TRANSMONTAIGNE INC
Form 10-Q
May 15, 2001

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 10-Q

(Mark One)

[X] Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 For the quarterly period ended March 31, 2001

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 | 06-1052062 |
| (State or other jurisdiction of incorporation or organization) | (I.R.S. Employer Identification No.) |

2750 Republic Plaza, 370 Seventeenth Street
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 [X] No [ ]

As of April 30, 2001 there were 31,751,669 shares of the registrant's Common Stock outstanding.

TABLE OF CONTENTS

PART I. FINANCIAL INFORMATION





PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

The consolidated financial statements of TransMontaigne Inc. ("the Company") are included herein beginning on the following page.



TRANSMONTAIGNE INC.
AND SUBSIDIARIES

Consolidated Balance Sheets
March 31, 2001 and June 30, 2000 (Unaudited)

(In thousands)

| Assets | March 31, 2001 |
|---|---|
| Current assets: | |
| Cash and cash equivalents | $ 14,842 |
| Trade accounts receivable, net | 114,043 |
| Inventories | 185,049 |
| Assets from price risk management activities | 36,432 |
| Prepaid expenses and other | 6,597 |
| | 356,963 |
| Property, plant and equipment: | |
| Land | 15,778 |
| Plant and equipment | 351,087 |
| Accumulated depreciation | (52,423) |
| | 314,442 |
| Investments and other assets: | |
| Investments in petroleum related assets | 47,723 |
| Deferred tax assets, net | 17,751 |
| Deferred debt issuance costs, net | 8,132 |
| Other assets, net | 1,024 |
| | 74,630 |
| | $ 746,035 |
| **Liabilities and Stockholders' Equity** | |
| Current liabilities: | |
| Trade accounts payable | $ 67,935 |
| Inventory due under exchange agreements | 72,575 |
| Liabilities from price risk management activities | 15,551 |
| Excise taxes payable | 41,517 |
| Other accrued liabilities | 10,380 |
| Current portion of long-term debt | 2,370 |
| | 210,328 |
| Long-term debt, less current portion | 202,849 |
| Stockholders' equity: | |
| Series A Convertible Preferred stock, par value $1,000 per share, authorized 2,000,000 shares, issued and outstanding 172,454 shares at March 31, 2001, and 170,115 shares at June 30, 2000, liquidation preference of $172,454 | 172,454 |
| Common stock, par value $.01 per share, authorized 80,000,000 shares, issued and outstanding 31,735,969 shares at March 31, 2001 and 30,730,524 shares at June 30, 2000 | 317 |
| Capital in excess of par value | 205,014 |
| Unearned compensation | (2,877) |
| Accumulated deficit | (42,050) |
| | 332,858 |

$ 746,035

See accompanying notes to consolidated financial statements.



TRANSMONTAIGNE INC.
AND SUBSIDIARIES

Consolidated Statements of Operations
Three Months and Nine Months Ended March 31, 2001 and 2000 (Unaudited)
(In thousands, except per share amounts)

| | Three Months Ended March 31, 2001 | Three Months Ended March 31, 2000 |
|---|---|---|
| Revenues: | $ 1,278,387 | 1,209,470 |
| Costs and expenses: | | |
| Product costs | 1,245,523 | 1,175,296 |
| Direct operating expenses | 9,944 | 8,147 |
| Impairment of long lived assets | - | - |
| Selling, general and administrative | 9,102 | 8,730 |
| Depreciation and amortization | 4,927 | 4,730 |
| | 1,269,496 | 1,196,903 |
| Operating income (loss) | 8,891 | 12,567 |
| Other income (expenses): | | |
| Dividend income from and equity in earnings of petroleum related investments | 766 | 345 |
| Interest income | 262 | 514 |
| Interest expense | (4,376) | (4,667) |
| Other financing (cost) income | (175) | (224) |
| Amortization of deferred debt issuance costs | (1,941) | (872) |
| Unrealized loss on interest rate swap | (2,679) | - |
| Gain (loss) on disposition of assets | - | (1,566) |
| | (8,143) | (6,470) |
| Earnings (loss) before income taxes | 748 | 6,097 |
| Income tax (expense) benefit | (284) | (2,442) |
| Net earnings (loss) | 464 | 3,655 |
| Preferred stock dividends | (2,339) | (2,126) |

| | | | |
|---|---|---|---|
| Net earnings (loss) attributable to common stockholders | $ (1,875) | 1,529 | |
| Weighted average common shares outstanding - basic and diluted | | | |
| Basic | 31,743 | 30,630 | |
| Diluted | 31,743 | 30,947 | |
| Earnings (loss) per common share - basic and diluted | | | |
| Basic | $ (0.06) | 0.05 | |
| Diluted | $ (0.06) | 0.05 | |

See accompanying notes to consolidated financial statements.

5

TRANSMONTAIGNE INC.
AND SUBSIDIARIES

Consolidated Statements of Stockholders' Equity
Year Ended June 30, 2000 and Nine Months Ended March 31, 2001 (Unaudited)
(In thousands)

| | Preferred stock | Common stock | Capital in excess of par value | Unearned compensation |
|---|---|---|---|---|
| Balance at June 30, 1999 | $ 170,115 | 305 | 197,123 | - |
| Common stock issued for options exercised | - | - | 136 | - |
| Tax expense from vesting of restricted stock | - | - | (68) | - |
| Unearned compensation related to restricted stock awards | - | 2 | 1,863 | (1,865) |
| Amortization of unearned compensation | - | - | - | 400 |
| Compensation expense related to extension of exercise period of options | - | - | 2,022 | - |
| Preferred stock dividends | - | - | - | - |
| Net loss | - | - | - | - |
| Balance at June 30, 2000 | 170,115 | 307 | 201,076 | (1,465) |
| Common stock issued for options and warrants exercised | - | 5 | 1,600 | - |
| Unearned compensation related | | | | |

| | | | | |
|---|---|---|---|---|
| to restricted stock awards | - | 5 | 2,338 | (2,343) |
| Amortization of unearned compensation | - | - | - | 931 |
| Preferred stock dividends | 2,339 | - | - | - |
| Net earnings | - | - | - | - |
| Balance at March 31, 2001 | $ 172,454 | 317 | 205,014 | (2,877) |

See accompanying notes to consolidated financial statements.



TRANSMONTAIGNE INC.
AND SUBSIDIARIES

Consolidated Statements of Cash Flows
Nine Months Ended March 31, 2001 and 2000 (Unaudited)
(In thousands)

| | Nine Months Ended March 31, 2001 | 2000 |
|---|---|---|
| Cash flows from operating activities: | | |
| Net earnings (loss) | $ 2,476 | ( |
| Adjustments to reconcile net earnings (loss) to net cash provided (used) by operating activities: | | |
| Depreciation and amortization | 14,595 | |
| Deferred tax expense (benefit) | 1,417 | ( |
| Gain on disposition of assets | (8) | ( |
| Impairment of long lived assets | - | |
| Amortization of unearned compensation | 931 | |
| Amortization of deferred debt issuance costs | 3,891 | |
| Changes in operating assets and liabilities, net of non-cash activities: | | |
| Trade accounts receivable | 3,696 | |
| Inventories | 55,818 | 1 |
| Prepaid expenses and other | (523) | |
| Trade accounts payable | (35,750) | ( |
| Assets and liabilities from price risk management activities | (35,219) | |
| Inventory due under exchange agreements | (52,683) | |
| Excise taxes payable and other accrued liabilities | 15,738 | |
| Net cash provided (used) by operating activities | (25,621) | 2 |
| Cash flows from investing activities: | | |
| Purchases of property, plant and equipment | (7,986) | ( |
| Proceeds from sale of assets | 1,184 | 1 |
| Decrease (increase) in investment and other assets, net | (500) | |

| | | |
|---|---|---|
| Net cash provided (used) by investing activities | (7,302) | |
| Cash flows from financing activities: | | |
| Repayments of long-term debt, net | (1,776) | (2 |
| Deferred debt issuance costs | (1,749) | |
| Common stock issued for cash | 1,605 | |
| Preferred stock dividends paid | (4,253) | |
| Net cash used by financing activities | (6,173) | (3 |
| Increase (decrease) in cash and cash equivalents | (39,096) | |
| Cash and cash equivalents at beginning of period | 53,938 | |
| Cash and cash equivalents at end of period | $ 14,842 | |

See accompanying notes to consolidated financial statements.



