

TRANSMONTAIGNE INC  
Form 10-Q  
October 23, 2001

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

**06-1052062**

(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  No

As of October 12, 2001 there were 31,805,013 shares of the registrant's Common Stock outstanding.

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**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.

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**TRANSMONTAIGNE INC.  
AND SUBSIDIARIES**

**Consolidated Balance Sheets**  
**September 30, 2001 and June 30, 2001 (Unaudited)**  
**(In thousands)**

<b><u>Assets</u></b>	September 30, 2001	June 30, 2001
	_____	_____
Current assets:		
Cash and cash equivalents	\$ 9,592	13,759
Trade accounts receivable, net	108,833	79,050
Inventories	144,027	155,249
Unrealized gains on energy related contracts	52,043	41,419
Receivable from sale of assets	-	29,033
Prepaid expenses and other	3,860	4,130
	_____	_____
	318,355	322,640

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Property, plant and equipment:		
Land	13,939	15,181
Plant and equipment	284,446	343,076
Accumulated depreciation	(48,231)	(54,025)
	<u>250,154</u>	<u>304,232</u>
Investments and other assets:		
Investments in petroleum related assets	34,967	47,760
Deferred tax assets, net	7,089	12,944
Deferred debt issuance costs, net	4,204	4,667
Other assets, net	2,826	2,977
	<u>49,086</u>	<u>68,348</u>
	<u>\$ 617,595</u>	<u>695,220</u>
<b><u>Liabilities and Stockholders' Equity</u></b>		
Current liabilities:		
Trade accounts payable	\$ 56,677	73,749
Inventory due under exchange agreements	58,218	76,754
Unrealized losses on energy related contracts	20,805	27,726
Excise taxes payable	22,296	32,025
Other accrued liabilities	18,293	12,591
	<u>176,289</u>	<u>222,845</u>
Long-term debt	89,000	130,000
Stockholders' equity:		
Series A Convertible Preferred stock, par value \$1,000 per share, authorized 2,000,000 shares, issued and outstanding 177,229 shares at September 30, 2001, and 174,825 shares at June 30, 2001, liquidation preference of \$177,229	177,229	174,825
Common stock, par value \$.01 per share, authorized 80,000,000 shares, issued and outstanding 31,805,013 shares at September 30, 2001 and 31,834,669 shares at June 30, 2001	318	318
Capital in excess of par value	205,096	205,256
Unearned compensation	(2,005)	(2,465)
Accumulated deficit	(28,332)	(35,559)
	<u>352,306</u>	<u>342,375</u>
	<u>\$ 617,595</u>	<u>695,220</u>

See accompanying notes to consolidated financial statements.

**TRANSMONTAIGNE INC.  
AND SUBSIDIARIES**
**Consolidated Statements of Operations  
Three Months Ended September 30, 2001 and 2000 (Unaudited)  
(In thousands, except per share amounts)**

	Three Months Ended September 30,	
	2001	2000
Revenues	\$ 1,542,284	1,214,091
Costs and expenses:		
Product costs	1,500,019	1,189,555
Operating expenses	7,174	8,402
Selling, general and administrative	8,465	7,237
Depreciation and amortization	4,282	4,847
	<u>1,519,940</u>	<u>1,210,041</u>
Operating income	22,344	4,050
Other income (expense):		
Dividend income from and equity in earnings of petroleum related investments	1,349	919
Interest income	108	798
Interest expense	(1,929)	(4,826)
Other financing costs	(754)	(1,213)
Loss on disposition of assets, net	(1,295)	-
Gain (loss) on interest rate swap	(4,290)	706
	<u>(6,811)</u>	<u>(3,616)</u>
Earnings before income taxes	15,533	434
Income tax expense	(5,902)	(165)
Net earnings	9,631	269
Preferred stock dividends	(2,404)	(2,126)
Net earnings (loss) attributable to common stockholders	<u>\$ 7,227</u>	<u>(1,857)</u>
Weighted average common shares outstanding:		
Basic	<u>31,819</u>	<u>30,826</u>

Diluted	43,726	30,826
	<hr/>	<hr/>
Earnings (loss) per common share		
Basic	\$ 0.23	(0.06)
	<hr/>	<hr/>
Diluted	\$ 0.22	(0.06)
	<hr/>	<hr/>

See accompanying notes to consolidated financial statements.

**TRANSMONTAIGNE INC.  
AND SUBSIDIARIES**

**Consolidated Statements of Stockholders' Equity**  
**Year Ended June 30, 2001 and Three Months Ended September 30, 2001 (Unaudited)**  
**(In thousands)**

	Preferred stock	Common stock	Capital in excess of par value	Unearned compensation	Retained earnings (accumulated deficit)	Total
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
<b>Balance at June 30, 2000</b>	\$ 170,115	307	201,075	(1,465)	(37,934)	332,098
Common stock issued for options and warrants exercised	-	6	1,891	-	-	1,897
Net tax benefit arising from stock based compensation	-	-	(5)	-	-	(5)
Unearned compensation related to restricted stock awards	-	5	2,295	(2,300)	-	-
Amortization of unearned compensation	-	-	-	1,300	-	1,300
Preferred stock dividends	4,710	-	-	-	(8,963)	(4,253)
Net earnings	-	-	-	-	11,338	11,338
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
<b>Balance at June 30, 2001</b>	\$ 174,825	318	205,256	(2,465)	(35,559)	342,375
Common stock issued for options exercised	-	-	30	-	-	30
Net tax benefit arising from stock based compensation	-	-	(43)	-	-	(43)
Unearned compensation related to restricted stock awards	-	-	(147)	147	-	-
Amortization of unearned compensation	-	-	-	313	-	313
Preferred stock dividends	2,404	-	-	-	(2,404)	-
Net earnings	-	-	-	-	9,631	9,631
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
<b>Balance at September 30, 2001</b>	\$ 177,229	318	205,096	(2,005)	(28,332)	352,306
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>

See accompanying notes to consolidated financial statements.

