

TRANSMONTAIGNE INC
Form 10-K
September 13, 2005

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**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

FORM 10-K

(Mark One)

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

For the fiscal year ended June 30, 2005

OR

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

For the transition period _____ to _____
Commission File Number 001-11763

TRANSMONTAIGNE INC.

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

06-1052062
(I.R.S. Employer
Identification No.)

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

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

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class

**Name of Each Exchange
on Which Registered**

Common Stock; \$.01 par value

New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act:

NONE

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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 /X/ No //

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. /X/

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

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

The aggregate market value of the voting stock held by non-affiliates of the Registrant was \$348,342,753. The aggregate market value was computed by reference to the last sale price (\$9.34 per share) of the Registrant's Common Stock on the New York Stock Exchange on August 29, 2005.

The number of shares of the registrant's Common Stock outstanding on August 29, 2005 was 50,146,738.

DOCUMENTS INCORPORATED BY REFERENCE

None.

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Our annual reports on Form 10-K, quarterly reports on Form 10-Q, and current reports on Form 8-K, and any amendments to such reports, will be available free of charge on our website at www.transmontaigne.com under the heading "Investor Relations" "Financial Information" "SEC Filings", as soon as reasonably practicable after we electronically file such material with, or furnish it to, the Securities and Exchange Commission.

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

This annual report contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934:

- 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," "will," "seeks," "believes," "expects," "anticipates," "intends," "continues," "estimates," "plans" 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.

In addition to the specific risk factors described in "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations Risk Factors," important factors that could cause actual results to differ materially from our expectations 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 policies;
- > 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;

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- > the threat of terrorist attacks or war;
- > the impact of current and future laws and governmental regulations;
- > the failure by TransMontaigne Partners to avoid federal income taxation as a corporation or the imposition of state level taxation;
- > 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.

Part I

ITEM 1. BUSINESS

The Company

TransMontaigne Inc., formed in 1995, is a refined petroleum products terminaling, distribution and supply company with operations in the United States, primarily in the Gulf Coast, Florida, East Coast and Midwest regions. Our common stock is traded on the New York Stock Exchange under the symbol "TMG." Our executive offices are located at 1670 Broadway, Suite 3100, Denver, CO 80202; telephone number (303) 626-8200.

TransMontaigne Inc. is a holding company that conducts its operations through six primary subsidiaries: TransMontaigne Product Services Inc., which owns our terminaling facilities and conducts the majority of our supply, distribution and marketing operations; Coastal Fuels Marketing, Inc., which conducts supply, distribution and marketing operations principally to marine vessels and power generation plants; Coastal Tug and Barge, Inc., which owns and operates our fleet of tugboats and barges and provides transportation services; TransMontaigne Services Inc., which employs our employees and provides services to our other operating subsidiaries; TransMontaigne Transport Inc., which operates our turbo prop aircraft to transport our personnel among locations; and TransMontaigne Partners L.P., a publicly traded limited partnership in which we own a 2% general partnership interest and a 39.4% limited partnership interest.

TransMontaigne Inc. 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 (1) terminal, pipeline and tug and barge operations, (2) supply, distribution and marketing and (3) supply chain management services, and (4) managing TransMontaigne Partners, a publicly traded master limited partnership that is engaged in terminal and pipeline operations. Although the assets, liabilities, and results of operations of TransMontaigne Partners are reflected on a consolidated basis in our accompanying financial statements, this description of our business describes separately the activities of TransMontaigne Inc. and its subsidiaries other than TransMontaigne Partners and its subsidiaries.

We predominantly handle refined petroleum products, with the balance being fertilizer, chemicals and other commercial liquids. The refined petroleum products we handle include gasoline, diesel fuel, heating oil, jet fuel and kerosene. In Florida, our product and service offerings also include the sale of bunker fuel, used to power ocean vessels, and No. 6 oil, for powering electricity generating plants, as well as the storage of crude oil and asphalt.

We own and operate terminal infrastructure that handles refined petroleum products and other commercial liquids with transportation connections by pipelines, tankers, barges, rail cars and trucks to our facilities or to third-party facilities. At our terminals, we provide throughput, storage, injection and distribution related services to distributors, marketers, retail gasoline station operators and industrial and commercial end-users of refined petroleum products and other commercial liquids. At June 30, 2005, we owned and operated 43 terminals, with an aggregate capacity of approximately 15.0 million barrels. In Florida, we also provide refined petroleum product transportation and delivery services by tug and barge and by truck. In addition, at Port Everglades, Florida, we deliver product to cruise ships and freight vessels by means of our pipeline delivery system.

In our supply, distribution and marketing operations, we purchase refined petroleum products and schedule them for delivery to our terminals, as well as terminals owned by third parties, in the Gulf

Coast, Florida, East Coast and Midwest regions of the United States. We then sell our products primarily through a combination of rack spot sales and contract sales to cruise ship operators, commercial and industrial end-users, independent retailers, distributors, marketers, government entities and other wholesalers of refined petroleum products.

We also provide supply chain management services to industrial, commercial and governmental customers that have large ground vehicle fleets. We often combine these services with price management solutions to provide our customers an assured source of fuel at a predictable price. Our customer base includes companies involved in the manufacture and distribution of consumer products, express shipping services, waste disposal services, transportation services, and state and local government entities.

TransMontaigne Partners. At June 30, 2005, TransMontaigne Partners owned seven refined product terminals in Florida, one refined product terminal in each of Missouri and Arkansas and a 67-mile, interstate refined products pipeline between the Missouri and Arkansas terminals.

Industry Overview

Product description

Refineries produce refined petroleum products by processing crude oil. Refined petroleum products generally are classified in two groups, "light oils" and "heavy oils." Light oils include gasoline and distillates, such as diesel fuel, heating oil, jet fuel and kerosene. Heavy oils include No. 6 oil and asphalt. When produced at the refinery, refined petroleum products of a specific grade and characteristics are substantially identical in composition from one refinery to the next and are referred to as being "fungible."

Regional production and consumption

The continental United States refined petroleum products market is divided in two distinct regions: the Western United States, which is primarily served by refineries located in the Pacific Coast region; and the Gulf Coast, Florida, East Coast and Midwest markets, which are primarily served by refineries located in the Gulf Coast region and imports of refined petroleum products from South America and Europe. Substantially all of our supply, distribution and marketing operations occur in the Gulf Coast, Florida, East Coast and Midwest regions.

The U.S. Department of Energy divides the United States into five geographic regions. These regions are referred to as Petroleum Administration Defense Districts or PADDs. PADD III, which is the Gulf Coast region of the United States, is the largest petroleum refining hub in the U.S. with 55 refineries, responsible for approximately 47% of total U.S. daily refining capacity. The Gulf Coast historically has had an excess supply of refined petroleum products, which are shipped mainly to the East Coast, Florida and the Midwest. For the year ended December 31, 2004, the Gulf Coast had average refined petroleum production of approximately 8.1 million barrels per day and average refined petroleum product consumption of approximately 3.9 million barrels per day.

PADD II, which is the Midwest region, is the second largest PADD in terms of crude oil throughput capacity. Production of petroleum product by refiners located in the Midwest region historically has been less than the demand for such product within that region, resulting in product being supplied from surrounding regions, primarily from the Gulf Coast via common carrier pipelines including the Explorer, TEPPCO, Seaway, Phillips and Centennial pipelines. Supply also is available via barge transport up the Mississippi River with significant deliveries into local markets along the Ohio River. For the year ended December 31, 2004, the Midwest region had average refined petroleum production of approximately 3.4 million barrels per day and average refined petroleum product consumption of approximately 4.8 million barrels per day.

PADD I is the East Coast region, and includes the Florida, Southeast, Mid-Atlantic and Northeast regions. Production of petroleum product by refiners located in the East Coast region historically has

been less than the demand for such product within that region, resulting in product being supplied from surrounding regions, primarily from the Gulf Coast via the Colonial and Plantation pipelines, barges and marine vessels and imports from foreign producers directly into Florida and East Coast ports. For the year ended December 31, 2004, the East Coast region had average refined petroleum production of approximately 2.1 million barrels per day and average refined petroleum product consumption of approximately 6.2 million barrels per day.

