TRANSMONTAIGNE INC
Form 10-Q
February 17, 2004

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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 December 31, 2003

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 February 2, 2004 there were 41,100,181 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 Current Report on Form 8-K filed on May 14, 2003, 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 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.

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

Part I. Financial information

ITEM 1. UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

The interim consolidated financial statements of TransMontaigne Inc. as of and for the three and six months ended December 31, 2003 are included herein beginning on the following page. The accompanying interim consolidated financial statements should be read in conjunction with our annual consolidated financial statements and related notes for the year ended June 30, 2003, together with our discussion and analysis of financial condition and results of operations, included in our Annual Report on Form 10-K, as amended, filed with the Securities and Exchange Commission.

TransMontaigne Inc. is a holding company with the following active wholly-owned subsidiaries during the three and six months ended December 31, 2003.

> TransMontaigne Product Services Inc. ("TPSI")

> 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)

	December 31, 2003	June 30, 2003
ASSETS		
Current assets:		
Cash and cash equivalents	$ 16,536	$ 27,969
Restricted cash held by commodity broker	8,480	5,155
Trade accounts receivable, net	277,478	290,007
Inventories discretionary volumes	325,278	226,918
Unrealized gains on derivative contracts	19,335	16,817
Prepaid expenses and other	4,736	5,775

	December 31, 2003	June 30, 2003
	651,843	572,641
Property, plant and equipment, net	370,242	371,735
Product linefill and tank bottom volumes	21,968	22,017
Unrealized gains on derivative contracts	786	1,885
Investments in petroleum related assets	10,131	10,131
Deferred tax assets		482
Deferred debt issuance costs, net	11,731	12,908
Other assets, net	5,955	6,917
	$ 1,072,656	$ 998,716

LIABILITIES, PREFERRED STOCK, AND COMMON STOCKHOLDERS' EQUITY

	December 31, 2003	June 30, 2003
Current liabilities:		
Commodity margin loan	$ 9,696	$ 4,534
Working capital credit facility	215,500	175,000
Trade accounts payable	204,872	144,443
Unrealized losses on derivative contracts	27,444	20,151
Inventory due to others under exchange agreements	6,698	35,121
Excise taxes payable	91,348	99,068
Other accrued liabilities	22,687	25,562
Deferred revenue supply management services	4,214	4,816
	582,459	508,695
Other liabilities:		
Long-term debt	200,000	200,000
Deferred tax liabilities	199	
Unrealized losses on derivative contracts	668	423
Total liabilities	783,326	709,118
Series B Redeemable Convertible Preferred stock	78,524	79,329
Common stockholders' equity:		
Common stock	411	407
Capital in excess of par value	251,839	249,339
Deferred stock-based compensation	(5,561)	(3,943)
Accumulated deficit	(35,883)	(35,534)
	210,806	210,269
	$ 1,072,656	$ 998,716

See accompanying notes to consolidated financial statements.

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

	Three months ended December 31,		Six months ended December 31,	
	2003	**2002**	**2003**	**2002**
Supply, distribution, and marketing:				
Revenues	$ 2,148,365	$ 2,006,592	$ 4,671,918	$ 3,733,934
Cost of product sold and other direct costs and expenses	(2,139,962)	(2,015,516)	(4,651,773)	(3,735,246)
Net operating margins (deficiencies)	8,403	(8,924)	20,145	(1,312)
Terminals, pipelines, and tugs and barges:				
Revenue	25,797	17,265	52,818	34,660
Direct operating costs and expenses	(10,632)	(6,520)	(22,958)	(12,987)
Net operating margins	15,165	10,745	29,860	21,673
Total net operating margins	23,568	1,821	50,005	20,361
Costs and expenses:				
Selling, general and administrative	(10,944)	(8,775)	(21,315)	(18,106)
Depreciation and amortization	(5,932)	(4,293)	(11,469)	(8,549)
Lower of cost or market write-downs on product linefill and tank bottom volumes	(17)		(49)	
Corporate relocation and transition		(365)		(1,449)
Total costs and expenses	(16,893)	(13,433)	(32,833)	(28,104)
Operating income (loss)	6,675	(11,612)	17,172	(7,743)
Other income (expenses):				
Dividend income			6	374
Interest income	80	99	108	168
Interest expense	(6,703)	(3,066)	(13,127)	(6,359)
Loss on disposition of assets	(805)		(805)	
Other financing costs:				
Amortization of deferred debt issuance costs	(819)	(233)	(1,632)	(462)
Gain on interest rate swap		1,199		1,274
Total other expenses	(8,247)	(2,001)	(15,450)	(5,005)
Earnings (loss) before income taxes and cumulative effect of a change in accounting principle	(1,572)	(13,613)	1,722	(12,748)
Income tax (expense) benefit	629	5,173	(689)	4,844
	(943)	(8,440)	1,033	(7,904)