TRANSMONTAIGNE INC.
AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(1) Summary of Significant Accounting Policies

Nature of Business and Basis of Presentation

TransMontaigne Inc., a Delaware corporation, ("the Company") provides a broad range of integrated supply, distribution, marketing, terminaling, storage and transportation services to producers, refiners, distributors, marketers and industrial end-users of petroleum products, chemicals, crude oil and other bulk liquids in the midstream sector of the petroleum and chemical industries. The Company is a holding company that conducts the majority of its operations through wholly owned subsidiaries primarily in the Mid-Continent, Gulf Coast, Southeast, Mid-Atlantic and Northeast regions of the United States.

The Company's commercial operations are divided into supply, distribution and marketing of refined petroleum products; terminals, which includes terminaling and storage services; and pipelines. The Company, through a wholly owned subsidiary, historically provided selected natural gas services including the gathering, processing, fractionating and marketing of natural gas liquids ("NGL") and natural gas. This subsidiary was divested as of December 31, 1999.

Principles of Consolidation and Use of Estimates

The consolidated financial statements included in this Form 10-Q have been prepared by the Company without audit 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 the opinion of the Company's management, necessary for a fair statement of the financial results for the interim periods. Certain information and notes normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted pursuant to such rules and regulations, although the Company believes that the disclosures are adequate to make the information presented not misleading. These consolidated financial statements should be read in conjunction with the financial statements and related notes, together with management's discussion and analysis of financial condition and results of operations included in the Company's Annual Report on Form 10-K for the year ended June 30, 2000.

The accounting and financial reporting policies of the Company and its subsidiaries conform to generally accepted accounting principles and prevailing industry practices. The consolidated financial statements include all the majority owned subsidiaries of the Company. All significant intercompany accounts and transactions have been eliminated in consolidation.

The preparation of financial statements in conformity with generally accepted accounting principles requires the Company management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Changes in these estimates and assumptions will occur as a result of the passage of time and the occurrence of future events, and actual results will differ from the estimates.

"TransMontaigne" and "the Company" are used as collective references to TransMontaigne Inc. and its subsidiaries and affiliates.

Cash and Cash Equivalents

The Company considers all short-term investments with an original maturity of three months or less to be cash equivalents.





(1) Summary of Significant Accounting Policies (continued)

Inventories

Inventories consist primarily of refined products stated at market.

Refined products due from third parties under exchange agreements are included in inventory and recorded at current replacement cost. Refined products due to third parties under exchange agreements are recorded at current replacement cost. Adjustments resulting from changes in current replacement cost for refined products due to or from third parties under exchange agreements are reflected in product costs. The exchange agreements are typically for a term of 30 days and are generally settled by delivering product to or receiving product from the party to the exchange.

The Company's Risk Management Committee reviews the total inventory and risk position on a regular basis in order to ensure compliance with the Company's inventory management policies, including hedging and trading activities. The Company has adopted policies under which changes to its net inventory position subject to price risk requires the prior approval of the Audit Committee.

Accounting for Price Risk Management

In connection with its products supply, distribution and marketing commercial operations, the Company engages in price risk management activities. The Company's price risk management activities are energy-trading activities as defined by Emerging Issues Task Force Consensus 98-10 (EITF 98-10), Accounting for Contracts Involved in Energy Trading and Risk Management Activities. As such, the financial instruments utilized are marked to market in accordance with the guidance set forth in EITF 98-10. Under the mark-to-market method of accounting, forwards, swaps, options and other financial instruments with third parties are reflected at market value, net of future physical delivery related costs, and are shown as "Assets and Liabilities from Price Risk Management Activities" in the Consolidated Balance Sheet. Unrealized gains and losses from newly originated contracts, contract restructurings and the impact of price movements are included in operating income. Changes in the assets and liabilities from price risk management activities result primarily from changes in the valuation of the portfolio of contracts, newly initiated transactions and the timing of settlement relative to the receipt of cash for certain contracts. The market prices used to value these transactions reflect management's best estimate considering various factors including closing exchange and over-the-counter quotations, time value and volatility factors underlying the commitments. The values are adjusted to reflect the potential impact of liquidating the Company's position in an orderly manner over a reasonable period of time under present market conditions.

Contractual commitments are subject to risks including market value fluctuations as well as counter party credit and liquidity risk. The Company has established procedures to continually monitor these contracts in order to minimize credit risk, including the establishment and review of credit limits, margin requirements, master netting arrangements, letters of credit and other guarantees.

The cash flow impact of financial instruments and these risk management activities are reflected in cash flows from operating activities in the Consolidated Statement of Cash Flows.





(1) Summary of Significant Accounting Policies (continued)

Property, Plant and Equipment

Depreciation is computed using the straight-line and double-declining balance methods. Estimated useful lives are 20 to 25 years for plant, which includes buildings, storage tanks, and pipelines and 3 to 20 years for equipment. All items of property, plant and equipment are carried at cost. Expenditures that increase values, change capacities, or extend useful lives are capitalized. Routine repairs and maintenance are expensed. Computer software costs are capitalized and amortized over their useful lives, generally not to exceed 5 years. The costs of installing certain enterprise wide information systems are amortized over periods not exceeding 10 years. The Company capitalizes interest on major projects during construction.

Deferred Debt Issuance Costs

Deferred debt issuance costs related to the long-term credit agreements and senior subordinated debentures are amortized on the interest method over the term of the underlying debt instrument.

Income Taxes

The Company utilizes the asset and liability method of accounting for income taxes. Under this method, deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply in the years in which these temporary differences are expected to be recovered or settled. Changes in tax rates are recognized in income in the period that includes the enactment date.

Environmental Expenditures

Expenditures that relate to an existing condition caused by past operations, and which do not contribute to current or future revenue generation are expensed. Expenditures relating to current or future revenues are expensed or capitalized as appropriate. Liabilities are recorded when environmental assessment and/or clean-ups are probable and the costs can be reasonably estimated.

Earnings Per Common Share

Basic earnings per common share has been calculated based on the weighted average number of common shares outstanding during the period. Diluted earnings per share assumes conversion of dilutive convertible preferred stocks and exercise of all stock options and warrants having exercise prices less than the average market price of the common stock, using the treasury stock method.

Reclassifications

Certain amounts in the accompanying consolidated financial statements for prior periods have been reclassified to conform to the classifications used in fiscal year 2001.