**TRANSMONTAIGNE INC.  
AND SUBSIDIARIES****Consolidated Statements of Cash Flows  
Three Months Ended September 30, 2001 and 2000 (Unaudited)  
(In thousands)**

	Three Months Ended September 30,	
	2001	2000
Cash flows from operating activities:		
Net earnings	\$ 9,631	269
Adjustments to reconcile net earnings to net cash provided (used) by operating activities:		
Depreciation and amortization	4,282	4,847
Equity in earnings of petroleum related investments	(21)	-
Deferred tax expense	5,855	118
Income tax benefit related to stock based compensation	(43)	-
Loss on disposition of assets	1,295	-
Amortization of unearned compensation	313	187
Amortization of deferred debt issuance costs	463	974
Changes in operating assets and liabilities, net of non-cash activities:		
Trade accounts receivable	(29,783)	23,566
Inventories	11,222	28,343
Prepaid expenses and other	270	982
Trade accounts payable	(17,072)	(27,202)
Net change in unrealized gains/losses on energy related contracts	(17,545)	(8,544)
Inventory due under exchange agreements	(18,536)	(21,019)
Excise taxes payable and other accrued liabilities	(7,327)	(19,920)
Net cash used by operating activities	<u>(56,996)</u>	<u>(17,399)</u>
Cash flows from investing activities:		
Purchases of property, plant and equipment	(345)	(3,844)
Proceeds from sales of assets	93,993	3
Decrease (increase) in other assets, net	151	(372)
Net cash provided (used) by investing activities	<u>93,799</u>	<u>(4,213)</u>
Cash flows from financing activities:		

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Borrowings (repayments) of long-term debt, net	(41,000)	5,684
Deferred debt issuance costs	-	(378)
Common stock issued for cash	30	680
Preferred stock dividends paid	-	(2,126)
	<hr/>	<hr/>
Net cash provided (used) by financing activities	(40,970)	3,860
	<hr/>	<hr/>
Decrease in cash and cash equivalents	(4,167)	(17,752)
Cash and cash equivalents at beginning of period	13,759	53,938
	<hr/>	<hr/>
Cash and cash equivalents at end of period	\$ 9,592	36,186
	<hr/>	<hr/>

See accompanying notes to consolidated financial statements.

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**TRANSMONTAIGNE INC.  
AND SUBSIDIARIES**

**Notes to Consolidated Financial Statements**

**September 30, 2001 (Unaudited)**

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**(1) Summary of Significant Accounting Policies**

**Nature of Business and Basis of Presentation**

TransMontaigne Inc., a Delaware corporation, (["TransMontaigne"] or the ["Company"]) provides a broad range of integrated supply, distribution, marketing, terminaling, storage and transportation services to refiners, distributors, marketers and industrial end-users of petroleum refined products (e.g. gasoline, heating oil, etc.), chemicals, crude oil and other bulk liquids (["Product"]) 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 two main areas: Products supply, distribution and marketing, and Terminals and pipelines.

**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, 2001.

The accounting and financial reporting policies of the Company and its subsidiaries conform to generally accepted accounting principles and prevailing industry practices. The financial statements include the accounts of the Company and its subsidiaries on a consolidated basis. All significant intercompany accounts and transactions have been eliminated in consolidation. Certain amounts in the prior year have been reclassified to conform to the current year's presentation.

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

### **Cash and Cash Equivalents**

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

## **TRANSMONTAIGNE INC. AND SUBSIDIARIES**

### **Notes to Consolidated Financial Statements**

**September 30, 2001 (Unaudited)**

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#### **(1) Summary of Significant Accounting Policies (continued)**

##### **Inventories**

Inventories consist of Products stated at market.

Products due from third parties under exchange agreements are included in inventory and recorded at current replacement cost. Products due to third parties under exchange agreements are recorded at current replacement cost. Adjustments resulting from changes in current replacement cost for 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.

##### **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 capacity, 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 relate to the bank credit facility and the senior promissory notes and 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.

### **TRANSMONTAIGNE INC. AND SUBSIDIARIES**

#### **Notes to Consolidated Financial Statements**

**September 30, 2001 (Unaudited)**

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#### **(1) Summary of Significant Accounting Policies (continued)**

##### **Environmental Expenditures**

The Company accrues for environmental costs that relate to existing conditions caused by past operations. Environmental costs include initial site surveys and environmental studies of potentially contaminated sites, costs for remediation and restoration of sites determined to be contaminated and ongoing monitoring costs, as well as fines, damages and other costs, when estimable. Liabilities for environmental costs at a specific site are initially recorded when the Company's liability for such costs, including direct internal and legal costs, is probable and a reasonable estimate of the associated costs can be made. Adjustments to initial estimates are recorded, from time to time, to reflect changing circumstances and estimates based upon additional information developed in subsequent periods. Estimates of the Company's ultimate liabilities associated with environmental costs are particularly difficult to make with certainty due to the number of variables involved, including the early stage of investigation at certain sites, the lengthy time frames required to complete remediation, alternatives available and the evolving nature of environmental laws and regulations.

