TRANSMONTAIGNE INC
Form 10-Q
October 23, 2001

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 September 30, 2001

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.)

2750 Republic Plaza, 370 Seventeenth Street
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 [ ]

As of October 12, 2001 there were 31,805,013 shares of the registrant's Common Stock outstanding.

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

The consolidated financial statements of TransMontaigne Inc. ("the Company") are included herein beginning on the following page.

**TRANSMONTAIGNE INC.
AND SUBSIDIARIES**

**Consolidated Balance Sheets
September 30, 2001 and June 30, 2001 (Unaudited)
(In thousands)**

Assets		September 30, 2001	June 30, 2001
Current assets:			
Cash and cash equivalents	$	9,592	13,759
Trade accounts receivable, net		108,833	79,050
Inventories		144,027	155,249
Unrealized gains on energy related contracts		52,043	41,419
Receivable from sale of assets		-	29,033
Prepaid expenses and other		3,860	4,130
		318,355	322,640

Property, plant and equipment:		
Land	13,939	15,181
Plant and equipment	284,446	343,076
Accumulated depreciation	(48,231)	(54,025)
	250,154	304,232
Investments and other assets:		
Investments in petroleum related assets	34,967	47,760
Deferred tax assets, net	7,089	12,944
Deferred debt issuance costs, net	4,204	4,667
Other assets, net	2,826	2,977
	49,086	68,348
	$ 617,595	695,220

Liabilities and Stockholders Equity

Current liabilities:		
Trade accounts payable	$ 56,677	73,749
Inventory due under exchange agreements	58,218	76,754
Unrealized losses on energy related contracts	20,805	27,726
Excise taxes payable	22,296	32,025
Other accrued liabilities	18,293	12,591
	176,289	222,845
Long-term debt	89,000	130,000
Stockholders equity:		
Series A Convertible Preferred stock, par value $1,000 per share, authorized 2,000,000 shares, issued and outstanding 177,229 shares at September 30, 2001, and 174,825 shares at June 30, 2001, liquidation preference of $177,229	177,229	174,825
Common stock, par value $.01 per share, authorized 80,000,000 shares, issued and outstanding 31,805,013 shares at September 30, 2001 and 31,834,669 shares at June 30, 2001	318	318
Capital in excess of par value	205,096	205,256
Unearned compensation	(2,005)	(2,465)
Accumulated deficit	(28,332)	(35,559)
	352,306	342,375
	$ 617,595	695,220

See accompanying notes to consolidated financial statements.

TRANSMONTAIGNE INC.
AND SUBSIDIARIES

Consolidated Statements of Operations
Three Months Ended September 30, 2001 and 2000 (Unaudited)
(In thousands, except per share amounts)

	Three Months Ended September 30,	
	2001	2000
Revenues	$ 1,542,284	1,214,091
Costs and expenses:		
Product costs	1,500,019	1,189,555
Operating expenses	7,174	8,402
Selling, general and administrative	8,465	7,237
Depreciation and amortization	4,282	4,847
	1,519,940	1,210,041
Operating income	22,344	4,050
Other income (expense):		
Dividend income from and equity in earnings of petroleum related investments	1,349	919
Interest income	108	798
Interest expense	(1,929)	(4,826)
Other financing costs	(754)	(1,213)
Loss on disposition of assets, net	(1,295)	-
Gain (loss) on interest rate swap	(4,290)	706
	(6,811)	(3,616)
Earnings before income taxes	15,533	434
Income tax expense	(5,902)	(165)
Net earnings	9,631	269
Preferred stock dividends	(2,404)	(2,126)
Net earnings (loss) attributable to common stockholders	$ 7,227	(1,857)
Weighted average common shares outstanding:		
Basic	31,819	30,826

Diluted	43,726	30,826
Earnings (loss) per common share		
Basic	$ 0.23	(0.06)
Diluted	$ 0.22	(0.06)

See accompanying notes to consolidated financial statements.

