TRANSMONTAIGNE INC
Form 10-Q
May 09, 2006

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, 2006

OR

o **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 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 o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer o Accelerated filer x Non-accelerated filer o

Indicate by check mark whether the registrant is a shell company (as defined in Exchange Act Rule 12b-2) Yes o No x

As of April 24, 2006, there were 50,010,607 shares of the Registrant s Common Stock outstanding.

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CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

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

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

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

iii. any statements preceded by, followed by or that include the words may, seeks, believes, expects, anticipate 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 Annual Report on Form 10-K for the year ended June 30, 2005, filed on September 13, 2005, 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:

- the availability of adequate supplies of and demand for petroleum products in the areas in which we operate;
- the effects of competition and our ability to renew customer contracts;
- the impact of petroleum product price fluctuations on our sales margins and the effect of changes in commodity prices on our liquidity;
- the success of our risk management activities;
- volumes of refined petroleum product throughput or stored in our terminal facilities;
- TransMontaigne Partners inability to pay the minimum quarterly distribution on the subordinated units that we own;
- continued creditworthiness of, and performance by, contract counterparties;
- the tax and other effects of the exercise of TransMontaigne Partners options to purchase our fixed assets;
- operational hazards and availability and cost of insurance on our assets and operations;
- the impact of any failure of our information technology systems;
- the availability of acquisition opportunities and 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;

- the failure of TransMontaigne Partners to avoid federal income taxation as a corporation or the imposition of state level taxation;

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- liability for environmental claims;
- the impact of the departure of any key officers; and
- general economic, market or business conditions.

An additional risk factor that could cause actual results to differ materially from our expectations and may adversely affect our business and results of operations is the consummation of the pending merger with SemGroup, L.P. and its affiliates, which in turn is dependent upon, among other things:

- the ability of the parties to satisfy, or to cause the satisfaction of, the conditions to completion of the pending merger with SemGroup, L.P. and its affiliates, including receipt of stockholder approval;
- the actual terms of the financing transactions entered into in connection with funding the merger and other transactions contemplated by the merger agreement; and
- the occurrence of any event or change in circumstances that could give rise to termination of the merger agreement, or the failure of the merger to be completed for any other reason.

We believe the increase in our stock price subsequent to March 21, 2006, the last unaffected stock price prior to the press reports of a potential transaction, is largely attributable to the cash consideration investors expect to receive if the merger is consummated. Accordingly, if the merger is not completed, our stock price likely will decrease. We can provide no assurance that all conditions to the parties obligations to complete the merger will be satisfied. As a result, it is possible that the merger may not be completed even if approved by our stockholders. Please see our Preliminary Proxy Statement filed with the Securities and Exchange Commission on May 1, 2006 for a detailed description of the terms, conditions and provisions regarding the pending merger with SemGroup, L.P.

In addition, the following factors and circumstances under or related to the pending merger could have an adverse impact on our business and operations:

- as of March 31, 2006, we have incurred approximately $1.4 million in merger related expenses. Under the merger agreement, we are required to pay a termination fee of $15 million to SemGroup, L.P. under specified circumstances. The termination fee would be payable if we terminated the merger agreement with SemGroup, L.P. to enter into an agreement with Morgan Stanley Capital Group Inc.;
- the merger with SemGroup, L.P. places certain limitations on the manner in which we can conduct our ongoing operations. In addition, our management has devoted, and likely will continue to devote, a significant amount of time to the pending merger. These efforts have, and may continue to, temporarily distract management s attention from our day-to-day business operations and other business opportunities;
- approvals, clearances or consents required to consummate the merger could also delay or jeopardize the completion of the merger, further impacting management s ability to manage our day-to-day operations; and
- certain key employees may depart because of a desire not to remain with us after completion of the merger and we can make no assurances that we will be able to retain key employees to the same extent we have been able to do so in the past.

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, 2006, 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, 2005, 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 13, 2005.

TransMontaigne Inc. is a holding company with the following active subsidiaries during the three and nine months ended March 31, 2006.

