WORLD FUEL SERVICES CORP
Form 10-Q/A
May 06, 2005
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 10-Q/A

(Amendment No. 1)

(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, 2004

¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

FOR THE TRANSITION PERIOD FROM _____TO_____

COMMISSION FILE NUMBER 1-9533

WORLD FUEL SERVICES CORPORATION

(Exact name of registrant as specified in its charter)

Florida	**59-2459427**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**
9800 N.W. 41st Street, Suite 400	
Miami, Florida	**33178**
(Address of Principal Executive Offices)	**(Zip Code)**

Registrant s Telephone Number, including area code: (305) 428-8000

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 reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No ¨.

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

The registrant had a total of 11,399,000 shares of common stock, par value $0.01 per share, net of treasury stock, outstanding as of November 5, 2004.

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EXPLANATORY NOTE

As previously disclosed, World Fuel Services Corporation (the Company) has restated its consolidated financial statements for the years ended December 31, 2003 and 2002, the nine months ended December 31, 2002, the year ended March 31, 2002, the first three quarters of 2004, and the four quarters of 2003 (the Restatement Periods). The restatements for the years ended December 31, 2003 and 2002, the nine months ended December 31, 2002, and the year ended March 31, 2002, including summary quarterly information for 2004 and 2003 have been reflected in the Company s Annual Report on Form 10-K, as amended, for the year ended December 31, 2004. Interim consolidated financial statements for 2004 and 2003 are being restated in amendments to the Company s Quarterly Reports on Form 10-Q for the periods ended March 31, 2004, June 30, 2004 and September 30, 2004. The restatements related to the correction of the cutoff procedures used by the Company for recognizing sales and sales related costs, the correction of the Company s accounting for inventory derivatives, and the correction of the Company s presentation of borrowing and repayment activities under the Company s revolving credit facility.

This Amendment No. 1 on Form 10-Q/A amends our Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2004, initially filed with the Securities and Exchange Commission (the SEC) on November 9, 2004 (the Original Form 10-Q) to reflect the restatement of our balance sheets as of September 30, 2004 and 2003, and December 31, 2003, our statements of income for the three and nine months ended September 30, 2004 and 2003, and our statements of cash flows for the nine months ended September 30, 2004 and 2003. The additional consolidated balance sheet as of September 30, 2003 is being provided solely for restatement and comparison purposes. This Form 10Q/A also reflects the correction of misclassifications of certain historical balance sheet accounts. The restatements and the correction of the misclassifications are described in more detail in Note 2 to Item 1 Financial Statements.

As a result of the restatements, we were not in compliance with certain financial covenants set forth in our credit facility agreement as of September 30, 2004. Although we obtained a waiver of this non-compliance from LaSalle Bank National Association, as Administrative Agent, on March 16, 2005, we have included our outstanding borrowings at September 30, 2004 under the credit facility agreement in short-term debt.

This Form 10Q/A only amends and restates Items 1, 2, 3 and 4 of Part I of the Original Form 10-Q and no other items in the Original Form 10-Q are amended hereby. The foregoing items have not been updated to reflect other events occurring after the Original Form 10-Q or to modify or update those disclosures affected by subsequent events. In addition, pursuant to the rules of the SEC, Item 6 of Part II of the Original Form 10-Q has been amended to contain currently-dated certifications from the Company s Chief Executive Officer, Chief Operating Officer, Chief Financial Officer and Chief Risk and Administrative Officer, as required by Sections 302 and 906 of the Sarbanes-Oxley Act of 2002. The certifications of the Company s Chief Executive Officer, Chief Operating Officer, Chief Financial Officer and Chief Risk and Administrative Officer are attached to this Form 10-Q/A as Exhibits 31.1, 31.2, 31.3, 31.4 and 32.1.

Concurrently with the filing of this Form 10-Q/A, the Company is filing (i) an amendment on Form 10-Q/A to its Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2004, and (ii) an amendment on Form 10-Q/A to its Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2004.

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Part I

Item 1. Financial Statements

General

The following unaudited, condensed consolidated financial statements and notes thereto of World Fuel Services Corporation and Subsidiaries have been prepared in accordance with the instructions to Quarterly Report on Form 10-Q and, therefore, omit or condense certain footnotes and other information normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States. In the opinion of management, all adjustments necessary for a fair presentation of the financial information for the interim periods reported have been made. Results of operations for the three and nine months ended September 30, 2004 will not necessarily be indicative of the results for the entire fiscal year. World Fuel Services Corporation (World Fuel) and Subsidiaries are collectively referred to in this Form 10-Q/A as we, our and us. The term Tramp Oil refers to the Tramp Oil group of companies which we acquired in April 2004. Certain amounts in prior periods have been reclassified to conform to the current period presentation. Reference is made to the Explanatory Note preceding the Table of Contents for additional information with respect to this Form 10-Q/A.

Forward-Looking Statements

This report includes 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. We intend the forward-looking statements to be covered by the safe harbor provisions for forward-looking statements in these sections. All statements regarding our expected financial position, cash flows and operating results, our business strategy, our financing plans and forecasted demographic and economic trends relating to our industry are forward-looking statements. These statements can sometimes be identified by our use of forward-looking words such as may, will, anticipate, estimate, expect, or intend and similar express These statements involve known and unknown risks, uncertainties and other factors that may cause our actual results, performance or achievements to be materially different from the results, performance or achievements expressed or implied by the forward-looking statements. We cannot promise you that our expectations in such forward-looking statements will turn out to be correct. Factors that impact such forward-looking statements include, but are not limited to, quarterly fluctuations in results; the management of growth and integration of Tramp Oil and other acquired businesses; fluctuations in world oil prices or foreign currency; changes in political, economic, regulatory or environmental conditions; the loss of key customers, suppliers or members of senior management; uninsured losses; competition; credit risk associated with accounts and notes receivable; and other risks detailed in this report and in our other Securities and Exchange Commission filings. A more detailed description of the principal risks in our business is set forth in Risk Factors in our Annual Report on Form 10-K for the year ended December 31, 2003 (2003 10-K Report). We undertake no obligation to update or revise publicly any forward-looking statements, whether as a result of new information, future events, or otherwise.

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WORLD FUEL SERVICES CORPORATION AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

(Unaudited - In thousands, except share and per share data)

	As of		
	September 30, 2004	**September 30, 2003**	**December 31, 2003**
	Restated	**Restated**	**Restated**
Assets			
Current assets:			
Cash and cash equivalents	$ 57,526	$ 65,520	$ 76,256
Accounts and notes receivable, net of allowance for bad debts of $11,670 and $11,710 at September 30, 2004 and 2003, respectively, and $10,538 at December 31, 2003	502,831	212,118	243,612
Inventory	38,920	10,348	14,847
Prepaid expenses and other current assets	36,158	26,962	19,948
Total current assets	635,435	314,948	354,663
Property and equipment, net	7,278	7,032	6,963
Other:			
Goodwill, net of accumulated amortization of $3,565 at September 30, 2004 and 2003 and December 31, 2003	43,188	36,860	36,860
Identifiable intangible asset, net of amortization of $1,552 and $644 at September 30, 2004 and 2003, respectively, and $736 at December 31, 2003	7,848	1,196	1,104
Other assets	6,958	4,065	1,260
	$ 700,707	$ 364,101	$ 400,850
Liabilities			
Current liabilities:			
Short-term debt	$ 36,567	$ 1,546	$ 1,600
Accounts payable	410,453	136,254	213,945
Customer deposits	23,954	6,000	6,320
Accrued salaries and wages	8,813	10,326	9,687
Income taxes payable	2,684	5,413	4,423
Accrued expenses and other current liabilities	36,382	51,228	10,620
Total current liabilities	518,853	210,767	246,595
Long-term liabilities	4,569	8,872	4,537
Commitments and contingencies			
Stockholders Equity			
Preferred stock, $1.00 par value; 100,000 shares authorized, none issued			
Common stock, $0.01 par value; 25,000,000 shares authorized; 12,765,000 shares issued and outstanding at September 30, 2004 and 2003 and December 31, 2003	128	128	128
Capital in excess of par value	44,192	34,561	34,672
Retained earnings	149,131	129,501	134,315
Unearned deferred compensation	(4,703)	(2,987)	(2,788)

Treasury stock, at cost; 1,361,000 shares and 1,988,000 shares at September 30, 2004 and 2003, respectively, and 1,973,000 at December 31, 2003	(11,463)	(16,741)	(16,609)
	177,285	144,462	149,718
	$ 700,707	$ 364,101	$ 400,850

The accompanying notes are an integral part of these condensed consolidated financial statements.

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WORLD FUEL SERVICES CORPORATION AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF INCOME

(Unaudited - In thousands, except per share data)

	For the Three Months ended September 30,		For the Nine Months ended September 30,	
	2004	2003	2004	2003
	Restated	Restated	Restated	Restated
Revenue	$ 1,568,974	$ 629,428	$ 3,863,526	$ 1,959,263
Cost of revenue	(1,539,300)	(605,135)	(3,776,818)	(1,881,623)
Gross profit	29,674	24,293	86,708	77,640
Operating expenses:				
Salaries and wages	(13,494)	(9,164)	(35,276)	(29,995)
Provision for bad debts	(572)	(1,535)	(2,811)	(5,473)
Other	(9,297)	(6,638)	(26,167)	(22,049)
	(23,363)	(17,337)	(64,254)	(57,517)
Income from operations	6,311	6,956	22,454	20,123
Other (expense) income, net:				
Interest (expense) income, net	(210)	194	(409)	448
Other, net	122	(111)	(1,066)	(136)
	(88)	83	(1,475)	312
Income before income taxes	6,223	7,039	20,979	20,435
Provision for income taxes	(784)	(1,574)	(3,641)	(3,903)
Net income	$ 5,439	$ 5,465	$ 17,338	$ 16,532
Basic earnings per share	$ 0.49	$ 0.51	$ 1.58	$ 1.56
Basic weighted average shares	11,170	10,631	11,004	10,604
Diluted earnings per share	$ 0.46	$ 0.49	$ 1.48	$ 1.49
Diluted weighted average shares	11,816	11,204	11,691	11,123

The accompanying notes are an integral part of these condensed consolidated financial statements.