We believe that our geographically diverse terminal infrastructure and our ability to direct significant volumes of product for delivery along the major common carrier pipelines reduces the risk that economic circumstances in any one geographic area will have a substantial effect on our operations taken as a whole.

Refining and distribution

Refining. Refineries in the Gulf Coast region, which are owned predominantly by major and large independent oil companies, refine crude oil into products that have various characteristics, such as sulfur content, octane level, Reid-vapor pressure, and other chemical characteristics. The refined products initially are stored at the refineries' own terminal facilities. The refineries then schedule for delivery some of their product output to satisfy their own retail delivery obligations, at branded gasoline stations, for example, and sell the remainder of their product output to independent marketing and distribution companies, such as TransMontaigne Inc. and our independent supply partners, for resale. The major refineries typically prefer to sell their excess product to independent marketing and distribution companies rather than to other refineries and integrated oil companies, which are their primary competitors.

Transportation. An independent marketing and distribution company must first schedule that product, at least five to eight days in advance, on common carrier pipelines for delivery to its terminals. Common carrier pipelines are pipelines with published tariff rates that are regulated by the Federal Energy Regulatory Commission ("FERC"). These pipelines ship product in batches, with each batch consisting of fungible product owned by several different companies. Once in the pipeline, a

product may take twenty or more days to move from the Gulf Coast to the New York market, with much of the product in the batch being delivered to terminals located along the routes of the common carrier pipelines. A batch of one product, gasoline for example, will then be followed by a batch of different product, such as diesel fuel.

During periods of high demand for a particular product, companies may seek to ship more volume of product than space available in the pipelines, in which case the common carrier pipelines will allocate volume based on the historical shipping history of each company seeking to ship. Companies that consistently ship significant amounts of product on common carrier pipelines are allocated space on these regulated pipelines for future shipments. Companies without significant shipping histories are not guaranteed similar space on the pipelines and have more difficulty shipping their product to various locations around the country when there is high demand for pipeline capacity to those locations. Our product supply arrangement with Morgan Stanley Capital Group, Inc. utilizes our historical shipping history and allows us to schedule product for delivery along these pipelines during periods of high demand for pipeline capacity.

As a batch of co-mingled product is shipped on a pipeline, each terminal along the way draws the volume of fungible product that is scheduled for that facility as the batch passes in the pipeline. Consequently, each terminal operator must monitor the type of product in the common carrier pipeline at any time to determine when to draw product scheduled for delivery to that terminal. In addition, both the common carrier pipeline and the terminal operator monitor the volume of product drawn to ensure that the precise amount scheduled for delivery at that location is actually received.

Product shipped to marine terminals is primarily transported by tankers or barges.

At both inland and marine terminals, the various refined petroleum products are segregated and stored in tanks. Because the characteristics of gasoline are required to be changed at least twice per year in many locations to meet government regulations, regular unleaded gasoline produced for winter cannot be stored in a tank together with regular unleaded gasoline produced for summer.

Delivery. Each inland terminal has a tanker truck loading facility commonly referred to as a "rack." Often, commercial and industrial end-users and independent retailers will rely on independent trucking companies to pick up product at the rack and transport it to the end-user or retailer at its location. Each truck holds an aggregate of approximately 8,000 gallons of various products in different compartments. The driver will swipe a magnetic card that identifies the customer purchasing the product, the carrier and the driver as well as the products to be pumped into the truck. Our computerized system electronically reviews the credentials of the carrier, including insurance and certain necessary certifications, the credit of the customer and confirms the customer is within scheduled allocation limits. When all conditions are verified as being current and correct, the system authorizes the delivery of the product to the truck. As product is being loaded into the truck, additives are blended into products, including all gasoline, to conform to government specifications and individual customer requirements. If a truck is loading gasoline for retail sale by an independent gasoline station, generic additives will be added to the gasoline as it is loaded into the truck. If the gasoline is for delivery to a branded retail gasoline station, the proprietary additive compound of that particular retailer will be added to the gasoline as it is loaded. The type and amount of additive are electronically and mechanically controlled by equipment located at the truck loading rack.

At marine terminals, the product is stored in tanks and may be delivered to tanker trucks over a rack in the same manner as inland terminals. Product also may be delivered to cruise ships and other vessels, known as "bunkering," either at the dock, through a pipeline delivery system or truck, or by barge. Cruise ships typically purchase approximately 6,000 to 8,000 barrels, the equivalent of

approximately 42 truckloads, of product per refueling. Bunker fuel is a mixture of diesel fuel and No. 6 oil. Each large vessel essentially requires its own mixture of bunker fuel to match the distinct characteristics of that ship's engines. Because the mixture for each ship requires precision to mix and deliver, cruise ships often prefer to refuel in United States ports with experienced marketing companies.

Our Operations

We conduct business in the following business segments:

- > *Terminals, pipelines, and tugs and barges* consists of a terminal infrastructure that handles refined petroleum products with transportation connections via pipelines, barges, vessels, rail cars and trucks to our facilities or to third-party facilities with an emphasis on transportation connections primarily through the Colonial, Plantation, TEPPCO, Explorer and Magellan pipeline systems.
- > *Supply, distribution and marketing* consists of services for the supply, distribution and marketing of refined petroleum products through rack spot sales, contract sales and bulk sales in the physical markets, with retail, wholesale, industrial and commercial customers using our terminal racks and marine refueling equipment, and providing related value-added fuel procurement and supply chain management services.
- > *TransMontaigne Partners L.P.* consists of a terminal and pipeline infrastructure that handles refined petroleum products through seven terminals in Florida, a 67-mile, interstate refined products pipeline and two refined product terminals at either end of the pipeline, one located in Mt. Vernon, Missouri and the other located in Rogers, Arkansas.

Terminals, pipelines, and tugs and barges

The refined petroleum product distribution system in the United States links refineries to end-users of gasoline and other refined petroleum products through a network of terminals, pipelines, tankers, barges, rail cars and trucks. At June 30, 2005, we own and operate terminal infrastructure of 43 terminals with approximately 15.0 million barrels of aggregate capacity that handles refined petroleum products and other commercial liquids. We also operate for TransMontaigne Partners nine terminals with approximately 6.2 million barrels of aggregate capacity that handle refined petroleum products and crude oil. At these terminals, we provide throughput, storage, injection and other distribution related services to wholesalers, distributors, marketers, retail gasoline station operators and industrial and commercial end-users of refined petroleum products and other commercial liquids. We currently own and operate the following terminal facilities:

- > 29 terminals with approximately 8.9 million barrels of capacity, located at various points along the Plantation and Colonial pipeline corridor, which extends from the Gulf Coast through the Southeast, Mid-Atlantic and Northeast regions;
- > 11 terminals with approximately 3.2 million barrels of capacity, located in the Midwest and upper and lower Mississippi River areas; and
- > 1 terminal complex in Brownsville, Texas with approximately 2.2 million barrels of capacity.

Our network of terminals is geographically diverse with our largest terminal, the Brownsville complex, accounting for approximately 15% of the total capacity of our terminals. Brownsville handles a large volume of liquid product movements between Mexico and south Texas.

In Florida, we currently own and operate 11 tugboats and 13 barges and a proprietary pipeline delivery system in Port Everglades, which we use to transport our product to cruise ships and other

marine vessels for refueling. We also use our tugs and barges to transport third party product and to relocate our product among the Florida terminals owned by TransMontaigne Partners. We use tank capacity provided to us by TransMontaigne Partners at its Florida terminals to blend diesel fuel and No. 6 oil into bunker fuel meeting our customers' specifications. In addition, we use our diesel fuel and No. 6 oil pipeline delivery system at Port Everglades to blend these products at dockside for direct delivery into our customers' vessels.

Along the Mississippi River we own and operate a dock facility in Baton Rouge, Louisiana that is interconnected to the Colonial Pipeline. This connection provides the ability to load product originating from the Colonial Pipeline onto barges for distribution up the Mississippi River, as well as serves as an injection point into the Colonial Pipeline for product unloaded from barges transporting it down the Mississippi River.