TRANSMONTAIGNE INC.
AND SUBSIDIARIES

Consolidated Statements of Stockholders Equity
Year Ended June 30, 2001 and Three Months Ended September 30, 2001 (Unaudited)
(In thousands)

	Preferred stock	Common stock	Capital in excess of par value	Unearned compensation	Retained earnings (accumulated deficit)	Total
Balance at June 30, 2000	$ 170,115	307	201,075	(1,465)	(37,934)	332,098
Common stock issued for options and warrants exercised	-	6	1,891	-	-	1,897
Net tax benefit arising from stock based compensation	-	-	(5)	-	-	(5)
Unearned compensation related to restricted stock awards	-	5	2,295	(2,300)	-	-
Amortization of unearned compensation	-	-	-	1,300	-	1,300
Preferred stock dividends	4,710	-	-	-	(8,963)	(4,253)
Net earnings	-	-	-	-	11,338	11,338
Balance at June 30, 2001	$ 174,825	318	205,256	(2,465)	(35,559)	342,375
Common stock issued for options exercised	-	-	30	-	-	30
Net tax benefit arising from stock based compensation	-	-	(43)	-	-	(43)
Unearned compensation related to restricted stock awards	-	-	(147)	147	-	-
Amortization of unearned compensation	-	-	-	313	-	313
Preferred stock dividends	2,404	-	-	-	(2,404)	-
Net earnings	-	-	-	-	9,631	9,631
Balance at September 30, 2001	$ 177,229	318	205,096	(2,005)	(28,332)	352,306

See accompanying notes to consolidated financial statements.

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TRANSMONTAIGNE INC.
AND SUBSIDIARIES

Consolidated Statements of Cash Flows
Three Months Ended September 30, 2001 and 2000 (Unaudited)
(In thousands)

	Three Months Ended September 30,	
	2001	2000
Cash flows from operating activities:		
Net earnings	$ 9,631	269
Adjustments to reconcile net earnings to net cash provided (used) by operating activities:		
Depreciation and amortization	4,282	4,847
Equity in earnings of petroleum related investments	(21)	-
Deferred tax expense	5,855	118
Income tax benefit related to stock based compensation	(43)	-
Loss on disposition of assets	1,295	-
Amortization of unearned compensation	313	187
Amortization of deferred debt issuance costs	463	974
Changes in operating assets and liabilities, net of non-cash activities:		
Trade accounts receivable	(29,783)	23,566
Inventories	11,222	28,343
Prepaid expenses and other	270	982
Trade accounts payable	(17,072)	(27,202)
Net change in unrealized gains/losses on energy related contracts	(17,545)	(8,544)
Inventory due under exchange agreements	(18,536)	(21,019)
Excise taxes payable and other accrued liabilities	(7,327)	(19,920)
Net cash used by operating activities	(56,996)	(17,399)
Cash flows from investing activities:		
Purchases of property, plant and equipment	(345)	(3,844)
Proceeds from sales of assets	93,993	3
Decrease (increase) in other assets, net	151	(372)
Net cash provided (used) by investing activities	93,799	(4,213)
Cash flows from financing activities:		

Borrowings (repayments) of long-term debt, net	(41,000)	5,684
Deferred debt issuance costs	-	(378)
Common stock issued for cash	30	680
Preferred stock dividends paid	-	(2,126)
Net cash provided (used) by financing activities	(40,970)	3,860
Decrease in cash and cash equivalents	(4,167)	(17,752)
Cash and cash equivalents at beginning of period	13,759	53,938
Cash and cash equivalents at end of period	$ 9,592	36,186

See accompanying notes to consolidated financial statements.

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TRANSMONTAIGNE INC.
AND SUBSIDIARIES

Notes to Consolidated Financial Statements

September 30, 2001 (Unaudited)

(1) Summary of Significant Accounting Policies

Nature of Business and Basis of Presentation

TransMontaigne Inc., a Delaware corporation, (TransMontaigne or the Company) provides a broad range of integrated supply, distribution, marketing, terminaling, storage and transportation services to refiners, distributors, marketers and industrial end-users of petroleum refined products (e.g. gasoline, heating oil, etc.), chemicals, crude oil and other bulk liquids (Product) in the midstream sector of the petroleum and chemical industries. The Company is a holding company that conducts the majority of its operations through wholly-owned subsidiaries primarily in the Mid-Continent, Gulf Coast, Southeast, Mid-Atlantic and Northeast regions of the United States.