##### **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 "Unrealized gains or losses on energy related contracts" 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 counterparty 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 Statements of Cash Flows.

### **Earnings Per Common Share**

Basic earnings per common share have 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 the exercise of all stock options and warrants with exercise prices less than the average market price of the common stock during the period, using the treasury stock method.

## **TRANSMONTAIGNE INC. AND SUBSIDIARIES**

### **Notes to Consolidated Financial Statements**

**September 30, 2001 (Unaudited)**

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#### **(1) Summary of Significant Accounting Policies (continued)**

##### **New Accounting Pronouncements**

In June 2001, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 14 *Business Combinations*, and SFAS No. 142, *Goodwill and Other Intangible Assets*. SFAS No. 141 requires that the purchase method of accounting be used for all business combinations initiated after June 30, 2001. SFAS No. 141 also specifies criteria intangible assets acquired in a purchase method business combination must meet to be recognized and reported apart from goodwill, and establishes that any purchase price allocable to an assembled workforce may not be accounted for separately. SFAS No. 142 requires that goodwill and intangible assets with indefinite useful lives no longer be amortized, but instead tested for impairment at least annually in accordance with the provisions of SFAS No. 142. SFAS No. 142 also requires that intangible assets with definite useful lives be amortized over their respective estimated useful lives to their estimated residual values, and reviewed for impairment in accordance with SFAS No. 121, *Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of*.

The Company is required to adopt provisions of SFAS No. 141 immediately and SFAS No. 142 effective July 1, 2002. Furthermore, any goodwill and any intangible asset determined to have an indefinite useful life that are acquired in a purchase business combination completed after June 30, 2001 will not be amortized, but will continue to be evaluated for impairment in accordance with the appropriate pre-SFAS No. 142 accounting literature. Goodwill and intangible assets acquired in business combinations completed before July 1, 2001 will continue to be amortized prior to the adoption of SFAS No. 142. The Company does not expect the impact of adopting SFAS Nos. 141 and 142 to be significant.

In June 2001, the FASB issued SFAS No. 143, *Accounting for Asset Retirement Obligations*, which addresses financial accounting and reporting for obligations associated with the retirement of tangible long-lived assets and the associated asset retirement costs. The standard applies to legal obligations associated with the retirement of long-lived assets that result from the acquisition, construction, development and/or normal use of the asset.

SFAS No. 143 requires that the fair value of a liability for an asset retirement obligation be recognized in the period in which it is incurred if a reasonable estimate of fair value can be made. The fair value of the liability is added to the carrying amount of the associated asset and this additional carrying amount is depreciated over the life of the asset. The liability is accreted at the end of each period through charges to operating expense. If the obligation is settled for other than the carrying amount of the liability, the Company will recognize a gain or loss on settlement.

The Company is required and plans to adopt the provisions of SFAS No. 143 for the quarter ending September 30, 2002. To accomplish this, the Company must identify all legal obligations for asset retirement obligations, if any, and determine the fair value of these obligations on the date of adoption. The determination of fair value is complex and will require the Company to gather market information and develop cash flow models. Additionally, the Company will be required to develop processes to track and monitor these obligations. Because of the effort necessary to comply with the adoption of SFAS No. 143, it is not practicable for management to estimate the impact of adopting this statement at the date of this report.

**TRANSMONTAIGNE INC.  
AND SUBSIDIARIES**

**Notes to Consolidated Financial Statements**

**September 30, 2001 (Unaudited)**

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**(2) Dispositions**

Effective June 30, 2001, the Company sold two petroleum distribution facilities in Little Rock, Arkansas to Williams Energy Partners L.P. for \$29.0 million. The cash proceeds from the sales transaction were received on July 3, 2001. The Company realized a net gain in June 2001 of approximately \$22.1 million on the sale. The proceeds from the sale were used to repay long-term debt.

On July 27, 2001, the Company sold 861 shares of the common stock of West Shore Pipeline Company (["West Shore"]) thereby reducing its ownership interest to 18.50%. The West Shore common stock was sold to Midwest Pipeline Company, LLC for cash consideration of approximately \$2.9 million. The Company realized a net loss of approximately \$1.1 million on the sale. The proceeds from the sale were used to repay long-term debt. As a result of this transaction, the Company also recognized a loss on its remaining investment in West Shore of approximately \$8.8 million for the three months ended September 30, 2001. On October 22, 2001, the Company entered into a definitive agreement to sell its remaining 18.50% interest in West Shore with an anticipated closing by the end of October 2001.

On July 31, 2001, the Company sold the NORCO Pipeline system and related terminals (["NORCO"]) to Buckeye Partners L.P. for cash consideration of approximately \$62.0 million. The Company realized a net gain of approximately \$8.6 million on the sale. The proceeds from the sale were used to repay long-term debt and for working capital needs.

**(3) Inventories**

Inventories at September 30, 2001 and June 30, 2001 are as follows:

	September 30, 2001	June 30, 2001
	(in thousands)	(in thousands)
Refined petroleum products	\$ 85,809	78,495
Refined petroleum products due under exchange agreements, net	58,218	76,754
	\$ 144,027	155,249

The Company manages inventory 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 September 30, 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 recognized in operating income. The unrealized loss on minimum inventory was \$0.8 million for the three months ended September 30, 2001, and the Company reported an unrealized loss of \$4.5 million for the three months ended September 30, 2000.

