ENDED SEPTEMBER 30, 2003**

On May 30, 2003, we sold the Senior Subordinated Notes in a private placement transaction that was exempt from registration under the Federal Securities Act of 1933. We also entered into a registration rights agreement requiring us to make an exchange offer. The registration rights agreement also requires us to use our best efforts to cause the registration statement filed with respect to the exchange offer to be declared effective by October 27, 2003 and consummate the exchange offer no later than December 26, 2003. If we do not do so, additional interest payments will be payable on the Senior Subordinated Notes. On July 22, 2003, we filed a registration statement on Form S-4 with the Securities and Exchange Commission to effect the exchange offer. As of November 14, 2003, the registration statement on Form S-4 has not been declared effective by the staff of the Securities and Exchange Commission.

**SUBSEQUENT EVENTS**

On October 1, 2003, we acquired for cash consideration of approximately \$3.0 million a 900,000-barrel terminal, including product inventory, in Norfolk, Virginia. The acquired terminal provides us with additional storage, a docking facility that permits us to receive and deliver shipments off the water, and operating synergies with our existing facility in Norfolk, Virginia.

**RESULTS OF OPERATIONS BUSINESS SEGMENTS OPERATING RESULTS FOR DEBT COVENANT COMPLIANCE**

Our chief operating decision maker assesses our financial performance using a non-GAAP financial performance measure, which we refer to as "operating results for debt covenant compliance." Our chief operating decision maker manages our operations and evaluates our performance from an overall portfolio basis that considers the changes in the fair value of our discretionary inventory volumes held

29

## Edgar Filing: TRANSMONTAIGNE INC - Form 10-Q

for immediate sale or exchange, derivative sales and purchase contracts and risk management contracts. Under SFAS No. 131, we are required to report measures of profit and loss that are used by our chief operating decision maker in assessing financial performance for each of our reportable segments and, accordingly, we report operating results for debt covenant compliance in connection with our operating segment disclosures.

Operating results for debt covenant compliance also is used as a measure of our compliance with the financial covenants included in our borrowing arrangements.

Operating results for debt covenant compliance differs from earnings before income taxes, interest expense, depreciation and amortization ("EBITDA") as determined in accordance with generally accepted accounting principles due to the treatment of our inventories discretionary volumes and minimum volumes. As a result of the implementation of EITF 02-03, our inventories discretionary volumes and minimum volumes are carried at the lower of cost or market, while our risk management contracts are carried at market. As a result, if market prices are increasing during the end of a quarter, we may report significant losses on risk management contracts and significant deferred gains on discretionary inventory volumes held for immediate sale or exchange at the end of that quarter and report significant gains on our beginning inventories discretionary volumes held for immediate sale or exchange in the following quarter. In determining our operating results for debt covenant compliance, inventories discretionary volumes held for immediate sale or exchange are reflected at fair value, which matches the treatment of our derivative and risk management contracts. Therefore, the effects of changes in the fair value of our inventories discretionary volumes held for immediate sale or exchange are included in net operating margins attributable to our supply, distribution and marketing segment in the period in which the fair value actually changes. Operating results for debt covenant compliance also excludes the lower of cost or market write-downs on our inventories minimum volumes and base operating volumes from our net operating margins attributable to our supply, distribution and marketing segment.

### Supply, distribution and marketing net operating margins operating results for debt covenant compliance

The net operating margins operating results for debt covenant compliance attributable to our supply, distribution and marketing segment increased to \$10.8 million in 2003 from \$7.6 million in 2002. The net operating margins operating results for debt covenant compliance from our light oil marketing, net of the cost or benefit of rolling risk management contracts used to manage commodity price volatility to future months, increased to \$2.3 million in 2003 from \$1.4 million in 2002. The Coastal Fuels assets, which we acquired on February 28, 2003, contributed heavy oil margins of approximately \$1.4 million for 2003. The net operating margins operating results for debt covenant compliance from our supply management services declined to \$2.6 million in 2003 from \$4.4 million in 2002. The net operating margins operating results for debt covenant compliance from our basis activities declined to \$2.3 million in 2003 from \$4.5 million in 2002. The net operating margins operating results for debt covenant compliance from our trading activities increased to \$2.1 in 2003 from \$(2.6) million in 2002.

30

Selected quarterly net operating margins operating results for debt covenant compliance for the supply, distribution and marketing segment for each of the three months ended September 30, 2003 and 2002, are summarized below (in thousands):

	Three months ended September 30, 2003	Three months ended September 30, 2002
<b>Supply distribution and marketing:</b>		
<b>Light oil marketing:</b>		
Rack sales margins	\$ 1,533	\$ 1,175
Contract sales margins	1,468	1,752
Rolling risk management contracts to future months	(719)	(1,570)
	<hr/>	<hr/>
Light oil margins	2,282	1,357
Heavy oil margins	1,440	
Supply management services margins	2,600	4,382
Basis activities	2,348	4,468
Trading margins, net	2,132	(2,595)
	<hr/>	<hr/>
Net operating margins Operating results for debt covenant compliance	\$ 10,802	\$ 7,612
	<hr/>	<hr/>

Edgar Filing: TRANSMONTAIGNE INC - Form 10-Q

	Three months ended September 30, 2003	Three months ended September 30, 2002
<b>Net operating margins Operating results for debt covenant compliance</b>	\$ 10,802	\$ 7,612
Gains recognized on beginning inventories discretionary volumes held for immediate sale or exchange	5,855	
Gains deferred on ending inventories discretionary volumes held for immediate sale or exchange	(3,067)	
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)	
<b>Net operating margins Historical financial statements</b>	<b>\$ 11,710</b>	<b>\$ 7,612</b>

Prior to October 1, 2002, our inventories discretionary volumes held for immediate sale or exchange were carried at fair value with changes in fair value included in net operating margins in the period of the change in value. Effective October 1, 2002, we adjusted the carrying amount of inventories discretionary volumes held for immediate sale or exchange to the lower of cost or market pursuant to the requirements of EITF 02-03. During the last half of June 2003, we experienced increases in certain commodity prices and locations, which resulted in the fair value of our inventories discretionary volumes held for immediate sale or exchange at June 30, 2003 exceeding their cost basis by approximately \$5.9 million. The "Gains recognized on beginning inventories discretionary volumes held for immediate sale or exchange" represents the net operating margins recognized on the subsequent sale of those inventories to customers during the three months ended September 30, 2003. During the last half of September 2003, we experienced increases in certain commodity prices at certain locations, which resulted in the fair value of our inventories discretionary volumes held for immediate sale or exchange at September 30, 2003 exceeding their cost basis by approximately \$3.1 million. That excess is expected to be recognized in net operating margins during the three months ended December 31, 2003, which is the period in which those discretionary inventory volumes are expected to be sold to customers.