The Companys commercial operations are divided into two main areas: Products supply, distribution and marketing, and Terminals and pipelines.

Principles of Consolidation and Use of Estimates

The consolidated financial statements included in this Form 10-Q have been prepared by the Company without audit 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 the opinion of the Companys management, necessary for a fair statement of the financial results for the interim periods. Certain information and notes normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted pursuant to such rules and regulations, although the Company believes that the disclosures are adequate to make the information presented not

misleading. These consolidated financial statements should be read in conjunction with the financial statements and related notes, together with management's discussion and analysis of financial condition and results of operations included in the Company's Annual Report on Form 10-K for the year ended June 30, 2001.

The accounting and financial reporting policies of the Company and its subsidiaries conform to generally accepted accounting principles and prevailing industry practices. The financial statements include the accounts of the Company and its subsidiaries on a consolidated basis. All significant intercompany accounts and transactions have been eliminated in consolidation. Certain amounts in the prior year have been reclassified to conform to the current year's presentation.

The preparation of financial statements in conformity with generally accepted accounting principles requires management 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. Changes in these estimates and assumptions will occur as a result of the passage of time and the occurrence of future events, and actual results could differ from these estimates.

Cash and Cash Equivalents

The Company considers all short-term investments with an original maturity of three months or less to be cash equivalents.

TRANSMONTAIGNE INC.
AND SUBSIDIARIES

Notes to Consolidated Financial Statements

September 30, 2001 (Unaudited)

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(1) Summary of Significant Accounting Policies (continued)

Inventories

Inventories consist of Products stated at market.

Products due from third parties under exchange agreements are included in inventory and recorded at current replacement cost. Products due to third parties under exchange agreements are recorded at current replacement cost. Adjustments resulting from changes in current replacement cost for Products due to or from third parties under exchange agreements are reflected in Product costs. The exchange agreements are typically for a term of 30 days and are generally settled by delivering Product to or receiving Product from the party to the exchange.

The Company's Risk Management Committee reviews the total inventory and risk position on a regular basis in order to ensure compliance with the Company's inventory management policies, including hedging and trading activities. The Company has adopted policies under which changes to its net inventory position subject to price risk requires the prior approval of the Audit Committee.

Property, Plant and Equipment

Depreciation is computed using the straight-line and double-declining balance methods. Estimated useful lives are 20 to 25 years for plant, which includes buildings, storage tanks, and

pipelines and 3 to 20 years for equipment. All items of property, plant and equipment are carried at cost. Expenditures that increase capacity, or extend useful lives are capitalized. Routine repairs and maintenance are expensed. Computer software costs are capitalized and amortized over their useful lives, generally not to exceed 5 years. The costs of installing certain enterprise wide information systems are amortized over periods not exceeding 10 years. The Company capitalizes interest on major projects during construction.

Deferred Debt Issuance Costs

Deferred debt issuance costs relate to the bank credit facility and the senior promissory notes and are amortized on the interest method over the term of the underlying debt instrument.

Income Taxes

The Company utilizes the asset and liability method of accounting for income taxes. Under this method, deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply in the years in which these temporary differences are expected to be recovered or settled. Changes in tax rates are recognized in income in the period that includes the enactment date.

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TRANSMONTAIGNE INC.
AND SUBSIDIARIES

Notes to Consolidated Financial Statements

September 30, 2001 (Unaudited)

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(1) Summary of Significant Accounting Policies (continued)

Environmental Expenditures

The Company accrues for environmental costs that relate to existing conditions caused by past operations. Environmental costs include initial site surveys and environmental studies of potentially contaminated sites, costs for remediation and restoration of sites determined to be contaminated and ongoing monitoring costs, as well as fines, damages and other costs, when estimable. Liabilities for environmental costs at a specific site are initially recorded when the Company's liability for such costs, including direct internal and legal costs, is probable and a reasonable estimate of the associated costs can be made. Adjustments to initial estimates are recorded, from time to time, to reflect changing circumstances and estimates based upon additional information developed in subsequent periods. Estimates of the Company's ultimate liabilities associated with environmental costs are particularly difficult to make with certainty due to the number of variables involved, including the early stage of investigation at certain sites, the lengthy time frames required to complete remediation, alternatives available and the evolving nature of environmental laws and regulations.