- TransMontaigne Product Services Inc. (TPSI)
- TransMontaigne Services Inc.
- TransMontaigne Transport Inc.
- Coastal Fuels Marketing, Inc.
- Coastal Tug and Barge, Inc.
- TransMontaigne Partners L.P.
- Radcliff/Economy Marine Services, Inc. (since August 1, 2005)

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

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

	March 31, 2006	June 30, 2005
ASSETS		
Current assets:		
Cash and cash equivalents	$ 9,494	$ 29,721
Restricted cash held by commodity broker	11,411	10,436
Trade accounts receivable, net	422,250	381,771
Inventories discretionary volumes	232,409	274,774
Unrealized gains on derivative contracts	18,992	7,620
Deferred tax assets	18,704	18,401
Prepaid expenses and other	6,393	6,767
	719,653	729,490
Property, plant and equipment, net	364,300	344,532
Product linefill and tank bottom volumes	21,626	24,325
Investment in Lion Oil Company	10,131	10,131
Deferred debt issuance costs, net	8,203	9,778
Other assets, net	40,206	23,725
	$ 1,164,119	$ 1,141,981
LIABILITIES, PREFERRED STOCK, AND COMMON STOCKHOLDERS EQUITY		
Current liabilities:		
Commodity margin loan	$ 10,000	$
Working capital credit facility	17,500	
Trade accounts payable	181,796	212,040
Income taxes payable	4,097	29,801
Unrealized losses on derivative contracts	13,725	47,215
Inventory due to others under exchange agreements	58,718	16,429
Excise taxes payable	85,291	79,597
Other accrued liabilities	24,302	20,791
Deferred revenue supply chain management services	3,108	3,981
	398,537	409,854
Other liabilities:		
Long-term debt	245,508	228,307
Deferred tax liabilities	49,880	46,413
Unrealized losses on derivative contracts		234
Total liabilities	693,925	684,808
Non-controlling interests in TransMontaigne Partners	82,566	81,440
Series B redeemable convertible preferred stock	20,608	49,249
Common stockholders equity:		
Common stock	484	456
Capital in excess of par value	322,435	299,681
Deferred stock-based compensation		(7,042)
Retained earnings	44,101	33,389
	367,020	326,484
	$ 1,164,119	$ 1,141,981

See accompanying notes to consolidated financial statements.

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

	Three months ended March 31, 2006	2005	Nine months ended March 31, 2006	2005
Supply, distribution, and marketing:				
Revenues	$ 2,424,328	$ 2,140,187	$ 7,265,819	$ 5,980,972
Cost of product sold and other direct costs and expenses	(2,375,217)	(2,055,714)	(7,208,986)	(5,852,803)
	49,111	84,473	56,833	128,169
Terminals, pipelines, and tugs and barges:				
Revenues	32,369	29,254	94,430	83,248
Direct operating costs and expenses	(19,895)	(15,447)	(56,533)	(45,308)
	12,474	13,807	37,897	37,940
	61,585	98,280	94,730	166,109
Costs and expenses:				
Selling, general and administrative expenses	(12,142)	(9,885)	(37,050)	(32,120)
Merger related expenses	(1,350)		(1,350)	
Depreciation and amortization	(7,273)	(6,274)	(20,703)	(17,808)
Gain (loss) on disposition of assets, net	10,617	2,993	11,802	(606)
Total costs and expenses	(10,148)	(13,166)	(47,301)	(50,534)
Operating income	51,437	85,114	47,429	115,575
Other income (expenses):				
Dividend income	107	9	690	390
Interest income	169	149	626	250
Interest expense	(7,164)	(6,375)	(20,013)	(19,316)
Other financing costs:				
Amortization of deferred debt issuance costs	(525)	(455)	(1,575)	(1,603)
Write-off of debt issuance costs related to former bank credit facility				(3,392)
Total other expenses	(7,413)	(6,672)	(20,272)	(23,671)
Earnings before income taxes	44,024	78,442	27,157	91,904
Income tax expense	(16,729)	(31,377)	(10,320)	(36,762)
Non-controlling interests share in earnings of TransMontaigne Partners	(1,571)		(5,425)	
Net earnings	25,724	47,065	11,412	55,142
Earnings allocable to preferred stock	(1,520)	(10,344)	(762)	(12,148)
Net earnings attributable to common stockholders	$ 24,204	$ 36,721	$ 10,650	$ 42,994
Earnings per share:				
Basic net earnings per common share	$ 0.50	$ 0.92	$ 0.22	$ 1.08
Diluted net earnings per common share	$ 0.48	$ 0.90	$ 0.21	$ 1.07
Weighted average common shares outstanding:				
Basic	48,404	39,793	47,890	39,672
Diluted	53,377	52,558	53,687	51,709

See accompanying notes to consolidated financial statements.

