TRANSMONTAIGNE INC
Form 10-Q
May 06, 2005

Use these links to rapidly review the document
TABLE OF CONTENTS

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2005

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.)

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

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

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such report), and (2) has been subject to such filing requirements for the past 90 days. Yes /X/ No / /

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

As of May 2, 2005, there were 43,459,487 shares of the Registrant's Common Stock outstanding.

TABLE OF CONTENTS

Part I. Financial Information

Item 1. Unaudited Consolidated Financial Statements

Consolidated Balance Sheets as of March 31, 2005 and June 30, 2004

Consolidated Statements of Operations for the Three and Nine Months Ended March 31, 2005 and 2004

Consolidated Statements of Preferred Stock and Common Stockholders' Equity for the Year Ended June 30, 2004 and Nine Months Ended March 31, 2005

Consolidated Statements of Cash Flows for the Three and Nine Months Ended March 31, 2005 and 2004

Notes to Consolidated Financial Statements

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Item 3. Qualitative and Quantitative Disclosures about Market Risk

Item 4. Controls and Procedures

Part II. Other Information

Item 6. Exhibits

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

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

i. certain statements, including possible or assumed future results of operations, in "Management's Discussion and Analysis of Financial Condition and Results of Operations;"

ii. any statements contained herein or therein regarding the prospects for our business or any of our services;

iii. any statements preceded by, followed by or that include the words "may," "seeks," "believes," "expects," "anticipates," "intends," "continues," "estimates," "plans," "targets," "predicts," "attempts," "is scheduled," or similar expressions; and

iv. other statements contained herein or therein regarding matters that are not historical facts.

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

The following risk factors, discussed in more detail under the heading "Risk Factors" in our final prospectus, filed on May 14, 2003, related to our $9^{1}/_{8}$% Senior Subordinated Notes due 2010 are important factors that could cause actual results to differ materially from our expectations and may adversely affect our business and results of operations, include, but are not limited to:

- volumes of refined petroleum products shipped in our pipelines and throughput or stored in our terminal facilities;
- the availability of adequate supplies of and demand for petroleum products in the areas in which we operate;
- the effect of any inability to attract customers for our supply chain management service business;
- continued creditworthiness of, and performance by, contract counterparties;
- the effects of competition;
- our ability to renew customer contracts;
- operational hazards;
- availability and cost of insurance on our assets and operations;
- the success of our risk management activities;
- the effect of changes in commodity prices on our liquidity;
- the impact of any failure of our information technology systems;
-

the impact of petroleum product price fluctuations;

- the availability of acquisition opportunities;
- successful integration and future performance of acquired assets;
- the threat of terrorist attacks or war;
- the impact of current and future laws and governmental regulations;
- liability for environmental claims; and

> the impact of the departure of any key officers.

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

> general economic, market or business conditions; and

> force majeure and acts of God.

Part I. Financial information

ITEM 1. UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

The interim unaudited consolidated financial statements of TransMontaigne Inc. as of and for the three and nine months ended March 31, 2005, are included herein beginning on the following page. The accompanying unaudited interim consolidated financial statements should be read in conjunction with our annual consolidated financial statements and related notes for the year ended June 30, 2004, together with our discussion and analysis of financial condition and results of operations, included in our Annual Report on Form 10-K filed on September 23, 2004.

TransMontaigne Inc. is a holding company with the following active wholly-owned subsidiaries during the three and nine months ended March 31, 2005.

> TransMontaigne Product Services Inc. ("TPSI")

> TransMontaigne Services Inc.

> TransMontaigne Transport Inc.

> Coastal Fuels Marketing, Inc.

> Coastal Tug and Barge, Inc.

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

TransMontaigne Inc. and subsidiaries
Consolidated balance sheets
(In thousands)