TRANSMONTAIGNE INC.
AND SUBSIDIARIES

Notes to Consolidated Financial Statements

March 31, 2001 (Unaudited)

(2) Disposition

Effective December 31, 1999, the Company sold its natural gas gathering subsidiary, Bear Paw Energy Inc., ("BPEI") for cash consideration of $107.5 million, plus $23.7 million of retroactive reimbursement for all of the capital expenditures made by the Company on BPEI's newly constructed Powder River coal seam gathering system from July 1, 1999 to December 31, 1999. This disposition generated an approximate $16.6 million net gain to the Company. The $131.2 million total sale proceeds were used to reduce long-term debt and for general corporate purposes.

(3) Acquisitions

On May 31, 2000, the Company acquired from Chevron U.S.A. Inc. two petroleum products terminals located in Richmond and Montvale, Virginia for approximately $3.2 million cash. These facilities are interconnected to the Colonial pipeline system and include approximately 0.5 million barrels of tankage.

The Company accounted for this acquisition using purchase method accounting as of the effective date of the transaction. Accordingly, the purchase price of the 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 cash used for this acquisition was funded by advances from the Company's bank credit facility.





(4) Inventories

Inventories at March 31, 2001 and June 30, 2000 are as follows:

| | March 31, 2001 (in thousands) |
|---|---|
| Refined petroleum products | $ 112,474 |
| Refined petroleum products due under exchange agreements, net | 72,575 |
| | $ 185,049 |

The Company manages inventory to maximize value and minimize risk by utilizing risk and portfolio management disciplines including certain hedging strategies, forward purchases and sales, swaps and other financial instruments to manage market exposure. In managing inventory balances and related financial instruments, management evaluates the market exposure from an overall portfolio basis that considers both continuous movement of inventory balances and related open positions in commodity trading instruments.

The Company's refined petroleum products inventory consists primarily of gasoline and distillates, the majority of which is held for sale or exchange in the ordinary course of business. A portion of this inventory, including line fill and tank bottoms, is required to be held for operating balances in the conduct of the Company's daily supply, distribution and marketing activities, and is maintained both in tanks and pipelines owned by the Company and pipelines owned by third parties. As of March 31, 2001, this portion of the Company's inventory (the minimum inventory) was determined to be 2.0 million barrels. It is the Company's policy not to hedge the price risk associated with its minimum inventory. As a result, changes in the market value of the minimum inventory are marked to market and are reflected as an increase or decrease in the carrying value of the minimum inventory, with the corresponding unrealized gain or loss in operating income. The unrealized loss on minimum inventory was $1.9 million for the three months ended March 31, 2001 and $8.8 million for the nine months ended March 31, 2001 (none in 2000).

(5) Property, Plant and Equipment

Property, plant and equipment at March 31, 2001 and June 30, 2000 is as follows:

| | March 31, 2001 | June 30, |
|---|---|---|
| | (in thousands) | (in thous |
| Land | $ 15,778 | |
| Pipelines, rights of way and equipment | 36,859 | |
| Terminals and equipment | 297,887 | |
| Other plant and equipment | 16,341 | |
| | 366,865 | |
| Less accumulated depreciation | (52,423) | |
| | $ 314,442 | |



TRANSMONTAIGNE INC.
AND SUBSIDIARIES

Notes to Consolidated Financial Statements

March 31, 2001 (Unaudited)

(6) Investments in Petroleum related Assets

The Company, through its 65% ownership of TransMontaigne Holding Inc., effectively owns 18.04% of the common stock of Lion Oil Company ("Lion"). At March 31, 2001 and June 30, 2000, the Company's investment in Lion, carried at cost, was approximately $10.1 million. The Company recorded dividend income of approximately $0.7 million from Lion during the nine months ended March 31, 2001 and none during the nine months ended March 31, 2000.

The Company, through its wholly owned subsidiary, TransMontaigne Pipeline Inc., owns 20.38% of the common stock of West Shore Pipeline Company ("West Shore") at March 31, 2001. Although the Company owns 20.38%, it does not maintain effective management control and therefore carries its $35.9 million investment at cost. The Company recorded dividend income from West Shore of approximately $1.7 million during the nine months ended March 31, 2001 and $1.1 million during the nine months ended March 31, 2000.

In August 2000, the Company converted its notes receivable and accrued interest from ST Oil Company into an equity ownership position. At March 31, 2001, the Company's investment in ST Oil Company was approximately $1.7 million, representing a 30.02% equity ownership in ST Oil Company. There was $0.1 million in equity income recorded during the nine months ended March 31, 2001 and none during the nine months ended March 31, 2000.

(7) Long-term Debt

Long-term debt at March 31, 2001 and June 30, 2000 is as follows:

| | March 31, 2001 (in thousands) | June 30, 2000 (in thousands) |
|---|---|---|
| Bank Credit Facility | $ 155,219 | 155,000 |
| Senior promissory notes | 50,000 | 50,000 |
| 12 3/4% senior subordinated debentures, net of discount | - | 1,995 |
| | 205,219 | 206,995 |
| Less current maturity | 2,370 | 4,370 |
| | $ 202,849 | 202,625 |

At March 31, 2001, the Company's bank credit facility consisted of a $395 million credit facility that included a $300 million revolving component due December 31, 2003 and a $95 million term component due June 30, 2006. The term component has quarterly principal payments, which began in September 2000. Borrowings under this credit facility bear interest at an annual rate equal to the lender's Alternate Base Rate plus margins, subject to a Eurodollar Rate pricing option at the Company's election. The average interest rate under the bank credit facility was 8.4% and 9.8% at March 31, 2001 and June 30, 2000, respectively. Effective March 30, 2001, the bank credit facility was amended to adjust certain covenants and reduce the $300 million revolving component to $240 million on July 1, 2001. As a result of the amendment, $1.0 million of deferred debt issuance costs were expensed in the three months ended March 31, 2001, and $0.7 million in deferred debt issuance costs were recorded related to the amendment.

TRANSMONTAIGNE INC.
AND SUBSIDIARIES

Notes to Consolidated Financial Statements

March 31, 2001 (Unaudited)

(7) Long-term Debt (continued)

In August 1999, the Company entered into two "periodic knock-out" swap agreements with money center banks to offset the exposure of an increase in interest rates. Each swap was for a notional value of $150 million and contained an expiration date of August 2003. The swaps contained a knockout level at 6.75%, and they had a fixed interest rate of 5.48%. Prior to June 30, 2000, proceeds from the swap agreements were recorded as a reduction in interest expense. Effective July 1, 2000, the estimated fair value of the remaining interest rate swap was recorded as an asset/liability with a corresponding debit/credit to other financing (cost) income upon the adoption of the Financial Accounting Standards Board issued Statement of Financial Accounting Standards ("SFAS") No. 133, Accounting for Derivative Instruments and Hedging Activities, as the swaps were not designated as a hedge as of that date. In August 2000, the Company terminated one of the swap agreements, which did not have a material impact upon the financial statements. As of March 31, 2001, the fair value of the remaining swap agreement is a liability of $3.0 million, which is recorded in other liabilities on the balance sheet. For the nine months ended March 31, 2001, the Company recorded an unrealized loss on the interest rate swap of $3.5 million.