**TRANSMONTAIGNE INC.  
AND SUBSIDIARIES**

**Notes to Consolidated Financial Statements**

**September 30, 2001 (Unaudited)**

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**(4) Property, Plant and Equipment**

Property, plant and equipment at September 30, 2001 and June 30, 2001 is as follows:

June 30,

	September 30, 2001	(in thous and)
Land	\$ 13,939	1
Pipelines, rights of way and equipment	11,842	3
Terminals and equipment	256,062	28
Other plant and equipment	16,542	1
	298,385	35
Less accumulated depreciation	48,231	5
	\$ 250,154	30

#### **(5) 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 September 30, 2001 and June 30, 2001, 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 three months ended September 30, 2001 and \$0.4 million during the three months ended September 30, 2000.

The Company, through its wholly-owned subsidiary, TransMontaigne Pipeline Inc., owns 18.50% of the common stock of West Shore at September 30, 2001. The Company does not maintain effective management control of West Shore and therefore carries its \$23.1 million investment at cost. The Company recorded dividend income from West Shore of approximately \$0.6 million during the three months ended September 30, 2001 and \$0.5 million for the three months ended September 30, 2000.

On July 27, 2001, the Company sold 861 shares of the common stock of West Shore thereby reducing its original ownership interest of 20.38% to 18.50%. The West Shore common stock was sold to Midwest Pipeline Company, LLC for cash consideration of approximately \$2.9 million. The Company realized a net loss of approximately \$1.1 million on the sale. As a result of this transaction, the Company also recognized a loss on its remaining investment in West Shore of approximately \$8.8 million for the three months ended September 30, 2001.

In August 2000, the Company converted its note receivable and accrued interest from ST Oil Company into an equity ownership position. At September 30, 2001, the Company's investment in ST Oil Company was approximately \$1.7 million, representing a 30.02% equity ownership in ST Oil Company. The Company recorded less than \$0.1 million of equity income during the three months ended September 30, 2001 and 2000.

#### **TRANSMONTAIGNE INC. AND SUBSIDIARIES**

#### **Notes to Consolidated Financial Statements**

#### **September 30, 2001 (Unaudited)**

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#### **(6) Long-term Debt**

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Long-term debt at September 30, 2001 and June 30, 2001 is as follows:

	September 30, 2001	June 30, 2001
	(in thousands)	(in thousands)
Bank Credit Facility	\$ 64,000	80,000
Senior promissory notes	25,000	50,000
	<u>89,000</u>	<u>130,000</u>
Less current maturity	-	-
	<u>\$ 89,000</u>	<u>130,000</u>

The Company's bank credit facility consists of a \$240 million revolving credit facility due December 31, 2003. Borrowings under the credit facility bear interest, based upon the Company's option, at either the lender's Alternate Base Rate, plus a spread or LIBOR, plus a spread in effect at the time of the borrowings and is adjusted monthly, bimonthly, quarterly or semi-annually. On July 16, 2001, the bank credit facility was amended to adjust certain covenants.

In April 1997, the Company entered into a Master Shelf Agreement with an institutional lender. On July 6, 2001, the Company repaid and retired the outstanding \$25 million of 7.85% Senior Notes with a portion of the proceeds from the sale of the Little Rock terminal. The remaining note consists of 7.22% Senior Notes due October 17, 2004.

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 September 30, 2001, the Company was in compliance with all such tests contained in the amended agreements.

The average interest rate under the bank credit facility was 7.1% and 10.0% at September 30, 2001 and 2000, respectively. Cash payments for interest were approximately \$2.3 million and \$4.1 million for three months ended September 30, 2001 and 2000, respectively.

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 variable interest rates on the Company's bank debt. Each swap was for a notional value of \$150 million and was for a term expiring in August 2003. The swaps settle monthly, contain a knockout level on the one-month LIBOR at or above 6.75%, and have a fixed interest rate of 5.48%. The swaps provide that the Company pay a fixed interest rate of 5.48% on \$300 million notional amount in exchange for a variable rate based on LIBOR so long as the one-month LIBOR interest rate does not rise above 6.75%. If the one-month LIBOR rate rises above 6.75%, the swap knocks out and no payments are due under the agreements until such time as the one-month LIBOR rate declines below 6.75%.

**TRANSMONTAIGNE INC.  
AND SUBSIDIARIES**

**Notes to Consolidated Financial Statements**

**September 30, 2001 (Unaudited)**

**(6) Long-term Debt (continued)**

As a result of the significant reduction in the variable rate debt during the fiscal year ended June 30, 2000 and with the adoption of SFAS 133 on June 30, 2000, the swaps were no longer designated as hedges. In August of 2000, the Company completed the sale of one of the swap agreements, recognizing no gain or loss on the sale. As of June 30, 2001, the fair market value of the remaining swap agreement was a liability of \$3.1 million, which was recorded in other liabilities. As of September 30, 2001, the fair market value of the remaining swap agreement is a liability of \$6.7 million, which is recorded in other liabilities. For the three months ended September 30, 2001, the Company recorded an unrealized loss on the interest rate swap of \$3.6 million and a realized loss of \$0.7 million for the three months ended September 30, 2001. The Company realized a gain of \$0.7 million on the interest rate swap for the three months ended September 30, 2000.

**(7) Disclosures About Fair Value of Financial Instruments**

The following methods and assumptions were used to estimate the fair value of financial instruments at September 30, 2001 and 2000.

***Cash and Cash Equivalents, Trade Receivables and Trade Accounts Payable***

The carrying amount approximates fair value because of the short-term maturity of these instruments.