For the three months ended September 30, 2003, we reduced the carrying amount of our base operating volumes by approximately \$1.8 million and our inventories minimum volumes by approximately \$32,000 due to the application of the lower of cost or market rule.

31

**Terminals, pipelines, tugs and barges net operating margins operating results from debt compliance**

For the three months ended September 30, 2003 and 2002, our terminals, pipelines and tugs and barges generated net operating margins of approximately \$14.7 million and \$10.9 million, respectively. The increase of approximately \$3.8 million in net operating margins attributable to our terminals, pipelines, and tugs and barges segment for 2003 as compared to 2002 was due principally to the contribution of approximately \$3.6 million from the Coastal Fuels assets, which we acquired on February 28, 2003. The net operating margins from our historical facilities increased to \$11.1 million in 2003 from \$10.9 million in 2002 principally due to capacity expansion at our Brownsville facilities and additional product throughput throughout the remainder of our terminal system.

Selected quarterly net operating margins operating results for debt covenant compliance for the terminal, pipelines, tugs and barges segment for the three months ended September 30, 2003 and 2002, are summarized below (in thousands):

	Three months ended September 30, 2003	Three months ended September 30, 2002
<b>Terminals and pipelines:</b>		
Historical facilities	\$ 11,132	\$ 10,928
Coastal Fuels assets	3,563	
	<b>\$ 14,695</b>	<b>\$ 10,928</b>

32

**RESULTS OF OPERATIONS HISTORICAL FINANCIAL STATEMENTS**

## Edgar Filing: TRANSMONTAIGNE INC - Form 10-Q

The following selected historical financial statement measures are derived from our unaudited interim financial statements for the three months ended September 30, 2003 and 2002 (in thousands):

	Three months ended September 30,	
	2003	2002
<b>Historical Financial Statement Measures:</b>		
Net operating margins:		
Supply, distribution, and marketing	\$ 11,710	\$ 7,612
Terminals, pipelines, tugs and barges	\$ 14,695	\$ 10,928
EBITDA(1)	\$ 16,040	\$ 8,499
Operating income	\$ 10,497	\$ 3,869
Net earnings	\$ 1,976	\$ 536
Net cash provided (used) by operating activities	\$ (16,874)	\$ 28,739
Net cash provided (used) by investing activities	\$ (7,419)	\$ (2,653)
Net cash provided (used) by financing activities	\$ 14,268	\$ (41,293)
<b>Non-GAAP Financial Performance Measure:</b>		
Operating results for debt covenant compliance(2)	\$ 15,132	\$ 8,499
<b>Reconciliation to Net Earnings:</b>		
Operating results for debt covenant compliance	\$ 15,132	\$ 8,499
Gains recognized on beginning inventories discretionary volumes	5,855	
Gains deferred on ending inventories discretionary volumes	(3,067)	
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)	
	16,040	8,499
EBITDA	16,040	8,499
Depreciation and amortization	(5,537)	(4,256)
Interest expense, net	(6,396)	(3,224)
Other financing costs, net	(813)	(154)
Income tax expense	(1,318)	(329)
	1,976	536
Net earnings	\$ 1,976	\$ 536

(1) EBITDA is defined as earnings before income taxes, interest expense, net, other financing costs, net, depreciation and amortization. We believe that, in addition to cash flow from operating activities and net earnings (loss), EBITDA is a useful financial performance measurement for assessing operating performance since it provides an additional basis to evaluate our ability to incur and service debt and to fund capital expenditures. To evaluate EBITDA, the components of EBITDA such as net operating margin and direct operating expenses and the variability of such components over time, also should be considered. EBITDA should not be construed, however, as an alternative to operating income (loss) (as determined in accordance with generally accepted accounting principles ("GAAP")) as an indicator of our operating performance, or to cash flows from operating activities (as determined in accordance with GAAP) as a measure of liquidity.

(2) Operating results for debt covenant compliance is used as a measure of our financial performance in our borrowing arrangements. In evaluating operating results for debt covenant compliance, we believe that consideration should be given, among other things, to the amount by which operating results for debt covenant compliance exceeds interest costs for the period; how operating results for debt covenant compliance compares to principal repayments on debt for the period; and how operating results for debt covenant compliance compares to capital expenditures for the period. As a result of the implementation of EITF 02-03, our inventories discretionary volumes and minimum volumes are carried at the lower of cost (first in, first out) or market, while our risk management contracts are carried at market. As a result, if market prices are increasing during the end of the quarter, we may report significant losses on risk management contracts and significant deferred gains on discretionary inventory volumes held for immediate sale or exchange at the end of that quarter and report

## Edgar Filing: TRANSMONTAIGNE INC - Form 10-Q

significant gains on our beginning inventories discretionary volumes held for immediate sale or exchange in the following quarter. For purposes of computing our operating results for debt covenant compliance, our inventories discretionary volumes held for immediate sale or exchange are reflected at market value, which matches the treatment of our derivative and risk management contracts.

The Working Capital Credit Facility is our primary means of short-term liquidity to finance our working capital requirements. The terms of our Working Capital Credit Facility include financial covenants that are tested on a quarterly and annual basis. We believe that the fixed charge coverage test is the most critical and, potentially restrictive, of our financial covenants included in the Working Capital Credit Facility. The fixed charge coverage ratio is based on operating results for debt covenant compliance. The fixed charge coverage ratio states that for each fiscal quarter of the Company, the ratio (expressed as a percentage) of the operating results for debt covenant compliance of the Company and its subsidiaries for the period of four consecutive fiscal quarters then ended to consolidated fixed charges of the Company and its subsidiaries for such period shall equal or exceed 150%.

Operating results for debt covenant compliance and EBITDA should not be construed as alternatives to operating income as determined in accordance with generally accepted accounting principles as indicators of our operating performance, or to cash flows from operating activities, as determined in accordance with generally accepted accounting principles as a measure of liquidity. The following table reconciles our operating results for debt covenant compliance to EBITDA and EBITDA to net earnings.