	March 31, 2005	June 30, 2004
ASSETS		
Current assets:		
Cash and cash equivalents	$ 19,292	$ 6,158
Restricted cash held by commodity broker	3,113	3,468
Trade accounts receivable, net	367,931	282,298
Inventories discretionary volumes	217,773	236,710
Unrealized gains on derivative contracts	22,893	11,071
Deferred tax assets	11,862	11,862
Other current assets	10,025	3,768
	652,889	555,335
Property, plant and equipment, net	347,716	362,265
Product linefill and tank bottom volumes	25,036	25,036
Unrealized gains on derivative contracts	20	
Investments in petroleum related assets	10,131	10,131
Deferred debt issuance costs, net	8,905	10,383
Other assets, net	24,372	11,206
	$ 1,069,069	$ 974,356
LIABILITIES, PREFERRED STOCK, AND COMMON STOCKHOLDERS' EQUITY		
Current liabilities:		
Commodity margin loan	$	$ 1,923
Working capital credit facility		110,000
Trade accounts payable	226,013	142,395
Unrealized losses on derivative contracts	47,691	33,689
Inventory due to others under exchange agreements	29,471	32,390
Excise taxes payable	94,233	93,702
Other accrued liabilities	23,935	19,414
Deferred revenue supply chain management services	5,573	3,502
	426,916	437,015
Other liabilities:		
Long-term debt	200,000	200,000
Deferred tax liabilities	67,359	30,424
Unrealized losses on derivative contracts		909
Total liabilities	694,275	668,348
Series B Redeemable Convertible Preferred stock	74,830	77,719
Common stockholders' equity:		
Common stock	419	411
Capital in excess of par value	271,752	251,775
Deferred stock-based compensation	(5,459)	(4,129)
Retained earnings (accumulated deficit)	33,252	(19,768)

	299,964	228,289
	$ 1,069,069	$ 974,356

See accompanying notes to consolidated financial statements.

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

	Three months ended March 31,		Nine months ended March 31,	
	2005	2004	2005	2004
Supply, distribution, and marketing:				
Revenues	$ 2,639,178	$ 3,106,965	$ 8,156,241	$ 7,778,883
Cost of product sold and other direct costs and expenses	(2,554,705)	(3,064,213)	(8,028,072)	(7,714,465)
Net operating margins	84,473	42,752	128,169	64,418
Terminals, pipelines, and tugs and barges:				
Revenues	29,254	26,802	83,248	80,063
Direct operating costs and expenses	(15,447)	(15,215)	(45,308)	(41,771)
Net operating margins	13,807	11,587	37,940	38,292
Total net operating margins	98,280	54,339	166,109	102,710
Costs and expenses:				
Selling, general and administrative	(9,885)	(10,452)	(32,120)	(30,133)
Depreciation and amortization	(6,274)	(5,738)	(17,808)	(17,207)
Lower of cost or market write-downs on product linefill and tank bottom volumes		(11)		(60)
Gain (loss) on disposition of assets, net	2,993		(606)	(805)
Total costs and expenses	(13,166)	(16,201)	(50,534)	(48,205)
Operating income	85,114	38,138	115,575	54,505
Other income (expenses):				
Dividend income	9		390	6
Interest income	149	55	250	163
Interest expense	(6,375)	(6,752)	(19,316)	(19,879)
Other financing costs:				
Amortization of deferred debt issuance costs	(455)	(821)	(1,603)	(2,453)
Write-off of debt issuance costs related to former bank credit facility			(3,392)	
Total other expenses	(6,672)	(7,518)	(23,671)	(22,163)
Earnings before income taxes	78,442	30,620	91,904	32,342
Income tax expense	(31,377)	(12,248)	(36,762)	(12,937)
Net earnings	47,065	18,372	55,142	19,405
Earnings allocable to preferred stock	(10,344)	(4,021)	(12,148)	(4,255)
Net earnings attributable to common stockholders	$ 36,721	$ 14,351	$ 42,994	$ 15,150

Earnings per share:				
Basic net earnings per common share	$ 0.92	$ 0.36	$ 1.08	$ 0.39
Diluted net earnings per common share	$ 0.90	$ 0.36	$ 1.07	$ 0.38
Weighted average common shares outstanding:				
Basic	39,793	39,418	39,672	39,318
Diluted	52,558	51,145	51,709	50,971

See accompanying notes to consolidated financial statements.

TransMontaigne Inc. and subsidiaries
Consolidated statements of preferred stock and common stockholders' equity
Year ended June 30, 2004 and nine months ended March 31, 2005
(In thousands)