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WORLD FUEL SERVICES CORPORATION AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited - In thousands)

	For the Nine Months ended September 30,	
	2004	2003
	Restated	Restated
Cash flows from operating activities:		
Net income	$ 17,338	$ 16,532
Adjustments to reconcile net income to net cash provided by operating activities - net of effects from business acquired		
Provision for bad debts	2,811	5,473
Depreciation and amortization	2,781	3,038
Deferred income tax benefits	(3,401)	(1,273)
Unearned deferred compensation amortization	1,162	620
Other non-cash operating charges (credits)	350	(22)
Changes in operating assets and liabilities:		
Accounts and notes receivable	(165,895)	(5,013)
Inventory	(13,900)	(7,297)
Prepaid expenses and other current assets	(16,894)	(2,601)
Other assets	(880)	84
Accounts payable	117,926	(42,361)
Customer deposits	16,964	736
Accrued salaries and wages	(1,875)	4,615
Income taxes payable	1,212	2,229
Accrued expenses and other current liabilities	9,723	34,667
Deferred compensation and other non-current liabilities	1,551	264
Total adjustments	(48,365)	(6,841)
Net cash (used in) provided by operating activities	(31,027)	9,691
Cash flows from investing activities:		
Capital expenditures	(2,135)	(2,635)
Acquisition of business, net	12,077	
Net cash provided by (used in) investing activities	9,942	(2,635)
Cash flows from financing activities:		
Dividends paid on common stock	(2,495)	(2,393)
Proceeds from exercise of stock options	6,310	608
Repayment of long term debt	(1,600)	(2,527)
Repayment of assumed bank loans and bank overdrafts	(34,860)	
Borrowings under revolving credit facility	160,000	27,000
Repayments under revolving credit facility	(125,000)	(22,000)
Net cash provided by financing activities	2,355	688

Net (decrease) increase in cash and cash equivalents	(18,730)	7,744
Cash and cash equivalents, at beginning of period	76,256	57,776
Cash and cash equivalents, at end of period	$ 57,526	$ 65,520

(Continued)

The accompanying notes are an integral part of these condensed consolidated financial statements.

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WORLD FUEL SERVICES CORPORATION AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Continued)

	For the Nine Months ended September 30,	
	2004	**2003**
Supplemental Disclosures of Cash Flow Information:		
Cash paid during the period for:		
Interest	$ 1,013	$ 330
Income taxes	$ 7,225	$ 4,994

In connection with the acquisition of Tramp Oil in April 2004, we received cash of $12.1 million, net of cash paid of $76.6 million, during the nine months ended September 30, 2004. In addition, we issued equity securities valued at $755 thousand and recorded an obligation to pay approximately $8.3 million, the remaining balance of the purchase price. There were no acquisitions during the nine months ended September 30, 2003. Based on a preliminary purchase price allocation, the following reconciles the net cash received with the fair values of the assets acquired, liabilities assumed, and the estimated remaining balance of the purchase price owed in the Tramp Oil acquisition (in thousands):

	For the Nine Months ended September 30,	
	2004	**2003**
Accounts receivable	$ (96,135)	$
Inventory	(10,173)	
Prepaid, other current assets, and property and equipment	(878)	
Identifiable intangible assets	(7,560)	
Goodwill	(6,328)	
Short-term bank loans and bank overdrafts	34,860	
Accounts payable	78,582	
Accrued expenses	7,698	
Customer deposits	670	
Accrued salaries and wages	1,010	
Income taxes payable	1,262	
Other current liabilities - remaining purchase price payment	8,314	
Equity securities issued	755	
Cash received, net of cash paid	$ 12,077	$

Supplemental Schedule of Noncash Investing and Financing Activities:

Cash dividends declared but not yet paid totaled $855 thousand and $821 thousand at September 30, 2004 and 2003, respectively. These dividends were paid in October 2004 and 2003, respectively.

In connection with the acquisition of Tramp Oil in April 2004, we assumed short-term bank loans and bank overdrafts of $34.9 million, which were repaid subsequent to the acquisition.

During the nine months ended September 30, 2003, in connection with the construction of our new corporate office, we recorded leasehold improvements and related deferred rental credit of $315 thousand, which was paid by the landlord as an office construction allowance. The related deferred rental credit was included in Long-term liabilities. The deferred rental credit is being amortized on a straight-line basis over the lease period of 10 years for the new corporate office.

During the nine months ended September 30, 2004 and 2003, we recorded Unearned deferred compensation of $3.2 million and $1.7 million, respectively, relating to shares of restricted common stock granted to our employees and options granted to both our employees and non-employee directors under our equity compensation plans. The Unearned deferred compensation was recorded based on the grant date and is being amortized over the minimum vesting period of each individual stock and/or option grant.

The accompanying notes are an integral part of these condensed consolidated financial statements.

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WORLD FUEL SERVICES CORPORATION AND SUBSIDIARIES

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

1. Recent Acquisitions and Significant Accounting Policies

Recent Acquisition

In April 2004, we acquired all of the outstanding shares (the THL Shares) of Tramp Holdings Limited (THL) and the shares of Tramp Group Limited, a subsidiary of THL, which were not otherwise held by THL (the TGL Shares), to expand our worldwide marine fuel services business. The preliminary aggregate purchase price for the THL Shares and the TGL Shares was approximately $85.6 million, including acquisition costs of $1.1 million. The final purchase price for the THL Shares and TGL Shares may increase or decrease subject to certain post-closing adjustments. As of September 30, 2004, we have paid approximately $77.3 million of the preliminary aggregate purchase price, consisting of $76.6 million in cash and $755 thousand in the form of common stock issued, representing approximately 19 thousand shares and valued using the market value of our common stock on the acquisition date. Upon the finalization of the purchase price, the remaining balance of the purchase price will be paid in cash. The acquisition of Tramp Oil, which primarily offers fuel and fuel services, was accounted for under the purchase method. Accordingly, the operations of the acquired companies have been included in our operating results since April 2004. At the acquisition date, we identified an intangible asset relating to customer relations of $7.6 million, which is being amortized over seven years using the straight-line method. Goodwill, representing the cost in excess of the fair value of assets acquired and liabilities assumed for this acquisition, amounted to $6.3 million. Differences between the final purchase price allocation and the preliminary purchase price allocation, including the estimated remaining balance of the purchase price of $8.3 million, which was included in accrued expenses and other current liabilities at September 30, 2004, will be adjusted through goodwill.

The following presents the unaudited results of operations for the three months ended September 30, 2004 and the pro forma results of operations for the three and nine months ended September 30, 2003 as if the Tramp acquisition had been completed as of January 1, 2003, and the pro forma results of operations for the nine months ended September 30, 2004 as if the Tramp acquisition had been completed as of January 1, 2004 (in thousands, except per share data):

	For the Three Months ended September 30,		For the Nine Months ended September 30,	
	2004	2003	2004	2003
	Restated	Restated (pro forma)	Restated (pro forma)	Restated (pro forma)
Revenue	$ 1,568,974	$ 851,811	$ 4,122,028	$ 2,742,108
Net income	$ 5,439	$ 6,765	$ 16,601	$ 20,010
Earnings per share:				
Basic	$ 0.49	$ 0.64	$ 1.51	$ 1.88
Diluted	$ 0.46	$ 0.60	$ 1.42	$ 1.80

Significant Accounting Policies

Except as described below, the significant accounting policies followed for quarterly financial reporting are the same as those disclosed in Note 1 of the Notes to the Consolidated Financial Statements included in our 2003 10-K Report.

Basis of Consolidation

The accompanying condensed consolidated financial statements and related notes to the condensed consolidated financial statements include our accounts, those of our majority owned or controlled subsidiaries and those of our aviation joint venture, after elimination of all significant intercompany accounts, transactions and profits. Prior to January 2004, we used the equity method of accounting to record our share of the earnings and losses of our aviation joint venture.

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Stock-Based Compensation

Effective April 2002, we adopted the accounting provision of Statement of Financial Accounting Standards (SFAS) No. 123, Accounting for Stock-Based Compensation, as amended by SFAS No. 148, Accounting for Stock-Based Compensation Transition and Disclosure, an amendment of FASB Statement No. 123, to account for stock options granted to our employees and non-employee directors using the prospective method. Under the fair value recognition provision, as of the grant date, we recorded the fair value of the stock options granted as Unearned deferred compensation, which is amortized over the minimum vesting period of each individual award as compensation cost. For stock options granted prior to April 2002, we continued to use the intrinsic value method of Accounting Principles Board Opinion No. 25, Accounting for Stock Issued to Employee, and related interpretations. Accordingly, no compensation expense has been recognized for such stock options when the exercise price was at or above market price of our common stock on the date of grant.

The fair value of restricted common stock granted to employees, based on the market value of our common stock on the date of grant, is recorded as Unearned deferred compensation and is being amortized over the minimum vesting period of each individual stock grant.

The following table reflects pro forma net income and earnings per share if the fair value based method had been applied to all outstanding and unvested stock-based awards in each period (in thousands, except earnings per share):

	For the Three Months ended September 30,		For the Nine Months ended September 30,	
	2004	2003	2004	2003
	Restated	Restated	Restated	Restated
Net income:				
Net income, as reported	$ 5,439	$ 5,465	$ 17,338	$ 16,532
Add: Stock-based employee and non- employee director compensation expense included in reported net income, net of related tax effects	300	162	720	384
Deduct: Total stock-based employee and non-employee director compensation expense determined under fair value based method for all awards, net of related tax effects	(310)	(181)	(749)	(441)
Pro forma net income	$ 5,429	$ 5,446	$ 17,309	$ 16,475
Basic earnings per share:				
As reported	$ 0.49	$ 0.51	$ 1.58	$ 1.56
Pro forma	$ 0.49	$ 0.51	$ 1.57	$ 1.55
Diluted earnings per share:				
As reported	$ 0.46	$ 0.49	$ 1.48	$ 1.49
Pro forma	$ 0.46	$ 0.49	$ 1.48	$ 1.48

Comprehensive Income

The only significant item affecting other comprehensive income (OCI) relates to derivatives, which had no material impact on OCI, and, thus, net income was equal to comprehensive income for all periods presented.

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Derivatives

We enter into derivative contracts in the form of swaps and futures in order to mitigate the risk of market price fluctuations in marine and aviation fuel. All derivatives are recognized on the balance sheet and measured at fair value. If the derivative does not qualify as a hedge under SFAS No. 133 or is not designated as a hedge, changes in the fair value of the derivative are recognized currently in earnings. If the derivative qualifies for hedge accounting, changes in the fair value of the derivative are either recognized in income along with the corresponding change in fair value of the item being hedged for fair-value hedges or deferred in other comprehensive income (OCI) to the extent the hedge is effective for cash flow hedges. To qualify for hedge accounting, the derivative must qualify as either a fair-value or cash flow hedge.