In April 1997, the Company entered into a Master Shelf Agreement with an institutional lender. On April 17, 1997 and December 16, 1997, the Company sold $50 million of 7.85% and $25 million of 7.22% Senior Notes due April 17, 2003 and October 17, 2004, respectively. On January 20, 2000, the Company paid down $25 million of the $50 million of 7.85% senior notes with a portion of the proceeds from the sale of BPEI.

Each of the bank credit facility and Master Shelf Agreement is secured by certain current assets and fixed assets, and each also includes financial tests relating to fixed charge coverage, current ratio, maximum leverage ratio, consolidated tangible net worth, cash distributions and open inventory positions. As of March 31, 2001, the Company was in compliance with all such tests contained in the amended agreements.

As of March 31, 2001, the Company had redeemed all of the originally issued $4 million of 12.75% senior subordinated debentures that were guaranteed by certain subsidiaries. This debt was redeemed through the lender's exercise of common stock warrants and cash. The first payment was made on December 15, 1999 for $2.0 million in cash and the final $2.0 million was redeemed on December 15, 2000 for $1.1 million in cash and $0.9 million in warrants exercised.

Cash payments for interest were approximately $14.5 million and $22.9 million for the nine months ended March 31, 2001 and 2000, respectively.

TRANSMONTAIGNE INC.
AND SUBSIDIARIES

Notes to Consolidated Financial Statements

March 31, 2001 (Unaudited)

(8) Stockholders' Equity

On March 25, 1999 and March 30, 1999, the Company closed a private placement of $170.1 million of $1,000 Series A Convertible Preferred Stock Units (the "Units"). Each Unit consists of one share of 5% convertible preferred stock (the "Preferred Stock"), convertible into common stock at $15 per share, and 66.67 warrants, each warrant exercisable to purchase six-tenths of a share of common stock at $14 per share. Dividends are cumulative and payable quarterly. The dividends are payable in either cash or additional preferred shares. If the dividends are paid-in-kind with additional preferred shares, the number of additional preferred shares issued in lieu of a cash payment is determined by multiplying the cash dividend that would have been paid by 110%. These new shares are used in calculating all future dividends. During the three month period ended March 31, 2001, the Company elected to pay-in-kind the preferred dividend, resulting in a non-cash dividend expense of $2.3 million for the quarter. For the nine month period ended March 31, 2001, the cash dividend payment was $4.3 million and non-cash payment was $2.3 million. For the nine month period ended March 31, 2000, the cash dividend payment was $6.4 million and the non-cash payment was $0.0. The Company may redeem all, but not less than all, of the then outstanding shares of the Preferred Stock on December 31, 2003 at the liquidation value of $1,000 per share plus any accrued but unpaid dividends thereon through the redemption date (the "Mandatory Redemption Price"). The Mandatory Redemption Price shall be paid, at the Company's election, in cash or shares of common stock, or any combination thereof, subject to limitations on the total number of common shares permitted to be used in the exchange, and issued to any shareholder. For purposes of calculating the number of shares of common stock to be received, each such share of common stock shall be valued at 90 percent of the average market price for the common stock for the 20 consecutive business days prior to the redemption date. If the Preferred Stock remains outstanding after December 31, 2003, the dividend rate will increase to an annual rate of 16%. The Preferred Stock is convertible any time and may be called for redemption by the Company after the second year if the market price of the common stock is greater than 175% of the conversion price at the date of the call. Proceeds were used to reduce bank debt incurred in connection with acquisitions and for general corporate purposes.

(9) Restricted Stock

The Company has 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 stockholders' equity as unearned compensation. During the nine months ended March 31, 2001, the Company's Board of Directors awarded 505,180 shares of restricted stock. Of the amount issued, 261,280 shares were issued to employees in exchange for the cancellation of 1,681,300 stock options with exercise prices ranging from $11.00 to $17.25 per share that had been issued to the employees in prior years. Amortization of unearned compensation of approximately $0.9 million is included in selling, general and administrative expense for the nine months ended March 31, 2001 and $0.2 million is included in the selling, general and administrative expense for the nine months ended March 31, 2000.

(10) Litigation

The Company is a party to various claims and litigation in its normal course of business. Although no assurances can be given, the Company's management believes that the ultimate resolution of such claims and litigation, individually or in the aggregate, will not have a material adverse impact on the Company's financial position, results of operations, or liquidity.



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

GENERAL

TransMontaigne Inc., a Delaware corporation, ("the Company") provides a broad range of integrated supply, distribution, marketing, terminaling, storage and transportation services to producers, refiners, distributors, marketers and industrial end-users of petroleum products, chemicals, crude oil and other bulk liquids in the midstream sector of the petroleum and chemical industries. The Company is a holding company that conducts the majority of its operations through wholly owned subsidiaries primarily in the Mid-Continent, Gulf Coast, Southeast, Mid-Atlantic and Northeast regions of the United States.

The Company's commercial operations are divided into supply, distribution and marketing of refined petroleum products; terminals, which includes terminaling and storage services; and pipelines. The Company, through a wholly owned subsidiary, historically provided selected natural gas services including the gathering, processing, fractionating and marketing of natural gas liquids ("NGL") and natural gas. This subsidiary was divested as of December 31, 1999.

Commercial Operations

Product Supply, Distribution and Marketing

Through its wholly owned subsidiary, TransMontaigne Product Services Inc. ("TPSI"), the Company provides product services, consisting of the bulk purchase and sale of refined petroleum products, the wholesale marketing of products at terminal truck loading rack locations, sales of refined products to regional and national industrial end-users, restructuring of existing long-term contracts, and the management of the Company's commodity portfolio. In addition, TPSI provides risk management products and services to gasoline and distillate customers that minimize the risk associated with movements in prices and location-based price differentials. TPSI's risk management products and services are designed to provide stability to customers in markets impacted by commodity price volatility. TPSI provides these services to customers for periods as short as one month to terms that will span several years. The type and length of contracts provided by TPSI will vary based upon market conditions, customer desires and the risk profile desired by the individual customer. As a result of these variables, these types of contracts are not predictable and can cause earnings to fluctuate from one period to the next.

TPSI's products supply, distribution and marketing services revenues and fees are generated from bulk sales and exchanges of refined petroleum products to major and large independent energy companies; wholesale distribution and sales of refined petroleum products to jobbers and retailers; regional and national industrial end-user and commercial wholesale storage and forward sales marketing contracts of refined petroleum products; and tailored short and long-term fuel and risk management logistical services arrangements to wholesale, retail and industrial end-users. Refined petroleum products storage and forward sales transactions enable TPSI to purchase refined petroleum products inventory; utilize proprietary and leased tankage as well as line space controlled by TPSI in major common carrier pipelines; arbitrage location product prices differentials and transportation costs; store inventory; and, depending upon market conditions, lock in margins through sales in the futures cash market or by using NYMEX contracts. Wholesale distribution of refined petroleum products is conducted from proprietary and non-proprietary truck loading terminal, storage and delivery locations. Fuel and risk management logistical services provide both TPSI's large and small volume customers an assured, ratable and cost effective delivered source of refined petroleum product supply through proprietary pipelines and terminals, as well as through non-proprietary pipeline, terminal, truck, rail and barge distribution channels.

TPSI enjoys incremental margin opportunities by utilizing its storage capacity and inventory position when the market environment is in contango or a carry position (where nearby futures prices are lower than succeeding periods).