	Preferred stock					
	Series B	Common stock	Capital in excess of par value	Deferred stock-based compensation	Accumulated deficit	Total common stockholders' equity
Balance at June 30, 2003	$ 79,329	$ 407	$ 249,339	$ (3,943)	$ (35,534)	$ 210,269
Common stock issued for options exercised		1	317			318
Common stock repurchased from employees for withholding taxes		(1)	(620)			(621)
Net tax effect arising from stock-based compensation			(103)			(103)
Forfeiture of restricted stock awards prior to vesting		(1)	(336)	337		
Deferred compensation related to restricted stock awards		5	3,178	(3,183)		
Amortization of deferred stock-based compensation				2,660		2,660
Preferred stock dividends					(4,373)	(4,373)
Amortization of premium on Series B Redeemable Convertible Preferred stock	(1,610)				1,610	1,610
Net earnings					18,529	18,529
Balance at June 30, 2004	$ 77,719	$ 411	$ 251,775	$ (4,129)	$ (19,768)	$ 228,289
Common stock issued for options exercised			119			119
Common stock repurchased from employees for withholding taxes		(1)	(804)			(805)
Forfeiture of restricted stock awards prior to vesting		(2)	(866)	868		
Deferred compensation related to restricted stock awards		7	4,163	(4,170)		
Amortization of deferred stock-based compensation				1,972		1,972
Warrants granted to MSCG in exchange for product supply agreement			14,600			14,600
Preferred stock dividends paid-in-kind	1,087					
Preferred stock dividends					(3,329)	(3,329)
Amortization of premium on Series B Redeemable Convertible Preferred stock	(1,207)				1,207	1,207
Conversion of Series B Redeemable Convertible Preferred stock into common stock	(2,769)	4	2,765			2,769
Net earnings					55,142	55,142
Balance at March 31, 2005	$ 74,830	$ 419	$ 271,752	$ (5,459)	$ 33,252	$ 299,964

See accompanying notes to consolidated financial statements.

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

	Three months ended March 31,		Nine months ended March 31,	
	2005	2004	2005	2004
Cash flows from operating activities:				
Net earnings	$ 47,065	$ 18,372	$ 55,142	$ 19,405
Adjustments to reconcile net earnings to net cash used in operating activities:				
Amortization of deferred revenue	(2,376)	(1,044)	(5,065)	(3,571)
Depreciation and amortization	6,274	5,738	17,808	17,207
Deferred tax expense	31,375	12,265	36,935	12,946
Amortization of deferred stock-based compensation	697	696	1,972	1,962
Amortization of debt issuance costs	455	821	1,603	2,453
Write-off of debt issuance costs			3,392	
(Gain) loss on disposition of assets, net	(2,993)		606	805
Net change in unrealized (gain) loss on long-term derivative contracts	(88)	233	452	2,498
Lower of cost or market write-down on product linefill and tank bottom volumes		11		60
Amortization of prepaid transportation costs		1,388		2,099
Changes in operating assets and liabilities, net of effects from acquisitions:				
Trade accounts receivable, net	(53,543)	(51,232)	(85,633)	(38,703)
Inventories discretionary volumes	126,824	25,794	18,937	(71,009)
Other current assets	466	579	(2,056)	(641)
Trade accounts payable	50,755	(37,432)	83,619	24,347
Inventory due to others under exchange agreements	7,621	14,192	(2,919)	(14,231)
Unrealized (gain) loss on derivative contracts	26,546	7,298	7,934	13,077
Excise taxes payable and other accrued liabilities	16,023	28,640	5,865	17,653
Net cash provided by (used in) operating activities	255,101	26,319	138,592	(13,643)
Cash flows from investing activities:				
Acquisition of terminals, pipelines, and tugs and barges		(726)	(7,947)	(6,664)
Additions to property, plant and equipment expansion of facilities	(768)	(1,296)	(2,690)	(4,871)
Additions to property, plant and equipment maintain existing facilities	(848)	(880)	(2,589)	(3,596)
(Increase) decrease in restricted cash held by commodity broker	1,310	2,753	354	(572)
Proceeds from disposition of assets	5,757		5,757	501
Other	(5)	(97)	3	845
Net cash provided by (used in) investing activities	5,446	(246)	(7,112)	(14,357)
Cash flows from financing activities:				
Net borrowings (repayments) of debt	(239,000)	(30,500)	(110,000)	10,000
Net borrowings (repayments) of commodity margin loan	(8,383)	(977)	(1,923)	4,185
Deferred debt issuance costs	(149)	(326)	(3,517)	(781)
Common stock issued for options exercised	41	106	119	229
Common stock repurchased from employees for withholding taxes	(38)	(80)	(805)	(583)
Preferred stock dividends paid in cash	(1,110)	(1,093)	(2,220)	(3,280)
Net cash provided by (used in) financing activities	(248,639)	(32,870)	(118,346)	9,770
Increase (decrease) in cash and cash equivalents	11,908	(6,797)	13,134	(18,230)
Cash and cash equivalents at beginning of period	7,384	16,536	6,158	27,969
Cash and cash equivalents at end of period	$ 19,292	$ 9,739	$ 19,292	$ 9,739

See accompanying notes to consolidated financial statements.