Accounting for Price Risk Management

In connection with its Products supply, distribution and marketing commercial operations, the Company engages in price risk management activities. The Company's price risk management activities are energy-trading activities as defined by Emerging Issues Task Force Consensus 98-10 (EITF 98-10), *Accounting for Contracts Involved in Energy Trading and Risk Management Activities*. As such, the financial instruments utilized are marked-to-market in accordance with the guidance set forth in EITF 98-10. Under the mark-to-market method of accounting, forwards,

swaps, options and other financial instruments with third parties are reflected at market value, net of future physical delivery related costs, and are shown as Unrealized gains or losses on energy related contracts in the Consolidated Balance Sheet. Unrealized gains and losses from newly originated contracts, contract restructurings and the impact of price movements are included in operating income. Changes in the assets and liabilities from price risk management activities result primarily from changes in the valuation of the portfolio of contracts, newly initiated transactions and the timing of settlement relative to the receipt of cash for certain contracts. The market prices used to value these transactions reflect managements best estimate considering various factors, including closing exchange and over-the-counter quotations, time value and volatility factors underlying the commitments. The values are adjusted to reflect the potential impact of liquidating the Companys position in an orderly manner over a reasonable period of time under present market conditions.

Contractual commitments are subject to risks including market value fluctuations as well as counterparty credit and liquidity risk. The Company has established procedures to continually monitor these contracts in order to minimize credit risk, including the establishment and review of credit limits, margin requirements, master netting arrangements, letters of credit and other guarantees.

The cash flow impact of financial instruments and these risk management activities are reflected in cash flows from operating activities in the Consolidated Statements of Cash Flows.

Earnings Per Common Share

Basic earnings per common share have been calculated based on the weighted average number of common shares outstanding during the period. Diluted earnings per share assumes conversion of dilutive convertible preferred stocks and the exercise of all stock options and warrants with exercise prices less than the average market price of the common stock during the period, using the treasury stock method.

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TRANSMONTAIGNE INC.
AND SUBSIDIARIES

Notes to Consolidated Financial Statements

September 30, 2001 (Unaudited)

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(1) Summary of Significant Accounting Policies (continued)

New Accounting Pronouncements

In June 2001, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 141, *Business Combinations*, and SFAS No. 142, *Goodwill and Other Intangible Assets*. SFAS No. 141 requires that the purchase method of accounting be used for all business combinations initiated after June 30, 2001. SFAS No. 141 also specifies criteria intangible assets acquired in a purchase method business combination must meet to be recognized and reported apart from goodwill, and establishes that any purchase price allocable to an assembled workforce may not be accounted for separately. SFAS No. 142 requires that goodwill and intangible assets with indefinite useful lives no longer be amortized, but instead tested for impairment at least annually in accordance with the provisions of SFAS No. 142. SFAS No. 142 also requires that intangible assets with definite useful lives be amortized over their respective estimated useful lives to their estimated residual values, and reviewed for impairment in accordance with SFAS No. 121, *Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of*.

The Company is required to adopt provisions of SFAS No. 141 immediately and SFAS No. 142 effective July 1, 2002. Furthermore, any goodwill and any intangible asset determined to have an indefinite useful life that are acquired in a purchase business combination completed after June 30, 2001 will not be amortized, but will continue to be evaluated for impairment in accordance with the appropriate pre-SFAS No. 142 accounting literature. Goodwill and intangible assets acquired in business combinations completed before July 1, 2001 will continue to be amortized prior to the adoption of SFAS No. 142. The Company does not expect the impact of adopting SFAS Nos. 141 and 142 to be significant.

In June 2001, the FASB issued SFAS No. 143, *Accounting for Asset Retirement Obligations*, which addresses financial accounting and reporting for obligations associated with the retirement of tangible long-lived assets and the associated asset retirement costs. The standard applies to legal obligations associated with the retirement of long-lived assets that result from the acquisition, construction, development and/or normal use of the asset.

SFAS No. 143 requires that the fair value of a liability for an asset retirement obligation be recognized in the period in which it is incurred if a reasonable estimate of fair value can be made. The fair value of the liability is added to the carrying amount of the associated asset and this additional carrying amount is depreciated over the life of the asset. The liability is accreted at the end of each period through charges to operating expense. If the obligation is settled for other than the carrying amount of the liability, the Company will recognize a gain or loss on settlement.