***Long-term Debt***

The carrying value of the line of credit approximates fair value since it bears interest at current market interest rates.

The carrying values of the senior promissory notes approximate fair value since the interest rates approximate the current market rates for similar debt instruments.

**(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%. During the three months ended September 30, 2001, the Company elected to pay-in-kind the preferred dividends. For the three months ended September 30, 2001, paid-in-kind dividends were \$2.4 million. For the three months ended September 30, 2000 cash dividend payments were \$2.1 million.

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.

**TRANSMONTAIGNE INC.  
AND SUBSIDIARIES**

**Notes to Consolidated Financial Statements**

**September 30, 2001 (Unaudited)**

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**(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. Amortization of unearned compensation of approximately \$0.3 million and \$0.2 million is included in selling, general and administrative expense for the three months ended September 30, 2001 and 2000, respectively.

**(10) Litigation**

The Company has been a defendant in various lawsuits and a party to various other legal proceedings, in the ordinary course of business, some of which are covered in whole or in part by insurance. The Company believes that the outcome of such lawsuits and other proceedings will not individually or in the aggregate have a material adverse effect on the Company's consolidated financial condition, results of operations or cash flows.

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

The following review of the results of operations and financial condition of the Company should be read in conjunction with the Consolidated Financial Statements. Material period-to-period variances in the consolidated statements of income are discussed under "Results of Operations." The "Liquidity and Capital Resources" section analyzes cash flows and financial position. 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, 2001.

The Company's commercial operations are divided into two main areas: Product supply, distribution and marketing, and Terminals and pipelines, which includes terminaling, storage services, and pipeline transportation.

**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 Products, the wholesale marketing of Products at terminal truck loading rack locations, and sales of Products to regional and national industrial end-users. In addition, TPSI provides risk management products and services to gasoline and distillate customers that minimize the customer's exposure to both commodity price movements and location-based differentials. 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 needs and the risk profile desired by the individual customer. These risk-managing contracts are not entered into on a ratable basis and can cause earnings to fluctuate from one period to the next.



The Product supply, distribution and marketing operations generally utilizes the asset base and associated Product market demand for the geographic areas surrounding the Company's terminal and pipeline assets to market and trade various Products and provide specialized services to its customers. TPSI purchases Products at prevailing prices from producers at production points and common trading locations. These Products are then shipped via barge, Company-owned pipelines or third party-owned pipelines to the terminals owned by the Company or to third party terminal locations. TPSI can also arrange for the movement of these Products through exchange agreements with third parties. From these terminal locations, the Products are made available to TPSI's customers either through contract sales, exchange agreements or daily priced rack sales.

TPSI's margins are generated from bulk sales and exchanges of Products with major and large independent energy companies; wholesale distribution and sales of Products to jobbers and retailers; distribution and sales of Products to regional and national industrial end-user; wholesale storage and marketing contracts of Products; and tailored short and long-term fuel and risk management logistical services arrangements to wholesale, retail and industrial end-users. Product storage and forward sales transactions enable TPSI to purchase 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 future cash market or by using New York Mercantile Exchange (NYMEX) contracts. Wholesale distribution of 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 Products supply through proprietary pipelines and terminals, as well as through non-proprietary pipeline, terminal, truck, rail and barge distribution channels.

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### ***Product Supply, Distribution and Marketing (continued)***

Generally, as TPSI purchases a Product, it simultaneously locks in a margin by selling the Product for physical delivery to third party users or by entering into a future delivery obligation, such as a futures contract on the NYMEX. TPSI seeks to maintain a balanced position until it delivers or takes delivery of the physical Product associated with each transaction, thereby minimizing or eliminating exposure to flat price fluctuations occurring after the initial transaction. However, certain basis risks (the risk that price relationships between delivery points, types of Product or delivery periods will change) cannot be completely hedged or eliminated. It is the Company's policy not to acquire Products, futures contracts or other derivative products for the purpose of speculating on the flat price associated with the underlying commodity. Risk management policies have been established by the Risk Management Committee to monitor and control these price risks. The Risk Management Committee is comprised of senior executives of the Company.

In addition, TPSI provides supply chain management services to its commercial and industrial customers. Through its supply chain management arrangement, TPSI provides services to its customers downstream of the Products rack location. A customer of TPSI's supply chain management services will receive the benefits of TPSI's computer technology and Products marketing capabilities that allow the customers to maximize total energy savings while meeting their operational needs. As a result of this service, a customer can reduce the processing time associated with dispatching Product to its physical locations, processing payments associated with Product purchases at both bulk and retail locations, and obtain other costs savings associated with procuring its Product demands. By aggregating the demands of various customers, TPSI is able to leverage the demand and build relationships with other companies along the supply and distribution chain that benefit all the parties through reductions in the back office processing costs associated with buying and selling Products.

### ***Terminals and Pipelines***

The Company owns and operates an extensive terminal infrastructure that handles Products with transportation connections via pipelines, barges, rail cars and trucks to Company-owned facilities or to third party facilities with an emphasis on transportation connections primarily through the Colonial, Plantation, Texas Eastern, Explorer and Williams pipeline systems. The terminal and pipeline commercial operations depend in large part on the level of demand for Products by end users in the geographic locations served by it and the ability and willingness of the Company's customers to supply such demand by utilizing the Company's terminals and pipelines as opposed to the terminals and pipelines of other companies. The Company's Product supply,

distribution and marketing effort □directs□ volumes through the Company□s terminals and pipelines, wherever possible, and this provides the Company with an advantage over many of its competitors who are not involved in the marketing of Products.