34

Selected quarterly results of operations data for each of the three-month periods in the three months ended September 30, 2003 and the year ended June 30, 2003, are summarized below (in thousands):

		<b>Three months ended September 30, 2003</b>
<b>Net operating margins:</b>		
Supply, distribution and marketing	\$	11,710
Terminals and pipelines		14,695
		<hr style="border-top: 1px solid black;"/>
Total net operating margins		26,405
Selling, general, and administrative		(10,371)
Depreciation and amortization		(5,537)
		<hr style="border-top: 1px solid black;"/>
Operating income		10,497
Other expense, net		(7,203)
Income tax expense		(1,318)
		<hr style="border-top: 1px solid black;"/>
Net earnings	\$	1,976
		<hr style="border-top: 1px solid black;"/>
<b>Financial performance debt covenant test:</b>		
Operating results for debt covenant compliance	\$	15,132
		<hr style="border-top: 1px solid black;"/>
Fixed charges	\$	8,589
		<hr style="border-top: 1px solid black;"/>
Fixed charge coverage ratio based on rolling four consecutive quarters		214%
		<hr style="border-top: 1px solid black;"/>
<b>Reconciliation of EBITDA and operating results for debt covenant compliance to net earnings:</b>		
Operating results for debt covenant compliance	\$	15,132
Gains recognized on beginning inventories discretionary volumes held for immediate sale or exchange		5,855
Gains deferred on ending inventories discretionary volumes held for immediate sale or exchange		(3,067)
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)
		<hr style="border-top: 1px solid black;"/>

Edgar Filing: TRANSMONTAIGNE INC - Form 10-Q

	Three months ended September 30, 2003
EBITDA	16,040
Depreciation and amortization	(5,537)
Interest expense, net	(6,396)
Other financing costs, net	(813)
Income tax expense	(1,318)
Net earnings	\$ 1,976

35

	Three months ended				Year ended June 30, 2003
	September 30, 2002	December 31, 2002	March 31, 2003	June 30, 2003	
<b>Net operating margins:</b>					
Supply, distribution and marketing	\$ 7,612	\$ (7,503)	\$ 53,457	\$ 6,436	\$ 60,002
Terminals, pipelines and tugs and barges	10,928	10,745	12,550	13,569	47,792
Total net operating margins	18,540	3,242	66,007	20,005	107,794
Selling, general, and administrative	(9,331)	(8,775)	(10,440)	(11,945)	(40,491)
Depreciation and amortization	(4,256)	(4,293)	(4,851)	(5,971)	(19,371)
Corporate relocation and transition	(1,084)	(365)			(1,449)
Operating income (loss)	3,869	(10,191)	50,716	2,089	46,483
Other income (expense), net	(3,004)	(2,001)	(5,484)	(8,832)	(19,321)
Income tax (expense) benefit	(329)	4,633	(17,192)	368	(12,520)
Cumulative effect adjustment		(7,839)			(7,839)
Net earnings (loss)	\$ 536	\$ (15,398)	\$ 28,040	\$ (6,375)	\$ 6,803

**Financial performance debt covenant test:**

Operating results for debt covenant compliance	\$ 8,499	\$ 14,948	\$ 16,268	\$ 21,825	\$ 61,540
Fixed charges	\$ 5,740	\$ 6,579	\$ 9,581	\$ 7,173	\$ 29,073
Fixed charge coverage ratio					212%

**Reconciliation of EBITDA and operating results for debt covenant compliance to net earnings:**

Operating results for debt covenant compliance	\$ 8,499	\$ 14,948	\$ 16,268	\$ 21,825	\$ 61,540
Gains recognized on beginning inventories discretionary volumes held for immediate sale or exchange		12,644			12,644
Gains deferred on ending inventories discretionary volumes held for immediate sale or exchange		(33,490)	33,490	(5,855)	(5,855)

Edgar Filing: TRANSMONTAIGNE INC - Form 10-Q

Three months ended

Change in FIFO cost basis of base operating inventory volumes				(7,887)	(7,887)
Net margin recognized on sale of inventories minimum volumes		18,854			18,854
Lower of cost or market write-downs on base operating inventory volumes		(12,412)	(23)		(12,435)
Lower of cost or market write-downs on inventories minimum volumes			(633)		(633)
EBITDA	8,499	(5,898)	55,567	8,060	66,228
Depreciation and amortization	(4,256)	(4,293)	(4,851)	(5,971)	(19,371)
Interest expense, net	(3,224)	(2,967)	(3,759)	(4,469)	(14,419)
Other financing costs, net	(154)	966	(1,725)	(4,363)	(5,276)
Income tax benefit (expense)	(329)	4,633	(17,192)	368	(12,520)
Cumulative effect adjustment		(7,839)			(7,839)
Net earnings (loss)	\$ 536	\$ (15,398)	\$ 28,040	\$ (6,375)	\$ 6,803

36

THREE MONTHS ENDED SEPTEMBER 30, 2003 AS COMPARED TO THREE MONTHS ENDED SEPTEMBER 30, 2002

We reported net earnings of \$2.0 million for the three months ended September 30, 2003, compared to net earnings of \$0.5 million for the three months ended September 30, 2002. After preferred stock dividends, the net earnings (loss) attributable to common stockholders was \$1.3 million for the three months ended September 30, 2003, compared to \$(0.5) million for the three months ended September 30, 2002. Basic earnings (loss) per common share for the three months ended September 30, 2003 and 2002, was \$0.03 and \$(0.01), respectively, based on 39.2 million and 39.0 million weighted average common shares outstanding, respectively. Diluted earnings (loss) per share for the three months ended September 30, 2003 and 2002, was \$0.03 and \$(0.01), respectively, based upon 39.8 million and 39.0 million weighted average diluted shares outstanding, respectively.

Terminals, pipelines, and tugs and barges

In our terminals, pipelines, and tugs and barges operations, we provide distribution related services to wholesalers, distributors, marketers, retail gasoline station operators, cruise-ship operators and industrial and commercial end-users of refined petroleum products and other commercial liquids. The net operating margins from our terminals, pipelines, and tugs and barges operations for the three months ended September 30, 2003 were \$14.7 million, compared to \$10.9 million for the three months ended September 30, 2002. The increase of \$3.8 million in net operating margins was due principally to the addition of the Coastal Fuels assets. On February 28, 2003, we acquired the Coastal Fuels assets, which include five terminals, a hydrant delivery system, and a tug and barge operation. The results of operations of the Coastal Fuels assets are included from the closing date of the transaction (February 28, 2003). For the three months ended September 30, 2003, the Coastal Fuels assets generated net operating margins of approximately \$3.6 million attributable to our terminals, pipelines, and tugs and barges operations. The net operating margins from our terminals, pipelines, and tugs and barges operations are as follows (in thousands):

	Three months ended September 30,	
	2003	2002
Throughput fees	\$ 8,466	\$ 7,171
Storage fees	9,644	5,286
Additive injection fees, net	1,960	1,906
Pipeline transportation fees	1,696	1,466
Tugs and barges	2,813	
Other	2,442	1,566



	Three months ended September 30,	
	<hr/>	
Revenue	27,021	17,395
Less direct operating costs and expenses	(12,326)	(6,467)
	<hr/>	
Net operating margins	\$ 14,695	\$ 10,928
	<hr/>	

*Throughput Fees.* We own and operate a terminal infrastructure that handles products with transportation connections via pipelines, barges, rail cars and trucks. We earn throughput fees for each barrel of product that is distributed at our terminals through our supply and marketing efforts, through exchange agreements, or for third parties. Terminal throughput fees are based on the volume of products distributed at the facility's truck loading racks, generally at a standard rate per barrel of product.