We generate revenues in our terminal, pipeline and tug and barge operations from throughput and additive injection fees, storage fees, additization fees, pipeline transportation fees, barge and ship-assist fees, management fees and cost reimbursements and fees from other ancillary services.

Throughput and Additive Injection Fees. We earn throughput fees for each barrel of refined petroleum product that is distributed at our terminals. A significant majority of the throughput at our terminals consists of product that our supply, distribution and marketing segment has purchased, marketed, sold and dispensed over the rack at our terminals. The remainder of the throughput volume at our terminals is generated from exchange agreements and throughput arrangements with third parties. Terminal throughput fees are based on the volume of products distributed at the facility's truck loading racks, generally at a standard rate per barrel of product. Unlike common-carrier pipeline services, terminal services are not subject to price (tariff) regulations, allowing the marketplace to determine the prices that are charged for services.

For example, our supply, distribution and marketing business may enter into a sale agreement for a specific volume of product in Virginia. The product may be shipped to our terminals serving that area for delivery to the customer or the delivery obligation may be satisfied from our existing inventory in those terminals. In either event, the delivery of product to the third-party from our terminal over the truck rack constitutes throughput. Third-party throughput operates in the same manner except that it is a third party that directs the product delivery to our terminals rather than our own supply, distribution and marketing business.

Exchange agreements generally are 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. We enter into exchange agreements with major oil companies to increase throughput at our terminals. We generally receive a fee based on the volume of the product exchanged and delivered through our terminals. The exchange fee takes into account the terminal throughput fee, the cost of transportation from the receipt location to the delivery location, as well as a fee for "regrading" if we deliver one type of product and receive a different type of product. For example, if a major oil company has a one-year agreement to deliver premium gasoline in Atlanta, but does not have a terminal there, that company may enter into an exchange agreement with us whereby we will provide the product at our truck rack in Atlanta and, in exchange, they will provide us with product, which may be the same or a different grade of gasoline, in the Gulf Coast and pay us a negotiated fee.

Additization or injection is the process of injecting refined petroleum products with additives and dyes. Some injected products, such as detergent additives, are standard and are required to comply with governmental regulations, while other injected products are proprietary to certain of our customers. We provide injection services to our customers in connection with the delivery of product at our

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terminals. These fees are generally based on the volume of product injected and delivered over the rack at our terminals.

Storage Revenues. We lease storage capacity at our terminals to third parties and our supply, distribution and marketing operation and earn a storage fee based on the volume of the storage capacity leased. Terminal storage fees generally are based on a per barrel of leased capacity per month rate and will vary with the duration of the storage arrangement (remaining lease terms range from month-to-month to less than 8 years at June 30, 2005), the type of product stored and special handling requirements, particularly when certain types of chemicals and other commercial liquids are involved. For example, the entire 2.2 million barrel capacity at our Brownsville terminal facility is leased, or available for lease, to third parties.

Pipeline Revenues. We earn transportation fees at our Port Everglades pipeline delivery system based on the volume of product delivered to cruise ships and freight vessels. The Port Everglades pipeline delivery system allows a more efficient refueling process than barge to ship refueling. Our supply, distribution and marketing segment is the only shipper of product on the Port Everglades pipeline delivery system.

Barge and Ship-Assist Revenues. Our barges earn transportation fees from third parties at negotiated rates based on the volume of product that is shipped and the distance to the delivery point. Our barges also provide marine vessel fueling services, referred to as bunkering, from TransMontaigne Partners' Port Everglades/Ft. Lauderdale, Cape Canaveral, Port Manatee/Tampa and Fisher Island/Miami terminals. Bunkering fees are based on the volume and type of product delivered to the cruise ships and freight vessels. Our tugboats also earn fees for providing docking and other ship-assist services to cruise and cargo ships and other vessels in South Florida ports based on a per docking per tug basis.

Management Fees and Cost Reimbursements. We manage and operate for a major oil company 17 terminals that are adjacent to our Southeast facilities and receive a reimbursement of costs. We manage and operate for another major oil company certain tank capacity at TransMontaigne Partners' Port Everglades (South) terminal and receive a reimbursement of costs. We also manage and operate for a foreign oil company a bi-directional products pipeline connected to our Brownsville, Texas terminal facility.

Other Service Revenues. In addition to providing storage and distribution services, we also provide ancillary services including heating and mixing of stored products and product transfer services. Many heavy oil products, such as No. 6 oil, bunker fuel and asphalt require heating to keep them in a liquid state suitable for shipping. For example, heavy oil products may be transported to a terminal in non-insulated tank rail cars and, therefore, must be re-heated before being transferred into terminal storage tanks or into trucks or barges. We provide these heating services to our customers and charge negotiated fees based on the type and volume of product heated. We also earn transfer fees for transferring product between tanks and transportation equipment. For example, we would charge a fee to transfer product from a rail car or a barge to a storage tank at a customer's request. We also recognize revenues upon the sale of product to our supply, distribution, and marketing operation resulting from the excess of product deposited by third parties into our terminals over the amount of product that the customer is contractually permitted to withdraw from those terminals.

Supply, distribution and marketing

Prior to the implementation of our product supply arrangement with Morgan Stanley Capital Group, Inc. during the three months ended March 31, 2005, we generally purchased our inventory of refined petroleum products at prevailing prices from refiners and marketers at production points and

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common trading locations along the Gulf Coasts of Texas and Louisiana. We now purchase substantially all of our light oil products for sale through our terminals located along the Colonial and Plantation pipelines and TransMontaigne Partners' Florida terminals from Morgan Stanley Capital Group, Inc. under a product supply agreement that expires on December 31, 2011. For the remainder of our and TransMontaigne Partners' terminals, and for our heavy oil supply needs, we contract to purchase our inventory at prevailing prices from refiners and marketers. In each case, we direct shipments for delivery via pipelines and vessels to our terminals, as well as terminals owned by TransMontaigne Partners and third parties with which we have storage or throughput agreements. From these terminal locations, we then sell our products to customers primarily through three types of arrangements: rack spot sales, contract sales, and bulk sales.

Rack Spot Sales. Rack spot sales are sales that do not involve continuing contractual obligations to purchase or deliver product. Rack spot sales are priced and delivered on a daily basis through truck loading racks or marine fueling equipment. At the end of each day for each of the terminals that we market from, we establish the next day selling price for each product for each of our delivery locations. We announce or "post" to independent local jobbers via facsimile, website, e-mail, and telephone communications the rack spot sale price of various products for the following morning. Typical rack spot sale purchasers include commercial and industrial end-users, independent retailers and small, independent marketers, referred to as "jobbers," who resell product to retail gasoline stations or other end-users. Our selling price of a particular product on a particular day is a function of our supply at that delivery location or terminal, our estimate of the costs to replenish the product at that delivery location, and our desire to reduce inventory levels at that particular location that day.

We manage the physical quantity of our inventories of product through rack spot sales. Our rack spot sales volume for a particular product is sensitive to changes in price. If our objective is to increase rack spot sales volume for a particular product of ours at a specific delivery location, then we would post the selling price of that product at the low end of the range of competitive prices being offered in the applicable market to induce purchasers in that market to choose to buy our product as opposed to product offered by competitors in that market. This would occur if, for example, we expect that wholesale margins for that product will decrease at that location in the near future or if we have significant deliveries scheduled to arrive at that location in the near term.

Contract Sales. Contract sales are made pursuant to negotiated contracts, generally ranging from one to twelve months in duration, that we enter into with local market wholesalers, independent gasoline station chains, heating oil suppliers, cruise ship operators and other customers. Contract sales provide these customers with a specified volume of product during the term of the agreement. Delivery of product sold under these arrangements generally is at our truck racks or via our marine fueling equipment. The pricing of the product delivered under a majority of our contract sales is based on published index prices, and vary based on changes in the applicable indices. In addition, at the customer's option, the contract price may be fixed at a stipulated price per gallon.

For example, we may enter into an agreement with a retail heating oil supplier in the Northeast to provide the supplier with heating oil, for delivery at our truck rack or a rack owned by a third party, during the high demand winter months at a fixed price.