The terminal and pipeline□s net margin is calculated as terminal revenue plus storage revenue plus pipeline revenues less direct operating costs. Terminal revenues are based on the volume of Products handled at the asset□s loading racks, generally at a standard rate per gallon. Storage fees are generally based on a per barrel rate or tankage capacity committed and will vary with the duration of the arrangement, the product stored and special handling requirements, particularly when certain types of chemicals and other bulk liquids are involved. Pipeline revenues are based on the volume of Products transported and the distance from the origin point to the delivery point. The operating expenses of the terminals and pipelines include the direct related wages and employee benefits, utilities, communications, maintenance and repairs, property taxes, rent, vehicle expenses, environmental compliance costs, materials and supplies. The Company cannot predict the impact of future fuel conservation measures, alternate fuel requirements, governmental regulation, technological advances in fuel economy, demographic changes, weather conditions, crop prices, and energy-generation devices, all of which could reduce the demand for Products in the areas served by the Company.

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## DISPOSITIONS

Effective June 30, 2001, the Company sold two petroleum distribution facilities in Little Rock, Arkansas to Williams Energy Partners L.P. for \$29.0 million. The cash proceeds from the sales transaction were received on July 3, 2001. The Company realized a net gain of approximately \$22.1 million on the sale in the year ended June 30, 2001. The proceeds from the sale were used to repay long-term debt.

On July 27, 2001, the Company sold 861 shares of the common stock of West Shore Pipeline Company (□West Shore□) thereby reducing its ownership interest to 18.50%. The West Shore common stock was sold to Midwest Pipeline Company, LLC for cash consideration of approximately \$2.9 million. The Company realized a net loss of approximately \$1.1 million on the sale. The proceeds from the sale were used to repay long-term debt. As a result of this transaction, the Company also recognized a loss on its remaining investment in West Shore of approximately \$8.8 million for the period ended September 30, 2001.

On July 31, 2001, the Company sold the NORCO Pipeline system and related terminals (□NORCO□) to Buckeye Partners L.P. for cash consideration of approximately \$62.0 million. The Company realized a net gain of approximately \$8.6 million on the sale. The proceeds from the sale were used to repay long-term debt and for working capital purposes.

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## RESULTS OF OPERATIONS

Selected financial data regarding the Company□s operations are summarized below (in thousands):

	Three Months Ended September 30,	
	2001	2000
Net operating margins (1):		
Product supply, distribution and marketing:		
Sales, exchanges and product arbitrage	\$ 27,599	8,310
Unrealized losses related to mark-to-market accounting for		

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the minimum inventory	(849)	(4,528)
	<u>26,750</u>	<u>3,782</u>
Terminals and pipelines	8,341	12,352
	<u>35,091</u>	<u>16,134</u>
Total net operating margins		
Selling, general and administrative expenses	(8,465)	(7,237)
Depreciation and amortization expenses	(4,282)	(4,847)
	<u>22,344</u>	<u>4,050</u>
Operating income		
Dividend income from and equity in earnings of petroleum related investments	1,349	919
Interest income	108	798
Interest expense	(1,929)	(4,826)
Other financing costs	(754)	(1,213)
Loss on disposition of assets, net	(1,295)	-
Gain (loss) on interest rate swap	(4,290)	706
	<u>15,533</u>	<u>434</u>
Earnings before income taxes		
Income tax expense	(5,902)	(165)
	<u>9,631</u>	<u>269</u>
Net earnings		
Preferred stock dividends	(2,404)	(2,126)
	<u>\$ 7,227</u>	<u>(1,857)</u>

(1) Net operating margins represent revenues less product costs and direct operating expenses.

Selected volumetric data (barrels per day):

	Three Months Ended September 30, 2001			
	July	August	September	Average
Retained Facilities	493,718	509,482	449,859	484,353
Disposed Facilities	92,045	-	-	30,682
	<u>585,763</u>	<u>509,482</u>	<u>449,859</u>	<u>515,035</u>
Current period volumes				
	Three Months Ended September 30, 2000			
	July	August	September	Average

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Retained Facilities	489,164	494,829	485,849	489,948
Disposed Facilities	134,616	125,071	127,236	128,974
	<hr/>	<hr/>	<hr/>	<hr/>
Prior period volumes	623,780	619,900	613,085	618,922
	<hr/>	<hr/>	<hr/>	<hr/>

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**THREE MONTHS ENDED SEPTEMBER 30, 2001 COMPARED TO  
THREE MONTHS ENDED SEPTEMBER 30, 2000**

The Company reported net earnings of \$9.6 million for the three months ended September 30, 2001, compared to \$0.3 million for the three months ended September 30, 2000. After preferred stock dividends, the net earnings attributable to common stockholders was \$7.2 million and a net loss of \$1.9 million for the three months ended September 30, 2001 and 2000, respectively. Earnings per common share for the three months ended September 30, 2001 was \$0.23 based on 31.8 million weighted average basic, and \$0.22 based on 43.7 weighted average diluted shares outstanding compared to a loss of \$.06 basic and diluted for the three months ended September 30, 2000 based upon 30.8 million weighted average basic and weighted average diluted shares outstanding.

The Company's improved pretax earnings in the current period as compared to the prior years comparable period is primarily attributable to increased margins from its Product supply, distribution and marketing commercial operations and lower interest expense as a result of both lower interest rates and debt levels. This improvement was despite the absence of approximately \$2.6 million in pretax earnings contributed by the divested facilities in the prior comparable period.