TransMontaigne Inc. and subsidiaries
Consolidated statements of preferred stock and common stockholders equity
Year ended June 30, 2005 and nine months ended March 31, 2006
(In thousands)

	Series B Preferred stock	Common stock	Capital in excess of par value	Deferred stock-based compensation	Retained earnings (accumulated deficit)	Total common stockholders equity
Balance at June 30, 2004	$ 77,719	$ 411	$ 251,775	$ (4,129)	$ (19,768)	$ 228,289
Common stock issued for options exercised			347			347
Common stock repurchased from employees for withholding taxes		(1)	(816)			(817)
Net tax effect arising from stock-based compensation			272			272
Forfeiture of restricted stock awards prior to vesting		(2)	(1,222)	1,224		
Deferred compensation related to restricted stock awards		7	4,163	(4,170)		
Amortization of deferred stock-based compensation				2,625		2,625
Warrant granted to MSCG in exchange for product supply agreements			14,600			14,600
Preferred stock dividends paid-in kind	1,087					
Preferred stock dividends					(4,207)	(4,207)
Amortization of premium on Series B Redeemable Convertible Preferred stock	(1,546)				1,546	1,546
Conversion of Series B Redeemable Convertible Preferred stock into common stock	(28,011)	41	27,970			28,011
Deferred compensation related to restricted TransMontaigne Partners common unit awards			2,592	(2,592)		
Net earnings					55,818	55,818
Balance at June 30, 2005	$ 49,249	$ 456	$ 299,681	$ (7,042)	$ 33,389	$ 326,484
Elimination of deferred stock-based compensation due to adoption of SFAS 123(R)		(16)	(7,026)	7,042		
Common stock issued for options exercised			224			224
Common stock repurchased from employees for withholding taxes		(1)	(830)			(831)
Amortization of deferred stock-based compensation		4	2,154			2,158
Preferred stock dividends					(1,068)	(1,068)
Amortization of premium on Series B redeemable convertible preferred stock	(368)				368	368
Conversion of Series B redeemable convertible preferred stock into common stock	(28,273)	41	28,232			28,273
Net earnings					11,412	11,412
Balance at March 31, 2006	$ 20,608	$ 484	$ 322,435	$	$ 44,101	$ 367,020

See accompanying notes to consolidated financial statements.