The Company is required and plans to adopt the provisions of SFAS No. 143 for the quarter ending September 30, 2002. To accomplish this, the Company must identify all legal obligations for asset retirement obligations, if any, and determine the fair value of these obligations on the date of adoption. The determination of fair value is complex and will require the Company to gather market information and develop cash flow models. Additionally, the Company will be required to develop processes to track and monitor these obligations. Because of the effort necessary to comply with the adoption of SFAS No. 143, it is not practicable for management to estimate the impact of adopting this statement at the date of this report.

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(2) Dispositions

Effective June 30, 2001, the Company sold two petroleum distribution facilities in Little Rock, Arkansas to Williams Energy Partners L.P. for $29.0 million. The cash proceeds from the sales transaction were received on July 3, 2001. The Company realized a net gain in June 2001 of approximately $22.1 million on the sale. The proceeds from the sale were used to repay long-term debt.

On July 27, 2001, the Company sold 861 shares of the common stock of West Shore Pipeline Company (West Shore) thereby reducing its ownership interest to 18.50%. The West Shore common stock was sold to Midwest Pipeline Company, LLC for cash consideration of approximately $2.9 million. The Company realized a net loss of approximately $1.1 million on the sale. The proceeds from the sale were used to repay long-term debt. As a result of this transaction, the Company also recognized a loss on its remaining investment in West Shore of approximately $8.8 million for the three months ended September 30, 2001. On October 22, 2001, the Company entered into a definitive agreement to sell its remaining 18.50% interest in West Shore with an anticipated closing by the end of October 2001.

On July 31, 2001, the Company sold the NORCO Pipeline system and related terminals (NORCO) to Buckeye Partners L.P. for cash consideration of approximately $62.0 million. The Company realized a net gain of approximately $8.6 million on the sale. The proceeds from the sale were used to repay long-term debt and for working capital needs.

(3) Inventories

Inventories at September 30, 2001 and June 30, 2001 are as follows:

	September 30, 2001		June 30, 2001
	(in thousands)		(in thousands)
Refined petroleum products	$	85,809	78,495
Refined petroleum products due under exchange agreements, net		58,218	76,754
	$	144,027	155,249

The Company manages inventory by utilizing risk and portfolio management disciplines, including certain hedging strategies, forward purchases and sales, swaps and other financial instruments to manage market exposure. In managing inventory balances and related financial instruments, management evaluates the market exposure from an overall portfolio basis that considers both continuous movement of inventory balances and related open positions in commodity trading instruments.

The Companys refined petroleum products inventory consists primarily of gasoline and distillates, the majority of which is held for sale or exchange in the ordinary course of business. A portion of this inventory, including line fill and tank bottoms, is required to be held for operating balances in the conduct of the Companys daily supply, distribution and marketing activities, and is maintained both in tanks and pipelines owned by the Company and pipelines owned by third parties. As of September 30, 2001, this portion of the Companys inventory (the minimum inventory) was determined to be 2.0 million barrels. It is the Companys policy not to hedge the price risk associated with its minimum inventory. As a result, changes in the market value of the minimum inventory are marked-to-market and are reflected as an increase or decrease in the carrying value of the minimum inventory, with the corresponding unrealized gain or loss recognized in operating income. The unrealized loss on minimum inventory was $0.8 million for the three months ended September 30, 2001, and the Company reported an unrealized loss of $4.5 million for the three months ended September 30, 2000.

(4) Property, Plant and Equipment

Property, plant and equipment at September 30, 2001 and June 30, 2001 is as follows:

June 30,

	September 30, 2001	
	(in thousands)	(in thous
Land	$ 13,939	1
Pipelines, rights of way and equipment	11,842	3
Terminals and equipment	256,062	28
Other plant and equipment	16,542	1
	298,385	35
Less accumulated depreciation	48,231	5
	$ 250,154	30

(5) Investments in Petroleum related Assets

The Company, through its 65% ownership of TransMontaigne Holding Inc., effectively owns 18.04% of the common stock of Lion Oil Company ("Lion"). At September 30, 2001 and June 30, 2001, the Company's investment in Lion, carried at cost, was approximately $10.1 million. The Company recorded dividend income of approximately $0.7 million from Lion during the three months ended September 30, 2001 and $0.4 million during the three months ended September 30, 2000.