**Product Supply, Distribution and Marketing**

The net operating margin reported for the Product supply, distribution and marketing commercial operations include margins realized on sales, exchanges and Product arbitrage. During the quarter, the Company was able to benefit from the market volatility opportunities that were caused by an August Chicago refinery disruption, which significantly increased throughput on the Company's Midwest (Mississippi River) corridor terminals. This disruption fueled the price differentials (for both gasoline and distillates) between the Gulf Coast, Chicago and Group (Mid-Continent) regions and created significant arbitrage margins. During the disruption, the Company's Product marketing group utilizing its own, as well as third party pipeline and terminal infrastructures, was able to help supply a portion of the increased demand in the Chicago and Group market areas.

Immediately after the attack of September 11, 2001, the Company temporarily suspended operations of its facilities nationwide for approximately 12 hours to assess the security and anticipated pipeline supply disruptions. Since September 12, 2001, throughput volumes have returned at the facilities, but remain slightly lower than historical levels.

Also, during the current quarter, the absolute price of crude oil and refined products has continued to decline. The current oversupply situation has dropped the value of the energy commodities and has created a "carry" or "contango" market structure whereby the current value of the commodity is less than the value quoted in a future month. This market structure enables both the Company and its customers the opportunity to utilize its terminal infrastructure to store Products capturing the price differentials. A contango market structure may lessen the volatility in the Product markets and could reduce future arbitrage opportunities.

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 Product supply, distribution and marketing activities, and is maintained both in tanks and pipelines owned by the Company and pipelines owned by third parties. The Company will not sell this minimum inventory and considers

the inventory to be a long-term investment. The Company's policy regarding minimum inventory is to not hedge the commodity exposure associated with this long-term investment. In accordance with generally accepted accounting principles ("GAAP"), the Company records the minimum inventories at a value that floats with the market on a daily basis with the resulting non-cash gains and losses recognized in operating income. The Company realized a non-cash loss of \$0.8 million and \$4.5 million in three months ended September 30, 2001 and 2000 respectively, relating to these mark-to-market adjustments on the minimum inventories.

### **Terminals and Pipelines**

The net operating margin from terminal and pipeline operations for the three months ended September 30, 2001 was \$8.3 million, compared to \$12.4 million for the three months ended September 30, 2000, a decrease of \$4.1 million. The Company sold its Little Rock Terminal on June 30, 2001 and sold the NORCO system on July 31, 2001. For the volumetric impact associated with the terminal dispositions, please see volumetric data under the Results of Operations. In the current period, the Company realized no earnings from the Little Rock terminal and only one month of earnings from the NORCO system versus the prior period ended September 30, 2000 where there were three months of earnings for each facility. The impact from the asset sales was approximately a \$2.6 million reduction in margin during the current period. The Company experienced increased operating costs in its terminal network primarily from increased repair and maintenance expenses and labor costs.

### **Selling, General, Administrative and Other**

Selling, general and administrative expenses for the three months ended September 30, 2001 were \$8.5 million, compared to \$7.2 million for the three months ended September 30, 2000, an increase of \$1.3 million. The increase is primarily attributable to an increase in consulting services used by the Company as the Company is undertaking a program in the current year to enhance the capabilities of the Company's computer systems associated with the Product supply, distribution and marketing group, an increase in the amount of incentive-based compensation expense recorded by the Company in the current period and an increase in communication costs. The increased costs were offset by lower wages and a reduction in travel and entertainment during the current period.

Depreciation and amortization for the three months ended September 30, 2001 was \$4.3 million, compared to \$4.8 million for the three months ended September 30, 2000. The reduction is due to the sale of the Little Rock terminal and the NORCO system.

Dividend income from and equity in earnings of petroleum related investments for the three months ended September 30, 2001 was \$1.3 million compared to \$0.9 million for the three months ended September 30, 2000, an increase of \$0.4 million. The increase resulted from the Company receiving a \$0.3 million higher dividend from Lion Oil and a \$0.1 million higher dividend from West Shore during the three months ended September 30, 2001.

Interest income for the three months ended September 30, 2001 was \$0.1 million, compared to \$0.8 million for the three months ended September 30, 2000, a decrease of \$0.7 million. The decrease in interest income was due primarily to a decrease in interest bearing cash balances and lower interest rates during the current quarter.

Interest expense for the three months ended September 30, 2001 was \$1.9 million, compared to \$4.8 million during the three months ended September 30, 2000, a decrease of \$2.9 million. This reduction was primarily attributable to a reduction in the amount of the Company's outstanding debt as a result of proceeds from asset dispositions and a reduction in the Company's borrowing rate under its bank credit facility due to declining LIBOR rates.

Other financing costs for the three months ended September 30, 2001 were \$0.8 million, compared to \$1.2 million for the three months ended September 30, 2000. The reduction was attributable to a reduction in the amount of amortization of deferred debt issuance costs during the current period. These deferred fees were reduced in the Company's last fiscal quarter ended June 30, 2001 as a result of the Company paying off the bank term loan and a portion of the Master Shelf Agreement.

Loss on the disposition of assets was \$1.3 million for the period ended September 30, 2001, which resulted from a \$8.6 million gain on the sale of the NORCO system offset by a loss on the sale of West Shore stock of \$1.1 million and a \$8.8 million write down of the West Shore investment with the signing of a definitive sales agreement.