	Three months ended December 31,		Six months ended December 31,	
Net earnings (loss) before cumulative effect of a change in accounting principle				
Cumulative effect of a change in accounting principle of $2,092, net of tax benefit of $795		(1,297)		(1,297)
Net earnings (loss) before preferred stock dividends	(943)	(9,737)	1,033	(9,201)
Preferred stock dividends, net	(691)	(995)	(1,382)	(1,990)
Net loss attributable to common stockholders	$ (1,634)	$ (10,732)	$ (349)	$ (11,191)

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

	Three months ended December 31,		Six months ended December 31,	
	2003	**2002**	**2003**	**2002**
Net loss after preferred stock dividends and before cumulative effect of a change in accounting principle	$ (1,634)	$ (9,435)	$ (349)	$ (9,894)
Cumulative effect of a change in accounting principle		(1,297)		(1,297)
Net loss attributable to common stockholders	$ (1,634)	$ (10,732)	$ (349)	$ (11,191)
Basic net loss per common share:				
Net loss after preferred stock dividends and before cumulative effect of a change in accounting principle	$ (0.04)	$ (0.24)	$ (0.01)	$ (0.25)
Cumulative effect of a change in accounting principle		(0.03)		(0.03)
	$ (0.04)	$ (0.27)	$ (0.01)	$ (0.28)
Diluted net loss per common share:				
Net loss after preferred stock dividends and before cumulative effect of a change in accounting principle	$ (0.04)	$ (0.24)	$ (0.01)	$ (0.25)
Cumulative effect of a change in accounting principle		(0.03)		(0.03)
	$ (0.04)	$ (0.27)	$ (0.01)	$ (0.28)
Weighted average common shares outstanding:				
Basic	39,364	39,127	39,271	39,079
Diluted	39,364	39,127	39,271	39,079

See accompanying notes to consolidated financial statements.

TransMontaigne Inc. and subsidiaries
Consolidated statements of preferred stock and common stockholders' equity
Year ended June 30, 2003 and six months ended December 31, 2003
(In thousands)

	Preferred stock						
	Series A	Series B	Common stock	Capital in excess of par value	Deferred stock-based compensation	Accumulated deficit	Total common stockholders' equity
Balance at June 30, 2002	$ 24,421	$ 80,939	$ 399	$ 245,844	$ (2,540)	$ (38,353)	$ 205,350
Common stock issued for options exercised				12			12
Common stock repurchased from employees for withholding taxes				(214)			(214)
Net tax effect arising from stock-based compensation				70			70
Forfeiture of restricted stock awards prior to vesting				(238)	238		
Deferred compensation related to restricted stock awards			8	3,605	(3,613)		
Deferred compensation related to non-employee stock options				260	(260)		
Amortization of deferred stock-based compensation					2,232		2,232
Preferred stock dividends						(5,594)	(5,594)
Amortization of premium on Series B Redeemable Convertible Preferred stock		(1,610)				1,610	1,610
Repurchase of Series A Convertible Preferred stock	(24,421)						
Net earnings						6,803	6,803
Balance at June 30, 2003		79,329	407	249,339	(3,943)	(35,534)	210,269
Common stock issued for options exercised				123			123
Common stock repurchased from employees for withholding taxes			(1)	(502)			(503)
Deferred compensation related to restricted stock awards			5	3,051	(3,056)		
Forfeiture of restricted stock awards prior to vesting				(172)	172		
Amortization of deferred stock-based compensation					1,266		1,266
Preferred stock dividends						(2,187)	(2,187)
Amortization of premium on Series B Redeemable Convertible Preferred stock		(805)				805	805
Net earnings						1,033	1,033
Balance at December 31, 2003	$	$ 78,524	$ 411	$ 251,839	$ (5,561)	$ (35,883)	$ 210,806

See accompanying notes to consolidated financial statements.

