

TRANSMONTAIGNE INC  
Form 10-Q  
November 09, 2005

## UNITED STATES

## SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

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### FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2005

OR

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

Commission File Number 001-11763

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## TRANSMONTAIGNE INC.

**Delaware**

(State or other jurisdiction  
of incorporation or organization)

**06-1052062**

(I.R.S. Employer  
Identification No.)

**1670 Broadway  
Suite 3100  
Denver, Colorado 80202**

(Address, including zip code, of principal executive offices)

**(303) 626-8200**

(Telephone number, including area code)

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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  No

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

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

As of October 24, 2005, there were 49,724,985 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, 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 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.

We do not intend to update these forward-looking statements except as required by law.

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**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 months ended September 30, 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, 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 months ended September 30, 2005.

- TransMontaigne Product Services Inc. ( TPSI )
- TransMontaigne Services Inc.
- TransMontaigne Transport Inc.
- Coastal Fuels Marketing, Inc.
- Coastal Tug and Barge, Inc.
- TransMontaigne Partners L.P.

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)**

	September 30, 2005	June 30, 2005
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 5,168	\$ 29,721
Restricted cash held by commodity broker	17,700	10,436
Trade accounts receivable, net	452,689	381,771
Inventories discretionary volumes	331,309	274,774
Unrealized gains on derivative contracts	39,068	7,620
Deferred tax assets	18,704	18,401
Prepaid expenses and other	5,814	6,767
	870,452	729,490
Property, plant and equipment, net	359,270	344,532
Product linefill and tank bottom volumes	24,702	24,325
Unrealized gains on derivative contracts	2	
Investment in Lion Oil Company	10,131	10,131
Deferred debt issuance costs, net	9,253	9,778
Other assets, net	42,874	23,725
	\$ 1,316,684	\$ 1,141,981
<b>LIABILITIES, PREFERRED STOCK, AND COMMON STOCKHOLDERS EQUITY</b>		
Current liabilities:		
Commodity margin loan	\$ 10,000	\$
Working capital credit facility	60,500	
Trade accounts payable	227,230	212,040
Income taxes payable	8,427	29,801
Unrealized losses on derivative contracts	100,203	47,215
Inventory due to others under exchange agreements	59,544	16,429
Excise taxes payable	59,420	79,597
Other accrued liabilities	27,024	20,791
Deferred revenue supply chain management services	2,731	3,981
	555,079	409,854
Other liabilities:		
Long-term debt	231,000	228,307
Deferred tax liabilities	50,543	46,413
Unrealized losses on derivative contracts	225	234
Total liabilities	836,847	684,808
Non-controlling interests in TransMontaigne Partners	82,601	81,440
Series B redeemable convertible preferred stock	20,826	49,249
Common stockholders equity:		
Common stock	498	456
Capital in excess of par value	321,959	299,681
Deferred stock-based compensation		(7,042)
Retained earnings	53,953	33,389
	376,410	326,484
	\$ 1,316,684	\$ 1,141,981

See accompanying notes to consolidated financial statements.



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

	Three months ended	
	September 30,	
	2005	2004
Supply, distribution, and marketing:		
Revenues	\$ 2,954,136	\$ 2,029,252
Cost of product sold and other direct costs and expenses	(2,905,517)	(2,005,096)
Net operating margins	48,619	24,156
Terminals, pipelines, and tugs and barges:		
Revenues	29,225	26,472
Direct operating costs and expenses	(18,696)	(14,407)
Net operating margins	10,529	12,065
Total net operating margins	59,148	36,221
Costs and expenses:		
Selling, general and administrative expenses	(11,554)	(10,433)
Depreciation and amortization	(6,581)	(5,807)
Gain (loss) on disposition of assets, net	1,118	(3,599)
Total costs and expenses	(17,017)	(19,839)
Operating income	42,131	16,382
Other income (expenses):		
Dividend income	583	381
Interest income	326	39
Interest expense	(5,918)	(6,323)
Other financing costs:		
Amortization of deferred debt issuance costs	(525)	(706)
Write-off of debt issuance costs related to former bank credit facility		(3,392)
Total other expenses	(5,534)	(10,001)
Earnings before income taxes	36,597	6,381
Income tax expense	(13,907)	(2,553)
Non-controlling interests share in earnings of TransMontaigne Partners	(1,807)	
Net earnings	20,883	3,828
Earnings allocable to preferred stock	(1,713)	(846)
Net earnings attributable to common stockholders	\$ 19,170	\$ 2,982
Earnings per share:		
Basic net earnings per common share	\$ 0.41	\$ 0.08
Diluted net earnings per common share	\$ 0.38	\$ 0.07
Weighted average common shares outstanding:		
Basic	46,943	39,493
Diluted	54,938	51,276

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 three months ended September 30, 2005

(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
<b>Balance at June 30, 2004</b>	\$ 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
<b>Balance at June 30, 2005</b>	\$ 49,249	\$ 456	\$ 299,681	\$ (7,042 )	\$ 33,389	\$ 326,484
Elimination of deferred stock-based compensation due to adoption of SFAS 123(R)			(7,042 )	7,042		
Common stock issued for options exercised			194			194
Amortization of deferred stock-based compensation			894			894
Preferred stock dividends					(468 )	(468 )
Amortization of premium on Series B redeemable convertible preferred stock	(149 )				149	149
Conversion of Series B redeemable convertible preferred stock into common stock	(28,274 )	42	28,232			28,274
Net earnings					20,883	20,883
<b>Balance at September 30, 2005</b>	\$ 20,826	\$ 498	\$ 321,959	\$	\$ 53,953	\$ 376,410

See accompanying notes to consolidated financial statements.