For the three months ended September 30, 2001, the Company recorded an unrealized loss on the interest rate swap of \$3.6 million and realized a loss of \$0.7 million on the interest rate swap. In the three months ended September 30, 2000, the realized gain on the interest rate swap was \$0.7 million. The increase in the unrealized and realized losses on the interest rate swap were due to the decline in the one month LIBOR rates during the period ending September 30, 2001, as compared to the period ending September 30, 2000.

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### Selling, General, Administrative and Other (continued)

Income tax expense was \$9.2 million for the three months ended September 30, 2001, which represents an effective combined federal and state income tax rate of 38.0%. Income tax expense was \$0.2 million for the three months ended September 30, 2000, which represents an effective combined federal and state income tax rate of 38.0%.

Preferred stock dividends on the Series A Convertible Preferred Stock were \$2.4 million and \$2.1 million for the three months ended September 30, 2001 and 2000, respectively. The increase in the current year dividend resulted from the Company's election to pay the preferred dividends for the quarter ended September 30, 2001 in-kind by issuing additional shares of Series A Convertible Preferred Stock.

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### LIQUIDITY AND CAPITAL RESOURCES

The following summary reflects the Company's comparative EBITDA, adjusted EBITDA and net cash flows for the three months ended September 30, 2001 and 2000 (in thousands):

	Three Months Ended September 30,	
	2001	2000
EBITDA (1)	\$ 27,975	9,816
Adjusted EBITDA (2)	\$ 28,824	14,344
Net cash used by operating activities	\$ (56,996)	(17,399)
Net cash provided (used) by investing activities	\$ 93,799	(4,213)
Net cash provided (used) by financing activities	\$ (40,970)	3,860

- (1) EBITDA is defined as total net operating margin, 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 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 the most useful measure 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.

### **LIQUIDITY AND CAPITAL RESOURCES (continued)**

Net cash used by operating activities of \$57.0 million for the three months ended September 30, 2001 was attributable primarily to increases in the amounts of trade accounts receivable and net assets from price risk management, a decrease in trade accounts payable and inventory due under exchange agreements, all of which were partially offset by a decrease in ending inventory. The net cash used by operating activities of \$17.4 million for the three months ended September 30, 2000 was attributable primarily to a decreases in the amounts of inventory due under exchanges, trade accounts payable and excise taxes payable, along with an increase in the net assets from price risk management, all of which were partially offset by a decrease in trade accounts receivable and ending inventory.

Net cash provided by investing activities was \$93.8 million during the three months ended September 30, 2001, which primarily represents the cash receipt of the \$62.0 million proceeds associated with the sale of the NORCO assets, the receipt of the \$29.0 million cash associated with the sale of Little Rock terminal and receipt of \$2.9 million cash associated with the sale of West Shore shares. Net cash used by investing activities was \$4.2 million during the three months ended September 30, 2000, primarily representing capital expended for construction and improvements to existing operating facilities.

Net cash used by financing activities for the three months ended September 30, 2001 included \$41.0 million of repayments of borrowings under the Company's bank credit facility and Master Shelf Facility. Net cash provided by financing activities for the three months ended September 30, 2000 of \$3.9 million included borrowings of \$5.7 million under the Company's bank credit facility offset primarily by payments for preferred stock dividends and deferred debt costs.

The Company's bank credit facility consists of a \$240 million revolving credit facility due December 31, 2003. 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 of credit under which advances may be drawn at an interest rate comparable to the Eurodollar Rate. On July 16, 2001, the bank credit facility was amended to adjust certain covenants.

At September 30, 2001, the Company had borrowings of \$64.0 million outstanding under the bank credit facility. The average interest cost at September 30, 2001 was 7.1%.

At September 30, 2001, the Company had \$25.0 million of 7.22% Senior Notes due October 17, 2004 outstanding under the Master Shelf Agreement. The Master Shelf Agreement was amended in July 2001 in connection with the amendments 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 covenants relating to fixed charge coverage, current ratio, maximum leverage ratio, consolidated tangible net worth, cash distributions and open inventory positions. As of September 30, 2001, the Company was in compliance with all such covenants.

At September 30, 2001, the Company had working capital of \$141.9 million and availability under its bank credit facility of approximately \$183.5 million. The availability under the bank credit facility is calculated weekly and is based upon the working capital of TPSI.

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### **LIQUIDITY AND CAPITAL RESOURCES (continued)**

The Company believes that its current working capital position; future cash provided by operating activities; available borrowing capacity under the bank credit facility and the Master Shelf Agreement; and its relationship with institutional lenders and equity investors should enable the Company to meet its planned capital requirements.

Capital expenditures anticipated for the fiscal year ending June 30, 2002 are estimated to be \$4.5 million for terminal and pipeline facilities, and assets to support these facilities. 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.

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### **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 counterparties 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.

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### **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, 2001, 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, 2001.

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**PART II. OTHER INFORMATION**

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

(a) Exhibits

- 10.1 Amendment No. 4, dated as of July 16, 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 July 16, 2001. FILED HEREWITH.
- 10.2 Letter Amendment No 4, dated as of July 16, 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:

A report on Form 8-K dated July 31, 2001 reporting Item 2, the sale of the NORCO refined petroleum products pipeline system and related terminals to subsidiary partnerships of Buckeye Partners, L.P. and Item 7, filing the condensed *pro forma* financial information reflecting the sale and an exhibit, was filed on August 15, 2001.

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**SIGNATURES**

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

**Dated:** October 23, 2001

**TRANSMONTAIGNE INC.**  
(Registrant)

/s/ DONALD H. ANDERSON

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

/s/ RODNEY R. HILT

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

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