Exchange agreements provide for the exchange of product at one delivery location for product at a different location. We generally receive a terminal throughput fee based on the volume of the product exchanged, in addition to the cost of transportation from the receipt location to the exchange delivery location. For the three months ended September 30, 2003 and 2002, we averaged approximately 58,000 and 47,000 barrels per day, respectively, of delivered volumes under exchange agreements.

Terminal throughput fees were approximately \$8.5 million and \$7.2 million for the three months ended September 30, 2003 and 2002, respectively. For the three months ended September 30, 2003 and 2002, we averaged approximately 460,000 barrels and 350,000 barrels per day of throughput volumes at our terminals, including volumes under exchange agreements. The increase of \$1.3 million in throughput fees was due principally to increases of approximately \$0.6 million as a result of our acquisition of the Coastal Fuels assets, approximately \$0.3 million at our historical Florida facilities, approximately \$0.5 million at our Baton Rouge dock and approximately \$0.2 million at our Southeast facilities offset by a decrease of approximately \$0.5 million at our Upper River facilities.

Included in the terminal throughput fees for the three months ended September 30, 2003 and 2002 are fees charged to TransMontaigne's supply, distribution and marketing segment of approximately \$7.3 million and \$5.1 million, respectively.

*Storage Fees.* We lease storage capacity at our terminals to third parties and our supply, distribution and marketing segment. Terminal storage fees generally are based on a per barrel of leased capacity per month rate and will vary with the duration of the storage agreement and the type of product stored.

Terminal storage fees were approximately \$9.6 million and \$5.3 million for the three months ended September 30, 2003 and 2002, respectively. The increase of \$4.3 million in storage fees was due principally to an increase of approximately \$4.5 million from our acquisition of the Coastal Fuels assets.

Included in the terminal storage fees for the three months ended September 30, 2003 and 2002 are fees charged to TransMontaigne's supply, distribution and marketing segment of approximately \$2.7 million and \$0.9 million, respectively.

*Additive Injection Fees, Net.* We provide injection services in connection with the delivery of product at our terminals. These fees generally are based on the volume of product injected and delivered over the rack at our terminals.

Additive injection fees, net were approximately \$2.0 million and \$1.9 million for the three months ended September 30, 2003 and 2002, respectively. The increase of \$0.1 million in additive injection fees, net was due principally to an increase of approximately \$0.1 million from our acquisition of the Coastal Fuels assets.

Included in additive injection fees, net for the three months ended September 30, 2003 and 2002 are fees charged to TransMontaigne's supply, distribution and marketing segment of approximately \$1.8 million and \$1.5 million, respectively.

*Pipeline Transportation Fees.* We own an interstate products pipeline operating from Mt. Vernon, Missouri to Rogers, Arkansas (the "Razorback Pipeline"), together with associated terminal facilities at Mt. Vernon and Rogers. We also own and operate a proprietary pipeline in Port Everglades/Ft. Lauderdale (the "hydrant system"), which we use to deliver our product to cruise ships and other marine vessels for refueling, and a small intrastate crude oil gathering pipeline system, located in east

Texas (the "CETEX pipeline"). We earn pipeline transportation fees based on the volume of product transported and the distance from the origin point to the delivery point.

For the three months ended September 30, 2003 and 2002, we earned pipeline transportation fees of approximately \$1.7 million and \$1.5 million, respectively.

Included in the pipeline transportation fees for the three months ended September 30, 2003 and 2002 are fees charged to TransMontaigne's supply, distribution and marketing segment of approximately \$1.5 million and \$1.3 million, respectively.

*Tugs and Barges.* In Florida, we own and operate nine tugboats and 13 barges that deliver product to cruise ships and other marine vessels for refueling and to transport third party product from our storage tanks to our customers' facilities. Our tugboats earn fees for providing docking and other ship-assist services to cruise and cargo ships and other marine vessels. Bunkering fees are based on the volume and type of product sold, transportation fees are based on the volume of product that is shipped and the distance to the delivery point, and docking and other ship-assist services are based on a per docking per tugboat basis.

For the three months ended September 30, 2003, we earned bunkering fees, transportation fees, and other ship-assist services fees of approximately \$2.8 million. We acquired the tugs and barges operations on February 28, 2003 in connection with our acquisition of the Coastal Fuels assets.

Included in the tugs and barges fees for the three months ended September 30, 2003 are fees charged to TransMontaigne's supply, distribution and marketing segment of approximately \$1.5 million.

*Other Revenue.* In addition to providing storage and distribution services at our terminal facilities, we also provide ancillary services including heating and mixing of stored products and product transfer services. We also recognize gains from the sale of product to our supply, distribution and marketing operation resulting from the excess of product deposited by third parties into our terminals over the amount of product that the customer is contractually permitted to withdraw from those terminals. For the three months ended September 30, 2003 and 2002, other revenue from our terminals, pipelines, and tugs and barges operations was approximately \$2.4 million and \$1.6 million, respectively. The increase of approximately \$0.8 million in other revenue for 2003 as compared to 2002 was due principally to an increase of approximately \$1.4 million from our acquisition of the Coastal Fuels assets offset by decreases of approximately \$0.3 million at our Brownsville, Texas facilities and approximately \$0.2 million at our Upper River facilities.

Included in other revenue for the three months ended September 30, 2003 and 2002, are fees charged to TransMontaigne's supply, distribution and marketing segment of approximately \$0.6 million and \$0.8 million, respectively.

*Direct Operating Costs and Expenses.* The direct operating costs and expenses of the terminals, pipelines, and tugs and barges operations include the directly related wages and employee benefits, utilities, communications, maintenance and repairs, property taxes, rent, vehicle expenses, environmental compliance costs, materials and supplies. For the three months ended September 30, 2003 and 2002, the direct operating costs and expenses of the terminals, pipelines, and tugs and

barges were approximately \$12.3 million and \$6.5 million, respectively. The direct operating costs and expenses of our terminals, pipelines, and tugs and barges operations are as follows (in thousands):

	Three months ended September 30,	
	2003	2002
Wages and employee benefits	\$ 6,053	\$ 3,506
Utilities and communication charges	1,206	752

Edgar Filing: TRANSMONTAIGNE INC - Form 10-Q

	Three months ended September 30,	
Repairs and maintenance	3,443	1,767
Office, rentals and property taxes	1,656	834
Vehicles and fuel costs	408	130
Environmental compliance costs	(43)	522
Other	575	83
Less reimbursed costs and expenses	(972)	(1,127)
	<u>          </u>	<u>          </u>
Direct operating costs and expenses	\$ 12,326	\$ 6,467
	<u>          </u>	<u>          </u>

The increase of \$5.8 million in direct operating costs and expenses was due principally to the addition of the Coastal Fuels assets which resulted in approximately \$6.0 million of additional direct operating costs and expenses offset by approximately \$0.8 million of insurance recoveries received on claims for reimbursement of environmental remediation costs.