The hedging relationship between the hedging instruments and hedged items must be highly effective in achieving the offset of changes in fair values or cash flows attributable to the hedged risk, both at the inception of the hedge and on an ongoing basis. We measure hedge effectiveness on a quarterly basis. For the periods reported, such ineffectiveness has been immaterial. Hedge accounting is discontinued prospectively if and when a hedging instrument becomes ineffective. We assess hedge effectiveness based on total changes in the fair value of our derivative instruments. Gains and losses deferred in accumulated OCI related to cash flow hedge derivatives that become ineffective remain unchanged until the related fuel is delivered. Adjustment to the carrying amounts of hedged items is discontinued in instances where the related fair value hedging instrument becomes ineffective. The balance in the fair value hedge adjustment account is recognized in income when the hedged item is sold. If we determine that it is probable that a hedged forecasted transaction will not occur, deferred gains or losses on the related hedging instrument are recognized in earnings immediately.

Gains and losses on hedging instruments and adjustments of the carrying amounts of hedged items are included in revenues and expenses in the period that the item is sold. Gains and losses on hedging instruments which represent hedge ineffectiveness and gains and losses on derivative instruments which do not qualify for hedge accounting are included in revenue in the period which they occur. The resulting cash flows are reported as cash flows from operating activities.

Derivative instruments designated as cash flow hedges are used by us to mitigate the risk of variability in cash flows from marine and aviation fuel sales and purchases due to changes in market prices. Fair value derivatives are used by us to offset the exposure to changes in the fair value of our inventory and fixed price purchase commitments.

Cash Flow Hedges

As of September 30, 2004, our cash flow hedges consisted of fixed price sales commitments (an All-in-One hedge) and fixed price swaps. The fixed price sales commitments are used to fix the prices of future fuel sales, while the fixed price swap agreements are used to fix the prices of anticipated future fuel purchases. Accordingly, changes in fair value of these derivatives fully offset in OCI and are recorded in prepaid expenses and other current assets and related accrued expenses and other current liabilities.

Fair Value Derivatives

As of September 30, 2004, our fair value derivatives consisted of positions in futures that are used to offset against changes in the fair value of our inventory and swap contracts with underwriters to float our fixed price purchase commitments with market prices. Changes in the fair value of the future derivatives are recorded in revenue and prepaid expenses and other current assets and of the swap derivatives are recorded as

unrealized gains or losses in cost of sales and with a related receivable or payable. Unrealized gains or losses are offset with future physical fuel sales to customers.

Non-designated Derivatives

As of September 30, 2004, our non-designated derivatives consisted of swap contracts with our customers and swap and collar contracts with counterparties. As part of our price risk management services, we offer swap contracts to our customers to fix their fuel prices and simultaneously we enter into a swap contract with a counterparty with substantially the same terms and conditions, and for this, we earn a fee. We recognize the fee revenue when both of the swap contracts are settled. Because these contracts are back-to-back transactions, changes in the fair value of these derivatives have no impact on earnings and are recorded in prepaid expenses and other current assets and related accrued expenses and other current liabilities.

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As of September 30, 2004 we had the following commodity related derivative instruments outstanding with average underlying prices that represent hedged prices of commodities at various market locations:

Settlement Period	Derivative Instrument	Hedge Strategy	Notional Amount		Average Underlying Prices	Fair Value Asset (Liability)
			Marine (metric tons)	Aviation (gallons)		
						(In thousands)
2004	Swap	Cash flow	11,900		$ 158.92	$ 477
	Sales commitments	Cash flow	11,900		157.75	(477)
	Swap	Non-designated	63,947		170.03	814
	Swap	Non-designated	63,947		171.00	(814)
	Swap	Non-designated		4,400,000	99.20	2,605
	Swap	Non-designated		4,400,000	101.20	(2,605)
	Swap	Fair value	2,850		184.00	(27)
	Futures	Fair value		5,712,000	138.61	(314)
2005	Swap	Cash flow	12,000		162.00	378
			12,000		182.50	(378)
	Sales commitments	Cash flow	57,000		154.21	1,176
			57,000		154.70	(1,176)
	Swap	Non-designated	42,000		162.00	(1,323)
	Swap	Non-designated				
	Swap	Fair value				
2006	Swap	Non-designated	7,200		152.40	171
			7,200		152.70	(171)
	Swap	Non-designated				
2007	Swap	Non-designated	3,000		147.32	87
			3,000		147.75	(87)
	Swap	Non-designated				
						$ (1,664)

Earnings Per Share

Basic earnings per share are computed based on the weighted average number of common shares outstanding. Diluted earnings per share are based on the sum of the weighted average number of common shares outstanding, non-vested restricted common stock and common stock equivalents arising out of employee stock options and non-employee stock options and warrants. Our net income is the same for basic and diluted earnings per share calculations. Shares used to calculate earnings per share are as follows (in thousands):

	For the Three Months ended September 30,	For the Nine Months ended September 30,

	2004	2003	2004	2003
Basic weighted average shares	11,170	10,631	11,004	10,604
Restricted stock weighted average shares	229	147	190	140
Common stock equivalents	417	426	497	379
Diluted weighted average shares used in the calculation of diluted earnings per share	11,816	11,204	11,691	11,123
Weighted average shares subject to stock options and warrants included in the determination of common stock equivalents for the calculation of diluted earnings per share	1,147	1,372	1,312	1,288
Weighted average shares subject to stock options which were not included in the calculation of diluted earnings per share because their impact is antidilutive	35	275	16	149

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Reclassifications

Certain amounts in prior years have been reclassified to conform to the current year s presentation.

Recent Accounting Pronouncement

In January 2003, the Financial Accounting Standard Board (FASB) issued Interpretation No. 46 (FIN No. 46), Consolidation of Variable Interest Entities. FIN No. 46 expands upon and strengthens existing accounting guidance addressing when a company should include in its financial statements the assets, liabilities and activities of another entity. A variable interest entity is a corporation, partnership, trust or any other legal structure used for business purposes that either (a) does not have equity investors with voting rights or (b) has equity investors that do not provide sufficient financial resources for the entity to support its activities. FIN No. 46 requires a variable interest entity to be consolidated by a company if that company is subject to a majority of the risk of loss from the variable interest entity s activities or is entitled to receive a majority of the entity s residual returns, or both. The consolidation requirements of FIN No. 46 apply immediately to variable interest entities created after January 31, 2003. We determined that we did not have any variable interest entities created after January 31, 2003.

In December 2003, FASB revised FIN No. 46, which deferred the effective date for the consolidation requirements for variable interest entities, other than special-purpose entities, created before February 1, 2003, to the period ending after March 15, 2004. In accordance with FIN No. 46, effective January 1, 2004, we consolidated our PAFCO aviation joint venture. The consolidation of this joint venture did not have any significant effect on our consolidated financial position, cash flows and results of operations. See Note 6 for additional information.

2. Restatement of Financial Statements

We have restated our previously reported consolidated balance sheets as of September 30, 2004 and 2003, and December 31, 2003, our statements of income for the three and nine months ended September 30, 2004 and 2003, and our statements of cash flows for the nine months ended September 30, 2004 and 2003. The restatement reflects the correction of the cutoff procedures used to recognize sales and sales related costs and the correction of the accounting for inventory derivatives. Under the corrected cutoff procedures, revenues and sales related costs are recognized at the time fuel deliveries are made and related services are performed. Because we contract with third parties for fuel deliveries and the performance of the related services, this causes delays in our receiving the necessary information for invoicing. As a result of these delays, the Company had historically recorded revenue and sales related costs when supporting documentation relating to fuel deliveries and related services had been received from third parties. Under the corrected accounting for inventory derivatives, realized or unrealized gains and losses are recorded in the statements of income. Previously, the gains or losses on the open position of our inventory derivatives were not accounted for until the physical inventories were sold.

The primary impact of the restatement to correct the cutoff procedures used to recognize sales and sales related costs and to correct the accounting for inventory derivatives on the statements of income was to decrease revenue and cost of sales for the three months ended September 30, 2003 and to increase revenue and cost of sales for the three and nine months ended September 30, 2004 and nine months ended September 30, 2003. On the balance sheets at September 30, 2004 and 2003, and December 31, 2003, the principal impact of the restatement was to increase accounts receivable and accounts payable. For the statements of cash flows, there was no impact to net cash from operating activities, investing activities, and financing activities since the changes were to net income and other operating cash flow items.

We also determined that certain of our historical balance sheet accounts were misclassified including inventories, prepaid expenses and other current assets, accounts payable, and accrued expenses and other current liabilities. Accordingly, the consolidated balance sheets as of September 30, 2004 and 2003, and December 31, 2003 have been adjusted to reflect the correct classifications.

As a result of the restatement, we were not in compliance with certain financial covenants set forth in our credit facility agreement as of September 30, 2004. Although we obtained a waiver of this non-compliance from LaSalle Bank National Association, as Administrative Agent, on March 16, 2005, we have included our outstanding borrowings at September 30, 2004 under the credit facility agreement in short-term debt See Note 3 for additional information on our credit facility.

Finally, we have restated our previously reported consolidated statement of cash flows for the nine months ended September 30, 2004 and 2003 to reflect the correction of the presentation of borrowings and repayments under our revolving credit facility. Under the corrected presentation, borrowings and repayments are reported on a gross rather than net basis.