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

	Three months ended March 31, 2006	Three months ended March 31, 2005	Nine months ended March 31 2006	Nine months ended March 31 2005
Cash flows from operating activities:				
Net earnings	$ 25,724	$ 47,065	$ 11,412	$ 55,142
Adjustments to reconcile net earnings to net cash provided by (used in) operating activities:				
Amortization of deferred revenue	(1,809)	(2,376)	(5,112)	(5,065)
Depreciation and amortization	7,273	6,274	20,703	17,808
Amortization of deferred stock-based compensation	641	697	2,158	1,972
Amortization of deferred debt issuance costs	525	455	1,575	1,603
Write-off of debt issuance costs				3,392
(Gain) loss on disposition of assets, net	(10,617)	(2,993)	(11,802)	606
Net change in unrealized (gains) losses on long-term derivative contracts		(88)	(235)	452
Non-controlling interests share in earnings of TransMontaigne Partners	1,571		5,425	
Changes in operating assets and liabilities, net of effects from acquisitions:				
Trade accounts receivable, net	(56,749)	(53,543)	(19,873)	(85,633)
Inventories discretionary volumes	(9,678)	126,824	46,248	18,937
Prepaid expenses and other	620	466	(504)	(2,056)
Trade accounts payable	7,398	50,755	(33,218)	83,619
Income taxes payable	16,727	31,375	(26,366)	36,935
Inventory due to others under exchange agreements	4,644	7,621	42,289	(2,919)
Unrealized (gains) losses on derivative contracts	20,734	26,546	(40,623)	7,934
Excise taxes payable and other accrued liabilities	5,438	16,023	4,684	5,865
Net cash provided by (used in) operating activities	12,442	255,101	(3,239)	138,592
Cash flows from investing activities:				
Acquisition of Radcliff and Oklahoma City terminals, net of cash acquired			(53,911)	
Exchange of terminals	(5,910)		(5,910)	
Acquisition of terminals, pipelines, tugs and barges	(573)		(4,521)	(7,947)
Additions to property, plant and equipment expansion of facilities	(2,295)	(768)	(6,220)	(2,690)
Additions to property, plant and equipment maintain existing facilities	(822)	(848)	(2,397)	(2,589)
(Increase) decrease in restricted cash held by commodity broker	(10,028)	1,310	(748)	354
Proceeds from disposition of assets	16,938	5,757	18,525	5,757
Other	8	(5)	(125)	3
Net cash provided by (used in) investing activities	(2,682)	5,446	(55,307)	(7,112)
Cash flows from financing activities:				
Net borrowings (repayments) of commodity margin loan	10,000	(8,383)	10,000	(1,923)
Net borrowings (repayments) of debt	(21,092)	(239,000)	34,701	(110,000)
Deferred debt issuance costs		(149)		(3,517)
Common stock issued for options exercised	19	41	224	119
Common stock repurchased from employees for withholding taxes	(59)	(38)	(831)	(805)
Distributions paid to non-controlling interests in TransMontaigne Partners	(1,721)		(4,089)	
Common units repurchased by TransMontaigne Partners long-term incentive plan	(211)		(211)	
Preferred stock dividends paid in cash	(301)	(1,110)	(1,475)	(2,220)
Net cash provided by (used in) financing activities	(13,365)	(248,639)	38,319	(118,346)
Increase (decrease) in cash and cash equivalents	(3,605)	11,908	(20,227)	13,134
Cash and cash equivalents at beginning of period	13,099	7,384	29,721	6,158
Cash and cash equivalents at end of period	$ 9,494	$ 19,292	$ 9,494	$ 19,292
Supplemental disclosures of cash flow information:				
Cash paid for (refund of) income taxes	$ 2	$ 2	$ 36,686	$ (173)
Cash paid for interest expense	$ 2,755	$ 2,094	$ 15,069	$ 15,143

See accompanying notes to consolidated financial statements.

TransMontaigne Inc. and subsidiaries
Notes to consolidated financial statements
March 31, 2006 and June 30, 2005

(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, 2005, 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 13, 2005.

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 controlled 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 the accompanying consolidated statements 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 (used to evaluate the financial performance of our business segments); fair value of derivative contracts; and accrued environmental obligations. Changes in these estimates and assumptions will occur as a result of the passage of time and the occurrence of future events. Actual results could differ from these estimates.

(b) Nature of Business and Basis of Presentation

TransMontaigne Inc., a Delaware corporation 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, Florida, East Coast, and Midwest 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) managing the activities of TransMontaigne Partners L.P.

On May 27, 2005, TransMontaigne Partners L.P. (TransMontaigne Partners), a master limited partnership and consolidated subsidiary of ours, completed its initial public offering of common units.