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

	Three months ended December 31,		Six months ended December 31,	
	2003	**2002**	**2003**	**2002**
Cash flows from operating activities:				
Net earnings (loss)	$ (943)	$ (9,737)	$ 1,033	$ (9,201)
Adjustments to reconcile net earnings to net cash used by operating activities:				
Amortization of deferred revenue	(1,315)	(150)	(2,527)	(300)
Depreciation and amortization	5,932	4,293	11,469	8,549
Deferred tax expense (benefit)	(633)	(6,202)	681	(5,959)
Net tax effect arising from stock-based compensation		33		97
Amortization of deferred stock-based compensation	662	457	1,266	858
Amortization of debt issuance costs	819	233	1,632	462
Unrealized gain on interest rate swap		(1,199)		(1,274)
Loss on disposition of assets	805		805	
Net change in unrealized gains/losses on long-term derivative contracts	876	1,548	2,265	1,954
Lower of cost or market write-down on base operating inventory volumes	271		2,333	
Lower of cost or market write-down on product linefill and tank bottom volumes	17		49	
Changes in operating assets and liabilities, net of effects from acquisitions:				
Trade accounts receivable, net	(32,173)	(11,842)	12,529	(37,795)
Inventories discretionary volumes	(38,092)	(54,563)	(99,136)	(59,635)
Prepaid expenses and other	(2,721)	(910)	(1,220)	(906)
Trade accounts payable	36,438	32,781	61,779	68,553
Inventory due to others under exchange agreements	(9,799)	(10,833)	(28,423)	6,183
Unrealized (gain) loss on derivative contracts	9,478	(4,760)	5,779	9,389
Excise taxes payable and other accrued liabilities	6,579	13,872	(10,987)	785
Net cash used by operating activities	(23,799)	(46,979)	(40,673)	(18,240)
Cash flows from investing activities:				
Acquisition of terminals, pipelines, and tugs and barges	(3,070)		(3,070)	(630)
Additions to property, plant and equipment expansion of facilities	(1,607)	(2,084)	(6,443)	(2,945)
Additions to property, plant and equipment maintain existing facilities	(1,238)	(1,342)	(2,716)	(1,831)
Decrease in restricted cash held by commodity broker	(1,278)	(10,170)	(3,325)	(10,904)
Proceeds from disposition of assets	501		501	
Other	711	(2)	1,653	59
Net cash used by investing activities	(5,981)	(13,598)	(13,400)	(16,251)
Cash flows from financing activities:				
Net borrowings of debt	20,500	60,000	40,500	13,000
Net borrowings (repayments) of commodity margin loan	9,696	(7,245)	5,162	(1,470)
Deferred debt issuance costs	(300)	(44)	(455)	(73)
Common stock issued for options exercised			123	11

	Three months ended December 31,		Six months ended December 31,	
Common stock repurchased from employees for withholding taxes	(430)	(111)	(503)	(161)
Preferred stock dividends paid in cash	(1,094)	(1,704)	(2,187)	(1,704)
Net cash provided by financing activities	28,372	50,896	42,640	9,603
Decrease in cash and cash equivalents	(1,408)	(9,681)	(11,433)	(24,888)
Cash and cash equivalents at beginning of period	17,944	15,645	27,969	30,852
Cash and cash equivalents at end of period	$ 16,536	$ 5,964	$ 16,536	$ 5,964

See accompanying notes to consolidated financial statements.

TransMontaigne Inc. and subsidiaries
Notes to consolidated financial statements
December 31, 2003 and June 30, 2003

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Principles of Consolidation and Use of Estimates

The accompanying 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, 2003, together with our discussion and analysis of financial condition and results of operations, included in our Annual Report on Form 10-K, as amended, filed with the Securities and Exchange Commission.