9

TransMontaigne Inc. and subsidiaries
Notes to consolidated financial statements (unaudited)
March 31, 2005 and June 30, 2004

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Principles of Consolidation and Use of Estimates

The accompanying unaudited consolidated financial statements in this Quarterly Report on Form 10-Q have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission. Accordingly, these statements reflect adjustments (consisting only of normal recurring entries), which are, in our opinion, necessary for a fair presentation of the financial results for the interim periods presented. Certain information and notes normally included in annual financial statements have been condensed in or omitted from these interim financial statements pursuant to such rules and regulations. These consolidated financial statements should be read in conjunction with the consolidated financial statements and related notes for the year ended June 30, 2004, together with our discussion and analysis of financial condition and results of operations, included in our Annual Report on Form 10-K filed on September 23, 2004.

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

The preparation of financial statements in conformity with generally accepted accounting principles requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods. The following estimates, in our opinion, are subjective in nature, require the exercise of judgment, and involve complex analysis: allowance for doubtful accounts; fair value of inventories discretionary volumes held for immediate sale or exchange (used to evaluate the financial performance of our business segments); fair value of derivative contracts; accrued lease abandonment costs; accrued transportation and deficiency obligations; and accrued environmental obligations. Changes in these estimates and assumptions will occur as a result of the passage of time and the occurrence of future events. Actual results could differ from these estimates.

(b) Nature of Business and Basis of Presentation

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

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

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

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

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

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

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

(e) Accounting for Supply Chain Management Services Activities

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

Delivered fuel price management contracts involve the sales of committed quantities of specific motor fuels delivered to our customer's proprietary fleet refueling locations at fixed prices for terms up to three years. Under retail price management contracts, customers commit for terms up to 18 months to a specific monthly quantity of product within one or more metropolitan areas and agree to a net settlement with us for the difference between a stipulated retail price index and our fixed contract price. Our logistical supply chain management arrangements permit our customers to use our proprietary web-based inventory management system for a fee, which typically is charged on a per gallon basis.

Revenues from sales made pursuant to delivered fuel price management contracts are recognized when title to the product is transferred to the customer, which generally occurs upon delivery of the product to the customer's proprietary fleet refueling location. Revenues from sales made pursuant to retail price

management contracts are recognized when title to the product is transferred to the customer, which generally occurs upon lifting of the product by the customer at the retail gasoline station. Revenue from logistical supply chain management services fees is recognized on a straight-line basis over the term of the contract.

(f) Accounting for Risk Management Activities

We enter into risk management contracts, principally NYMEX futures contracts, to manage our exposure to changes in commodity prices. We evaluate our market risk exposure from an overall portfolio basis that considers changes in physical inventories discretionary volumes held for immediate sale or exchange, open positions in derivative contracts, and open positions in risk management contracts. We enter into risk management contracts that offset the changes in the values of our inventories discretionary volumes held for immediate sale or exchange and derivative contracts. At March 31, 2005 and June 30, 2004, our open positions in risk management contracts were NYMEX futures contracts (purchases and sales).

(g) Accounting for Derivative Contracts

Our contract sales, bulk sales, delivered fuel price management, retail price management, risk management contracts and product supply contracts qualify as derivative instruments pursuant to the requirements of Statement of Financial Accounting Standards ("SFAS") No. 133, *Accounting for Derivative Instruments and Hedging Activities*. All derivative contracts are required to be reported as assets and liabilities at fair value in the accompanying consolidated balance sheet in accordance with SFAS No. 133. The fair value of our derivative contracts is included in "Unrealized gains or losses on derivative contracts" in the accompanying consolidated balance sheet. At March 31, 2005 and June 30, 2004, there were no unrealized gains or losses on risk management contracts because NYMEX futures contracts require daily settlement for changes in commodity prices on open futures contracts. Changes in the fair value of our derivative contracts are included in net operating margins attributable to our supply, distribution and marketing operations.

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

(h) Presentation of Revenues

We present revenues from our rack spot sales, contract sales, bulk sales, and delivered fuel price management contracts on a gross basis in the accompanying consolidated statement of operations because our obligations under these arrangements are settled via transfer of title and risk of loss of the product to the customer. Revenues from our retail price management contracts and risk management contracts are presented on a net basis (i.e., product costs are required to be netted directly against gross revenues to arrive at net revenues) in the accompanying consolidated statement of operations because our obligations under these arrangements are settled on a net cash basis. The logistical supply chain management services fees do not involve the sale of inventory and, therefore, only the service fee is presented in the accompanying consolidated statement of operations.