TransMontaigne Partners received net proceeds of approximately $73.0 million for the issuance and sale of 3,852,500 common units, after giving effect to the exercise of the underwriters over-allotment option, at the initial public offering price of $21.40 per common unit, and the payment of the underwriting discount, structuring fee and other offering costs of approximately $9.5 million. TransMontaigne Partners also received approximately $7.9 million for the issuance and sale of 450,000 subordinated units to an affiliate of Morgan Stanley Capital Group Inc. (MSCG) in a separate private placement at a price of $17.65 per subordinated unit. We contributed seven refined products terminals located in Florida, the Razorback Pipeline, and two refined products terminals located in Mt. Vernon, Missouri and Rogers, Arkansas to TransMontaigne Partners in exchange for a 2% general partner interest, 2,872,266 subordinated units, and a distribution of $111.5 million. We also entered into an omnibus agreement and terminaling and transportation services agreement with TransMontaigne Partners. The omnibus agreement sets forth the terms on which we will provide TransMontaigne Partners with certain general and administrative services, insurance coverage and environmental and other indemnification, among other terms. We also have agreed to provide TransMontaigne Partners with certain options and rights of first refusal to purchase additional refined petroleum product terminal assets, and TransMontaigne Partners has agreed to provide us certain rights of first refusal with respect to its assets and additional terminal capacity added by TransMontaigne Partners in the future.

Effective January 1, 2006, we contributed the Mobile, Alabama terminal, which we acquired from Radcliff/Economy Marine Services, Inc. on August 1, 2005 (see Note 2 to Notes to consolidated financial statements), to TransMontaigne Partners for approximately $17.9 million.

(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 statements 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 statements 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.

Revenue 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. Revenue 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, inventory due to others under exchange agreements, 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, 2006 and June 30, 2005, our open positions in risk management contracts principally were NYMEX futures contracts (purchases and sales) and NYMEX options (calls and puts).

(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 sheets. 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 margins attributable to our supply, distribution, and marketing operations.

(h) Presentation of Revenues

We present revenue from our rack spot sales, contract sales, certain bulk sales, and delivered fuel price management contracts on a gross basis in the accompanying consolidated statements of operations because our obligations under these arrangements are settled via transfer of title and risk of loss of the product to the customer. Revenue 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 statements 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 statements of operations.

We have presented bulk transactions that were booked out on a net basis in the consolidated statements of operations (i.e., product costs are netted directly against gross revenues to arrive at net revenues). A book out occurs when one party appears more than once for the sale and purchase of a specific grade of refined product for a specific scheduling date to transport product on a particular common carrier pipeline. In that instance, we and other pipeline shippers agree not to schedule or deliver the refined product that originates and ends with the same counterparty, but rather settle in cash the amounts due to or from each intervening counterparty, thus booking out the transaction. We also present buy/sell transactions on a net basis in the consolidated statements of operations. A buy/sell transaction is a purchase and sale of inventory with the same counterparty, provided that the purchase transaction and the sale transaction are entered into in contemplation of one another. For the three months ended March 31, 2006 and 2005, we reduced revenues and cost of product sold by approximately $458.3 million and $499.0 million, respectively, for book outs and buy/sell transactions. For the nine months ended March 31, 2006 and 2005, we reduced revenues and cost of product sold by approximately $1,360.8 million and $2,175.3 million, respectively, for book outs and buy/sell transactions. The presentation of book outs and buy/sell transactions on a net basis has no effect on our operating income or net earnings.

(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 sheets 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, 2006		June 30, 2005	
	Amount	**Bbls**	**Amount**	**Bbls**
Volumes held for immediate sale or exchange	$ 128,529	1,955	$ 153,123	2,415
Volumes held for base operations	103,880	1,487	121,651	2,011
Inventories discretionary volumes	$ 232,409	3,442	$ 274,774	4,426

At March 31, 2006 and June 30, 2005, the market value of our volumes held for immediate sale or exchange exceeded their cost basis by approximately $8.5 million and $2.1 million, respectively. At March 31, 2006 and June 30, 2005, the market value of our volumes held for base operations exceeded their cost basis by approximately $6.9 million and $0.2 million, respectively.

During the three months ended March 31, 2006, we decreased our volumes held for base operations by approximately 0.5 million barrels as a result of leasing our light oil River terminal capacity to Valero Energy Corporation. During the year ended June 30, 2005, we decreased our volumes held for base operations by approximately 2.0 million barrels as a result of our product supply agreement with Morgan Stanley Capital Group Inc.

(j) Inventory Due to Others Under Exchange Agreements

We enter into exchange agreements generally with major oil companies and independent marketing and trading 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, 2006 and June 30, 2005, current liabilities included inventory due to others under exchange agreements of approximately 738,000 barrels and 296,000 barrels, respectively, with a fair value of approximately $58.7 million and $16.4 million, respectively. The amount recorded represents the fair value of inventory due to others under exchange agreements at the respective 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 generally do not manage the commodity price risks associated with these volumes.