The Company, through its wholly-owned subsidiary, TransMontaigne Pipeline Inc., owns 18.50% of the common stock of West Shore at September 30, 2001. The Company does not maintain effective management control of West Shore and therefore carries its $23.1 million investment at cost. The Company recorded dividend income from West Shore of approximately $0.6 million during the three months ended September 30, 2001 and $0.5 million for the three months ended September 30, 2000.

On July 27, 2001, the Company sold 861 shares of the common stock of West Shore thereby reducing its original ownership interest of 20.38% to 18.50%. The West Shore common stock was sold to Midwest Pipeline Company, LLC for cash consideration of approximately $2.9 million. The Company realized a net loss of approximately $1.1 million on the sale. As a result of this transaction, the Company also recognized a loss on its remaining investment in West Shore of approximately $8.8 million for the three months ended September 30, 2001.

In August 2000, the Company converted its note receivable and accrued interest from ST Oil Company into an equity ownership position. At September 30, 2001, the Company's investment in ST Oil Company was approximately $1.7 million, representing a 30.02% equity ownership in ST Oil Company. The Company recorded less than $0.1 million of equity income during the three months ended September 30, 2001 and 2000.

(6) Long-term Debt

Long-term debt at September 30, 2001 and June 30, 2001 is as follows:

	September 30, 2001	June 30, 2001
	(in thousands)	(in thousands)
Bank Credit Facility	$ 64,000	80,000
Senior promissory notes	25,000	50,000
	89,000	130,000
Less current maturity	-	-
	$ 89,000	130,000

The Company's bank credit facility consists of a $240 million revolving credit facility due December 31, 2003. Borrowings under the credit facility bear interest, based upon the Company's option, at either the lender's Alternate Base Rate, plus a spread or LIBOR, plus a spread in effect at the time of the borrowings and is adjusted monthly, bimonthly, quarterly or semi-annually. On July 16, 2001, the bank credit facility was amended to adjust certain covenants.

In April 1997, the Company entered into a Master Shelf Agreement with an institutional lender. On July 6, 2001, the Company repaid and retired the outstanding $25 million of 7.85% Senior Notes with a portion of the proceeds from the sale of the Little Rock terminal. The remaining note consists of 7.22% Senior Notes due October 17, 2004.

Each of the bank credit facility and Master Shelf Agreement is secured by certain current assets and fixed assets, and each also includes financial tests relating to fixed charge coverage, current ratio, maximum leverage ratio, consolidated tangible net worth, cash distributions and open inventory positions. As of September 30, 2001, the Company was in compliance with all such tests contained in the amended agreements.

The average interest rate under the bank credit facility was 7.1% and 10.0% at September 30, 2001 and 2000, respectively. Cash payments for interest were approximately $2.3 million and $4.1 million for three months ended September 30, 2001 and 2000, respectively.

In August 1999, the Company entered into two "periodic knock-out" swap agreements with money center banks to offset the exposure of an increase in variable interest rates on the Company's bank debt. Each swap was for a notional value of $150 million and was for a term expiring in August 2003. The swaps settle monthly, contain a knockout level on the one-month LIBOR at or above 6.75%, and have a fixed interest rate of 5.48%. The swaps provide that the Company pay a fixed interest rate of 5.48% on $300 million notional amount in exchange for a variable rate based on LIBOR so long as the one-month LIBOR interest rate does not rise above 6.75%. If the one-month LIBOR rate rises above 6.75%, the swap knocks out and no payments are due under the agreements until such time as the one-month LIBOR rate declines below 6.75%.

(6) Long-term Debt (continued)

As a result of the significant reduction in the variable rate debt during the fiscal year ended June 30, 2000 and with the adoption of SFAS 133 on June 30, 2000, the swaps were no longer designated as hedges. In August of 2000, the Company completed the sale of one of the swap agreements, recognizing no gain or loss on the sale. As of June 30, 2001, the fair market value of the remaining swap agre