**Supply, distribution and marketing**

The net operating margins from our supply, distribution and marketing operations for the three months ended September 30, 2003 were \$11.7 million, compared to \$7.6 million for the three months ended September 30, 2002. The increase in net operating margins for 2003 as compared to 2002 is due principally to increases of approximately \$1.4 million in heavy oil margins due to our acquisition of the Coastal Fuels assets and approximately \$4.7 million in margins from our trading activities offset by a decrease of approximately \$1.8 million in margins from our supply management services. The net operating margins from our supply, distribution and marketing operations are as follows (in thousands):

	Three months ended September 30,	
	2003	2002
Rack sales	\$ 482,834	\$ 388,808
Bulk sales	1,369,416	992,715
Contract sales	599,060	310,664
Supply management services	72,243	35,155
	<u>          </u>	<u>          </u>
Total revenue	2,523,553	1,727,342
Cost of product sold	(2,511,890)	(1,686,783)
	<u>          </u>	<u>          </u>
Net margin before other direct costs and expenses	11,663	40,559
Other direct costs and expenses:		
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)	
	<u>          </u>	<u>          </u>
Net operating margins	\$ 11,710	\$ 7,612
	<u>          </u>	<u>          </u>

Our supply, distribution and marketing operations typically purchase products at prevailing prices from refiners and producers at production points and common trading locations. Once we purchase these products, we schedule them for delivery to our terminals, as well as terminals owned by third parties with which we have storage or throughput agreements. From these terminal locations, we then sell our products to customers primarily through three types of arrangements: rack sales, bulk sales and contract sales.

## Edgar Filing: TRANSMONTAIGNE INC - Form 10-Q

**Rack Sales.** Rack sales are spot sales to commercial and industrial end-users, independent retailers, cruise-ship operators and jobbers that do not involve continuing contractual obligations to purchase or deliver product. Rack sales are priced and delivered on a daily basis through truck loading racks or marine fueling equipment. Our selling price of a particular product on a particular day at a particular terminal is a function of our supply at that terminal, our estimate of the costs to replenish the product at that terminal, our desire to reduce inventory levels at that terminal that day, and other factors. Rack sales are recognized as revenue when the product is delivered to the customer through the truck loading rack or marine fueling equipment.

Rack sales were approximately \$482.8 million and \$388.8 million for the three months ended September 30, 2003 and 2002, respectively. For the three months ended September 30, 2003 and 2002, we averaged approximately 142,000 and 129,000 barrels per day, respectively, of delivered volumes under rack sales.

**Bulk Sales.** Bulk sales are sales of large quantities of product to wholesalers, distributors, and marketers in major cash markets. We also make bulk sales of products prior to their scheduled delivery to us while the product is being transported in the common carrier pipelines or by barge or vessel. Bulk sales are recognized as revenue when the title to the product is transferred to the customer, which generally occurs upon confirmation of the terms of the sale.

Bulk sales were approximately \$1,369.4 million and \$992.7 million for the three months ended September 30, 2003 and 2002, respectively. For the three months ended September 30, 2003 and 2002, we averaged approximately 401,000 and 339,000 barrels per day, respectively, of delivered volumes under bulk sales.

**Contract Sales.** Contract sales are sales to commercial and industrial end users, independent retailers, cruise-ship operators, and jobbers that are made pursuant to negotiated contracts, generally ranging from one to six months in duration. Contract sales provide these customers with a specified volume of product during the agreement term. At the customer's option, the pricing of the product delivered under a contract sale may be fixed at a stipulated price per gallon, or it may vary based on changes in published indices. Contract sales are recognized as revenue when the product is delivered to the customer through the truck loading rack or marine fueling equipment.

Contract sales were approximately \$599.1 million and \$310.7 million for the three months ended September 30, 2003 and 2002, respectively. For the three months ended September 30, 2003 and 2002, we averaged approximately 178,000 and 103,000 barrels per day, respectively, of delivered volumes under contract sales.

**Supply Management Services Contracts.** We provide supply management services to companies and governmental entities that desire to outsource their fuel supply function and to reduce the price volatility associated with their fuel supplies. We offer three types of supply management services: delivered fuel price management, retail price management and logistical supply management services.

Sales pursuant to supply management services contracts were approximately \$72.2 million and \$35.2 million for the three months ended September 30, 2003 and 2002, respectively. For the three

41

months ended September 30, 2003 and 2002, we averaged approximately 23,000 barrels and 12,000 barrels per day, respectively, of delivered volumes under supply management services contracts.

**Cost of Product Sold.** The cost of product sold includes the cost of the product inventory sold on a first-in, first-out basis, pipeline transportation and other freight costs, terminal throughput, additive and storage costs, and commissions. Cost of product sold is approximately \$2,511.9 million and \$1,686.8 million for the three months ended September 30, 2003 and 2002, respectively. Cost of product sold is as follows (in thousands):

	Three months ended September 30,	
	2003	2002
Inventory product costs	\$ 2,464,453	\$ 1,655,580
Transportation and related charges	31,924	20,602
Throughput, storage and related charges	14,918	10,105
Other	595	496

Three months ended  
September 30,

	2003	2002
Cost of product sold	\$ 2,511,890	\$ 1,686,783

*Net Losses on Risk Management Activities.* Our risk management strategy generally is intended to maintain a balanced position of forward sale and purchase commitments against our discretionary inventories held for immediate sale or exchange and future contractual delivery obligations, thereby reducing exposure to commodity price fluctuations. We evaluate our exposure to commodity price risk from an overall portfolio basis that considers the continuous movement of discretionary inventory volumes held for immediate sale or exchange and our obligations to deliver products at fixed prices through our sales contracts and supply management contracts. Our physical inventory position, which includes firm commitments to buy and sell product, is offset with risk management contracts, principally futures contracts on the NYMEX.

When we purchase refined petroleum products, we enter into futures contracts to sell a corresponding amount of product to protect against price fluctuations for the underlying commodity. When we ultimately sell the underlying inventory to a customer, we unwind the related risk management contract. In order to effectively manage commodity price risk, we must predict when we will sell the underlying product. If we fail to accurately predict the timing of those future sales, and the product remains in our inventory longer than the expiration date of the futures contract, we must settle the old futures contract and enter into a new futures contract to sell the product to manage the commodity price risk against the same inventory. We refer to this as "rolling" the risk management contracts. During a period of rising prices, our risk management contracts (i.e., short futures contracts) that are entered into to reduce our risk to commodity price changes associated with our discretionary inventory volumes held for immediate sale or exchange will decline in value resulting in a loss.