At March 31, 2006 and June 30, 2005, our product linefill and tank bottom volumes are presented in the accompanying consolidated balance sheets 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, 2006 and June 30, 2005, we had approximately 808,000 barrels and 925,000 barrels, respectively, of product reflecting tank bottoms and linefill in our proprietary terminal connections with an adjusted cost basis of approximately $21.6 million and $24.3 million, respectively. At March 31, 2006 and June 30, 2005, the market value of our product linefill and tank bottom volumes exceeded their cost basis by approximately $43.4 million and $34.8 million, respectively.

During the three months ended March 31, 2006, we decreased our product linefill and tank bottom volumes by approximately 0.1 million barrels as a result of leasing our light oil River terminal capacity to Valero Energy Corporation. We sold these product linefill and tank bottom volumes for approximately $9.9 million resulting in a gain on sale of approximately $6.8 million.

(l) Restricted Cash Held by Commodity Broker

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, 2005	Additions	Amortization	March 31, 2006
Senior secured working capital credit facility	$ 3,422	$	$ (606)	$ 2,816
Senior subordinated notes	5,455		(831)	4,624
TransMontaigne Partners credit facility	901		(138)	763
	$ 9,778	$	$ (1,575)	$ 8,203

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(n) Environmental Obligations

At March 31, 2006 and June 30, 2005, we had accrued environmental obligations of approximately $7.1 million and $6.1 million, respectively, representing our best estimate of our remediation obligations (see Note 10 of Notes to consolidated financial statements). During the nine months ended March 31, 2006, we made payments of approximately $1.5 million towards our environmental remediation obligations. During the nine months ended March 31, 2006, we charged to income approximately $0.7 million to increase our estimate of our future environmental remediation obligations. During the nine months ended March 31, 2006, we assumed approximately $1.2 million of environmental remediation obligations in connection with our acquisition of the Radcliff and Oklahoma City terminals (see Note 2 of Notes to consolidated financial statements). During the nine months ended March 31, 2006, we assumed net environmental remediation obligations of approximately $0.6 million in connection with our exchange of terminals with BP Plc (see Note 3 of Notes to consolidated financial statements). During the nine months ended March 31, 2006 and 2005, we received insurance recoveries of approximately $265,000 and $1.6 million, respectively, which have been recognized as a reduction of direct operating costs and expenses in the accompanying consolidated statements of operations.

(o) Equity-Based Compensation Plans

For periods ending prior to July 1, 2005, we accounted 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*. 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 Statement of Financial Accounting Standards No. 123, *Accounting for Stock-Based Compensation*, our net earnings and earnings per common share would have been reduced to the pro forma amounts indicated below (in thousands, except for per share amounts):

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

There were no options granted during the nine months ended March 31, 2006 and the years ended June 30, 2005, 2004 and 2003. The weighted average fair value at grant dates for options granted during the year ended June 30, 2002 was $3.08. 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 year ended June 30, 2002 were as follows: no dividend yield, expected volatility of 79%, risk-free rate of 4.49%, and expected life of 4 years.

Effective July 1, 2005, we adopted the provisions of Statement of Financial Accounting Standards No. 123 (R), *Share-Based Payment*. This Statement requires us to measure the cost of employee services received in exchange for an award of equity instruments based on the grant-date fair value of the award.

That cost will be recognized over the period during which an employee is required to provide service in exchange for the award. We are required to estimate the number of equity instruments that are expected to vest in measuring the total compensation cost to be recognized over the related service period.

For awards granted prior to July 1, 2005, we are required to measure compensation cost for the portion of outstanding awards for which the requisite service has not yet been rendered (i.e., the unvested portion of the award as of July 1, 2005). The compensation cost for these awards is based on their relative grant-date fair values.

For awards granted on or after July 1, 2005, compensation cost will be recognized over the service period on a straight-line basis. For awards granted before July 1, 2005, compensation cost is recognized over the related service period on an accelerated basis pursuant to FASB Interpretation No. 28.