Bulk Sales. Bulk sales generally involve the sale of products in large quantities in the major cash markets including the Houston Gulf Coast and New York Harbor. A bulk sale of products also may be made while the product is being transported in the common carrier pipelines or by barge or vessel.

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Supply Chain Management Services. Industrial, commercial and governmental entities with significant ground fleets need to ensure adequate fuel supplies for their fleet vehicles. For many of these companies and governmental entities, the cost of fuel is a significant expenditure and the administration and record keeping involved is burdensome. Some companies also maintain their own proprietary refueling facilities, which requires monitoring fuel levels, scheduling deliveries, controlling inventories and filing excise tax returns. Other companies use retail gasoline stations to refuel their vehicles, resulting in extensive payment handling as well as exposure to price fluctuations in the market. In response to these market needs, we developed our supply chain management service offerings. We provide supply chain management services to companies and governmental entities that desire to outsource their fuel supply function to focus their efforts on their core competencies and to reduce the price volatility associated with their fuel supplies for budgetary reasons. These services often include price management solutions that provide our customers an assured source of fuel at a predictable price. Our customer base includes companies involved in the manufacture and distribution of consumer products, express shipping services, waste disposal services, transportation services, and state and local government entities.

These customers use our proprietary web-based technology, which provides them the ability to budget their fuel costs while outsourcing all or a portion of their procurement, scheduling, routing, excise tax and payment processes. Using electronic metering equipment, we can monitor the amounts of product stored and delivered at our customers' proprietary refueling locations. In addition, through our strategic relationship with a credit card processing company, we can monitor the volume of fuel purchased by our customers' ground fleet vehicles at retail truck stops and service stations.

We currently 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. On a daily basis, for each of our customer's facilities, we procure product, schedule delivery, manage local inventory quantities and summarize each customer's purchases by location and vehicle. Typical customers for delivered fuel price management services have large fleets of vehicles that drive fixed, scheduled routes, making refueling at a proprietary refueling location an attractive choice.

For example, we may enter into a delivered fuel price management contract with a customer that has storage and refueling facilities at its fleet operations centers. We will agree to deliver diesel fuel directly to the customer's proprietary refueling location at a fixed price per gallon. We then monitor the customer's fuel usage and schedule additional fuel deliveries as needed. We will provide the customer with a single invoice for all of the fuel deliveries that includes reconciliation of all bills of lading against deliveries and breaks out accumulated third-party transportation costs. This information is available to the customer on a customized web-based portal.

Retail price management contracts typically are entered into for a period of up to 18 months with customers that require flexibility in refueling locations, either because they do not have proprietary refueling facilities or because they generally do not operate along fixed routes. Under these arrangements, customers commit to a specific monthly notional quantity of product within one or more metropolitan areas. The customer's drivers will purchase fuel at a retail gasoline station within the metropolitan area and use their fleet credit card to pay the retail price at that station. We then settle with our customer the net financial difference between a stipulated retail price index for that metropolitan area and our customer's contract price on a monthly basis. If the contract price is less than the average indexed price, we will pay the customer the net difference. If the contract price exceeds the average indexed price, the customer will pay us the net difference. In either case, the

customer will have effectively managed its exposure to fuel costs at the contract price. Through our proprietary web-based software, our customers receive a monthly report of each of these activities. Typical customers for retail price management services include companies that have large fleets that are dispatched to specific service or delivery locations on an as-needed basis.

For example, we may enter into a retail price management contract with a customer for a price per gallon of gasoline equal to a stipulated retail price index plus a negotiated fee. The customer's fleet drivers are able to purchase fuel at almost any retail gasoline station using their fleet credit card. At the time of purchase, the driver pays for the gasoline using the company fleet card, and the vehicle number and the amount and price of fuel purchased are recorded. A credit card processing company sends daily electronic reports to us indicating a summary of the data collected by the credit cards. This information is made available to the customer on our proprietary web-site. We then settle the net difference between the indexed price and the customer's contract price on a monthly basis.

Under our logistical supply chain management arrangements, we provide our proprietary web-based refined petroleum product procurement, inventory management, scheduling, routing, excise tax and consolidated billing services to customers on a stand alone basis without any delivery or price management products. These services also are often integrated with a credit card processing company, thereby affording our customers complete flexibility to obtain their supply of products at almost any retail gasoline station. These services typically are charged to the customer on a per gallon basis or at negotiated rates. Typical logistical service customers include governments and customers that are seeking to outsource or streamline record keeping functions but are willing to continue to bear price fluctuations. Often, a customer will initially contract for logistical supply chain management services and later use our delivered fuel price management or retail price management services.

For example, a customer may want the benefits of a single invoice for all fuel purchases and the ability to manage its fuel usage on-line. We provide access to fuel purchase data in real time, providing an automated platform for analysis tailored to each customer. In addition, many customers have diverse logistical requirements, buying fuel in bulk, at retail locations and through mobile refueling services. We can provide integrated management of all supply and logistical requirements for our customers' bulk locations and use our relationship with a credit card processing company to manage the retail and mobile refueling volumes. The customer's fleet card would capture the fueling transaction data for the bulk, retail and mobile refueling activity facilitating customized reporting on our proprietary web site. Our customers benefit from a single resource for the procurement, pricing and reporting of all fuel data regardless of the logistical requirements.

We have received a revenue ruling from the Internal Revenue Service that allows us to provide state and local government vehicle fleets with a simplified process for managing and obtaining fuel tax exemptions. State and local governments are exempt from paying federal excise taxes on the fuel consumed by their vehicle fleets. Normally, fleet vehicles would purchase gasoline at retail gasoline stations, where excise taxes are included in the price of gasoline, and the government agency would file a tax return to obtain a refund of excise taxes paid. By using our supply chain management services, these tax-exempt government fleets can purchase fuel at almost any retail location using their fleet credit card. The credit card processing company pays the merchant and transfers the balance to our account. We then bill our customer net of federal excise taxes. We file all necessary excise tax returns on behalf of these customers with the applicable taxing authorities and we receive a credit against our excise tax payment obligations. We believe that this additional service gives us a competitive advantage that will allow us to attract additional government fleet customers.

Risk Management. Our risk management committee, composed of senior executives of TransMontaigne Inc., has established risk management policies to monitor and manage commodity

price risks. For additional information about our risk management policies and practices, see "Item 7A. Quantitative and Qualitative Disclosures About Market Risk," included elsewhere in this annual report.

TransMontaigne Partners

Company Overview. TransMontaigne Partners L.P., is a publicly traded master limited partnership that provides refined petroleum product terminaling and transportation services. TransMontaigne Partners' common units are traded on the New York Stock Exchange under the symbol "TLP." An indirectly wholly-owned subsidiary of TransMontaigne Inc. is the general partner of TransMontaigne Partners. We own a 2% general partnership interest and a 39.4% limited partnership interest in TransMontaigne Partners. TransMontaigne Partners owns nine terminal facilities with approximately 6.2 million barrels of aggregate capacity that handle refined petroleum products and crude oil. TransMontaigne Partners does not take ownership of or market products that it handles or transports and, therefore, TransMontaigne Partners is not directly exposed to changes in commodity prices. TransMontaigne Partners currently owns, and we operate on its behalf, the following terminal and pipeline facilities:

- > seven refined product terminals located in Florida, with an aggregate storage capacity of approximately 5.8 million barrels, that provide integrated terminaling services to us, other distribution and marketing companies and the United States government;
- > a 67-mile, interstate refined products pipeline with a capacity of approximately 30,000 barrels per day, which we refer to as the Razorback Pipeline, that currently transports gasoline and distillates for our use from Mt. Vernon, Missouri to Rogers, Arkansas; and
- > two refined product terminals, one located in Mt. Vernon, Missouri and the other located in Rogers, Arkansas, with an aggregate storage capacity of approximately 400,000 barrels, that are connected to the Razorback Pipeline and provide integrated terminaling services to us.