Net losses on risk management activities were approximately \$0.4 million and \$18.5 million for the three months ended September 30, 2003 and 2002, respectively.

*Lower of Cost or Market Write-Downs on Base Operating Volumes.* During the three months ended September 30, 2003, we recognized impairment losses of approximately \$1.8 million due to lower of cost or market write-downs on the base operating volumes due principally to declining prices at the end of the period. During the three months ended September 30, 2002, we did not report any of our inventory volumes as base operating volumes as our base operating volumes were a component of our minimum inventory volumes.

42

*Lower of Cost or Market Write-Downs on Inventories Minimum Volumes.* During the three months ended September 30, 2003 and 2002, we recognized impairment losses of approximately \$32,000 and \$nil, respectively, due to lower of cost or market write-downs on the minimum inventory volumes.

### Costs and expenses

Selling, general and administrative expenses for the three months ended September 30, 2003 were \$10.4 million, compared to \$9.3 million for the three months ended September 30, 2002. Selling, general and administrative expenses are as follows (in thousands):

	Three months ended September 30,	
	2003	2002
Wages and employee benefits	\$ 7,138	\$ 6,419
Office costs, utilities and communication charges	1,303	1,458
Accounting and legal expenses	392	770
Property and casualty insurance	1,097	507
Other	441	177
Selling, general and administrative expenses	\$ 10,371	\$ 9,331

## Edgar Filing: TRANSMONTAIGNE INC - Form 10-Q

Depreciation and amortization for the three months ended September 30, 2003 and 2002, was \$5.5 million and \$4.3 million, respectively. The increase of \$1.2 million in depreciation and amortization for 2003 as compared to 2002 is principally related to depreciation and amortization on recent additions to property, plant, and equipment.

We recognized special charges of \$1.1 million during the three months ended September 30, 2002, related to our corporate relocation and transition. As of June 30, 2003 we had completed the relocation of our employees from Atlanta, Georgia to Denver, Colorado and paid the remaining special termination benefits and transition bonuses.

### Other income and expenses

Dividend income for the three months ended September 30, 2003 was \$6,000, compared to \$374,000 for the three months ended September 30, 2002.

Interest income for the three months ended September 30, 2003 was \$28,000, as compared to \$0.1 million for the three months ended September 30, 2002. Pursuant to our cash management practices, excess cash balances are used to pay down our outstanding borrowings under our working capital credit facility and commodity margin loan.

43

Interest expense for the three months ended September 30, 2003 was \$6.4 million, compared to \$3.3 million during the three months ended September 30, 2002. Interest expense is as follows (in thousands):

	Three months ended September 30,	
	2003	2002
Working capital credit facility	\$ 1,823	\$
Senior subordinated notes	4,553	
Former bank credit facility		1,745
Letters of credit	30	81
Commodity margin loan	18	65
Interest rate swap		1,402
	\$ 6,424	\$ 3,293

Other financing costs, net for the three months ended September 30, 2003 were \$0.8 million, compared to \$0.2 million for the three months ended September 30, 2002. The increase of \$0.6 million in other financing costs, net was due principally to an increase of approximately \$0.6 million in amortization of deferred debt issuance costs and the absence of a gain on interest rate swap. During the three months ended September 30, 2002, we recognized an unrealized gain of \$75,000 on our interest rate swap. On February 28, 2003, we settled our obligations under the swap agreement when we repaid our former bank revolving credit facility.

### Income taxes

Income tax expense was \$1.3 million and \$0.3 million for the three months ended September 30, 2003 and 2002, respectively, which represents an effective combined federal and state income tax rate of 40.0% and 38.0%, respectively.

### Preferred stock dividends

Preferred stock dividends on our Series A Convertible Preferred stock were \$nil and \$0.3 million for the three months ended September 30, 2003 and 2002, respectively. The decrease in the current year dividend resulted from a reduction in the number of shares of Series A Convertible Preferred stock outstanding during the current period. On June 30, 2003, we redeemed the remaining 24,421 shares of Series A Convertible Preferred stock and warrants that were outstanding for a cash payment of approximately \$24.4 million.

## Edgar Filing: TRANSMONTAIGNE INC - Form 10-Q

Preferred stock dividends on our Series B Redeemable Convertible Preferred Stock were \$0.7 million for each of the three months ended September 30, 2003 and 2002. At its issuance (June 28, 2002), the fair value of the Series B Redeemable Convertible Preferred stock exceeded its liquidation value. The initial carrying amount of the Series B Redeemable Convertible Preferred Stock of approximately \$80.9 million will be decreased ratably over its 5-year term until it equals its liquidation value of approximately \$72.9 million with an equal reduction in the amount of preferred stock dividends recorded for financial reporting purposes. For each of the three months ended September 30, 2003 and 2002, the amount of the dividend recognized for financial reporting purposes is composed of the amount of the dividend payable to the holders of the Series B Redeemable Convertible Preferred Stock of \$1.1 million, offset by the amortization of the premium on the carrying amount of the Series B Redeemable Convertible Preferred Stock of \$0.4 million.

44

### LIQUIDITY, CAPITAL RESOURCES, AND COMMODITY PRICE RISK

At September 30, 2003, our current assets exceeded our current liabilities by \$68.0 million, compared to \$63.9 million at June 30, 2002. The increase of \$4.1 million in working capital is due principally to an increase in inventories discretionary volumes offset by a decrease in trade accounts receivable.

The decrease in trade accounts receivable of \$43.1 million is due principally to the timing of cash collections on sales made during the three months ended September 30, 2003. Our gross revenues for the supply, distribution and marketing operations were approximately \$777.8 million and \$777.4 million for the one-month periods ended September 30, 2003 and June 30, 2003, respectively.

Our inventories discretionary volumes are presented in the accompanying consolidated balance sheet as current assets and are carried at the lower of cost or market at September 30, 2003 and June 30, 2003. Inventories discretionary volumes are as follows (in thousands):

	September 30, 2003		June 30, 2003	
	Amount	Bbls	Amount	Bbls
Volumes held for immediate sale or exchange	\$ 191,322	5,964	\$ 130,492	3,890
Volumes held for base operations	94,578	2,922	96,426	2,922
Inventories discretionary volumes	\$ 285,900	8,886	\$ 226,918	6,812

Our volumes held for immediate sale or exchange are subject to price risk management. During the three months ended September 30, 2003, we increased our volumes held for immediate sale or exchange by approximately 2.1 million barrels principally to take advantage of favorable market conditions for distillate products.