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

	Three months ended	
	September 30,	
	2005	2004
<b>Cash flows from operating activities:</b>		
Net earnings	\$ 20,883	\$ 3,828
Adjustments to reconcile net earnings to net cash used in operating activities:		
Amortization of deferred revenue	(1,572 )	(1,048 )
Depreciation and amortization	6,581	5,807
Deferred tax expense		2,723
Amortization of deferred stock-based compensation	894	630
Amortization of deferred debt issuance costs	525	706
Write-off of debt issuance costs		3,392
(Gain) loss on disposition of assets, net	(1,118 )	3,599
Net change in unrealized (gains) losses on long-term derivative contracts	(12 )	2,571
Non-controlling interests share in earnings of TransMontaigne Partners	1,807	
Changes in operating assets and liabilities, net of effects from acquisitions:		
Trade accounts receivable, net	(50,272 )	1,037
Inventories discretionary volumes	(52,652 )	(6,682 )
Prepaid expenses and other	75	1,217
Trade accounts payable	12,217	(14,472 )
Income taxes payable	(21,374 )	
Inventory due to others under exchange agreements	43,115	310
Unrealized (gains) losses on derivative contracts	21,862	14,051
Excise taxes payable and other accrued liabilities	(17,494 )	(21,093 )
Net cash provided by (used in) operating activities	(36,535 )	(3,424 )
<b>Cash flows from investing activities:</b>		
Acquisition of Radcliff, net of cash acquired	(52,054 )	
Acquisition of terminals, pipelines, tugs and barges		(7,618 )
Additions to property, plant and equipment expansion of facilities	(1,875 )	(1,086 )
Additions to property, plant and equipment maintain existing facilities	(318 )	(1,010 )
Increase in restricted cash held by commodity broker	(7,036 )	(2,681 )
Proceeds from disposition of assets	1,118	
Other		5
Net cash provided by (used in) investing activities	(60,165 )	(12,390 )
<b>Cash flows from financing activities:</b>		
Net borrowings of debt	63,193	22,000
Net borrowings of commodity margin loan	10,000	3,762
Deferred debt issuance costs		(3,082 )
Common stock issued for options exercised	194	78
Distributions paid to non-controlling interests in TransMontaigne Partners	(646 )	
Preferred stock dividends paid in cash	(594 )	
Net cash provided by (used in) financing activities	72,147	22,758
Increase (decrease) in cash and cash equivalents	(24,553 )	6,944
Cash and cash equivalents at beginning of period	29,721	6,158
Cash and cash equivalents at end of period	\$ 5,168	\$ 13,102
<b>Supplemental disclosures of cash flow information:</b>		
Cash paid for (refund of) income taxes	\$ 35,282	\$ (170 )
Cash paid for interest expense	\$ 1,255	\$ 2,239

See accompanying notes to consolidated financial statements.



**TransMontaigne Inc. and subsidiaries**  
**Notes to consolidated financial statements**  
**September 30, 2005 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 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 (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 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. 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. Pursuant to the terminaling and transportation services agreement, we agreed to transport on TransMontaigne Partners' Razorback Pipeline and to throughput in TransMontaigne Partners' terminals a volume of refined product that will result in minimum revenues to TransMontaigne Partners of \$5.0 million per calendar quarter.

**(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.

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 September 30, 2005 and June 30, 2005, our open positions in risk management contracts 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 sheet. 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 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 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. 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 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.

We have presented bulk transactions that were booked out on a net basis in the consolidated statement 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. For the three months ended September 30, 2005 and 2004, we booked out bulk transactions of approximately \$332.0 million and \$975.3 million, respectively. The booking out of a bulk transaction has no effect on our net operating margins 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 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):

	September 30, 2005		June 30, 2005	
	Amount	Bbls	Amount	Bbls
Volumes held for immediate sale or exchange	\$ 170,866	2,006	\$ 153,123	2,415
Volumes held for base operations	160,443	2,011	121,651	2,011
Inventories discretionary volumes	\$ 331,309	4,017	\$ 274,774	4,426

At September 30, 2005 and June 30, 2005, the market value of our volumes held for immediate sale or exchange exceeded their cost basis by approximately \$10.6 million and \$2.1 million, respectively. At September 30, 2005 and June 30, 2005, the market value of our volumes held for base operations exceeded their cost basis by approximately \$7.9 million and \$0.2 million, respectively.

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. Exchange agreements generally are fixed-term agreements that involve our receipt of a specified volume of product at one location in exchange for delivery by us of product at a different location. At September 30, 2005 and June 30, 2005, current liabilities include inventory due to others under exchange agreements of approximately 676,000 barrels and 296,000 barrels, respectively, with a fair value of approximately



\$59.5 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 September 30, 2005 and June 30, 2005, 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 September 30, 2005 and June 30, 2005, we had approximately 931,000 barrels and 925,000 barrels, respectively, of product reflecting tank bottoms and linefill in our propriety terminal connections with an adjusted cost basis of approximately \$24.7 million and \$24.3 million, respectively. At September 30, 2005 and June 30, 2005, the market value of our product linefill and tank bottom volumes exceeded their cost basis by approximately \$58.1 million and \$34.8 million, respectively.

**(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	September 30, 2005
Senior secured working capital credit facility	\$ 3,422	\$	\$ (202 )	\$ 3,220
Senior subordinated notes	5,455		(277 )	5,178
TransMontaigne Partners credit facility	901		(46 )	855
	\$ 9,778	\$	\$ (525)	