(i) Accounting for Inventories Discretionary Volumes

Our inventories discretionary volumes consist of refined petroleum products, primarily gasolines, distillates, and No. 6 oil. Inventories discretionary volumes are presented in the accompanying consolidated balance sheet as current assets and are carried at the lower of cost (first-in, first-out) or market (replacement cost). Inventories discretionary volumes are as follows (in thousands):

	March 31, 2005		June 30, 2004	
	Amount	Bbls	Amount	Bbls
Volumes held for immediate sale or exchange	$ 101,470	1,651	$ 55,298	1,304
Volumes held for base operations	116,303	2,080	181,412	4,050
Inventories discretionary volumes	$ 217,773	3,731	$ 236,710	5,354

At March 31, 2005 and June 30, 2004, the market value of our volumes held for immediate sale or exchange exceeded their cost basis by approximately $10.3 million and $2.3 million, respectively. At March 31, 2005 and June 30, 2004, the market value of our volumes held for base operations exceeded their cost basis by approximately $10.8 million and $1.4 million, respectively.

(j) Inventory Due to Others Under Exchange Agreements

We enter into exchange agreements with major oil companies. Exchange agreements generally are fixed-term agreements that involve our receipt of a specified volume of product at one location in exchange for delivery by us of product at a different location. At March 31, 2005 and June 30, 2004, current liabilities include inventory due to others under exchange agreements of approximately 450,000 barrels and 660,000 barrels, respectively, with a fair value of approximately $29.5 million and $32.4 million, respectively. The amount recorded represents the fair value of inventory due to others under exchange agreements at the balance sheet date.

(k) Accounting for Product Linefill and Tank Bottom Volumes

Our product linefill and tank bottom volumes are required to be held for operating balances in the conduct of our overall operating activities. We do not intend to sell or exchange these inventories in the ordinary course of business and, therefore, we do not manage the commodity price risks associated with these volumes.

At March 31, 2005 and June 30, 2004, our product linefill and tank bottom volumes are presented in the accompanying consolidated balance sheet as non-current assets and are carried at the lower of cost (weighted average) or market (replacement cost). The replacement cost of our product linefill and tank bottom volumes is based on the nearest quoted wholesale market price. At March 31, 2005 and June 30, 2004, we have approximately 950,000 barrels of product reflecting tank bottoms and linefill in our propriety terminal connections with an adjusted cost basis of approximately $25.0 million. At March 31, 2005 and June 30, 2004, the market value of our product linefill and tank bottom volumes exceeded their cost basis by approximately $38.1 million and $17.9 million, respectively. During the three months ended March 31, 2005 and 2004, we recognized impairment losses of approximately $nil and $11,000, respectively, due to lower of cost or market write-downs on certain of our product linefill and tank bottom volumes. During the nine months ended March 31, 2005 and 2004, we recognized impairment losses of approximately $nil and $60,000, respectively, due to lower of cost or market write-downs on certain of our product linefill and tank bottom volumes.

(l) Cash and Cash Equivalents

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

(m) Deferred Debt Issuance Costs

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

	June 30, 2004	Additions	Amortization	Write-off of debt issuance costs	March 31, 2005
Former working capital credit facility	$ 3,769	$	$ (377)	$ (3,392)	$
Senior secured working capital credit facility	50	3,517	(394)		3,173
Senior subordinated notes	6,564		(832)		5,732
	$ 10,383	$ 3,517	$ (1,603)	$ (3,392)	$ 8,905

(n) Environmental Obligations

At March 31, 2005 and June 30, 2004, we have accrued environmental reserves of approximately $5.9 million and $5.3 million, respectively, representing our best estimate of our remediation obligations (see Note 8 of Notes to consolidated financial statements). During the nine months ended March 31, 2005, we made payments of approximately $0.3 million towards our environmental remediation obligations. During the nine months ended March 31, 2005, we charged to income approximately $0.9 million to increase our estimate of our future environmental remediation obligations. During the nine months ended March 31, 2005, we received insurance recoveries of approximately $1.2 million, which are recorded as a reduction of direct operating costs and expenses in the accompanying consolidated statements of operations.