Our volumes held for base operations, representing in-transit volumes on common carrier pipelines, generally are not subject to price risk management. Based on the level of our current operations, we have established our base operating inventory, exclusive of minimum volumes, at approximately 2.9 million barrels. Changes in our operation, such as the acquisition of additional terminals, may result in changes in the volume of our base operating inventory. The activity in our volumes held for base operations, exclusive of minimum volumes, is summarized as follows (in thousands):

	Amount	Barrels
As of June 30, 2003	\$ 96,426	2,922
Lower of cost or market write-down	(1,848)	
As of September 30, 2003	\$ 94,578	2,922

Our inventories minimum volumes, which are limited to tank bottoms and line fill in proprietary pipelines, are not held for sale or exchange in the ordinary course of business and, therefore, we do not manage the commodity price risks associated with this inventory. Our inventories minimum

volumes are presented in the accompanying consolidated balance sheet as non-current assets and are carried at the lower of cost or market. Inventories minimum volumes are as follows (in thousands):

	September 30, 2003		June 30, 2003	
	Amount	Bbls	Amount	Bbls
Gasolines	\$ 12,994	497	\$ 13,020	497
Distillates	7,449	319	7,449	319
No. 6 oil	1,542	61	1,548	61
Inventories minimum volumes	\$ 21,985	877	\$ 22,017	877

At September 30, 2003 and June 30, 2003, the weighted average adjusted cost basis of our inventories minimum volumes was \$0.60 per gallon. The activity in our inventories minimum volumes is summarized as follows (in thousands):

	Amount	Barrels
As of June 30, 2003	\$ 22,017	877
Lower of cost or market write-down	(32)	
As of September 30, 2003	\$ 21,985	877

The following table indicates the maturities of our derivative contracts, including the credit quality of our counterparties to those contracts with unrealized gains at September 30, 2003.

	Fair value of contracts (in thousands)			
	Maturity less than 1 year	Maturity 1-3 years	Maturity in excess of 3 years	Total
Unrealized gain position asset				
Investment grade	\$ 3,582	\$	\$	\$ 3,582
Non-investment grade	2,300	486		2,786
No external rating	10,490	174		10,664
	16,372	660		17,032
Unrealized loss position liability	(15,944)	(483)		(16,427)
Net unrealized loss position liability	\$ 428	\$ 177	\$	\$ 605

At September 30, 2003, the unrealized gain on our derivative contracts with non-investment grade counterparties was approximately \$2.8 million. A single customer represented approximately \$1.5 million of that unrealized gain. At September 30, 2003, we also had derivative contracts with that customer that were in an unrealized loss position of approximately \$3.0 million. Therefore, the net unrealized loss on all of our derivative contracts with that customer was approximately \$1.5 million at September 30, 2003.



## Edgar Filing: TRANSMONTAIGNE INC - Form 10-Q

The following table includes information about the changes in the fair value of our derivative contracts with that customer for the three months ended September 30, 2003 (in thousands):

Fair value at June 30, 2003	\$ (1,682)
Amounts realized or otherwise settled during the year	1,191
Change in fair value attributable to change in commodity prices	(987)
Fair value at September 30, 2003	\$ (1,478)

Capital expenditures for the three months ended September 30, 2003 were \$6.3 million for terminal and pipeline facilities and assets to support these facilities. Excluding acquisitions, capital expenditures for the remainder of the year ending June 30, 2004, are estimated to be less than \$10.0 million. Future capital expenditures will depend on numerous factors, including the availability, economics and cost of appropriate acquisitions which we identify and evaluate; the economics, cost and required regulatory approvals with respect to the expansion and enhancement of existing systems and facilities; customer demand for the services we provide; local, state and federal governmental regulations; environmental compliance requirements; and the availability of debt financing and equity capital on acceptable terms.

Our Working Capital Credit Facility currently provides for a maximum borrowing line of credit that was the lesser of (i) \$275 million and (ii) the borrowing base (as defined; \$423.0 million at September 30, 2003). The maximum borrowing amount is reduced by the amount of letters of credit that are outstanding. The borrowing base is a function of our cash, accounts receivable, inventory, exchanges, margin deposits, open positions of energy services and risk management contracts, outstanding letters of credit, and outstanding indebtedness as defined in the facility. At September 30, 2003, we had borrowings of \$195 million outstanding and letters of credit of \$15.3 million outstanding under the Working Capital Credit Facility. We also had the ability to borrow an additional \$64.7 million under the facility based on the borrowing base computation at September 30, 2003. All outstanding borrowings under the Working Capital Credit Facility are due and payable on February 28, 2006.

On May 30, 2003, we consummated the sale and issuance of \$200 million aggregate principal amount of 9<sup>1</sup>/<sub>8</sub>% Senior Subordinated Notes due 2010 ("Notes") and received proceeds of \$194.5 million (net of underwriters' discounts of \$5.5 million). We used the net proceeds from the offering of the Notes to repay the Term Loan. The Notes mature on June 1, 2010 and interest is payable semi-annually in arrears on each June 1 and December 1 commencing on December 1, 2003. The Notes are unsecured and subordinated to all of our existing and future senior debt. Upon certain change of control events, each holder of the Notes may require us to repurchase all or a portion of its notes at a purchase price equal to 101% of the principal amount thereof, plus accrued interest.

We believe that our current working capital position; future cash expected to be provided by operating activities; available borrowing capacity under our working capital credit facility and commodity margin loan; and our relationship with institutional lenders and equity investors should enable us to meet our planned capital and liquidity requirements through at least the maturity date of our Working Capital Credit Facility (February 2006).

Net cash provided (used) by operating activities was \$(16.9) million for the three months ended September 30, 2003, as compared to \$28.7 million for the three months ended September 30, 2002.

47

Net cash provided (used) by investing activities was \$(7.4) million for the three months ended September 30, 2003, as compared to \$(2.7) million for the year ended September 30, 2002.

Net cash provided (used) by financing activities was \$14.3 million for the three months ended September 30, 2003, as compared to \$(41.3) million for the three months ended September 30, 2002.

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

The information contained in Item 3 updates, and should be read in conjunction with, information set forth in Part II, Item 7A in our Annual Report on Form 10-K for the year ended June 30, 2003, in addition to the interim consolidated financial statements, accompanying notes and management's discussion and analysis of financial condition and results of operations presented in Items 1 and 2 of this Quarterly Report on Form 10-Q. There are no material changes in market risks faced by us from those reported in our Annual Report on Form 10-K for the year

## Edgar Filing: TRANSMONTAIGNE INC - Form 10-Q

ended June 30, 2003.