Our accounting and financial reporting policies conform to accounting principles and practices generally accepted in the United States of America. The accompanying consolidated financial statements include the accounts of TransMontaigne Inc. 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 (as of and for periods prior to October 1, 2002); fair value of derivative contracts; prepaid transportation costs; 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 Inc., a Delaware corporation ("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 management services.

On February 28, 2003, we acquired all of the outstanding shares of capital stock of Coastal Fuels Marketing, Inc. and its subsidiary, Coastal Tug and Barge, Inc., from a wholly-owned subsidiary of El Paso Merchant Energy Petroleum Company ("EPME-PC"), along with the rights to and operations of the southeast marketing division of EPME-PC (see Note 2 of Notes to consolidated financial statements).

(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 revenue and expenses. We generate revenues in our terminal, pipeline, and tug and barge operations from throughput fees, storage fees, transportation fees, ship-assist fees and fees from other ancillary services. Throughput revenue is recognized when the product is delivered to the customer; storage revenue is recognized ratably over the term of the storage contract; transportation revenue is recognized when the product has been delivered to the customer at the specified delivery location; ship-assist revenue is recognized when docking and other services are provided to marine vessels; and other service revenue is 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 primarily from refineries, 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 sales, bulk sales, and contract sales. Revenue from our sales of physical inventory is recognized pursuant to the accrual method accounting (i.e., when cash becomes due and payable to us pursuant to the terms of the sales contracts). Revenue from rack sales and contract sales is recognized when the product is delivered to the customer through a truck loading rack or marine fueling equipment. Revenue from bulk sales is 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 Management Services Activities

We provide supply 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 management services: delivered fuel price management, retail price management, and logistical supply 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 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 is recognized when title to the product is transferred to the customer, which generally occurs upon delivery of the product at the customer's proprietary fleet refueling location. Revenue from sales made pursuant to retail price management contracts is 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 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 December 31, 2003 and June 30, 2003, our open positions in risk management contracts were NYMEX futures contracts (purchases and sales).

(g) Accounting for Derivative Contracts

Our bulk sales, contract sales, delivered fuel price management, retail price management and risk management contracts qualify as derivative instruments pursuant to the requirements of Statement of Financial Accounting Standards No. 133 ("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 December 31, 2003 and June 30, 2003, 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.

Effective April 1, 2002, 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) Accounting for Inventories Discretionary Volumes

Our inventories discretionary volumes consist of refined petroleum products, primarily gasolines, distillates, and No. 6 oil. Our volumes held for immediate sale or exchange are subject to our risk

management policy or commodity price risk management and represent those volumes held for immediate sale or exchange in the ordinary course of business. Our volumes held for base operations generally are not subject to commodity price risk management and represent in-transit volumes on common carrier pipelines. On October 25, 2002, the Emerging Issues Task Force reached a consensus on Issue No. 02-03 ("EITF 02-03"), *Issues Involved in Accounting for Derivative Contracts Held for Trading Purposes and Contracts Involved in Energy Trading and Risk Management Activities*, that concluded that all physical inventories, including inventory volumes associated with energy trading activities, be carried at the lower of cost or market pursuant to Accounting Research Bulletin ("ARB") No. 43, *Chapter 4 Inventory Pricing*. 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) for periods subsequent to September 30, 2002. Prior to October 1, 2002, our inventories discretionary volumes held for immediate sale or exchange were carried at fair value with the changes in the fair value included in net margins attributable to our supply, distribution and marketing operations. Prior to October 1, 2002, our volumes held for base operations were carried at original cost adjusted for impairment write-downs. Inventories discretionary volumes are as follows (in thousands):

	December 31, 2003		June 30, 2003	
	Amount	**Bbls**	**Amount**	**Bbls**
Volumes held for immediate sale or exchange	$ 225,467	6,487	$ 130,492	3,890
Volumes held for base operations	99,811	2,922	96,426	2,922

	December 31, 2003			June 30, 2003		
Inventories discretionary volumes	$	325,278	9,409	$	226,918	6,812

At December 31, 2003 and June 30, 2003, the market value of our volumes held for immediate sale or exchange exceeded their cost basis by approximately $15.5 million and $5.9 million, respectively. For the three and six months ended December 31, 2003 we recognized lower of cost or market write-downs on certain of our base operating inventory volumes of approximately $0.3 million and $2.3 million, respectively, which are included in cost of products sold and other direct costs and expenses in the accompanying consolidated statements of operations.