(o) Equity-Based Compensation Plans

We account for our employee stock option plans and restricted stock awards using the intrinsic value method pursuant to APB Opinion No. 25, *Accounting for Stock Issued to Employees*. We recognize deferred compensation on the date of grant if the quoted market price of the underlying common stock exceeds the exercise price (zero exercise price in the case of an award of restricted common stock). Accordingly, no compensation cost has been recognized for the granting of stock options to employees because the exercise price was equal to the quoted market price of the underlying common stock on the date of grant. If compensation cost for our stock-based compensation plans had been determined based on the fair value at the grant dates for awards under those plans pursuant to SFAS No. 123,

Accounting for Stock-Based Compensation, our net earnings (loss) and earnings (loss) per common share would have been reduced to the pro forma amounts indicated below (in thousands, except for per share amounts):

	Three months ended March 31,		Nine months ended March 31,	
	2005	2004	2005	2004
Net earnings attributable to common stockholders:				
As reported	$ 36,721	$ 14,351	$ 42,994	$ 15,150
Amortization of the fair value of stock options granted to employees	(24)	(54)	(75)	(171)
Pro forma	$ 36,697	$ 14,297	$ 42,919	$ 14,979
Earnings per common share:				
As reported				
Basic	$ 0.92	$ 0.36	$ 1.08	$ 0.39
Diluted	$ 0.90	$ 0.36	$ 1.07	$ 0.38
Pro forma				
Basic	$ 0.92	$ 0.36	$ 1.08	$ 0.38
Diluted	$ 0.90	$ 0.36	$ 1.06	$ 0.38

There were no options granted during the nine months ended March 31, 2005 and the years ended June 30, 2004 and 2003. The weighted average fair value at grant dates for options granted during the years ended June 30, 2002 and 2001 was $3.08 and $2.12, respectively. The primary assumptions used to estimate the fair value of options granted on the date of grant using the Black-Scholes option-pricing model during the years ended June 30, 2002 and 2001 were as follows: no dividend yield, expected volatility of 79% and 61%, risk-free rates of 4.49% and 4.95%, and expected lives of 4 years and 5 years, respectively.

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

(p) Earnings (Loss) Per Common Share

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

In the event dividends on a per share equivalent basis are declared on our common stock in excess of the dividends declared on the Series B Redeemable Convertible Preferred stock, the Series B Redeemable Convertible Preferred stock will participate as if the Series B Redeemable Convertible Preferred stock was converted into common stock. Accordingly, the Series B Redeemable Convertible Preferred stock has been determined to be a "participating" security for purposes of computing earnings per share.

(q) Reclassifications

Certain amounts in the prior period have been reclassified to conform to the current period's presentation. Net earnings and stockholders' equity have not been affected by these reclassifications.

(2) DISPOSITION OF ASSETS

Gain on disposition of assets, net for the three months ended March 31, 2005, consists principally of an approximately $2.7 million gain on the sale of land held for investment purposes in Miami, Florida. Loss on disposition of assets, net for the nine months ended March 31, 2005, consists principally of an approximately $3.6 million loss on the involuntary conversion of our Pensacola terminal facilities due to the damage caused by hurricane Ivan offset by the approximately $2.7 million gain on the sale of land held for investment purposes in Miami, Florida. Loss on disposition of assets, net for the nine months ended March 31, 2004, includes an approximately $0.7 million loss on the disposition of our Cetex pipeline system.

(3) CONCENTRATION OF CREDIT RISK AND TRADE ACCOUNTS RECEIVABLE

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

	March 31, 2005	June 30, 2004
Trade accounts receivable	$ 368,522	$ 282,889
Less allowance for doubtful accounts	(591)	(591)
	$ 367,931	$ 282,298

(4) UNREALIZED GAINS AND LOSSES ON DERIVATIVE CONTRACTS

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

	March 31, 2005	June 30, 2004
Unrealized gains current	$ 22,893	$ 11,071
Unrealized gains long-term	20	
Unrealized gains asset	22,913	11,071
Unrealized losses current	(47,691)	(33,689)
Unrealized losses long-term		(909)
Unrealized losses liability	(47,691)	(34,598)
Net asset (liability) position	$ (24,778)	$ (23,527)

At March 31, 2005 and June 30, 2004, there were no unrealized gains or losses on risk management contracts because NYMEX futures contracts require daily settlement for changes in commodity prices on open futures contracts.

(5) OTHER CURRENT ASSETS

Other current assets are as follows (in thousands):

	March 31, 2005	June 30, 2004
Prepaid insurance	$ 3,258	$ 1,413
Amounts due from insurance carrier	1,500	
Asset held for sale	1,200	
Prepaid business taxes	859	391
Additive detergent	1,043	899
Prepaid software maintenance fees	135	134
Other	2,030	931
	$ 10,025	$ 3,768

Amounts due from insurance carrier represents our estimated proceeds to be received on insurance claims related to the involuntary conversion of our Pensacola terminal facilities due to the damage caused by hurricane Ivan.