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The following table sets forth the impact of the restatement to correct the cutoff procedures used to recognize sales and sales related costs, to correct the accounting for inventory derivatives and to correct the misclassifications, as described above, on amounts previously reported in the consolidated balance sheets (in thousands):

	As of September 30,				As of December 31, 2003	
	2004	2004	2003	2003		
	Previously Reported	Restated	Previously Reported	Restated	Previously Reported	Restated
Balance Sheet						
Accounts and notes receivable, net	$ 434,839	$ 502,831	$ 167,552	$ 212,118	$ 192,119	$ 243,612
Inventories	60,549	38,920	16,573	10,348	22,940	14,847
Prepaid expenses and other current assets	37,992	36,158	27,460	26,962	20,176	19,948
Total current assets	590,906	635,435	277,105	314,948	311,491	354,663
Total assets	656,920	700,707	326,258	364,101	357,678	400,850
Short-term debt	1,567	36,567	1,546	1,546	1,600	1,600
Accounts payable	365,575	410,453	100,343	136,254	172,885	213,945
Accrued salaries and wages	8,728	8,813	10,197	10,326	9,547	9,687
Income taxes payable	2,815	2,684	5,443	5,413	4,423	4,423
Accrued expenses and other current liabilities	36,317	36,382	50,734	51,228	9,987	10,620
Total current liabilities	438,956	518,853	174,263	210,767	204,762	246,595
Long-term liabilities	39,569	4,569	8,872	8,872	4,537	4,537
Total liabilities	478,525	523,422	183,135	219,639	209,299	251,132
Retained earnings	150,241	149,131	128,162	129,501	132,976	134,315
Total stockholders equity	178,395	177,285	143,123	144,462	148,379	149,718
Total liabilities and stockholders equity	656,920	700,707	326,258	364,101	357,678	400,850

The following table sets forth the impact of the restatement to correct the cutoff procedures used to recognize sales and sales related costs and to correct the accounting for inventory derivatives on amounts previously reported in the consolidated statements of income (in thousands, except earnings per share data):

	For the Three Months ended September 30,				For the Nine Months ended September 30,			
	2004	2004	2003	2003	2004	2004	2003	2003
	Previously Reported	Restated	Previously Reported	Restated	Previously Reported	Restated	Previously Reported	Restated
Statement of Income								
Revenue	$ 1,579,371	$ 1,568,974	$ 652,301	$ 629,428	$ 3,868,546	$ 3,863,526	$ 1,956,219	$ 1,959,263
Cost of sales	(1,547,339)	(1,539,300)	(627,766)	(605,135)	(3,778,129)	(3,776,818)	(1,878,891)	(1,881,623)
Gross profit	32,032	29,674	24,535	24,293	90,417	86,708	77,328	77,640
Salaries and wages	(13,566)	(13,494)	(9,198)	(9,164)	(35,332)	(35,276)	(29,943)	(29,995)
Operating expenses	(23,435)	(23,363)	(17,371)	(17,337)	(64,310)	(64,254)	(57,465)	(57,517)
Income from operations	8,597	6,311	7,164	6,956	26,107	22,454	19,863	20,123
Income before income taxes	8,509	6,223	7,247	7,039	24,632	20,979	20,175	20,435
Provision for income taxes	(1,542)	(784)	(1,713)	(1,574)	(4,845)	(3,641)	(3,930)	(3,903)
Net income	$ 6,967	$ 5,439	$ 5,534	$ 5,465	$ 19,787	$ 17,338	$ 16,245	$ 16,532
Basic earnings per share	$ 0.62	$ 0.49	$ 0.52	$ 0.51	$ 1.80	$ 1.58	$ 1.53	$ 1.56

Diluted earnings per share	$ 0.59	$ 0.46	$ 0.49	$ 0.49	$ 1.69	$ 1.48	$ 1.46	$ 1.49

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The following table sets forth the impact of the restatement to correct the presentation of borrowings and repayments under our revolving credit facility on amounts previously reported in the consolidated statements of cash flows (in thousands):

	For the Nine Months ended September 30,	
	2004	**2003**
Borrowings under revolving credit facility, as restated	$ 160,000	$ 27,000
Repayments under revolving credit facility, as restated	(125,000)	(22,000)
Net borrowings under revolving credit facility, previously reported	$ 35,000	$ 5,000

3. Debt

In September 2004, the credit agreement relating to our syndicated revolving credit facility (the Credit Agreement) was amended to increase available borrowings under the revolving credit facility to $145.0 million and to provide us with the option to increase available borrowings to $150.0 million. Pursuant to the amendment, our sublimit for the issuance of letters of credit was increased to $60.0 million. In October 2004, we exercised our option to increase our available borrowings under the revolving credit facility to $150.0 million. Our available borrowings under the revolving credit facility are reduced by the amount of outstanding letters of credit. Borrowings under the revolving credit facility bear interest at market rates plus applicable margins ranging from zero percent to 0.75% for U.S. Prime Rate loans and 1.25% to 2.00% for LIBOR Rate loans, as defined. Letters of credit issued under the revolving credit facility are subject to fees (L/C Fees) ranging from 1.25% to 2.00%. Interest and L/C Fees are payable quarterly and at maturity in arrears. The Credit Agreement expires on December 19, 2006. As of September 30, 2004, our outstanding borrowings under the revolving credit facility totaled $35.0 million and our issued letters of credit totaled $18.9 million. Our weighted average daily outstanding borrowings during the nine months ended September 30, 2004 and 2003 were $21.5 million and $5.2 million, respectively.

The Credit Agreement imposes certain operating and financial restrictions on us. Our failure to comply with these restrictions, including meeting certain financial ratios, could result in an event of default. An event of default, if not cured or waived, would permit acceleration of any outstanding indebtedness under the Credit Agreement, and impair our ability to receive advances and issue letters of credit, and thus have a material adverse effect on our ability to fund operations. As a result of the restatement, we were not in compliance with certain financial covenants set forth in our credit facility agreement as of September 30, 2004. Although we obtained a waiver of this non-compliance from LaSalle Bank National Association, as Administrative Agent, on March 16, 2005, we have included our outstanding borrowings at September 30, 2004 under the credit facility agreement in short-term debt.

In April 2004, we obtained a separate $25.0 million credit line for the issuance of letters of credit from one of the banks participating in our revolving credit facility. Letters of credit issued under this credit line are subject to fees at market rates payable semiannually and at maturity in arrears. This credit line is renewable on an annual basis. As of September 30, 2004, we had outstanding letters of credit of $11.2 million under this credit line, in addition to the letters of credit outstanding under our revolving credit facility.

Substantially all of the letters of credit issued under the $150.0 million syndicated revolving credit facility and the $25.0 million credit line were provided to suppliers in the normal course of business, and expire within one year from their issuance. Expired letters of credit are renewed as needed.

In connection with the acquisition of Tramp Oil, we assumed outstanding letters of credit issued on behalf of Tramp Oil. As of September 30, 2004, approximately $1.5 million of these letters of credit remain outstanding. These letters of credit were provided to suppliers in the normal course of business and will be replaced as they expire, if needed, with new letters of credit from either our $150 million syndicated revolving credit facility or our $25.0 million credit line.

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Our debt consisted of the following (in thousands):

	As of	
	September 30, 2004	December 31, 2003
Borrowings under syndicated revolving credit facility	$ 35,000	$
Promissory notes issued in connection with business acquisitions, including the investment in aviation joint venture:		
Non-interest bearing promissory note of $2.5 million, payable annually through January 2006, net of unamortized imputed discount (at 9.0%) of $53 thousand and $112 thousand at September 30, 2004 and December 31, 2003, respectively.	947	1,388
Non-interest bearing promissory note of $3.3 million, payable annually through January 2005, net of unamortized imputed discount (at 5.0%) of $13 thousand and $52 thousand at September 30, 2004 and December 31, 2003, respectively.	1,087	2,148
Total Debt	37,034	3,536
Short-term Debt	36,567	1,600
Long-term Debt	$ 467	$ 1,936

As of September 30, 2004, the aggregate annual maturities of debt, net of unamortized imputed discount, are as follows (in thousands):

For the Year ending December 31,	
2005	$ 36,567
2006	467
	$ 37,034

4. Income Taxes

The income tax provision recorded for the three and nine months ended September 30, 2004 and 2003 and their respective effective tax rates for such periods are as follows (in thousands, except for tax rates):

For the Three Months ended September 30,		For the Nine Months ended September 30,	
2004	2003	2004	2003

	Restated	Restated	Restated	Restated
Income tax provision	$ 784	$ 1,574	$ 3,641	$ 3,903
Effective income tax rate	12.6%	22.4%	17.4%	19.1%

The lower effective tax rate for the three and nine months ended September 30, 2004 resulted primarily from changes in the operating income contributed by our various subsidiaries in different tax jurisdictions, each with its own effective tax rate.

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5. Commitments and Contingencies

Legal Matters

In November 2004, World Fuel was served with process in a lawsuit titled Action Manufacturing Co., Inc. et al. v. Simon Wrecking Company, et al. This action, pending in U.S. Federal District Court for the Eastern District of Pennsylvania, relates to the environmental clean up of the Malvern TCE Superfund site in Chester County, Pennsylvania. The plaintiffs are a group of private corporations that entered into a consent decree with the Environmental Protection Agency in 1999, under the terms of which the plaintiffs agreed to pay for remediation of the site. In the action, the Plaintiffs are seeking contribution from the various Defendants toward the costs of remediating the site.

Plaintiffs have alleged that World Fuel is a successor to Resource Technology Services, Inc., a Pennsylvania corporation that arranged for disposal of wastes at the site. In 1988, Resource Recovery Atlantic, Inc., a Delaware corporation that was then an indirect subsidiary of World Fuel, purchased selected assets from Resource Technology Services, Inc. The plaintiffs claim that this transaction gives rise to our successor liability pursuant to the Pennsylvania Hazardous Sites Cleanup Act. The plaintiffs have alleged that Resource Technology Services Inc. s equitable share of the clean-up costs exceeds $1.0 million.

World Fuel s subsidiary, Resource Recovery Atlantic, Inc., acquired only selected assets of Resource Technology Services, Inc., and did not assume any of its liabilities, except for four vehicle leases. We believe that neither World Fuel, nor any of our subsidiaries, is a successor to Resource Technology Services, Inc. and that we are not responsible for any liabilities of that company. We intend to vigorously defend all claims asserted against us arising from liabilities of Resource Technology Services, Inc. However, there is no guarantee that we will prevail in this action, and at this time we are unable to predict our ultimate exposure if we do not prevail.

As described in our 2003 10-K Report, we are also involved in other material legal proceedings. There has been no material development in those proceedings since the filing of our 2003 10-K Report.

In addition to the matters described above and in our 2003 10-K Report, we are also involved in litigation and administrative proceedings primarily arising in the normal course of our business. In the opinion of management, except as set forth above and in our 2003 10-K Report, our liability, if any, under any pending litigation or administrative proceedings will not materially affect our financial condition or results of operations.