Relative month-end commodity prices per gallon from June 30, 2001 to September 30, 2003 (NYMEX close on the last day of the month) are as follows:

	Crude oil	Heating oil	Gasoline
6/30/01	\$ .625	\$ .709	\$ .721
7/31/01	\$ .627	\$ .697	\$ .732
8/31/01	\$ .648	\$ .766	\$ .806
9/30/01	\$ .558	\$ .664	\$ .680
10/31/01	\$ .504	\$ .598	\$ .552
11/30/01	\$ .463	\$ .532	\$ .534
12/31/01	\$ .472	\$ .551	\$ .573
1/31/02	\$ .464	\$ .523	\$ .559
2/28/02	\$ .518	\$ .563	\$ .581
3/31/02	\$ .626	\$ .669	\$ .825
4/30/02	\$ .650	\$ .689	\$ .823
5/31/02	\$ .603	\$ .630	\$ .738
6/30/02	\$ .640	\$ .680	\$ .794
7/31/02	\$ .643	\$ .676	\$ .830
8/31/02	\$ .690	\$ .748	\$ .814
9/30/02	\$ .725	\$ .802	\$ .814
10/31/02	\$ .648	\$ .744	\$ .864
11/30/02	\$ .640	\$ .757	\$ .734
12/31/02	\$ .743	\$ .866	\$ .865
1/31/03	\$ .798	\$ .959	\$ .976
2/28/03	\$ .871	\$ 1.256	\$ 1.038
3/31/03	\$ .739	\$ .792	\$ .944
4/30/03	\$ .614	\$ .761	\$ .843
5/31/03	\$ .704	\$ .754	\$ .868
6/30/03	\$ .719	\$ .781	\$ .870
7/31/03	\$ .727	\$ .793	\$ .902
8/31/03	\$ .752	\$ .819	\$ 1.093
9/30/03	\$ .695	\$ .778	\$ .887

Our risk management policy currently allows our management team the discretion to manage the commodity price risk relating to up to 500,000 barrels of our base operating inventory volumes, which would reduce the total unmanaged inventory (base operating volumes and minimum volumes) to approximately 3.3 million barrels, or to leave unmanaged up to 500,000 barrels of our discretionary

48

inventory held for immediate sale or exchange, which would increase our total unmanaged inventory to approximately 4.3 million barrels. We decide whether to manage the commodity price risk relating to a portion of our base operating inventory or to leave a portion of our discretionary inventory unmanaged depending on our expectations of future market changes. To the extent that we do not manage the commodity price risk relating to a portion of our inventory and commodity prices move adversely, we could suffer losses on that inventory. If, however, prices move favorably, we would realize a gain on the sale of the inventory that we would not realize if substantially all of our inventory was managed. At September 30, 2003, we were subject to commodity price risk on approximately 157,000 barrels of discretionary inventories held for immediate sale or exchange because those barrels were not offset with risk management contracts or future contractual delivery obligations.

When we purchase refined petroleum products, we generally enter into NYMEX futures contracts to protect against price fluctuations for the underlying commodity. Futures contracts are obligations to purchase or sell a specific volume of inventory at a fixed price at a future date. The NYMEX requires an initial margin deposit to open a futures contract. At September 30, 2003 and June 30, 2003, we had approximately \$7.2 million and \$5.2 million, respectively, on deposit to cover our initial margin requirements on open NYMEX futures contracts. NYMEX futures contracts also require daily settlements for changes in commodity prices. Unfavorable commodity price changes subject us to variation margin calls that require us to make cash payments to the NYMEX in amounts that may be material. At September 30, 2003, a \$0.05 per gallon unfavorable change in commodity prices would have required us to make a cash payment of approximately \$2.1 million to cover the variation margin. Conversely, a \$0.05 per gallon favorable change in commodity prices would have permitted us to receive approximately \$2.1 million.

## Edgar Filing: TRANSMONTAIGNE INC - Form 10-Q

We use our credit lines to fund these margin calls, but such funding requirements could exceed our ability to access capital. We have the contractual right to request that the counterparties to our supply management services contracts post additional letters of credit or make additional cash deposits with us to assist us in meeting our obligations to cover our margin requirements.

At September 30, 2003 and June 30, 2003, a \$0.05 per gallon unfavorable change in commodity prices relative to our open positions in derivative sales and purchase contracts and risk management contracts would have resulted in the recognition of a loss (realized and unrealized) of approximately \$11.2 million and \$6.0 million, respectively. However, the fair value of our discretionary inventory held for immediate sale or exchange would have increased by approximately \$11.5 million and \$6.1 million at September 30, 2003 and June 30, 2003, respectively. The gain from the increase in the fair value of our discretionary inventory volumes held for immediate sale or exchange may not be recognized for financial reporting purposes until those volumes have been sold to customers, which may be in an accounting period subsequent to the accounting period in which the losses on derivative contracts and risk management contracts are recognized.

### ITEM 4. CONTROLS AND PROCEDURES

We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed by us in the reports that we file or submit to the Securities and Exchange Commission under the Securities Exchange Act of 1934, as amended, is recorded, processed, summarized and reported within the time periods specified by the Commission's rules and forms, and that information is accumulated and communicated to our management, including our principal executive and principal financial officers (whom we refer to as our Certifying Officers), as appropriate to allow timely decisions regarding required disclosure. Our management evaluated, with the participation of our

49

---

Certifying Officers, the effectiveness of our disclosure controls and procedures as of September 30, 2003, pursuant to Rule 13a-15(b) under the Exchange Act. Based upon that evaluation, our Certifying Officers concluded that, as of September 30, 2003, our disclosure controls and procedures were effective.

There were no changes in our internal control over financial reporting that occurred subsequent to September 30, 2003 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

50

---

---

## Part II. Other information

### ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits:

- 
- 10.1 Letter Agreement dated as of October 9, 2003 between LB I Group Inc. and TransMontaigne Inc.
  - 10.2 Letter Agreement dated as of October 8, 2003 between First Reserve Corporation and TransMontaigne Inc.
  - 31.1 Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
  - 31.2 Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
  - 32.1 Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

## Edgar Filing: TRANSMONTAIGNE INC - Form 10-Q

32.2 Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

(b)  
Reports on Form 8-K:

A Current Report on Form 8-K filed on October 7, 2003 contained disclosures under Item 7, Financial Statements, Pro Forma Financial Information and Exhibits, Item 9, Regulation FD Disclosure, and Item 12, Results of Operations and Financial Condition, reporting the Company's September 29, 2003 earnings press release for its fourth fiscal quarter and year ended June 30, 2003.

51

---

### SIGNATURES

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

Dated November 14, 2003

TRANSMONTAIGNE INC.  
(Registrant)

By: /s/ DONALD H. ANDERSON

---

**Donald H. Anderson**  
**President and Chief Executive Officer**

/s/ RANDALL J. LARSON

---

**Randall J. Larson**  
**Executive Vice President, Chief Financial Officer, and Chief Accounting Officer**

52

---

### EXHIBIT INDEX

<b>Exhibit Number</b>	<b>Description of Exhibits</b>
10.1	Letter Agreement dated as of October 9, 2003 between LB I Group Inc. and TransMontaigne Inc.
10.2	Letter Agreement dated as of October 8, 2003 between First Reserve Corporation and TransMontaigne Inc.
31.1	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

---