Asset held for sale is carried at the lower of cost or fair value less costs of disposition and consists of the land held for sale at our Pensacola terminal facilities.

(6) PROPERTY, PLANT AND EQUIPMENT

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

	March 31, 2005	June 30, 2004
Land	$ 38,710	$ 42,886
Terminals, pipelines and equipment	370,406	378,258
Technology and equipment	15,020	14,586
Tugs and barges	27,271	18,790
Furniture, fixtures and equipment	6,745	6,747
Construction in progress	3,451	2,561
	461,603	463,828
Less accumulated depreciation	(113,887)	(101,563)
	$ 347,716	$ 362,265

(7) OTHER ASSETS

Other assets are as follows (in thousands):

	March 31, 2005	June 30, 2004
Prepaid transportation	$ 326	$ 862
Goodwill	6,853	6,853
Product supply agreement, net of accumulated amortization of $521	14,079	
Acquired intangible, net of accumulated amortization of $1,042 and $667, respectively	1,458	1,833
Commodity trading membership	1,500	1,500
Deposits and other assets	156	158
	$ 24,372	$ 11,206

Prepaid transportation relates to our contractual transportation and deficiency agreements with three interstate product pipelines (see Note 15 of Notes to consolidated financial statements).

Goodwill represents the excess of the aggregate purchase price over the fair value of the identifiable assets acquired related to our November 1997 acquisition of the ITAPCO terminals. Goodwill is not amortized, but instead tested for impairment on an annual basis during the three months ended June 30.

On November 23, 2004, we granted to MSCG warrants to acquire 5.5 million shares of our common stock at an exercise price of $6.60 per share as partial consideration for agreeing to enter into a 7-year product supply agreement (see Note 14 of Notes to consolidated financial statements). The value ascribed to the product supply agreement is being amortized to income over the 7-year term of the agreement, commencing in January 2005.

Acquired intangible represents the right to use the Coastal Fuels trade name for a period of five years commencing February 28, 2003. The cost of the acquired intangible is being amortized on a straight-line basis over five years.

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

(8) ACCRUED LIABILITIES

Accrued liabilities are as follows (in thousands):

	March 31, 2005	June 30, 2004
Accrued environmental obligations	$ 5,887	$ 5,278
Accrued lease abandonment	2,050	2,468
Accrued indemnities NORCO	1,000	1,300
Accrued transportation and deficiency obligations	640	921
Accrued property taxes	1,300	2,013
Dividend payable preferred stock	1,110	1,093
Accrued interest payable	6,118	1,903
Accrued expenses and other	5,830	4,438
	$ 23,935	$ 19,414

Accrued Lease Abandonment. We vacated our office space in Denver, Colorado during June 2003 and we vacated our excess space in Atlanta, Georgia during October 2002. In connection with our acquisition of the Coastal Fuels assets during February 2003, we vacated a sales office in Coral Gables, Florida. The accrual for the abandonment of the office leases represents the excess of the remaining lease payments subsequent to vacancy of the space by us over the estimated sublease rentals to be received based on current market conditions. At March 31, 2005 and June 30, 2004, the accrued liability for lease abandonment costs was approximately $2.1 million and $2.5 million, respectively.

(in thousands)	Accrued liability at June 30, 2004	Change in estimate charged to expense	Amounts paid during the period	Accrued liability at March 31, 2005
Accrued lease abandonment	$ 2,468	$ 225	$ (643)	$ 2,050

We expect to pay the accrued liability of approximately $2.1 million, net of estimated sublease rentals, as follows (in thousands):

Years ending June 30:	Lease payments	Estimated sublease rentals	Accrued liability
2005 (Remainder of the year)	$ 446	$ (81)	$ 365
2006	1,108	(392)	716
2007	928	(465)	463
2008	370	(204)	166
2009	378	(209)	169
2010	385	(214)	171
	$ 3,615	$ (1,565)	$ 2,050

(9) DEFERRED REVENUE SUPPLY CHAIN MANAGEMENT SERVICES

We enter into price management contracts with ground fleet customers and jobbers that permit them to fix the price of their fuel purchases. During the three and nine months ended March 31, 2005, we originated retail and delivered fuel price management contracts with an estimated fair value of approximately $0.3 million and $7.1 million, respectively, representing the excess of the amounts we expect to receive from the ground fleet customers and jobbers over our estimate of the forward price curve of the underlying commodity adjusted for location differentials. We have deferred the estimated fair value of these contracts at origination because our estimate of the fair value is not evidenced by quoted market prices or current market transactions for the contracts in their entirety. We amortize the deferred revenue into net revenues attributable to our supply, distribution, and marketing operations over the respective terms of the contracts as the products are delivered. During the three and nine

months ended March 31, 2005, we recognized approximately $2.4 million and $5.1 million, respectively, in revenues attributable to our supply, distribution and marketing operations from the amortization of the deferred revenue from these contracts.