Terminals

Through its wholly owned subsidiary, TransMontaigne Terminaling Inc. ("TTI"), the Company owns and operates an extensive terminal infrastructure that handles petroleum products, chemicals and other bulk liquids with transportation connections via pipeline, barges, rail cars and trucks to TTI facilities or to third party facilities with an emphasis on transportation connections primarily through the Colonial, Plantation, Texas Eastern and Williams pipeline systems.

Products terminal revenues are based on volumes handled, generally at a standard industry fee. Terminal fees are not regulated. The terminals receive petroleum products in bulk quantities from connecting pipeline systems and barge dock facilities. Products are stored in bulk at the terminals and made available to wholesale, shipping and exchange customers who transport the products by truck to commercial and retail destinations and then to the end-user. TPSI markets refined petroleum products over truck loading racks at TTI owned terminals, as well as through exchanges with numerous companies at other non-owned terminals located throughout the Company's distribution area.

Storage of refined petroleum products, chemicals and other bulk liquids at TTI-owned facilities pending delivery is an integral service function. Storage fees are generally based on a per barrel rate or on tankage capacity committed and will vary with the duration of the storage arrangement, the product stored and special handling requirements. Storage fees are not regulated. Ancillary services, including injection of shipper-furnished or TTI-furnished additives, are also available for a fee at TTI terminals.

Chemicals and other bulk liquids terminal revenues are based upon the type and volume of the liquids handled, including any special temperature maintenance, labor-intensive loading/off-loading requirements or other handling services. These terminal fees are not regulated; are generally negotiated on an individual contract basis with a term of one year or less; and typically are at rates which exceed those for handling petroleum products due to the particular nature of the products handled.

Pipelines

Through its wholly owned subsidiary, TransMontaigne Pipeline Inc. ("TPI"), the Company owns and operates an approximate 480-mile refined petroleum products pipeline from Ft. Madison, Iowa through Chicago, Illinois to Toledo, Ohio (the "NORCO Pipeline") with TTI owning the associated storage facilities located at Hartsdale and East Chicago, Indiana and Toledo, Ohio and related product distribution facilities located at South Bend, Indiana; Peoria, Illinois; and Bryan, Ohio. The NORCO Pipeline has delivery facilities located at Elkhart, Indiana and Chillicothe and Galesburg, Illinois. The NORCO Pipeline system is interconnected to all major mid-continent common carriers. TPI also owns a 60% interest in a 67-mile refined petroleum products pipeline operating from Mt. Vernon, Missouri to Rogers, Arkansas (the "Razorback Pipeline"), together with associated product distribution facilities at Mt. Vernon and Rogers. The Razorback Pipeline is the only refined petroleum products pipeline providing transportation services to northwest Arkansas. TPI also owns and operates an approximate 220-mile crude oil gathering pipeline system, with approximately 627,500 barrels of tank storage capacity, located in east Texas (the "CETEX pipeline").

TPI owns a 20.38% common stock interest in West Shore Pipe Line Company, which owns an approximate 600-mile common carrier petroleum products pipeline system which operates between the Chicago refining corridor locations of East Chicago, Indiana; Blue Island, Joliet and Lemont, Illinois; north through metropolitan Chicago, Illinois; along the western edge of Lake Michigan to Milwaukee and Green Bay, Wisconsin; and west to Rockford and Peru, Illinois, and Madison, Wisconsin. The pipeline serves approximately 55 locations, including 4 refineries, the Chicago-O'Hare and Milwaukee airports, and 49 refined petroleum products terminals in the Chicago, Illinois area and the upper Mid-West region of the United States.

In general, a shipper owns the refined petroleum products or crude oil and transfers custody of the products to the NORCO or Razorback pipelines, or the crude oil to the CETEX pipeline, for shipment to a delivery location at which point custody again transfers. Tariffs for the transportation service are regulated and are charged by TPI to shippers based upon the origination point on the pipelines to the point of product delivery. These tariffs do not include fees for the storage of products at the NORCO and Razorback pipeline storage facilities or crude oil at the CETEX pipeline storage facilities. Fees for the terminaling and storage of products at TTI terminals are separately charged when those facilities are utilized.



Pipelines (continued)

TPI's pipeline business depends in large part on the level of demand for refined petroleum products in the markets served by the pipelines, together with the ability and willingness of refiners and marketers having access to the pipelines to supply that demand by shipments through these pipelines. Competition is based primarily on pipeline operational dependability, quality of customer service provided and proximity to end-users, although product pricing at either the origin or terminal destination on a pipeline may outweigh transportation cost considerations. The Company believes that high capital costs, tariff regulation, environmental considerations, problems in acquiring rights-of-way and TPI's existing available capacity make it unlikely that additional competing pipeline systems comparable in size to the NORCO and Razorback pipelines will be built in the near term.

Natural Gas Services

The Company divested its wholly owned subsidiary, Bear Paw Energy Inc., effective December 31, 1999.



PAGE>

Selected financial data for the Company's operations and resulting earnings (loss) before taxes summarized below (in thousands):

| | Three Months Ended March 31, | | |
|---|---|---|---|
| | 2001 | 2000 | 2 |
| Net operating margins (1): | | | |
| Product Supply, Distribution and Marketing: | | | |
| Sales, exchanges and product arbitrage | $ 14,640 | 17,682 | |
| Realized losses related to minimum inventory | - | (2,429) | |
| Unrealized losses related to mark to market accounting for the minimum inventory | (1,940) | - | |
| | 12,700 | 15,253 | |
| Terminals | 9,414 | 9,260 | |
| Pipelines | 806 | 1,514 | |
| Natural Gas Services (2) | - | - | |
| Total net operating margins | 22,920 | 26,027 | |
| Impairment of long lived assets | - | - | |
| Selling, general and administrative expenses | 9,102 | 8,730 | |
| Depreciation and amortization expenses | 4,927 | 4,730 | |
| Operating income (loss) | 8,891 | 12,567 | |
| Dividend income from and equity in earnings of petroleum related investments | 766 | 345 | |
| Interest income | 262 | 514 | |
| Interest expense and other financing cost | (4,551) | (4,891) | ( |
| Amortization of deferred debt issuance cost | (1,941) | (872) | |
| Unrealized loss on interest rate swap | (2,679) | - | |
| Gain (loss) on disposition of assets | - | (1,566) | |
| Earnings (loss) before income taxes | $ 748 | 6,097 | |

(1) Net operating margins represent revenues less product costs and direct operating expenses.
(2) The Company's natural gas services operations were divested as of December 31, 1999.

Selected volumetric and per unit margin data:

| | Three Months Ended March 31, 2001 | Three Months Ended March 31, 2000 | |
|---|---|---|---|
| Terminal volumes - bbls/day | 610,929 | 561,654 | 6 |
| Terminals net operating margin per barrel | $ 0.171 | 0.181 | |
| Pipeline volumes - bbls/day | 74,487 | 70,306 | |
| Pipelines net operating margin per barrel | $ 0.120 | 0.237 | |



RESULTS OF OPERATIONS

THREE MONTHS ENDED MARCH 31, 2001 COMPARED TO
THREE MONTHS ENDED MARCH 31, 2000

The Company reported net earnings of $0.5 million and $3.7 million for the three months ended March 31, 2001 and 2000, respectively. After preferred stock dividends, the net loss attributable to common stockholders was $1.9 million for the three months ended March 31, 2001, compared to net earnings of $1.5 million for the three months ended March 31, 2000. Loss per common share for the three months ended March 31, 2001 was $0.06 basic and diluted based on 31.7 million weighted average basic and diluted shares outstanding compared to earnings of $0.05 basic and diluted for the three months ended March 31, 2000.