Deferred Compensations Plans

Under the terms of the 2003 Executive Incentive Plan, our five senior executives are eligible to receive long term incentive awards (LTIP awards) upon achievement of long-term performance goals. The performance goals are based on achieving certain Compound Average Annual Growth Rates (CAGR) in net income over a three-year performance period. In September 2004, the Compensation Committee of the Board of Directors elected to reconsider the use of net income as the performance measure for LTIP awards due to an increase in the disparity between the growth rates of net income and diluted earnings per share. In connection with this decision, the Compensation Committee agreed to suspend future LTIP awards until a more appropriate performance measure could be established and to cancel the LTIP award for the three-year performance period commencing January 2004. The LTIP award for the three-year performance period commencing January 2003 was left in effect. Target awards for the three-year performance period commencing January 2003 are $750 thousand for each of our Chief Executive

Officer and Chief Operating Officer, and $200 thousand for each of the other three senior executives. The executives would earn 50% of the target award if we achieve a 15% CAGR in net income over the three-year performance period, and 100% of the target award if an 18% CAGR in net income is achieved over the three-year performance period. The maximum award is 200% of the target award, and would be earned if at least a 21% CAGR in net income is achieved over the three-year performance period. If and when an award is earned, such award may be deferred at the executive s option, on such terms and conditions as may be approved by the Compensation Committee. The deferred amounts will earn interest at the U.S. Prime Rate, with a maximum rate of 10% per year.

The accrual for LTIP awards is made equally over each award s three-year performance period based on management s estimate of the ultimate award to be earned by the senior executives at the end of each three-year performance period. For the three and nine months ended September 30, 2004, we recorded a net reduction in compensation expense of $175 thousand and compensation expense of $525 thousand, respectively. As of September 30, 2004 and December 31, 2003, we had accrued $1.2 million and $700 thousand, respectively, for the LTIP award for the three-year performance period commencing January 2003. The accrual for the LTIP award for the three-year performance period commencing January 2003 is included in Long-term liabilities in the accompanying Condensed Consolidated Balance Sheets.

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6. Aviation Joint Venture

In December 2000, we entered into a joint venture with Signature Flight Support Corporation (Signature) through the acquisition of a 50% equity interest in PAFCO LLC (PAFCO) from Signature. We paid Signature $1.0 million in cash and a $2.5 million non-interest bearing note, payable over five years through January 2006. PAFCO markets aviation fuel and related services. The non-interest bearing promissory note was discounted at 9% and the discount of $558 thousand is being amortized as interest expense over a five-year term using the interest method. We recorded interest expense of $19 thousand and $28 thousand for the three months ended September 30, 2004 and 2003, respectively. For the nine months ended September 30, 2004 and 2003, we recorded interest expense of $59 thousand and $85 thousand.

In accordance with PAFCO s operating agreement, we are entitled to 80% of the income from PAFCO s operations. The higher allocation percentage versus the ownership percentage is in consideration of the risks assumed by us with respect to credit losses on PAFCO s accounts receivable. PAFCO distributes its income to its partners on a quarterly basis. We are required to purchase, without recourse, PAFCO s accounts receivable that are 120 days past due, subject to certain requirements. Net losses (including infrequent or unusual losses), interest expense incurred by PAFCO, and any gain resulting from the liquidation of the joint venture will be shared equally between Signature and us. For the three and nine months ended September 30, 2003, we did not purchase any of PAFCO s accounts receivable.

We recorded earnings from the PAFCO aviation joint venture of $271 thousand and $460 thousand for the three and nine months ended September 30, 2003. The earnings from aviation joint venture were included in net other income (expense) in the accompanying consolidated statements of income. As of December 31, 2003 and September 30, 2003, amounts due from PAFCO of $280 thousand and $61 thousand, respectively, was included in prepaid expenses and other current assets in the accompanying consolidated balance sheets.

Prior to January 1, 2004, we used the equity method of accounting to record our share of the earnings and losses of our aviation joint venture. In addition, the amortized interest expense on the non-interest bearing promissory note was also included in net earnings from aviation joint venture. Effective January 1, 2004, with the implementation of the FIN No. 46, we consolidated PAFCO s financial position and results of operations, after elimination of all significant intercompany accounts, transactions and profits. As a result of the consolidation of PAFCO, we recorded minority interest of $62 thousand and $251 thousand for the three and nine months ended September 30, 2004, which was included in net other income (expense) in the accompanying consolidated statements of income.

The following table summarizes PAFCO s results of operations that are included in our consolidated financial position (in thousands):

	For the Three Months ended September 30,		For the Nine Months ended September 30,	
	2004	2003	2004	2003
	Restated	Restated	Restated	Restated
Revenue	$ 44,732	$	$ 136,074	$
Gross profit	$ 651	$	$ 2,137	$
Income from operations	$ 302	$	$ 1,240	$

Other (expense) income, net	$ (53)	$ 242	$ (234)	$ 375
Income tax provision	$ (96)	$ (93)	$ (387)	$ (144)
Net income (loss)	$ 153	$ 149	$ 619	$ 231

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The following table summarizes PAFCO s financial position that are included in our consolidated financial position (in thousands):

	As of		
	September 30, 2004	September 30, 2003	December 31, 2003
	Restated		
Cash and cash equivalents	$ 3,093	$	$
Accounts and notes receivable	$ 8,026	$	$
Inventory	$ 4,760	$	$
Total assets	$ 15,790	$	$
Total liabilities	$ 15,790	$	$

Included in accounts and notes receivable, as of September 30, 2004, were net receivables from Signature, a related party, of $4.6 million, net of certain accounts payable and minority interest payable. For the three and nine months ended September 30, 2004, sales to Signature from PAFCO amounted to $31.9 million and $89.5 million. In addition to PAFCO s sales to Signature, in the normal course of business, we utilize Signature and Aircraft Service International Group (ASIG), a sister company of Signature, as subcontractors to provide various services to customers, including into-plane fueling at airports, and transportation and storage of fuel and fuel products. These activities with Signature and ASIG were not considered to be significant.

7. Business Segments and Major Customers

Business Segments

We market fuel and related services, and have two reportable operating segments: marine and aviation fuel services. Performance measurement and resource allocation for the reportable operating segments are based on many factors. Corporate expenses are allocated to the segments based on usage, where possible, or on other factors according to the nature of the activity. The accounting policies of the reportable operating segments are the same as those described in the Significant Accounting Policies (see Note 1).

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Information concerning our operations by business segment is as follows (in thousands):

	For the Three Months ended September 30,		For the Nine Months ended September 30,	
	2004	2003	2004	2003
	Restated	Restated	Restated	Restated
Revenue				
Marine fuel services	$ 834,822	$ 376,954	$ 2,078,795	$ 1,212,707
Aviation fuel services	734,152	252,474	1,784,731	746,556
	$ 1,568,974	$ 629,428	$ 3,863,526	$ 1,959,263
Income from operations				
Marine fuel services	$ 3,843	$ 3,906	$ 12,837	$ 14,106
Aviation fuel services	5,665	6,319	19,295	16,013
	9,508	10,225	32,132	30,119
Corporate overhead	(3,197)	(3,269)	(9,678)	(9,996)
	$ 6,311	$ 6,956	$ 22,454	$ 20,123

	As of		
	September 30, 2004	September 30, 2003	December 31, 2003
	Restated	Restated	Restated
Accounts and notes receivable, net			
Marine fuel services, net of allowance for bad debts of $5,744 and $6,102 at September 30, 2004 and 2003, respectively and $5,704 at December 31, 2003	$ 347,973	$ 136,287	$ 162,105
Aviation fuel services, net of allowance for bad debts of $5,926 and $5,608 at September 30, 2004 and 2003, respectively, and $4,834 December 31, 2003	154,858	75,831	81,507
	$ 502,831	$ 212,118	$ 243,612
Goodwill and identifiable intangible assets:			
Marine fuel services, net of amortization of $3,983 and $3,075 at September 30, 2004 and 2003, respectively, and $3,167 at December 31, 2003	$ 42,827	$ 29,847	$ 29,755
Aviation fuel services, net of amortization of $1,134 at September 30, 2004 and 2003, and December 31, 2003	8,209	8,209	8,209
	$ 51,036	$ 38,056	$ 37,964
Total assets			
Marine fuel services	$ 446,580	$ 197,422	$ 228,904
Aviation fuel services	234,335	152,248	143,192

Corporate	19,792	14,431	28,754
	$ 700,707	$ 364,101	$ 400,850

Major Customers

Revenue of $159.2 million generated from one customer in our aviation segment accounted for 10.1% of our total consolidated revenue during the three months ended September 30, 2004. We believe that the loss of this customer would not have a material adverse effect on our consolidated financial position, cash flows or results of operations.

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Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations

The following discussion should be read in conjunction with Item 1. Financial Statements appearing elsewhere in this Form 10-Q/A .

Overview

We market fuel and related services to marine and aviation customers throughout the world. In our marine fuel services business, we offer marine fuel and related services to a broad base of customers, including international container and tanker fleets, and time-charter operators, as well as to the United States and foreign governments. In our aviation fuel services business, we offer aviation fuel and related services to passenger, cargo and charter airlines, as well as to corporate customers and the United States and foreign governments. We provide competitive prices, credit terms, fuel management and price risk management services, and single-supplier convenience. We also offer flight plans and weather reports to our corporate aviation customers.

In our marine fuel services business, we purchase and resell fuel, and act as brokers for others. Profit from our marine fuel services business is determined primarily by the volume and commission rate of brokering business generated and by the volume and gross profit achieved on fuel resales. Our profitability also depends on our operating expenses, which may be significantly affected to the extent that we are required to provide for potential bad debts. Profit from our aviation fuel services business is directly related to the volume and the gross profit achieved on fuel sales, as well as our operating expenses, which may be significantly affected to the extent that we are required to provide for potential bad debts. We do not act as brokers for our aviation fuel services business.

In April 2004, we acquired the operations of Tramp Oil. This acquisition forms part of our worldwide marine fuel services business and was accounted for as purchase. Accordingly, the results of operations of this acquisition were included with our results since the date of acquisition. In December 2000, we entered into a joint venture agreement with Signature Flight Support Corporation through the acquisition of a 50% equity interest in PAFCO. From January 1, 2001 to December 31, 2003, we used the equity method of accounting to record our share of the earnings and losses of this aviation joint venture. In addition, the amortized interest expense on the non-interest bearing promissory note was also included in net earnings from this aviation joint venture. Effective January 1, 2004, with the implementation of FIN No. 46, we consolidated PAFCO s financial position and results of operations, after elimination of all significant intercompany accounts, transactions and profits.