(in thousands)	Deferred revenue at June 30, 2004	Additions during the period	Amounts amortized during the period	Deferred revenue at March 31, 2005
Retail price management contracts	$ 1,332	$ 2,306	$ (2,044)	$ 1,594
Delivered fuel price management contracts	2,170	4,830	(3,021)	3,979
	$ 3,502	$ 7,136	$ (5,065)	$ 5,573

(10) DEBT

Debt is as follows (in thousands):

	March 31, 2005	June 30, 2004
Commodity margin loan	$	$ 1,923
Senior secured working capital credit facility		
Former credit facility		110,000
Senior subordinated notes	200,000	200,000
	200,000	311,923
Less debt classified as current		(111,923)
Long-term debt	$ 200,000	$ 200,000

Commodity Margin Loan. We currently have a commodity margin loan agreement with our commodity broker that allows us to borrow up to $10 million to fund certain initial and variation margin requirements in commodities accounts maintained by us with our commodity broker. The entire unpaid principal amount of the loan, together with accrued interest, is due and payable on demand. Outstanding loans bear interest at the average 90-day Treasury Bill rate plus 1.75% (4.54% at March 31, 2005).

Former Credit Facility. On February 28, 2003, we executed a Credit Agreement with UBS AG that initially provided for a $250 million revolving line of credit ("Former Credit Facility") and a $200 million senior secured term loan ("Term Loan"). The Former Credit Facility provided for a maximum borrowing line of credit that was the lesser of (i) $275 million and (ii) the borrowing base. The maximum borrowing amount was reduced by the amount of letters of credit that were outstanding. On September 13, 2004, we repaid all outstanding borrowings under the Former Credit Facility with the proceeds from the initial borrowings under our new Senior Secured Working Capital Credit Facility and the Former Credit Facility was cancelled.

Senior Secured Working Capital Credit Facility. The Senior Secured Working Capital Credit Facility provides for a maximum borrowing line of credit equal to the lesser of (i) $400 million and (ii) the borrowing base ($425 million at March 31, 2005), which is a function, among other things, of our cash, accounts receivable, inventory, exchanges, margin deposits and certain reserve adjustments as defined in the facility. Outstanding letters of credit ($99 million at March 31, 2005) are counted against the maximum borrowing capacity available at any time. Borrowings under the Senior Secured

Working Capital Credit Facility bear interest (at our option) based on a base rate plus an applicable margin, or LIBOR plus an applicable margin; the applicable margins are a function of the average excess borrowing base availability (as defined therein). Interest on loans under the Senior Secured Working Capital Credit Facility will be due and payable periodically, based on the applicable interest rate and related interest period, generally each one, two or three months. The weighted average interest rate on borrowings under the Senior Secured Working Capital Credit Facility was 4.6% during the three months ended March 31, 2005. In addition, we will pay a commitment fee ranging from 0.25% to 0.50% per annum on the total amount of the unused commitments. Borrowings under the Senior Secured Working Capital Credit Facility are secured by, among other things, our cash, accounts receivable, inventories, certain terminal facilities with an orderly liquidation value of not less than $100 million, and certain other current assets. The only financial covenant contained in the new Senior Secured Working Capital Credit Facility is a minimum fixed charge coverage ratio test that is computed on a quarterly basis and becomes applicable whenever the average availability falls below $75 million for the last month of any quarter (average availability was $266 million for the month ended March 31, 2005). In that event, we must satisfy a minimum fixed charge coverage ratio requirement of 110%. The principal balance of loans and any accrued and unpaid interest will be due and payable in full on the maturity date, September 13, 2009.

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

Scheduled maturities of debt at March 31, 2005 are as follows (in thousands):

Years ending June 30:

2005	$	
2006		
2007		
2008		
2009		
Thereafter		200,000
	$	200,000

(11) PREFERRED STOCK