(p) Earnings Per Common Share

Basic earnings 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 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 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) ACQUISITIONS

On August 1, 2005, we acquired all the outstanding shares of capital stock of Radcliff/Economy Marine Services, Inc. (Radcliff) for a purchase price of approximately $52.1 million, net of cash acquired of approximately $2.1 million. The purchase price is composed of approximately $41.8 million paid in cash plus the assumption of Radcliff s existing outstanding debt of approximately $12.4 million. The acquisition includes two petroleum products terminals, one in Mobile, Alabama and one in Pensacola, Florida, with combined aggregate storage capacity of approximately 350,000 barrels, two tugboats, six barges, and twelve tractors and associated trailers. The consolidated financial statements include the results of operations of the Radcliff facilities from the closing date of the transaction (August 1, 2005). The purchase price was allocated to the assets and liabilities acquired based upon the estimated fair value of the assets and liabilities as of the acquisition date.

Effective October 31, 2005, TransMontaigne Partners purchased a refined product terminal with approximately 150,000 barrels of aggregate storage capacity in Oklahoma City, Oklahoma from Magellan Pipeline Company, L.P. for approximately $1.9 million. The Oklahoma City terminal currently provides integrated terminaling services to a major oil company. The accompanying consolidated financial statements include the results of operations of the Oklahoma City terminal from the closing date of the acquisition (October 31, 2005).

The purchase price was allocated as follows (in thousands):

	Radcliff	Oklahoma City
Restricted cash	$ 228	$
Trade accounts receivable, net of allowance for doubtful accounts of $47	20,097	
Discretionary inventory, product linefill and tank bottom volumes	4,259	
Prepaid expenses and other	292	
Property, plant and equipment	16,779	2,493
Deferred tax assets	303	
Goodwill	19,384	
Trade accounts payable	(3,304)	
Accrued environmental obligations	(605)	(625)
Deferred tax liabilities	(4,130)	
Due to former Radcliff stockholders	(1,000)	
Other assumed liabilities	(250)	(10)
Cash paid, net of cash acquired	$ 52,053	$ 1,858

The unaudited pro forma combined results of operations as if the acquisition of the Radcliff and Oklahoma City terminals had occurred on July 1, 2004 are as follows (in thousands, except per share data):

	Three months ended March 31, 2005
Revenue	$ 2,222,600
Net earnings	$ 48,668
Basic net earnings per common share	$ 0.95

	Nine months ended March 31, 2006	Nine months ended March 31, 2005
Revenue	$ 7,381,755	$ 6,212,504
Net earnings	$ 11,377	$ 59,327
Basic net earnings per common share	$ 0.22	$ 1.17

(3) EXCHANGE OF TERMINALS

On February 1, 2006, we transferred to BP Plc (BP) approximately $5.9 million and six of our Southeast terminals with an aggregate storage capacity of approximately 0.8 million barrels in exchange for nine BP terminals with an aggregate storage capacity of approximately 1.2 million barrels. The BP terminals we received in the exchange are adjacent to certain of our other Southeast terminals. Under the terms of the exchange agreement, we and BP agreed to throughput refined products at the facilities to be owned and operated by the other party. We currently are obligated to throughput approximately 21,000 barrels per day through BP-owned facilities and BP currently is obligated to throughput approximately 26,000 barrels per day through our facilities. The respective throughput obligations are terminal specific and are in effect for the next one to five years.

The exchange of terminals with BP has been reflected in the accompanying financial statements based on the fair value of the terminals received. Included in gain (loss) on disposition of assets, net for the three months ended March 31, 2006, is a loss of approximately $(1.7) million on the exchange of the terminals. The loss on the exchange of the terminals is as follows:

Fair value of net assets received in the exchange:		
Land	$ 2,389	
Terminals, pipelines and equipment	21,775	
Environmental obligations assumed	(1,163)	23,001
Carrying amount of net assets transferred in the exchange:		
Cash paid	$ (5,910)	
Land	(1,221)	
Terminals, pipelines and equipment	(18,157)	
Environmental obligations transferred	543	(24,745)
Loss on exchange of terminals		$ (1,744)

(4) DISPOSITION OF ASSETS

Gain (loss) on disposition of assets, net for the three months ended March 31, 2006, reflects approximately $(1.7) million loss on the exchange of terminals with BP, approximately $5.5 million gain on the sale of our NYMEX seats, and approximately $6.8 million gain on the sale of product linefill and tank bottom volumes. Gain (loss) 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.