Restatement

We have restated our previously reported consolidated balance sheets as of September 30, 2004 and 2003, and December 31, 2003, our statements of income for the three and nine months ended September 30, 2004 and 2003, and our statements of cash flows for the nine months ended September 30, 2004 and 2003. The restatement reflects the correction of the cutoff procedures used to recognize sales and sales related costs, the correction of the accounting for inventory derivatives, and the correction of the presentation of borrowings and repayments under our revolving credit facility. Under the corrected cutoff procedures, revenues and sales related costs are recognized at the time fuel deliveries are made and related services are performed. Because we contract with third parties for fuel deliveries and the performance of the related services, this causes delays in our receiving the necessary information for invoicing. As a result of these delays, the Company had historically recorded revenue and sales related costs when supporting documentation relating to fuel deliveries and related services had been received from third parties. Under the corrected accounting for inventory derivatives, changes in the fair value of the derivative are recorded in revenue and prepaid expenses and other current assets. Previously, the gains or losses on the open position of our inventory derivatives were not accounted for until the physical inventories were sold. Under the corrected presentation of borrowings and repayments under our revolving credit facility, such borrowings and repayments are shown on a gross rather than net basis.

As a result of the restatement, we were not in compliance with certain financial covenants set forth in our credit facility agreement as of September 30, 2004. Although we obtained a waiver of this non-compliance from LaSalle Bank National Association, as Administrative Agent, on March 16, 2005, we have included our outstanding borrowings at September 30, 2004 under the credit facility agreement in short-term debt.

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Reportable Segments

We have two reportable operating businesses: marine and aviation fuel services. Corporate expenses are allocated to the segments based on usage, where possible, or on other factors according to the nature of the activity. Financial information with respect to our business segments is provided in Note 7 to the accompanying consolidated financial statements included in this Form 10-Q/A.

Critical Accounting Policies and Estimates

The discussion and analysis of our financial condition and results of operations are based upon the consolidated financial statements included elsewhere in this Form 10-Q/A, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. On an on-going basis, we evaluate our estimates, including those related to unbilled revenue and related costs of sales, bad debts, deferred tax assets and liabilities, goodwill and identifiable intangible assets, and certain accrued liabilities. We base our estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

We have identified the policies below as critical to our business operations and the understanding of our results of operations. For a detailed discussion on the application of these and other accounting policies, see Note 1 of the Notes to the Condensed Consolidated Financial Statements in Item 1 of this Form 10-Q/A.

Revenue Recognition

Revenue is recognized when fuel deliveries are made and title passes to the customer, or as fuel related services are performed.

Accounts Receivable and Allowance for Bad Debts

Credit extension, monitoring and collection are performed by each of our business segments. Each segment has a credit committee. The credit committees are responsible for approving credit limits above certain amounts, setting and maintaining credit standards, and managing the overall quality of the credit portfolio. We perform ongoing credit evaluations of our customers and adjust credit limits based upon payment history and the customer s current credit worthiness, as determined by our review of our customer s credit information. We extend credit on an unsecured basis to many of our customers.

We continuously monitor collections and payments from our customers and maintain a provision for estimated credit losses based upon our historical experience, any specific customer collection issues that we have identified, and general market, economic and other conditions. Accounts receivable are reduced by an allowance for amounts that may become uncollectible in the future. Such allowances can be either specific to a particular customer or general to all customers in each of our two business segments. As of September 30, 2004 and 2003, we had

accounts and notes receivable of $502.8 million and $212.1 million, respectively, net of allowance for bad debts of $11.7 million. As of December 31, 2003, we had accounts and notes receivable of $243.6 million, net of allowance for bad debts of $10.5 million.

We believe the level of our allowance for bad debts is reasonable based on our experience and our analysis of the net realizable value of our trade receivables at September 30, 2004. We cannot guarantee that we will continue to experience the same credit loss rates that we have experienced in the past since adverse changes in the marine and aviation industries, or changes in the liquidity or financial position of our customers, could have a material adverse effect on the collectability of our accounts receivable and our future operating results. If credit losses exceed established allowances, our results of operations and financial condition may be adversely affected. For additional information on the credit risks inherent in our business, see Risk Factors in Item 1 of our 2003 10-K Report.

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Goodwill and Identifiable Intangible Assets

Goodwill represents our cost in excess of net assets, including identifiable intangible assets, of the acquired companies and the aviation joint venture. The identifiable intangible assets for customer relations existing at the date of acquisitions were recorded and are being amortized over their useful lives of five to seven years. We account for goodwill and identifiable intangible assets in accordance with Statement of Financial Accounting Standards (SFAS) No. 142, Goodwill and Other Intangible Assets. Among other provisions, SFAS No. 142 states that goodwill shall not be amortized prospectively. Accordingly, for the three and nine months ended September 30, 2004 and 2003, no goodwill amortization was recorded. For our identifiable intangible assets, we amortized $362 thousand and $816 thousand for the three and nine months ended September 30, 2004, respectively, and $92 thousand and $276 thousand for the three and nine months ended September 30, 2003, respectively.

In accordance with SFAS No. 142, goodwill must be reviewed annually (or more frequently under certain circumstances) for impairment. The initial step of the goodwill impairment test compares the fair value of a reporting unit with its carrying amount, including goodwill. Based on results of these comparisons as of December 31, 2003, goodwill in each of our reporting units was not considered impaired. Accordingly, no impairment charges were recognized.

Income Taxes

Our provision for income taxes is determined by taxable jurisdiction. We file a consolidated U.S. federal income tax return which includes all of our U.S. companies. Our non-U.S. companies file income tax returns in their respective countries of incorporation, as required. We do not provide for U.S. federal and state income taxes or non-U.S. withholding taxes on the undistributed earnings of our non-U.S. companies. The distribution of these earnings would result in additional U.S. federal and state income taxes to the extent they are not offset by foreign tax credits and non-U.S. withholding taxes. It is our intention to reinvest undistributed earnings of our non-U.S. companies indefinitely and thereby postpone their remittance. Accordingly, no provision has been made for taxes that could result from the remittance of such earnings.

We provide for deferred income taxes on temporary differences arising from assets and liabilities whose bases are different for financial reporting and U.S. federal and state and non-U.S. income tax purposes. A valuation allowance is recorded to reduce deferred income tax assets when it is more likely than not that an income tax benefit will not be realized.

Results of Operations

Overview

Profit from our marine fuel services business is determined primarily by the volume and commission rate of brokering business generated and the volume and gross profit achieved on reselling activities, as well as the overall level of operating expenses. Profit from our aviation fuel services business is directly related to the volume and the gross profit achieved on reselling activities, as well as the overall level of operating expenses. Operating expenses in both segments may be significantly affected to the extent that we are required to make provisions for potential bad debts.

Comparing the nine-month periods ended September 30, 2004 and 2003, our profitability improved in 2004 due to increases both in metric tons of fuel sold in marine and in gallons of fuel sold in aviation, and a decrease in the provision for bad debts. Earnings were adversely affected by decreases in both the gross profit per metric ton traded in marine and gross profit per gallon sold in aviation, by increases in salaries and wages and in other operating expenses, and by the effect of non-operating expenses recorded in 2004 versus non-operating income recorded in 2003. The increase in marine business volume was mainly due to the acquisition of Tramp Oil. The decrease in gross profit per metric ton traded in marine reflects sustained high marine fuel prices, increased competitive pressures, and the acquisition of lower margin business from Tramp Oil. In our aviation fuel services segment, the increase in sales volume and decrease in gross profit per gallon were primarily due to growth in our fuel management business, which is a higher credit quality, lower margin business, as well as new commercial business. The decrease in the provision for bad debts is primarily attributable to new high credit quality, high volume commercial business and reflects the recording of bad debt expenses in 2003 relating to the write-off of receivables from two international airlines that filed for bankruptcy. The increases in salaries and wages and other operating expenses were due to the additional operating costs from Tramp Oil as well as higher overall operating costs associated with increased business activities. Negative changes in non-operating items were primarily due to the recognition of exchange losses relating to the conversion into US dollars of foreign currencies acquired in connection with the Tramp Oil acquisition.

We may experience decreases in future sales volume and margins as a result of deterioration in the world economy, or in the shipping or aviation industries, and continued conflicts and instability in the Middle East, Asia and Latin America, as well as potential future terrorist activities and possible military retaliation. In addition, because fuel costs represent a significant part of a vessel s and airline s operating expenses, volatile and/or high fuel prices can adversely affect our customers businesses, and consequently the demand for our services, and our results of operations. See Risk Factors in Item 1 of our 2003 10-K Report.

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Three Months Ended September 30, 2004 Compared to Three Months Ended September 30, 2003

Our revenue for the third quarter of 2004 was $1.57 billion, an increase of $939.5 million, as compared to revenue of $629.4 million for the third quarter of 2003. Our revenue during these periods was attributable to the following segments (in thousands):

	For the Three Months ended September 30,	
	2004	2003
	Restated	Restated
Marine fuel services	$ 834,822	$ 376,954
Aviation fuel services	734,152	252,474
	$ 1,568,974	$ 629,428

Our marine fuel services segment contributed $834.8 million of revenue for the third quarter of 2004, an increase of $457.9 million over the third quarter of 2003. Of the increase, $366.1 million is attributable to increased business activities and the balance, or $91.8 million, was due to an increase in the average sales price. The increase in volume of marine fuel sold was largely the result of our acquisition of Tramp Oil as well as additional sales generated by competitive pricing. Our aviation fuel services segment contributed $734.2 million of revenue for the third quarter of 2004, an increase of $481.7 million, as compared to the third quarter of 2003. Of the total increase in aviation revenue, higher volume of product sold contributed $306.8 million and the balance, or $174.9 million, was due to an increase in the average sales price. The increase in aviation sales volume was largely due to the growth in our fuel management business and new commercial business. Also contributing to our aviation revenue increase was the consolidation of PAFCO, our aviation joint venture with Signature Flight Support (Signature.) This change in accounting stems from the recent accounting pronouncement FIN No. 46, Consolidation of Variable Interest Entities, described in Note 1 to the financial statements included in this report. Prior to the consolidation of PAFCO, we recognized our share of the profits of PAFCO as other non-operating income.

Our gross profit of $29.7 million for the third quarter of 2004 increased $5.4 million, or 22.2%, as compared to the third quarter of 2003. However, our gross margin decreased to 1.9% for the third quarter of 2004, from 3.9% for the third quarter of 2003. Our marine fuel services segment had a 1.8% gross margin for the third quarter of 2004 versus 2.7% for the third quarter of 2003. The decrease in gross profit per metric ton traded in marine reflects sustained high marine fuel prices, increased competitive pressures, and the acquisition of lower margin business from Tramp Oil. Our aviation fuel services business had a 2.0% gross margin for the third quarter of 2004 as compared to 5.5% for the third quarter of 2003. The decrease in aviation gross margin reflects business volume growth in our lower margin fuel management business.