Product Supply, Distribution and Marketing

TPSI's Product Supply, Distribution and Marketing margins are classified into two main components: (a) minimum inventory management and (b) sales, exchanges and arbitrage.

Minimum inventory management: During the fourth quarter of fiscal 2000, the Company embarked upon a thorough review of its inventory management strategies. As a result, the Company lowered its required minimum inventory level from over 3.8 million barrels to the current level of 2.0 million barrels. The Company also changed its strategy regarding the risk management associated with this minimum inventory. Prior to the fourth quarter of fiscal 2000, the Company was hedging the minimum inventory in the futures market and then rolling the hedging contracts from month to month in a backwardated market (i.e., nearby futures prices were higher than succeeding periods). In connection with its new risk management strategy, the Company removed the hedging contracts on its minimum inventory, thereby eliminating any future cash costs associated with rolling forward the hedging contracts in a backwardated market. During last year's comparable quarter, the Company incurred $2.4 million of losses related to the rolling of the minimum inventory hedges. As a result of removing the hedging contracts, the valuation of the minimum inventories started floating with the market and any increase or decrease in valuation was marked to market on a daily basis with the resulting unrealized gains and losses recognized in operating income. For the current quarter, the $1.9 million unrealized loss on inventory was a non-cash charge that was due to a reduction in the commodity value of the Company's minimum inventory.

Sales, exchanges and arbitrage: The net operating margin from sales, exchanges and arbitrage decreased by $3.0 million in the third quarter 2001 as compared to the same period in 2000. The market has remained in a backwardated position since last year; however, market volatility has created opportunities to exploit price differentials between various geographic locations. These opportunities are the result of supply disruptions in the gasoline and distillate market, concerns regarding the availability of distillate for the Northeastern portion of the United States, and increased demand for refined products. As a result of these market opportunities, TPSI was able to generate basis arbitrage margins during the quarter ended March 31, 2001, and the quarter ended March 31, 2000. The ability to generate these arbitrage margins was greater and lasted for a longer period during the prior year quarter, which resulted in the margin difference between the two comparable quarters.

Terminals

The net operating margin from terminal operations for the three months ended March 31, 2001 was $9.4 million compared to $9.3 million for the three months ended March 31, 2000, an increase of $0.1 million. The increase in net operating margin resulted from an approximately $1.4 million increase in revenues and an increase of approximately $1.3 million in operating costs. Approximately 30% of the revenue increase was attributable to the Company's new Baton Rouge dock facility which was placed in service in May 2000, with the remaining increase coming from new tank rental agreements at several of the Company's terminals. The increase in operating costs was attributable to higher variable costs like power and supplies due to increased electricity and transport costs. Additionally, the increased throughput at the Company's terminal facilities increased the amount of variable operating costs.

Pipelines

The net operating margin from pipeline operations for the three months ended March 31, 2001 was $0.8 million compared to $1.5 million for the three months ended March 31, 2000, a decrease of $0.7 million. The decrease in net operating margin resulted from an approximately $0.1 million reduction in pipeline revenues and an increase of approximately $0.8 million in operating costs. The increased operating costs resulted from increased variable costs like power to run the pumps along the Norco pipeline system. Additionally, the Company incurred incremental costs for ongoing remediation work along the Company's pipeline systems.



Corporate and Other

Selling, general and administrative expenses for the three months ended March 31, 2001 were $9.1 million compared to $8.7 million for the three months ended March 31, 2000. Compensation expense decreased by $0.4 million during the current quarter reflecting the elimination of $1.1 million in corporate staff positions in the current period offset by the effect of $0.7 million of increase in other employee costs during the quarter. The Company had an increase in non-employee insurance costs of $0.3 million, an increase of $0.4 million in professional services and an increase of $0.1 million in computer and communication costs in the current quarter.

Depreciation and amortization expense for the three months ended March 31, 2001 was $4.9 million compared to $4.7 million for the three months ended March 31, 2000.

Dividend income from and equity in earnings from petroleum related investments for the three months ended March 31, 2001 was $0.8 million compared to $0.3 million for the three months ended March 31, 2000, an increase of $0.5 million resulting primarily from a one-time special dividend received from West Shore Pipeline Company for a land sale.

Interest income for the three months ended March 31, 2001 was $0.3 million compared to $0.5 million for the three months ended March 31, 2000, a decrease of $0.2 million, reflecting decreased invested cash balances.

Interest expense, other financing cost and amortization of deferred debt issuance costs during the three months ended March 31, 2001 were $6.5 million compared to $5.8 million during the three months ended March 31, 2000, an increase of $0.7 million, which was primarily due to reductions in the effective borrowing rate under the Company's revolving credit facility offset by increased amortization of deferred financing costs associated with amending the Company's revolving credit facility.

Income tax expense was $0.3 million for the three months ended March 31, 2001, which represents an effective combined federal and state income tax rate of 38%. Income tax expense was $2.4 million for the three months ended March 31, 2000.

Preferred stock dividends on the Series A Convertible Preferred Stock were $2.3 million and $2.1 million for the three months ended March 31, 2001 and 2000, respectively. The increase in the current quarter was as a result of the Company electing to pay-in-kind the preferred dividends for the quarter ended March 31, 2001.



RESULTS OF OPERATIONS

NINE MONTHS ENDED MARCH 31, 2001 COMPARED TO
NINE MONTHS ENDED MARCH 31, 2000

The Company reported net earnings of $2.5 million for the nine months ended March 31, 2001, compared to a net loss of $38.6 million for the nine months ended March 31, 2000. After preferred stock dividends, the net loss attributable to common stockholders was $4.1 million and $45.0 million for the nine months ended March 31, 2001 and 2000, respectively. Loss per common share for the nine months ended March 31, 2001 was $0.13 basic and diluted based on 31.3 million weighted average basic and diluted shares outstanding compared to a loss of $1.47 basic and diluted for the nine months ended March 31, 2000.

Product Supply, Distribution and Marketing

TPSI's Product Supply, Distribution and Marketing margins are classified into two main components: (a) minimum inventory management and (b) sales, exchanges and arbitrage.

Minimum inventory management: During the fourth fiscal quarter of 2000, the Company embarked upon a thorough review of its inventory management strategies. As a result, the Company lowered its required minimum inventory level from over 3.8 million barrels to the current level of 2.0 million barrels. The Company also changed its strategy regarding the risk management associated with this minimum inventory. Prior to the fourth quarter of fiscal 2000, the Company was hedging the minimum inventory in the futures market and then rolling the hedging contracts from month to month in a backwardated market. In connection with its new risk management strategy, the Company removed the hedging contracts on its minimum inventory, thereby eliminating any future cash costs associated with rolling forward the hedging contracts in a backwardated market. During last year's comparable nine month period, the Company incurred $12.9 million of losses related to the rolling of the minimum inventory hedges. As a result of removing the hedging contracts, the valuation of the minimum inventories started floating with the market and any increase or decrease in valuation was marked to market on a daily basis with the resulting unrealized gains and losses recognized in operating income. For the current nine month period, the $8.8 million unrealized loss on inventory was a non-cash charge that was due to a reduction in the commodity value of the Company's minimum inventory.