We currently are the sole shipper on the Razorback Pipeline. The Rogers terminal, together with the Mt. Vernon terminal and Razorback Pipeline, allows us to ship product from the Gulf Coast to this Midwest market via its connection to the Explorer Pipeline.

Omnibus Agreement. As part of the initial public offering of limited partnership units of TransMontaigne Partners, we entered into an omnibus agreement, dated May 27, 2005 (the "Omnibus Agreement"), with TransMontaigne Partners, its general partner and certain of its subsidiaries. Pursuant to the Omnibus Agreement, subject to the detailed terms and conditions set forth therein:

- > We provide TransMontaigne Partners with administrative services, such as legal, accounting, treasury, insurance administration and claims processing, health, safety and environmental compliance, information technology, human resources, credit, payroll, taxes and engineering and other corporate services. The administrative service arrangement has a three-year term, subject to renewal for two-year periods, after which the general partner of TransMontaigne Partners will determine the general and administrative expenses that will be allocated to TransMontaigne Partners.
- > We also provide TransMontaigne Partners with insurance coverage. The insurance coverage arrangement also has an initial three-year term subject to renewal for subsequent two-year periods.

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- > TransMontaigne Partners has exclusive options to purchase from us additional refined product terminals and operations, including:
- > our terminal complex located in Brownsville, Texas with a current aggregate storage capacity of approximately 2.2 million barrels;
- > our refined product terminals located at various points along the Plantation and Colonial pipeline corridors, which extend from the Gulf Coast through the Southeast and Mid-Atlantic regions, with a current aggregate storage capacity of approximately 8.9 million barrels; and
- > our refined product terminals located along the Mississippi and Ohio River areas, with a current aggregate storage capacity of approximately 3.2 million barrels.
- > We have agreed to offer to sell to TransMontaigne Partners certain assets acquired or constructed by us in the future.
- > We have agreed to indemnify TransMontaigne Partners for certain liabilities related to environmental law compliance and real estate title matters.
- > We have a right of first refusal to purchase assets owned by TransMontaigne Partners that are in the same line of business in which we are engaged, and certain storage capacity that becomes available in the future.

The option with respect to the Brownsville complex will be exercisable for one year beginning in January 2006. The option with respect to the terminals along the Plantation and Colonial pipeline corridors will be exercisable for one year beginning in December 2007. The option with respect to the terminals along the Mississippi and Ohio River areas will be exercisable for one year beginning in December 2008. The exercise of any of the options will be subject to the negotiation of a purchase price and a terminaling services agreement relating to the terminals proposed to be purchased and conditioned upon receipt of any necessary governmental or third party consents. If we cannot agree on a purchase price, we will have the right to seek an alternative purchaser willing to pay at least 105% of the purchase price proposed by TransMontaigne Partners. If an alternative transaction on such terms has not been consummated within six months, TransMontaigne Partners will have the right to purchase the assets at the price it originally proposed.

Additionally, subject to certain exclusions and conditions, we have agreed to offer to sell to TransMontaigne Partners any tangible assets having a value in excess of \$10 million that we acquire or construct, related to the storage, transportation or terminaling of refined petroleum products in the United States. If TransMontaigne Partners declines any such offer, we will be free to retain and use the asset. If TransMontaigne Partners indicates a desire to purchase the assets, but we do not agree to all of the terms of the transaction, including the purchase price, after negotiating in good faith, we would have the right to seek an alternative purchaser willing to pay at least 105% of the purchase price proposed by TransMontaigne Partners. If an alternative transaction on such terms has not been consummated within six months, TransMontaigne Partners would have the right to purchase the assets at the purchase price originally proposed and on the other fundamental terms specified in the term sheet previously provided by us.

We also have agreed (1) to indemnify TransMontaigne Partners for five years against certain potential environmental claims, losses and expenses attributable to pre-closing operations, subject to a maximum liability for this indemnification obligation of \$15.0 million, and (2) to indemnify TransMontaigne Partners for losses attributable to title defects, retained assets and liabilities and income taxes attributable to pre-closing operations.

The Omnibus Agreement also provides that, if TransMontaigne Partners proposes to sell any assets that are in the same line of business in which we are engaged, we will have a right of first refusal to purchase such assets, provided that we agree to pay no less than 105% of the purchase price offered by a third-party bidder. We also will have a right of first refusal with respect to any petroleum product storage capacity that is put into commercial service by TransMontaigne Partners after May 27, 2005, and under certain other circumstances.

Terminaling and Transportation Services Agreement. Also in connection with TransMontaigne Partners' initial public offering, two of our operating subsidiaries, entered into a terminaling and transportation services agreement, dated May 27, 2005 (the "Terminaling Services Agreement"), with TransMontaigne Partners. Pursuant to the Terminaling Services Agreement, we agreed to transport product on the Razorback Pipeline and to throughput product in terminals owned by TransMontaigne Partners a volume of refined product that will result in minimum revenues to TransMontaigne Partners of \$5.0 million per calendar quarter. In exchange for our minimum transportation and throughput commitment, TransMontaigne Partners agreed to provide us approximately 2.0 million barrels of light oil storage capacity and approximately 1.4 million barrels of heavy oil storage capacity at certain of TransMontaigne Partners' Florida terminals. If as a result of a force majeure event a party to the Terminaling Services Agreement is unable to perform under the agreement for a period over one year, then any party can terminate the Terminaling Services Agreement. After the initial term, the Terminaling Services Agreement will automatically renew for subsequent one-year periods, subject to either party's right to terminate with six months' notice. Upon termination of the Terminaling Services Agreement, we will have a right of first refusal giving us the right to enter into a new terminaling and transportation services agreement with TransMontaigne Partners, pursuant to which we will have the right to obtain any commercial terms offered to TransMontaigne Partners by a third party, provided we pay no less than 105% of the fees offered by such third party.

Industry Trends

Petroleum imports and Gulf Coast production

United States crude oil production has declined from 6.8 million barrels per day in 1993 to 5.4 million barrels per day in 2004. Imports of crude oil from the Middle East, Europe, South America and elsewhere have increased substantially over this period from 6.8 million barrels per day in 1993 to 10.1 million barrels per day in 2004. Domestic crude oil production may be refined at any of the regional refineries around the United States. However, the imported crude oil generally is shipped by vessel into the Gulf Coast for processing at the large refining complexes. Crude oil production in the Gulf of Mexico, one of the largest sources of domestic production, also is refined primarily in these Gulf Coast refineries. The refined petroleum products then are shipped to other regions of the United States. We believe that this trend will lead to more refined petroleum product shipment from the Gulf Coast to the East Coast, Florida and Midwest, requiring additional transportation and storage capacity in the East Coast, Florida and Midwest.

Additionally, imports of refined petroleum products from Europe, South America and elsewhere have increased substantially from 1.8 million barrels per day in 1993 to 3.1 million barrels per day in 2004 to cover the shortfall in domestic refining capacity. Imports of refined petroleum products initially are unloaded at marine terminals generally in the Gulf Coast, Florida and East Coast. We believe that this trend of increasing imports of refined petroleum products will require additional transportation and storage capacity at marine terminals to the facilitate the distribution of refined product.

Ownership of Terminals and Pipelines by Public Partnerships

Terminals and pipelines used in the petroleum industry increasingly have been acquired by publicly traded master limited partnerships. Master limited partnerships, or "MLPs," enjoy favorable tax treatment and therefore, generally have a lower cost of capital when compared to corporations. MLPs generally are required to distribute substantially all of their earnings to their unit holders. Most MLPs avoid commodity price risk and other risks because they seek business activities that generate stable and predictable earnings to permit the payment of a stable and predictable cash distribution. We believe that this trend of aggregation and ownership of mid-stream petroleum assets, such as terminals and pipelines, by MLPs will continue. To take advantage of this trend, we formed TransMontaigne Partners, a publicly traded master limited partnership, which completed its initial public offering on May 27, 2005. We believe that our ability to accept commodity price risk and other risks, combined with the favorable tax treatment afforded TransMontaigne Partners, gives us an advantage in negotiating for the acquisition of terminals and pipelines that other MLPs might not seek to acquire because of the associated commodity price risk and other risks.