Total operating expenses for the third quarter of 2004 were $23.4 million, an increase of $6.0 million, or 34.8%, as compared to the same period in 2003. The increase in operating expenses was primarily due to increases in salaries and wages and other operating expenses reflecting the additional operating costs of Tramp Oil and higher operating expenses associated with increased business activities. These increases were partially offset by a decrease in the provision for bad debts. The increase in salaries and wages was primarily due to new hires, additional employees from Tramp Oil and higher performance-based incentive compensation expenses. The increase in other operating expenses was primarily because of higher sales and marketing costs, professional fees, insurance costs, telecommunication costs, bank charges, business travel, payroll taxes, letters of credit fees, and the amortization of loan fees associated with our syndicated revolving credit facility. The decrease in the provision for bad debts was primarily due to new high credit quality, high volume commercial business.

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Our income from operations of $6.3 million for the third quarter of 2004 decreased slightly as compared to the third quarter of 2003. Income from operations during these periods was attributable to the following segments (in thousands):

	For the Three Months ended September 30,	
	2004	2003
	Restated	Restated
Marine fuel services	$ 3,843	$ 3,906
Aviation fuel services	5,665	6,319
	9,508	10,225
Corporate overhead	(3,197)	(3,269)
	$ 6,311	$ 6,956

Our marine fuel services segment earned $3.8 million in income from operations for the third quarter of 2004 as compared to $3.9 million for the third quarter of 2003. This decrease was due to the recording of unrealized losses on our outstanding inventory derivative totaling $1.4 million at September 30, 2004. Largely offsetting was the additional operating income provided by Tramp Oil. Our aviation fuel services segment s income from operations was $5.7 million for the third quarter of 2004, a decrease of $654 thousand, or 10.3%, as compared to the third quarter of 2003. This decrease was due to higher salaries and wages and other operating expenses, partially offset by a 5.2% growth in gross profit due to increased business volume as well as the consolidation of our PAFCO aviation joint venture and a lower provision for bad debts. Corporate overhead costs not charged to the business segments totaled $3.2 million for the third quarter of 2004, a decrease of $72 thousand, or 2.2%, as compared to the third quarter of 2003. For an explanation of the increases in salaries and other operating expenses, see the above discussion on operating expenses.

During the third quarter of 2004, we reported $88 thousand in other expense, net, as compared to other income, net, of $83 thousand for the third quarter of 2003. This $171 thousand change was primarily due to increased interest expense due to borrowings on our revolving credit facility for working capital and the effect of the consolidation of our PAFCO aviation joint venture, partially offset by increased interest income and the recognition of foreign exchange gains in 2004 as opposed to foreign exchange losses in 2003.

For the third quarter of 2004, our effective tax rate was 12.6%, for an income tax provision of $784 thousand, as compared to 22.4% and an income tax provision of $1.6 million for the third quarter of 2003. The lower effective tax rate for the third quarter of 2004 resulted primarily from changes in operating income contributed by our various subsidiaries in different tax jurisdictions, each with its own effective tax rate.

Net income for the third quarter of 2004 and 2003 was $5.4 million. Diluted earnings per share for the third quarter of 2004 of $0.46 per share decreased from $0.49 per share for the third quarter of 2003.

Nine Months Ended September 30, 2004 Compared to Nine Months Ended September 30, 2003

Our revenue for the first nine months of 2004 was $3.86 billion, an increase of $1.90 billion, or 97.2%, as compared to revenue of $1.96 billion for the corresponding period in 2003. Our revenue during these periods was attributable to the following segments (in thousands):

	For the Nine Months ended September 30,	
	2004	2003
	Restated	Restated
Marine fuel services	$ 2,078,795	$ 1,212,707
Aviation fuel services	1,784,731	746,556
	$ 3,863,526	$ 1,959,263

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Our marine fuel services segment contributed $2.08 billion in revenue for the first nine months of 2004, an increase of $866.0 million, or 71.4%, over the same period in 2003. Of the increase, $914.6 million is attributable to increased business activities. Partially offsetting was a $48.5 million decline in revenue that was price related. The increase in volume of marine fuel sold was mainly due to the acquisition of Tramp Oil as well as additional sales generated by competitive pricing. Our aviation fuel services segment contributed $1.78 billion in revenue for the first nine months of 2004, an increase of $1.04 billion, as compared to the first nine months of 2003. Of the total increase in aviation revenue, higher volume of product sold contributed $723.4 million and the balance, or $314.8 million, was due to an increase in the average sales price. The increase in aviation sales volume was mainly due to new fuel management business, as well as new commercial business. Also contributing to our aviation revenue increase was the consolidation of PAFCO, our aviation joint venture with Signature.

Our gross profit of $86.7 million for the first nine months of 2004 increased $9.1 million, or 11.7%, as compared to the corresponding period in 2003. However, our gross margin decreased to 2.2% for the first nine months of 2004, from 4.0% for the first nine months of 2003. Our marine fuel services segment had a 2.0% gross margin for the first nine months of 2004 versus a 3.2% gross margin for the same period in 2003. The decrease in gross profit per metric ton traded in marine reflects sustained high marine fuel prices, increased competitive pressures and the acquisition of lower margin business from Tramp Oil. Our aviation fuel services business had a 2.5% gross margin for the first nine months of 2004, as compared to 5.2% for the first nine months of 2003. The decrease in aviation gross margin reflects the business volume growth in our lower margin fuel management business.

Total operating expenses for the first nine months of 2004 were $64.3 million, an increase of $6.7 million, or 11.7%, as compared to the same period in 2003. The increase in operating expenses was primarily due to increases in salaries and wages and other operating expenses reflecting the additional operating costs of Tramp Oil and higher operating expenses associated with increased business activities. These increases were partially offset by a decrease in the provision for bad debts. The increase in salaries and wages was primarily due to new hires and additional employees from Tramp Oil, partially offset by lower performance-based incentive compensation expenses. The increase in other operating expenses was primarily the result of higher business travel, in part due to the acquisition and integration of Tramp Oil, and higher sales and marketing costs, insurance costs, telecommunication costs, and payroll taxes, partially offset by lower computer software amortization expenses. The decrease in provision for bad debts is primarily attributable to new high credit quality, high volume commercial business and reflects the recording of bad debt expenses in 2003 relating to the write-off of receivables from two international airlines that filed for bankruptcy.

Our income from operations for the first nine months of 2004 was $22.5 million, an increase of $2.3 million, or 11.6%, over the same period in 2003. Income from operations during these periods was attributable to the following segments (in thousands):

	For the Nine Months ended September 30,	
	2004	**2003**
	Restated	**Restated**
Marine fuel services	$ 12,837	$ 14,106
Aviation fuel services	19,295	16,013
	32,132	30,119
Corporate overhead	(9,678)	(9,996)
	$ 22,454	$ 20,123

Our marine fuel services segment earned $12.8 million in income from operations for the first nine months of 2004, as compared to $14.1 million for the corresponding period in 2003. Additional contribution of operating income from Tramp Oil was mostly offset by the lower gross profit contribution from the remaining marine companies, due to a year-to-year shift in the mix of business primarily relating to last year s war in Iraq as well as the recording of unrealized losses on our outstanding inventory derivative at September 30, 2004. Our aviation fuel services segment s income from operations was $19.3 million for the first nine months of 2004, an increase of $3.3 million, or 20.5%, as compared to the same period in 2003. This improvement was due to a 16.5% increase in gross profit due to business volume growth, as well as the consolidation of our PAFCO aviation joint venture, partially offset by higher salaries and wages and other operating expenses. Corporate overhead costs not charged to the business segments totaled $9.7 million for the first nine months of 2004, a decrease of $318 thousand, or 3.2%, as compared to the same period of the prior year. The decrease in corporate overhead was primarily related to the recording of accelerated computer software amortization expense in 2003, partially offset by increases in other operating expenses. For an explanation of the increases in salaries and other operating expenses, see the above discussion on operating expenses.

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During the first nine months of 2004, we reported $1.5 million in other expense, net, as compared to other income, net, of $312 thousand for the same period of the prior year. This $1.8 million change was primarily due to the recognition of exchange losses relating to conversion into U.S. dollars of foreign currencies acquired in connection with the Tramp Oil acquisition, increased interest expense due to borrowings on our revolving credit facility for working capital, and the effect of the consolidation of our PAFCO aviation joint venture.

For the first nine months of 2004, our effective tax rate was 17.4%, for an income tax provision of $3.6 million, as compared to 19.1% and an income tax provision of $3.9 million for the first nine months of 2003. The lower effective tax rate for the third quarter of 2004 resulted primarily from changes in operating income contributed by our various subsidiaries in different tax jurisdictions, each with its own effective tax rate.

Net income for the first nine months of 2004 was $17.3 million, an increase of $806 thousand, or 4.9%, as compared to $16.5 million for the corresponding period in 2003. Diluted earnings per share for the first nine months of 2004 was $1.48 per share as compared to $1.49 per share for the same period in 2003.

Liquidity and Capital Resources

In our marine and aviation fuel services businesses, our primary use of cash is to fund fuel purchases relating to sales of fuel to our customers. We are usually extended unsecured trade credit from our suppliers for our fuel purchases; however, certain suppliers require us to provide a letter of credit. Our ability to fund fuel purchases, obtain trade credit from our suppliers, and provide letters of credit is critical to our business. Cash is also used to maintain aviation and marine fuel inventory for sale to customers. Increases in oil prices negatively affect liquidity by increasing the amount of cash needed to fund fuel purchases as well as reducing the amount of fuel which can be purchased on an unsecured credit basis from our suppliers. Historically, we have not required significant capital investment in fixed assets for our businesses as we subcontract fueling services and maintain inventory at third party storage facilities.

Our business is funded through cash generated from operations and borrowings under our syndicated revolving credit facility. We have a syndicated revolving credit facility that permits borrowings of up to $150.0 million with a sublimit of $60.0 million for the issuance of letters of credit. Our available borrowings under the revolving credit facility are reduced by the amount of outstanding letters of credit. As of September 30, 2004, our outstanding borrowings under the revolving credit facility totaled $35.0 million and our issued letters of credit totaled $18.9 million. The credit agreement relating to the revolving credit facility imposes certain operating and financial restrictions on us. Our failure to comply with these restrictions could result in an event of default. An event of default, if not cured or waived, would permit acceleration of any outstanding indebtedness under the credit agreement, and impair our ability to receive advances and issue letters of credit, and thus have a material adverse effect on our ability to fund operations. As a result of the restatement, we were not in compliance with certain financial covenants set forth in our credit facility agreement as of September 30, 2004. Although we obtained a waiver of this non-compliance from LaSalle Bank National Association, as Administrative Agent, on March 16, 2005, we have included our outstanding borrowings at September 30, 2004 under the credit facility agreement in short-term debt.