Sales, exchanges and arbitrage: The net operating margin from sales, exchanges and arbitrage increased by $20.1 million during the current nine month period ending March 31, 2001, as compared to the same period in 2000. TPSI began the prior year comparable nine month period with over 10.0 million barrels of discretionary inventory (inventory in excess of minimum inventory). During the period from July 1, 1999 through September 30, 1999, the Company hedged this discretionary inventory in a carry market. During this same period, the Company elected to start liquidating this discretionary inventory. The impact of these two items allowed the Company to recognize over $6.0 million in margins. However, as the products market switched into a backwardated position, the hedging of discretionary inventory combined with the losses on other forward positions, resulted in an approximate $8.0 million loss during the second quarter of the prior period. The market has remained in a backwardated position since last year; however, market volatility has created arbitrage and term industrial market opportunities during the current nine month period ended March 31, 2001. These opportunities are the result of supply disruptions in the gasoline and distillate market, concerns regarding the availability of distillate for the Northeastern portion of the United States, and increased demand for refined products. As a result of these market opportunities, TPSI was able to generate basis arbitrage margins during the nine month period ended March 31, 2001. In addition TPSI initiated and restructured existing term contracts with its commercial and industrial end use customers generating incremental margins from these transactions during the current nine month period ending March 31, 2001.



Terminals

The net operating margin from terminal operations for the nine months ended March 31, 2001 was $30.5 million compared to $26.4 million for the nine months ended March 31, 2000, an increase of $4.1 million. The increase in net operating margin resulted from an approximately $3.6 million increase in revenues and a decrease of approximately $0.5 million in operating costs. Approximately 50% of the revenue increase was attributable to the Company's new Baton Rouge dock facility which was placed in service in May 2000, with the remaining increase coming from new tank rental agreements at several of the

Company's terminals. On a per barrel basis, the Company is enjoying higher net margins due to these reduced operating costs. A portion of the volume reduction through the terminals is attributable to the fact that the products market entered into a backwardated position during the quarter ended December 31, 1999 and has maintained that position throughout the current year. As a result, the Company has experienced a reduction in the amount of tank space leased to customers that in prior periods were dedicated to capturing the carry market for refined products from one quarter to the next.

Pipelines

The net operating margin from pipeline operations for the nine months ended March 31, 2001 was $4.1 million compared to $5.7 million for the nine months ended March 31, 2000, a decrease of $1.6 million. The decrease in net operating margin resulted from an approximately $0.9 million reduction in pipeline revenues and an increase of approximately $0.7 million in operating costs. The majority of the revenue reduction was attributable to lower volumes being shipped through the Company's NORCO Pipeline during the current nine month period. This reduction resulted from fewer barrels being moved through the Company's NORCO Pipeline around the Chicago hub area, which was attributable to changes in Chicago area refinery demands and throughputs. These barrels generate low margins for the Company due to the short transport distances. The increase in operating costs were the result of higher environmental remediation costs associated with operating the Company's Cetex crude oil system and Norco pipeline system, during the current nine month period as well as increased utility related costs due to higher electric and transport fuel costs.

Natural Gas Services

The Company's natural gas services operation owned and operated by BPEI was divested effective December 31, 1999.

Corporate and Other

Selling, general and administrative expenses for the nine months ended March 31, 2001 were $24.5 million compared to $28.5 million for the nine months ended March 31, 2000. Compensation expense decreased by $2.6 million during the current nine month period reflecting the elimination of $3.0 million in corporate staff positions in the current period offset by the effect of $0.4 million of increases in other employee related costs. In addition, the Company significantly lowered travel costs during the current nine month period by approximately $0.8 million and had reductions in professional services, communications, and other corporate items, which resulted in additional expense reductions of approximately $0.6 million during the current period.

Depreciation and amortization expense for the nine months ended March 31, 2001 was $14.6 million compared to $17.4 million for the nine months ended March 31, 2000. The decrease was due primarily to the disposition of the natural gas services assets of BPEI.

Dividend income from and equity in earnings from petroleum related investments for the nine months ended March 31, 2001 was $2.5 million compared to $1.1 million for the nine months ended March 31, 2000, an increase of $1.4 million. This increase is primarily due to dividends that were received from Lion Oil Company during the nine months ended March 31, 2001 that were not received during the 2000 comparable period and a special one-time dividend from West Shore Pipeline Company for a land sale.

Interest income for the nine months ended March 31, 2001 was $1.5 million compared to $1.7 million for the nine months ended March 31, 2000, a decrease of $0.2 million, reflecting decreased invested cash balances.

Corporate and Other (continued)

Interest expense, other financing cost and amortization of deferred debt issuance costs during the nine months ended March 31, 2001 were $17.1 million compared to $30.8 million during the nine months ended March 31, 2000, a decrease of $13.7 million, which was primarily due to a reduction in long term debt, using proceeds from the sale of BPEI and the sale of excess inventory. The Company revised its inventory strategy during the fourth quarter of 2000 and was able to reduce its inventory. The decrease is also a result of the reduction in the Company's effective borrowing rate under its revolving credit facility due to the reduction in the libor rates during the current period.

Income tax expense was $1.5 million for the nine months ended March 31, 2001, which represents an effective combined federal and state income tax rate of 38%. Income tax benefit was $25.7 million for the nine months ended March 31, 2000, which was primarily attributable to an impairment charge on long lived assets and the higher interest expenses incurred by the Company during the prior nine month period.

Preferred stock dividends on the Series A Convertible Preferred Stock were $6.6 million and $6.4 million for the nine months ended March 31, 2001 and 2000, respectively. The increase in the current nine months was as a result of the Company electing to pay-in-kind the preferred dividends for the quarter ended March 31, 2001.



LIQUIDITY AND CAPITAL RESOURCES

The Company believes that its current working capital position; future cash provided by operating activities; proceeds from the private placement or public offering of debt and common stock; available borrowing capacity under the bank credit facility and the Master Shelf Agreement; additional borrowing allowed under those agreements; and its relationship with institutional lenders and equity investors should enable the Company to meet its current capital requirements.

The following summary reflects the Company's comparative EBITDA, adjusted EBITDA, and net cash flows for the three months and nine months ended March 31, 2001 and 2000 (in thousands):

| | | Three Months Ended March 31, | |
|---|---|---|---|
| | | 2001 | 2000 |
| EBITDA (1) | $ | 14,584 | 17,642 |
| Adjusted EBITDA (2) | $ | 16,524 | 17,642 |
| Net cash provided (used) by operating activities | $ | (350) | 1,051 |
| Net cash provided (used) by investing activities | $ | (2,129) | 130,906 |
| Net cash used by financing activities | $ | (7,339) | (134,657) |

(1) EBITDA is defined as total net operating margins less selling, general and administrative expenses plus dividend income from petroleum related investments. The Company believes that, in addition to cash flow from operations and net earnings (loss), EBITDA is a useful financial performance measurement for assessing operating performance since it provides an additional basis to evaluate the ability of the Company to incur and service debt and to fund capital expenditures. In evaluating EBITDA, the Company believes that consideration should be given, among other things, to the amount by which EBITDA exceeds interest costs for the period; how EBITDA compares to principal repayments on debt for the period; and how EBITDA compares to capital expenditures for the period. To evaluate EBITDA, the components of EBITDA such as revenue and direct operating expenses and the variability of such components over time, should also 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 the Company's operating performance or to cash flows from operating activities (as determined in accordance with GAAP) as a measure of liquidity. The Company's method of calculating EBITDA may differ from methods used by other companies, and as a result, EBITDA measures disclosed herein might not be comparable to other similarly titled measures used by other companies.