The significance of Gulf Coast refining capacity has resulted in part from consolidation in the petroleum industry to take advantage of economies of scale associated with operating larger, concentrated refineries. The growth in refining capacity and increased product flow attributable to the Gulf Coast region has created a need for additional transportation, storage and distribution facilities in the Gulf Coast, East Coast, Florida and Midwest regions.

New sulfur regulations

In February 2002, the Environmental Protection Agency ("EPA"), promulgated the Tier 2 Motor Vehicle Emissions Standards Final Rule for all passenger vehicles, establishing standards for sulfur content in gasoline. These regulations mandate that the average sulfur content of gasoline for highway use produced at any refinery not exceed 30 parts per million during any calendar year by January 1, 2006. In addition, in January 2001, the EPA promulgated its on-road diesel regulations, which will require a 97% reduction in the sulfur content of diesel fuel sold for highway use by June 1, 2006. Regulations for off-road diesel equipment also are pending. The stricter regulations will require refining companies to make significant capital expenditures to upgrade their facilities to comply with the new standards. Because of the technical sophistication and the capital outlays that will be required for compliance with such regulations, the large oil companies with major refining operations in the Gulf Coast are expected to be better prepared to meet the new standards than the smaller independent refiners. We believe that these trends will lead to more refined petroleum product shipments from the Gulf Coast to the Midwest and East Coast, requiring additional transportation and storage capacity in the Midwest and East Coast.

Consolidation and specialization

In the 1990's, the petroleum industry entered a period of consolidation and specialization.

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Refiners and marketers began to pursue development of large-scale, cost-efficient operations, thus leading to several refinery acquisitions, alliances and joint ventures. The companies involved in several of the mergers of large oil companies have sold retail and terminal assets in order to rationalize merged operations, and to comply with legal requirements to divest assets in certain geographic markets.

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Major oil companies also began to re-deploy their resources to focus on their core competencies of exploration and production, refining and retail marketing. Industry participants have sought to sell portions of their proprietary transportation and storage and distribution networks.

This industry trend towards consolidation and specialization has created opportunities to capitalize on storage and distribution services. We expect that acquisition opportunities will continue to be generated as this trend continues.

Hypermarkets and alternative retail gasoline outlets

The retail distribution of gasoline is experiencing a transformation as consumer consumption patterns are moving away from gasoline distributed at the retail outlets of large oil companies, or "branded gasoline," toward unbranded gasoline from independent retail outlets offering lower prices and convenient locations. For example, many hypermarkets, grocery stores, convenience stores, discount retailers and wholesale outlets have installed gasoline pumps in their parking lots as a way to expand their product and service offerings and to allow their customers the benefit of "one-stop shopping." The increase in popularity of unbranded outlets has created new sales and distribution opportunities for independent petroleum marketing and distribution companies.

High refined product prices and concerns regarding availability of supply

In recent periods, prices for crude oil and refined petroleum products have increased substantially. In addition, market participants are concerned that various factors, including limited global refining capacity, political instability and other circumstances, may lead to reduced supply relative to demand. These factors are leading more distributors and end-users of refined petroleum products to seek reliable, committed sources for their supply. This increased demand for contracted volumes has created additional sales opportunities for independent petroleum marketing and distribution companies.

Competitive Strengths

We believe that we have the following competitive strengths, which allow us to take advantage of the industry trends outlined above:

Significant asset base and shipping history

The Gulf Coast is a large shipper of refined petroleum products to the East Coast, Florida and Midwest regions. We have access to a geographically diverse network of terminals that allows us to take advantage of the differences between supply in the Gulf Coast and demand in the East Coast, Florida and Midwest. The size of this network of terminals, both in terms of number of terminals and total storage capacity, compares favorably with any integrated oil company.

This geographic diversity also allows us to quickly sell our product inventory from time to time in one or more locations while maximizing value to us. Our product supply agreement with Morgan Stanley Capital Group, Inc. allows us to direct the delivery of large volumes of products over the Colonial and Plantation pipelines to our terminals and third-party terminals. This arrangement provides us the benefit of allocated space on these common carrier pipelines during high demand periods, which is a competitive advantage when pipeline capacity is over-subscribed.

We believe that we will be able to further capitalize on our network of terminals and terminal capacity in the Gulf Coast, East Coast, Florida and Midwest following implementation of the new sulfur standards promulgated by the EPA. We anticipate that refining companies will be required to make significant capital expenditures to upgrade facilities to comply with such new sulfur regulations. Because of the technical sophistication and the capital outlays that will be required for compliance

with such regulations, we expect that the large oil companies with major refining operations in the Gulf Coast will gain a competitive advantage over the smaller independent refiners. We believe that this will lead to an increase in the volume of petroleum product shipments from the Gulf Coast to the East Coast, Florida and Midwest and require additional storage capacity in the East Coast, Florida and Midwest, providing additional growth opportunities for us.

Ability to link asset base, product supply and management services

Our supply, distribution and marketing operations and our terminal, pipeline and tug and barge operations each utilize and benefit from each other, creating opportunities to realize additional value in each of our business segments that could not be realized if each business segment were operated independently.

Our supply, distribution and marketing operations generally use our terminal and tug and barge infrastructure and TransMontaigne Partner's terminal and pipeline infrastructure to market various products and provide specialized supply, logistical and risk management services to our customers. A significant portion of the throughput on our terminal infrastructure is driven by our own supply, distribution and marketing business. As a result, we do not rely solely on third parties for our throughput activity.

We own and operate terminals located throughout the regions served by four major petroleum product pipelines along which we can direct the delivery of significant volumes of product. Also, we own and operate a dock strategically located on the Mississippi River with an interconnection to the Colonial Pipeline. We also have substantial experience in managing complex petroleum product supply and demand arrangements, utilizing equipment and software that allow us to monitor supplies in all of our facilities on a daily basis.

Because we link our asset base with our supply, distribution and marketing operations, we have the flexibility to market product during adverse market conditions to meet our contractual volume obligations and generate throughput revenues.

Supply chain management services

In order to operate more efficiently and to reduce overhead costs, many companies and governmental entities have begun to outsource their fuel supply function. This trend is creating an emerging market for services that allow these customers to focus their efforts on their core competencies and to reduce the price volatility associated with fuel supply for budgetary reasons. We provide a broad scope of services that include fuel supply, monitoring, excise tax administration and price management solutions, allowing our customers to obtain all of the required fuel supply chain management functions from a single source. We believe that we are the only significant independent fuel supply chain management services provider in the United States offering this extensive suite of services.

Technology and back-office infrastructure

We have assembled monitoring equipment and software to create an integrated, flexible system that allows us to effectively manage petroleum products throughout all of the terminals that we market from on a real time basis.

All of our and TransMontaigne Partners' terminals are equipped with equipment to monitor product supplies and outflows as well as for any environmentally harmful releases of product, such as leaks or spills. This equipment is interconnected electronically with our central inventory management office and automatically reports inventory levels in each facility several times daily. The electronic linkage

between the terminals and our supply, distribution and marketing operations creates an inherent competitive strength by allowing us to make real time decisions on product purchases and sales.

We use a magnetic card system at each terminal that allows us to control product sales deliveries and also allows us to manage our credit risk exposure. Each of our rack customers is given a magnetic card that can be used only at the terminals we operate. Upon arrival at the rack, the driver of the truck swipes the magnetic card and inputs a product and volume request. This information is processed through our computerized inventory management system to determine the credentials of the carrier and whether the driver's product and volume request is within the customer's allocation of product for that month. The system also determines if the customer is current in its payments to us. If it is determined that the customer's allocation of product already has been drawn or if the customer is delinquent in paying its invoices to us, then the sale will not be allowed. The magnetic card system at each terminal is interconnected with our inventory management and billing system.

We also use a proprietary web-based system in our supply chain management services business that allows us to provide refined petroleum product procurement, inventory management, scheduling, routing and excise tax and consolidated billing services to our customers. Through our relationship with a credit card processing company, we provide integrated billing services to our supply chain management services customers. These customers receive fleet credit cards that are distributed to their fleet vehicle operators for use in purchasing gasoline at any retail gasoline station that accepts credit cards as a method of payment. On a daily basis, we receive information on these accounts electronically from the credit card processing company into our billing system. This information is posted on our web-based system, which can be accessed by our supply chain management services customers, allowing them to closely monitor fuel usage and costs by vehicle on a real time basis.