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 December 31, 2003 and June 30, 2003, current liabilities include inventory due to others under exchange agreements of approximately 0.2 million barrels and 1.0 million barrels, respectively, with a fair value of approximately $6.7 million and $35.1 million, respectively. The amount recorded represents the fair value of inventory due to others under exchange agreements at the balance sheet date.

(i) Accounting for Product Linefill and Tank Bottom Volumes

Our product linefill and tank bottom volumes are not held for sale or exchange in the ordinary course of business and, therefore, we do not manage the commodity price risks associated with these volumes.

At December 31, 2003 and June 30, 2003, 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). Product linefill and tank bottom volumes are as follows (in thousands):

	December 31, 2003			June 30, 2003		
	Amount		Bbls	Amount		Bbls
Gasolines	$	12,994	497	$	13,020	497
Distillates		7,449	319		7,449	319
No. 6 oil		1,525	61		1,548	61
Product linefill and tank bottom volumes	$	21,968	877	$	22,017	877

At December 31, 2003 and June 30, 2003, the weighted average adjusted cost basis of our product linefill and tank bottom volumes was approximately $0.60 per gallon. During the three months ended December 31, 2003 and 2002, we recognized impairment losses of approximately $17,000 and $nil, respectively, due to write-downs on certain of our product linefill and tank bottom volumes to current market values. During the six months ended December 31, 2003 and 2002, we recognized impairment losses of approximately $49,000 and $nil, respectively, due to write-downs on certain of our product linefill and tank bottom volumes to current market values.

(j) 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.

(k) Deferred Debt Issuance Costs

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

	June 30, 2003	Additions	Amortization	December 31, 2003
Working capital credit facility	$ 5,941	$ 23	$ (1,115)	$ 4,849
Senior subordinated notes	6,967	432	(517)	6,882
	$ 12,908	$ 455	$ (1,632)	$ 11,731

(l) Environmental Obligations

At December 31, 2003 and June 30, 2003, we have accrued environmental obligations of approximately $5.9 million and $5.6 million, respectively, representing our best estimate of our remediation obligations (see Note 7 of Notes to consolidated financial statements). During the three and six months ended December 31, 2003, we made payments of approximately $0.1 million and $0.2 million, respectively, towards our environmental remediation obligations. During the three and six months ended December 31, 2003, we increased our estimate of our future environmental remediation obligations by approximately $0.5 million, of which approximately $0.3 million was assumed in connection with our acquisition of the Norfolk terminal (see Note 2 of Notes to consolidated financial statements). During the three and six months ended December 31, 2002, we did not revise our estimate of our future environmental remediation obligations. During the three months ended December 31, 2003 and 2002, we received insurance recoveries of approximately $0.2 million and $0.2 million, respectively, which are recorded as a reduction of direct operating costs and expenses in the accompanying consolidated statements of operations. During the six months ended December 31, 2003 and 2002, we received insurance recoveries of approximately $1.0 million and $0.2 million, respectively, which are recorded as a reduction of direct operating costs and expenses in the accompanying consolidated statements of operations.

(m) 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 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 December 31,		Six months ended December 31,	
	2003	2002	2003	2002
Net loss attributable to common stockholders:				
As reported	$ (1,634)	$ (10,732)	$ (349)	$ (11,191)
Amortization of the fair value of stock options granted to employees	(55)	(90)	(117)	(194)
Pro forma	$ (1,689)	$ (10,822)	$ (466)	$ (11,385)
Loss per common share:				
As reported				
Basic	$ (0.04)	$ (0.27)	$ (0.01)	$ (0.28)
Diluted	$ (0.04)	$ (0.27)	$ (0.01)	$ (0.28)
Pro forma				
Basic	$ (0.04)	$ (0.28)	$ (0.01)	$ (0.29)
Diluted	$ (0.04)	$ (0.28)	$ (0.01)	$ (0.29)

There were no options granted during the six months ended December 31, 2003 and the year ended June 30, 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.

(q) 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.

(r) Reclassification

Certain amounts in the prior periods have been reclassified to conform to the current period's presentation.