Gain (loss) on disposition of assets, net for the nine months ended March 31, 2006, reflects approximately $(1.7) million loss on the exchange of terminals with BP, approximately $5.5 million gain on the sale of our NYMEX seats, approximately $6.8 million gain on the sale of product linefill and tank bottom volumes, approximately $1.1 million gain from the final insurance recovery on the involuntary conversion of our historical Pensacola terminal facilities and approximately $0.1 million gain on the sale of the Wisconsin terminal. Gain (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 historical Pensacola terminal facilities due to the damage caused by Hurricane Ivan offset by an approximately $2.7 million gain on the sale of land held for investment purposes in Miami, Florida.

(5) TRADE ACCOUNTS RECEIVABLE

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

	March 31, 2006	**June 30, 2005**
Trade accounts receivable	$ 423,116	$ 382,324
Less allowance for doubtful accounts	(866)	(553)
	$ 422,250	$ 381,771

(6) UNREALIZED GAINS AND LOSSES ON DERIVATIVE CONTRACTS

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

	March 31, 2006	June 30, 2005
Unrealized gains current asset	$ 18,992	$ 7,620
Unrealized losses current	(13,725)	(47,215)
Unrealized losses long-term		(234)
Unrealized losses liability	(13,725)	(47,449)
Net asset (liability)	$ 5,267	$ (39,829)

At March 31, 2006 and June 30, 2005, there were no unrealized gains or losses on NYMEX futures contracts because NYMEX futures contracts require daily settlement for changes in commodity prices on open futures contracts.

At March 31, 2006, included in unrealized gains current asset is an unrealized gain of approximately $1.1 million related to certain short positions taken in the NYMEX options market. At June 30, 2005, included in unrealized losses current is an unrealized loss of approximately $3.6 million related to certain short positions taken in the NYMEX options market.

(7) PREPAID EXPENSES AND OTHER CURRENT ASSETS

Prepaid expenses and other are as follows (in thousands):

	March 31, 2006	June 30, 2005
Prepaid insurance	$ 2,296	$ 2,246
Amounts due from insurance carrier		954
Asset held for sale		1,200
Prepaid business taxes	1,000	552
Additive detergent	1,170	985
Prepaid software maintenance fees	167	105
Amounts due from Rio Vista/Penn Octane	1,300	
Other	460	725
	$ 6,393	$ 6,767

Amounts due from insurance carrier represents our remaining estimated proceeds to be received on insurance claims related to the involuntary conversion of our historical Pensacola terminal facilities due to the damage caused by Hurricane Ivan. During the three months ended December 31, 2005, we collected the final insurance recovery.

During the six months ended December 31, 2005, we decided to retain the land at our historical Pensacola terminal facilities to augment the Pensacola terminal facilities that we acquired from Radcliff (see Note 2 of Notes to consolidated financial statements). In prior periods, asset held for sale was carried at the lower of cost or fair value less costs of disposition and consisted of the land held for sale at our historical Pensacola terminal facilities.

In connection with our due diligence review of certain assets and operations of Rio Vista and Penn Octane, we advanced approximately $1.3 million. The advance is due and payable on demand and is secured by certain terminaling assets in Brownsville, Texas.

(8) PROPERTY, PLANT AND EQUIPMENT

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

	March 31, 2006	June 30, 2005
Land	$ 44,341	$ 38,710
Terminals, pipelines and equipment	396,644	374,213
Technology and equipment	14,751	14,751
Tugs and barges	33,708	27,277
Furniture, fixtures and equipment	6,806	6,784
Construction in progress	5,427	1,747
	501,677	463,482
Less accumulated depreciation	(137,377)	(118,950)
	$ 364,300	$