The refined petroleum products that arrive at terminals do not have excise taxes included in their price. At the time the products are sold over the rack, however, excise tax must be added to the price and paid by the purchasers of our products. The process of calculating, collecting, paying and reporting the excise taxes imposed by state and federal authorities requires extensive knowledge, expertise and administrative infrastructure. For example, we may make a delivery of gasoline at our rack that is located in one state to a truck that will transport the fuel to a neighboring state. Because taxation rules differ among locations, we must keep track of where the fuel will be ultimately delivered, charge the appropriate excise tax and file excise tax returns in the appropriate jurisdictions. We have developed an infrastructure to administer excise taxes on product that we handle.

Strategies

The goal of our business strategies is to enhance our position as a leading independent provider of integrated refined petroleum products terminal, storage, supply, distribution and marketing services. To achieve this goal, our strategies are:

- > To procure adequate supplies of refined petroleum products to deliver to our customers in order to generate more contract sales and secure favorable marketing margins.
- > To market our supply chain management services to additional customers with large ground transportation fleets.
- > To actively market our supply chain management solution for managing and obtaining excise tax exemptions on fuel purchases to government fleet customers.
- > To capitalize on our product supply arrangement with Morgan Stanley Capital Group, Inc., which allows us to reduce our investment in inventories of refined products and the related borrowings

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under our senior secured working capital credit facility. The resulting increase in borrowing capacity allows us to focus our financial resources on expanding our business, including through acquisitions and organic expansion.

- > To acquire additional terminal and storage facilities that will either complement our existing asset base and distribution capabilities, or provide entry into new markets. We intend to expand the number and size of our terminal facilities, particularly marine facilities, to handle the importation of refined petroleum products. To the extent these facilities produce qualifying income and have a value in excess of \$10 million, these additional facilities will be subject to an option in favor of TransMontaigne Partners to purchase them at fair value under the Omnibus Agreement between us and TransMontaigne Partners.
- > To capitalize on our infrastructure by linking our and TransMontaigne Partners' significant asset base to our supply, distribution and marketing business.
- > To use our significant terminal storage capacity to meet the growing demand for boutique blends of gasoline spurred by recent and anticipated changes in government regulations.

Environmental and Regulatory Matters

Our operations are subject to extensive federal, state and local laws and regulations covering the discharge of materials into the environment, or otherwise relating to the protection of the environment, and which require expenditures for remediation at various operating facilities, as well as expenditures in connection with the construction of new facilities. We believe that our operations and facilities are in material compliance with applicable environmental regulations. Environmental laws and regulations have changed substantially and rapidly over the last 20 years, and we anticipate that there will be continuing changes in the future. The trend in environmental regulation is to place more restrictions and limitations on activities that may impact the environment, such as emissions of pollutants, generation and disposal of wastes and use and handling of chemical substances. Increasingly strict environmental restrictions and limitations have resulted in increased operating costs for us and other businesses throughout the United States, and the costs of compliance with environmental laws and regulations may continue to increase. We will attempt to anticipate future regulatory requirements that might be imposed and to plan accordingly to remain in compliance with changing environmental laws and regulations and to minimize the costs of such compliance. We do not anticipate that we will be required in the near future to expend amounts that are material in relation to our total capital expenditures program to comply with environmental laws and regulations, but inasmuch as such laws and regulations are frequently changed, we are unable to predict the ultimate costs of compliance.

TransMontaigne Inc.'s operations require environmental permits under various federal, state and local environmental statutes and regulations. The cost involved in obtaining and renewing these permits is not material.

Water

The Federal Water Pollution Control Act of 1972, as renamed and amended as the Clean Water Act ("CWA"), imposes strict controls against the discharge of oil and its derivatives into navigable waters. The CWA provides penalties for any discharges of petroleum products in reportable quantities and imposes substantial potential liability for the costs of removing an oil or hazardous substance spill. State laws for the control of water pollution also provide for various civil and criminal penalties and liabilities in the event of a release of petroleum or its derivatives in surface waters or into the groundwater. Spill prevention control and countermeasure requirements of federal laws require

appropriate containment berms and similar structures to help prevent the contamination of navigable waters in the event of a petroleum tank spill, rupture or leak. A containment berm is an earthen or cement barrier, impervious to liquids, which surrounds a storage tank holding between 1,000 and 500,000 gallons of petroleum products or other hazardous materials and used to prevent spilling and extensive damage to the environment. The berm is a form of secondary containment with the storage tank itself being the primary instrument of containment.

Contamination resulting from spills or releases of refined petroleum products is an inherent risk in the petroleum terminal and pipeline industry. To the extent that groundwater contamination requiring remediation exists around the assets we own as a result of past operations, we believe any such contamination can be controlled or remedied without having a material adverse effect on our financial condition. However, such costs are often unpredictable and are site specific and, therefore, the effect may be material in the aggregate.

The primary federal law for oil spill liability is the Oil Pollution Act of 1990 ("OPA"), which addresses three principal areas of oil pollution prevention, containment and cleanup. It applies to vessels, offshore platforms, and onshore facilities, including terminals, pipelines and transfer facilities. In order to handle, store or transport oil, shore facilities are required to file oil spill response plans with the United States Coast Guard, the United States Department of Transportation Office of Pipeline Safety ("OPS"), or the EPA. Numerous states have enacted laws similar to OPA. Under OPA and similar state laws, responsible parties for a regulated facility from which oil is discharged may be liable for removal costs and natural resources damages. We believe that we are in material compliance with regulations pursuant to OPA and similar state laws.

The EPA has adopted regulations that require us to obtain permits to discharge certain storm water run-off. Storm water discharge permits also may be required by certain states in which we operate. Such permits may require us to monitor and sample the effluent from our operations. We believe that we are in material compliance with effluent limitations at our facilities.

Water permits are required for various types of terminal storm water discharges. There are no TransMontaigne Inc. terminal locations that discharge any type of process wastewater. Terminal storm water discharges generally fall into two categories: petroleum contact and non-contact. The sources of contact water are the truck loading operations at some of the terminals. Many TransMontaigne Inc. terminal locations do not have contact water discharges, and thus no need for discharge permits, by virtue of employment of closed-loop water handling systems. The water generated in these systems is transported offsite and reclaimed. At locations where contact water is discharged on site, permit conditions dictate control technology requirements, effluent limitations and confirmation sampling. Non-contact storm water is generated at most terminal locations, primarily from rainfall collection in aboveground storage tank secondary containment enclosures or dikes. Various types of permits regulate these discharges, with most being "General" state-wide industry specific mechanisms. The cost involved in obtaining and renewing these permits is not material.

Air emissions

Our operations are subject to the federal Clean Air Act and comparable state and local statutes. The Clean Air Act Amendments of 1990 require most industrial operations in the United States to incur capital expenditures to meet the air emission control standards that are developed and implemented by the EPA and state environmental agencies. Pursuant to the Clean Air Act, any of our facilities that emit volatile organic compounds or nitrogen oxides and are located in ozone non-attainment areas face increasingly stringent regulations, including requirements to install various levels of control technology on sources of pollutants. Some of our facilities have been included within the categories of hazardous

air pollutant sources. The Clean Air Act regulations are still being implemented by the EPA and state agencies. We believe that we are in material compliance with existing standards and regulations pursuant to the Clean Air Act and similar state and local laws, and we do not anticipate that implementation of additional regulations will have a material adverse effect on us.

Air permits are required for TransMontaigne Inc.'s terminaling operations that result in the emission of regulated air contaminants. These operations in general include fugitive volatile organic compounds (primarily hydrocarbons) from truck loading activities and tank working losses. The sources of these emissions are strictly regulated through the permitting process. Such regulation includes stringent control technology, extensive permit review and periodic renewal. The cost involved in obtaining and renewing these permits is not material.