(2) ACQUISITIONS AND DISPOSITIONS

On October 1, 2003, we acquired for cash consideration of approximately $3.1 million a 900,000-barrel products terminal in Norfolk, Virginia. The terminal increases our presence in the Mid-Atlantic market and includes a docking facility that will permit us to receive shipments off and deliver shipments to the water.

On February 28, 2003, we acquired all of the outstanding shares of capital stock of Coastal Fuels Marketing, Inc. and its subsidiary, Coastal Tug and Barge, Inc., from El Paso CGP Company ("CGP") along with the rights to and operations of the southeast marketing division of El Paso Merchant Energy Petroleum Company ("EPME-PC"). The acquisition included five Florida terminals, with aggregate capacity of approximately 4.9 million barrels, and a related tug and barge operation (collectively, the "Coastal Fuels assets"). The Coastal Fuels assets primarily provide sales and storage of bunker fuel, No. 6 oil, diesel fuel and gasoline at Cape Canaveral, Port Manatee/Tampa, Port Everglades/Ft. Lauderdale and Fisher Island/Miami, and storage of asphalt at Jacksonville, Florida. The purchase price for the acquisition was approximately $156.0 million, including approximately $37.0 million of product inventory. The consolidated financial statements include the results of operations of the Coastal Fuels assets from the closing date of the transaction (February 28, 2003).

On January 31, 2003, we acquired for cash consideration of approximately $6.4 million a 500,000-barrel products terminal in Fairfax, Virginia. The terminal increases our presence in the Mid-Atlantic market and supplies product to the Washington, D.C. market.

On July 31, 2002, we acquired for cash consideration of approximately $0.6 million a products terminal in Brownsville, Texas. The 25,000-barrel terminal provides us with additional storage and rail car handling facilities in Brownsville, Texas.

The purchase price of each transaction was allocated to the assets and liabilities acquired based upon the estimated fair value of the assets and liabilities as of the acquisition date. The purchase price was preliminarily allocated as follows (in thousands):

	Norfolk	Coastal Fuels	Fairfax	Brownsville
Discretionary inventory volumes	$ 1,557	$ 30,625	$	$
Prepaid expenses and other current assets		2,259		
Property, plant and equipment	1,906	121,287	6,773	630
Other assets acquired intangible		2,500		

	Norfolk	Coastal Fuels	Fairfax	Brownsville
Product linefill and tank bottom volumes		6,311		
Trade accounts payable due diligence costs		(1,350)		
Acquisition related liabilities	(393)	(5,664)	(420)	
Cash paid	$ 3,070	$ 155,968	$ 6,353	$ 630

On December 30, 2003, we sold our CETEX pipeline system for approximately $0.4 million resulting in a loss on disposition of assets of approximately $0.7 million. For the six months ended December 31, 2003 and the year ended June 30, 2003, the CETEX pipeline system generated net operating margins (deficiencies) of approximately $0.1 million and $(0.2) million, respectively.

(3) CONCENTRATION OF CREDIT RISK AND TRADE ACCOUNTS RECEIVABLE

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

	December 31, 2003	June 30, 2003
Trade accounts receivable	$ 278,151	$ 291,929
Less allowance for doubtful accounts	(673)	(1,922)
	$ 277,478	$ 290,007

During the three months ended December 31, 2003 and 2002, we increased the allowance for doubtful accounts through a charge to income of approximately $nil and $0.3 million, respectively. During the six months ended December 31, 2003 and 2002, we increased the allowance for doubtful accounts through a charge to income of approximately $0.1 million and $0.6 million, respectively.