(2) Adjusted EBITDA is defined as EBITDA plus unrealized losses or less unrealized gains relating to mark to market accounting for the minimum inventory. The Company believes that Adjusted EBITDA is also useful in evaluating the performance of the Company because it eliminates the fluctuating impact on operating results from the continual revaluation of the Company's minimum inventory.





The improvement in Adjusted EBITDA for the nine months ended March 31, 2001 as compared to the 2000 nine month period, is primarily due to a $32.9 million increase in operating margin in the Company's product supply group, a $2.5 million increase in operating performance in the terminaling/pipeline operations, a $4.0 million reduction in selling, general and administrative expenses as a result of the Company's restructuring program, a $1.4 million increase in dividend income, and is offset by an $11.7 million reduction in margins due to the sale of BPEI.

Net cash used by operating activities of $25.6 million for the nine months ended March 31, 2001 was attributable primarily to decreases in the amount of inventory due under exchanges and an increase in assets from price risk management activities, offset by a reduction in the Company's physical inventory, an increase in trade accounts payable and an increase in excise taxes payable. The net cash provided by operating activities of $236.2 million for the nine months ended March 31, 2000 was attributable primarily to a reduction in the Company's physical inventory, an increase in the amount of inventory due under exchanges, an increase in excise taxes payable and a reduction of trade accounts receivable, offset by a reduction in trade accounts payable.

Net cash used by investing activities was $7.3 million during the nine months ended March 31, 2001 as compared to $85.0 million provided by investing activities during the nine months ended March 31, 2000, as the Company continued its growth through construction of new facilities and improvements to existing operating facilities, while the prior nine month period included the proceeds from the sale of the BPEI assets, offset by asset acquisitions.

Net cash used by financing activities for the nine months ended March 31, 2001 of $6.2 million included $1.8 million of bank repayments. Net cash used by financing activities for the nine months ended March 31, 2000 of $301.8 million included repayment of long-term debt totaling $290.7 million as a result of the sale of BPEI and a reduction in the Company's inventory.

In February 2000, the Company amended its bank credit facility led by Fleet National Bank (formerly BankBoston, N.A). The amended bank credit facility includes a $300 million revolving component due December 31, 2003 and a $95 million term component due June 30, 2006. The term component has quarterly principal payments, which began in September 2000. Borrowings under the bank credit facility bear interest at an annual rate equal to the lender's Alternate Base Rate plus margins subject to a Eurodollar Rate pricing option. The bank credit facility includes a $20 million same day revolving swing line under which advances may be drawn at an interest rate comparable to the Eurodollar Rate. In March 2001, the bank credit facility was amended to adjust certain covenants and reduce the $300 million revolving component to $240 million on July 1, 2001. The reduction in the credit facility was due to the fact that the Company was not utilizing this portion of the revolver but was paying commitment fees on this underutilized capacity.

At March 31, 2001, the Company had borrowings of $155.2 million outstanding under the bank credit facility. The average interest rate at March 31, 2001 was 8.4%.

At March 31, 2001, the Company had outstanding under the Master Shelf Agreement, $25 million of 7.85% Senior Notes due April 17, 2003 and $25 million of 7.22% Senior Notes due October 17, 2004. The Master Shelf Agreement was amended in February 2000 and in March 2001 in connection with the amendment of the bank credit facility.

Each of the bank credit facility and Master Shelf Agreement is secured by certain current assets and fixed assets, and each also includes financial tests relating to fixed charge coverage, current ratio, maximum leverage ratio, consolidated tangible net worth, cash distributions and open inventory positions. As of March 31, 2001, the Company was in compliance with all such tests.

At March 31, 2001, the Company had working capital of $146.6 million and availability under its bank credit facility of approximately $63.8 million.

Capital expenditures anticipated for the year ending June 30, 2001 are estimated to be $10 million for terminal and pipeline facilities, and assets to support these facilities, and could exceed that amount if additional facilities enhancement projects and possible acquisitions being considered by the Company materialize. Future capital expenditures will depend on numerous factors, including the availability, economics and cost of appropriate acquisitions which the Company identifies and evaluates; the economics, cost and required regulatory approvals with respect to the expansion and enhancement of existing systems and facilities; the customer demand for the services the Company provides; local, state and federal governmental regulations; environmental compliance requirements; and the availability of debt financing and equity capital on acceptable terms.

INFORMATION REGARDING FORWARD LOOKING STATEMENTS

This Quarterly Report on Form 10-Q includes forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. Although the Company believes that its expectations are based on reasonable assumptions, it can give no assurance that its goals will be achieved. Important factors which could cause actual results to differ materially from those in the forward-looking statements include:

- that the Company will expand its business
- that the Company will generate net operating margins from high sales volumes
- that the Company will generate net operating margins affected by price volatility of products purchased and sold
- that the Company will enter into transactions with counter parties having the ability to meet their financial commitments to the Company
- that the Company will incur unanticipated costs in complying with current and future environmental regulations
- that the Company will capitalize on the trend by other companies in the oil and gas industry to divest assets and outsource certain services
- that the Company will acquire strategically located operating facilities from third parties
- that the Company will generate working capital internally, or have the ability to access debt and equity resources, to meet its capital requirements.

27

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 the Company's Annual Report on Form 10-K for the year ended June 30, 2000, in addition to the interim consolidated financial statements and accompanying notes presented in Items 1 and 2 of this Form 10-Q.

There are no material changes in market risks faced by the Company from those reported in its Annual Report on Form 10-K for the year ended June 30, 2000.

28

PART II. OTHER INFORMATION

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits

10.1 Amendment No. 1, dated as of July 31, 2000, to the Fourth Amended and Restated Credit Agreement between TransMontaigne Inc. and Fleet National Bank (formerly known as BankBoston, N.A.,) as Agent, dated as of February 11, 2000. FILED HEREWITH.

10.2 Amendment No. 2, dated as of March 30, 2001, to the Fourth Amended and Restated Credit Agreement between TransMontaigne Inc. and Fleet National Bank (formerly known as BankBoston, N.A.,) as Agent, dated as of February 11, 2000. FILED HEREWITH.

10.3 Letter Amendment No. 1, dated as of July 31, 2000, to the Amended and Restated Master Shelf Agreement among TransMontaigne Inc., The Prudential Insurance Company of America and U.S. Private Placement Fund dated as of February 14, 2000. FILED HEREWITH.

10.4 Letter Amendment No. 2, dated as of March 30, 2001, to the Amended and Restated Master Shelf Agreement among TransMontaigne Inc., The Prudential Insurance Company of America and U.S. Private Placement Fund dated as of February 14, 2000. FILED HEREWITH.

(b) Reports on Form 8-K:

There were no reports on Form 8-K filed during the quarter ended March 31, 2001.



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: May 15, 2001 TRANSMONTAIGNE INC.
(Registrant)

/s/ DONALD H. ANDERSON

Donald H. Anderson
President, Chief Executive and Chief Operating Officer

/s/ RODNEY R. HILT

Rodney R. Hilt
Vice President, Controller and Chief Accounting Officer