CERCLA

Other than Coastal Fuels Marketing Inc. ("CFMI"), neither TransMontaigne Inc. nor any of its subsidiaries is a named party in any Comprehensive Environmental Response, Compensation, and Liability Act ("CERCLA") related action. CFMI, which is now a wholly owned subsidiary of TransMontaigne Inc., had been named as a PRP in four State of Florida CERCLA actions which originated from waste disposal by third parties at off-site locations prior to TransMontaigne Inc.'s acquisition of CFMI from El Paso Corporation in 2003. TransMontaigne Inc. has been indemnified by El Paso for any costs TransMontaigne Inc. may incur for these issues. Due diligence research at the time of the acquisition of CFMI indicated that El Paso would not be likely to incur any future costs related to these actions; a worst-case analysis estimated El Paso's potential exposure at a total of \$850,000. The likelihood of a worst-case scenario developing continues to diminish with the passage of time. CFMI transferred the former CFMI terminals in Florida to TransMontaigne Partners in connection with TransMontaigne Partners' formation and initial public offering transactions. In connection with that transfer, pursuant to the omnibus agreement between TransMontaigne Inc. and TransMontaigne Partners, TransMontaigne Inc. agreed to indemnify TransMontaigne Partners for a period of five years against up to \$15 million of environmental liabilities that arise as a result of past activities. Similarly, TransMontaigne Partners agreed to indemnify TransMontaigne Inc. against environmental liabilities arising from activities occurring after May 27, 2005.

All of TransMontaigne Inc.'s terminal facilities are classified by the United States EPA as Conditionally Exempt Small Quantity Generators and do not generate hazardous waste except on isolated and infrequent cases. At such times, only third party disposal sites, which have been audited and approved by TransMontaigne Inc., are used.

Safety Regulation

We are subject to regulation by the United States Department of Transportation under the Accountable Pipeline and Safety Partnership Act of 1996, sometimes referred to as the Hazardous Liquid Pipeline Safety Act ("HLPSA"), and comparable state statutes relating to the design, installation, testing, construction, operation, replacement and management of our pipeline facilities. HLPSA covers petroleum and petroleum products and requires any entity that owns or operates pipeline facilities to comply with such regulations and also to permit access to and copying of records and to make certain reports and provide information as required by the Secretary of Transportation. We believe that we are in material compliance with these HLPSA regulations.

OPS regulations require qualification of pipeline personnel. These regulations require pipeline operators to develop and maintain a written qualification program for individuals performing covered tasks on pipeline facilities. The intent of this regulation is to ensure a qualified work force and to reduce the probability and consequence of incidents caused by human error. The regulation establishes

qualification requirements for individuals performing covered tasks, and amends certain training requirements in existing regulations. We believe that we are in material compliance with these OPS regulations.

We also are subject to OPS regulation for High Consequence Areas ("HCAs"), for Category 2 pipeline systems (companies operating less than 500 miles of jurisdictional pipeline). This regulation specifies how to assess, evaluate, repair and validate the integrity of pipeline segments that could impact populated areas, areas unusually sensitive to environmental damage and commercially navigable waterways, in the event of a release. Our assets that are subject to these requirements are: (1) the Pinebelt Pipeline (the pipeline connecting the Collins and Purvis, Mississippi complexes); (2) the Razorback Pipeline, which is owned by TransMontaigne Partners and operated by TransMontaigne Inc.; (3) the Bellemeade Pipeline (pipeline connecting the Richmond Terminal to the nearby Virginia Power plant); and (4) the Birmingham Terminal pipeline connection to Plantation Pipeline. The regulation requires an integrity management program that utilizes internal pipeline inspection, pressure testing, or other equally effective means to assess the integrity of pipeline segments in HCAs. The program requires periodic review of pipeline segments in HCAs to ensure adequate preventative and mitigative measures exist. Through this program, we evaluated a range of threats to each pipeline segment's integrity by analyzing available information about the pipeline segment and consequences of a failure in a HCA. The regulation requires prompt action to address integrity issues raised by the assessment and analysis. The complete baseline assessment of all segments must be performed by February 17, 2009, with intermediate compliance deadlines prior to that date. We believe that we are in material compliance with the OPS regulation of HCAs.

We also are subject to the requirements of the federal Occupational Safety and Health Act ("OSHA"), and comparable state statutes that regulate the protection of the health and safety of workers. In addition, the OSHA hazard communication standard, the EPA community right-to-know regulations under Title III of the Federal Superfund Amendment and Reauthorization Act, and comparable state statutes require us to organize and disclose information about the hazardous materials used in our operations. Certain parts of this information must be reported to employees, state and local governmental authorities, and local citizens upon request. We believe that we are in material compliance with OSHA and state requirements, including general industry standards, record keeping requirements and monitoring of occupational exposures.

In general, we expect to increase our expenditures during the next decade to comply with higher industry and regulatory safety standards such as those described above. Although we cannot estimate the magnitude of such expenditures at this time, we do not believe that they will have a material adverse impact on our results of operations.

Other Regulations

We also are subject to the Jones Act and the Merchant Marine Act of 1936 because of our ownership and operation of ocean vessels. Numerous other federal, state and local rules regulate our operations pursuant to which governmental agencies have the ability to suspend, curtail or modify our operations. We believe that we are in material compliance with these regulations.

Other Information

Operational Hazards and Insurance

Our terminal and pipeline facilities may experience damage as a result of an accident or natural disaster. These hazards can cause personal injury and loss of life, severe damage to and destruction of

property and equipment, pollution or environmental damage and suspension of operations. We maintain insurance of various types that we consider adequate to cover our operations and properties.

The insurance covers all of our assets in amounts that we consider to be reasonable. The insurance policies are subject to deductibles that we consider reasonable and not excessive. Our insurance does not cover every potential risk associated with operating pipelines, terminals and other facilities including the potential loss of significant revenues. Consistent with insurance coverage generally available to the industry, our insurance policies provide limited coverage for losses or liabilities relating to pollution, with broader coverage for sudden and accidental occurrences. The events of September 11, 2001, and their overall effect on the insurance industry have adversely impacted the availability and cost of coverage. Due to these events, insurers have excluded acts of terrorism and sabotage from our insurance policies. On certain of our key assets, we have purchased a separate insurance policy for acts of terrorism and sabotage.

Competition

We face intense competition in our terminal and pipeline operations as well as in our supply and marketing operations. Our competitors include other terminal and pipeline companies, the major integrated oil companies, their marketing affiliates and independent gatherers, brokers and marketers of widely varying sizes, financial resources and experience. Some of these competitors have capital resources many times greater than ours, and control greater supplies of refined petroleum products. For additional information on how these competitive factors may affect our operations, see "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations Risk Factors."

Employees

We had 727 employees at August 29, 2005, of which 36 employees are subject to representation by a union for collective bargaining purposes. Such employees recently joined us through the acquisition of Radcliff/Economy Marine Services, Inc. on August 1, 2005.

Market and Industry Data

Market and industry data and other statistical information used throughout this report are based on independent industry publications by market research firms or other published independent sources. Some data are also based on our good faith estimates, which are derived from our review of internal surveys, as well as the independent sources. Although we believe these sources are reliable, we have not independently verified the information derived from independent sources.

ITEM 2. PROPERTIES

The locations and approximate shell capacity of our terminals (all of which are owned by us or TransMontaigne Partners) as of June 30, 2005 are as follows:

Locations	Approximate Shell Capacity (in barrels)
Southeast Facilities:	
Albany, GA	131,000
Americus, GA	31,000
Athens, GA	77,000
Atlanta, GA	116,000
Bainbridge, GA	99,000
Belton, SC	130,000
Belton, SC Piedmont	297,000
Birmingham, AL	370,000
Charlotte, NC	223,000
Charlotte, NC Piedmont	324,000
Collins, MS	138,000
Collins, MS (Pipeline Injection Facility)	1,470,000
Doraville, GA Piedmont	436,000
Fairfax, VA	502,000
Greensboro, NC	181,000
Greensboro, NC Piedmont	435,000
Griffin, GA	51,000
Lookout Mountain, GA	109,000
Macon, GA	