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(4) UNREALIZED GAINS AND LOSSES ON DERIVATIVE CONTRACTS

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

	December 31, 2003	June 30, 2003
Unrealized gains current	$ 19,335	$ 16,817
Unrealized gains long-term	786	1,885
Unrealized gains asset	20,121	18,702
Unrealized losses current	(27,444)	(20,151)
Unrealized losses long-term	(668)	(423)
Unrealized losses liability	(28,112)	(20,574)
Net liability position	$ (7,991)	$ (1,872)

At December 31, 2003 and June 30, 2003, 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) PROPERTY, PLANT AND EQUIPMENT

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

	December 31, 2003	June 30, 2003
Land	$ 45,281	$ 46,477
Terminals, pipelines and equipment	371,990	365,379
Technology and equipment	14,008	13,426
Tugs and barges	18,044	15,914
Furniture, fixtures and equipment	6,905	6,539
Construction in progress	4,597	4,125
	460,825	451,860
Less accumulated depreciation	(90,583)	(80,125)
	$ 370,242	$ 371,735

(6) OTHER ASSETS

Other assets are as follows (in thousands):

	December 31, 2003	June 30, 2003
Prepaid transportation	$ 2,309	$ 3,021
Acquired intangible, net of accumulated amortization of $417 and $167, respectively	2,083	2,333
Commodity trading membership	1,500	1,500
Deposits and other assets	63	63
	$ 5,955	$ 6,917

Prepaid transportation relates to our contractual transportation and deficiency agreements with three interstate product pipelines (see Note 13 of Notes to consolidated financial statements).

Acquired intangible represents the right to use the Coastal Fuels trade name for a period of five years. 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.

(7) ACCRUED LIABILITIES

Accrued liabilities are as follows (in thousands):

	December 31, 2003	June 30, 2003
Accrued environmental obligations	$ 5,885	$ 5,577
Accrued lease abandonment	2,821	3,178
Accrued transportation and deficiency obligations	1,384	2,013
Dividend payable preferred stock	1,093	1,093
Accrued interest payable	1,882	1,788
Accrued expenses and other	9,622	11,913

	December 31, 2003	June 30, 2003
	$ 22,687	$ 25,562

Accrued Lease Abandonment. In connection with our corporate relocation and transition, we entered into an operating lease for new office space in Denver, Colorado. The new lease was executed on April 19, 2002. 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, 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 December 31, 2003 and June 30, 2003, the accrued liability for lease abandonment costs was approximately $2.8 million and $3.2 million, respectively.

(in thousands)	Accrued liability at June 30, 2003	Change in accrued liability	Amounts paid during the period	Accrued liability at December 31, 2003
Accrued lease abandonment	$ 3,178	$ 156	$ (513)	$ 2,821

We expect to pay the accrued liability of approximately $2.8 million, net of estimated sublease rentals, as follows (in thousands):

Years ending June 30:	Lease payments	Estimated sublease rentals	Accrued liability
2004 (Remainder of the year)	$ 531	$ (89)	$ 442
2005	1,263	(481)	782
2006	1,108	(548)	560
2007	928	(452)	476
2008	370	(187)	183
Thereafter	763	(385)	378
	$ 4,963	$ (2,142)	$ 2,821

(8) DEFERRED REVENUE SUPPLY MANAGEMENT SERVICES

At December 31, 2003 and June 30, 2003, our deferred revenue associated with logistical supply management services was approximately $0.7 million and $1.0 million, respectively. We amortize the deferred revenue from these contracts into revenues attributable to our supply, distribution and marketing operations on a straight-line basis over the respective terms of the contracts. During the three months ended December 31, 2003 and 2002, we recognized approximately $150,000 in net revenues attributable to our supply, distribution and marketing operations from the amortization of the deferred revenues. During the six months ended December 31, 2003 and 2002, we recognized approximately $300,000 in net revenues attributable to our supply, distribution and marketing operations from the amortization of the deferred revenues.

During the six months ended December 31, 2003 and 2002, we originated retail and delivered fuel price management contracts with an estimated fair value of approximately $1.9 million and $4.2 million, respectively, representing the excess of the amounts we expect to receive from the ground fleet customers over our estimate of the forward price curve of the underlying commodity adjusted for basis 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 to the ground fleet customers. During the three months ended December 31, 2003 and 2002, we recognized approximately $1.2 million and $nil, respectively, in revenues attributable to our supply, distribution and marketing operations from the amortization of the deferred revenue from these contracts. During the six months ended December 31, 2003 and 2002, we recognized approximately $2.2 million and $nil, 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, 2003	Additions during the period	Amounts amortized during the period	Deferred revenue at December 31, 2003
Logistical supply management services	$ 1,000	$	$ (300)	$ 700
Retail price management contracts	2,047	370		