In April 2004, we obtained a separate $25.0 million credit line for the issuance of letters of credit from one of the banks participating in our syndicated revolving credit facility. As of September 30, 2004, we had outstanding letters of credit of $11.2 million under this credit line, in addition to the letters of credit outstanding under our revolving credit facility.

Higher interest rates can have a negative effect on our liquidity due to higher costs of borrowing under our $150.0 million syndicated revolving credit facility and higher fees for letters of credit. As of September 30, 2004, we had $57.5 million of cash and cash equivalents as compared to

$76.3 million of cash and cash equivalents at December 31, 2003. Our cash position can fluctuate significantly depending on the timing of payments to suppliers and receipt of payments from customers.

Net cash used in operating activities was $31.0 million for the first nine months of 2004 versus net cash provided by operating activities of $9.7 million for the corresponding period in 2003. The change in cash flows for operating activities of $40.7 million was primarily due to net changes in operating assets and liabilities as a result of increased business activities in both our aviation and marine segments.

Net cash provided by investing activities was approximately $9.9 million for the first nine months of 2004 versus net cash used in investing activities of approximately $2.6 million for the same period in 2003. The change in cash flows for investing activities of approximately $12.6 million resulted from a reduction in capital expenditures of $500 thousand and net cash received as a result of the acquisition of Tramp Oil. See the Condensed Consolidated Statement of Cash Flows and Note 1 to the Notes to the Condensed Consolidated Financial Statements for detailed information regarding the acquisition of Tramp Oil.

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Net cash provided by financing activities of $2.4 million increased $1.7 million for the first nine months of 2004 as compared to the corresponding period in 2003. This increase was mainly due to additional net borrowings of $30.0 million from our syndicated revolving credit facility in 2004, an increase in the proceeds from exercises of stock options of $5.7 million, and a decrease in the repayment of long-term debt of $927 thousand, partially offset by the repayment of assumed bank loans and bank overdrafts from Tramp Oil of $34.9 million.

Working capital at September 30, 2004 was $116.6 million, an increase of $8.5 million from working capital at December 31, 2003. Our gross accounts and notes receivable at September 30, 2004 amounted to $514.5 million, an increase of $260.3 million, as compared to the balance at December 31, 2003. At September 30, 2004, our allowance for bad debts of $11.7 million increased by $1.1 million from the balance at December 31, 2003. During the nine months ended September 30, 2004, we charged $2.8 million to the provision for bad debts and had charge-offs in excess of recoveries of $1.7 million. The increase in accounts and notes receivable was mainly due to the additional business volume in our aviation and marine segments as well as the acquisition of Tramp Oil.

As of September 30, 2004, our inventory totaled $38.9 million, an increase of $24.1 million from our inventory balance at December 31, 2003. This increase was primarily due to changes in our fuel supply process and increased business activities in our aviation services segment, as well as the acquisition of Tramp Oil. Prepaid expenses and other current assets increased $16.2 million, to $36.2 million, primarily due to increases in the fair market value of our outstanding derivatives at September 30, 2004, prepaid fuel, prepaid insurance, and a higher VAT receivable balance, partially offset by a reduction in deferred tax assets.

Our current liabilities, excluding short-term debt, increased $237.3 million, to $482.3 million, primarily due to increased business activities in our aviation and marine services segments as well as the acquisition of Tramp Oil. Long-term and short-term debt, in the aggregate, increased by $33.5 million, primarily due to net borrowings of $35.0 million under our syndicated revolving credit facility, partially offset by the repayment of our acquisition debt.

Stockholders equity amounted to $177.3 million at September 30, 2004, an increase of $27.6 million as compared to $149.7 million at December 31, 2003. The increase in stockholders equity was primarily due to $17.3 million in earnings and the exercise of employee and non-employee director stock options of $10.5 million, which includes income tax benefit of $4.2 million, partially offset by the amortization of unearned deferred compensation and the declaration of dividends during the nine months ended September 30, 2004.

We believe that available funds from existing cash and cash equivalents, our syndicated revolving credit facility, and cash flows generated by operations will be sufficient to fund our working capital and capital expenditure requirements for the next twelve months. However, we may need to raise additional funds to respond to competitive pressures or market conditions, expand our product and service offerings, enter new markets or fund potential future acquisitions. Our opinions concerning liquidity are based on currently available information. To the extent this information proves to be inaccurate, or if circumstances change, future availability of trade credit or other sources of financing may be reduced and our liquidity would be adversely affected. Factors that may affect the availability of trade credit, or other financing, include our performance (as measured by various factors including cash provided by operating activities), the state of worldwide credit markets and our levels of outstanding debt. Accordingly, we cannot guarantee that financing will be available when needed or desired on terms favorable to us.

Contractual Obligations, Commercial Commitments and Off-Balance Sheet Arrangements

Except for changes in our letters of credit and purchase and sale commitments and derivatives, as described below, our contractual obligations, commercial commitments and off-balance sheet arrangements did not change materially from December 31, 2003 to September 30, 2004. For a discussion of these matters, refer to Contractual Obligations, Commercial Commitments and Off-Balance Sheet Arrangements in Item 7 of our

2003 10-K Report.

Letters of Credit

In the normal course of business, we are required to provide letters of credit to certain suppliers. A majority of these letters of credit expire within one year from their issuance, and expired letters of credit are renewed as needed. As of September 30, 2004, we had letters of credit outstanding of $31.6 million, as compared to $16.1 million in letters of credit outstanding as of December 31, 2003. For additional information on letters of credit, see Note 3 to the accompanying condensed consolidated financial statements included in this Form 10-Q/A.

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Purchase and Sale Commitments and Derivatives

See Item 3 Quantitative and Qualitative Disclosures About Market Risk, included in this Form 10-Q/A, for a discussion of our purchase and sale commitments and derivatives.

Recent Accounting Pronouncement

In January 2003, the Financial Accounting Standard Board (FASB) issued Interpretation No. 46 (FIN No. 46), Consolidation of Variable Interest Entities. FIN No. 46 expands upon and strengthens existing accounting guidance addressing when a company should include in its financial statements the assets, liabilities and activities of another entity. A variable interest entity is a corporation, partnership, trust or any other legal structure used for business purposes that either (a) does not have equity investors with voting rights or (b) has equity investors that do not provide sufficient financial resources for the entity to support its activities. FIN No. 46 requires a variable interest entity to be consolidated by a company if that company is subject to a majority of the risk of loss from the variable interest entity s activities or is entitled to receive a majority of the entity s residual returns, or both. The consolidation requirements of FIN No. 46 apply immediately to variable interest entities created after January 31, 2003. We determined that we did not have any variable interest entities created after January 31, 2003.

In December 2003, FASB revised FIN No. 46, which deferred the effective date for the consolidation requirements for variable interest entities, other than special-purpose entities, created before February 1, 2003, to the period ending after March 15, 2004. In accordance with FIN No. 46, effective January 1, 2004, we consolidated our aviation joint venture. The consolidation of this joint venture did not have any significant effect on our consolidated financial position, cash flows and results of operations. See Note 6 in the Notes to the Consolidated Financial Statements of this report for additional information.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

We enter into derivative contracts in the form of swaps and futures in order to mitigate the risk of market price fluctuations in marine and aviation fuel. All derivatives are recognized on the balance sheet and measured at fair value. If the derivative does not qualify as a hedge under SFAS No. 133 or is not designated as a hedge, changes in the fair value of the derivative are recognized currently in earnings. If the derivative qualifies for hedge accounting, changes in the fair value of the derivative are either recognized in income along with the corresponding change in fair value of the item being hedged for fair-value hedges or deferred in other comprehensive income (OCI) to the extent the hedge is effective for cash flow hedges. To qualify for hedge accounting, the derivative must qualify as either a fair-value or cash flow hedge.

The hedging relationship between the hedging instruments and hedged items must be highly effective in achieving the offset of changes in fair values or cash flows attributable to the hedged risk, both at the inception of the hedge and on an ongoing basis. We measure hedge effectiveness on a quarterly basis. For the periods reported, such ineffectiveness has been immaterial. Hedge accounting is discontinued prospectively if and when a hedging instrument becomes ineffective. We assess hedge effectiveness based on total changes in the fair value of our derivative instruments. Gains and losses deferred in accumulated OCI related to cash flow hedge derivatives that become ineffective remain unchanged until the related fuel is delivered. Adjustment to the carrying amounts of hedged items is discontinued in instances where the related fair value hedging instrument becomes ineffective. The balance in the fair value hedge adjustment account is recognized in income when the hedged item is sold. If we determine that it is probable that a hedged forecasted transaction will not occur, deferred gains or losses on the related hedging instrument are recognized in earnings immediately.

Gains and losses on hedging instruments and adjustments of the carrying amounts of hedged items are included in revenues and expenses in the period that the item is sold. Gains and losses on hedging instruments which represent hedge ineffectiveness and gains and losses on derivative instruments which do not qualify for hedge accounting are included in revenue in the period which they occur. The resulting cash flows are reported as cash flows from operating activities.

Derivative instruments designated as cash flow hedges are used by us to mitigate the risk of variability in cash flows from marine and aviation fuel sales and purchases due to changes in market prices. Fair value derivatives are used by us to offset the exposure to changes in the fair value of our inventory and fixed price purchase commitments.

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Cash Flow Hedges

As of September 30, 2004, our cash flow hedges consisted of fixed price sales commitments (an All-in-One hedge) and fixed price swaps. The fixed price sales commitments are used to fix the prices of future fuel sales, while the fixed price swap agreements are used to fix the prices of anticipated future fuel purchases. Accordingly, changes in fair value of these derivatives fully offset in OCI and are recorded in prepaid expenses and other current assets and related accrued expenses and other current liabilities.

Fair Value Derivatives

As of September 30, 2004, our fair value derivatives consisted of positions in futures that are used to offset against changes in the fair value of our inventory and swap contracts with underwriters to float our fixed price purchase commitments with market prices. Changes in the fair value of the future derivatives are recorded in revenue and prepaid expenses and other current assets and of the swap derivatives are recorded as unrealized gains or losses in cost of sales and with a related receivable or payable. Unrealized gains or losses are offset with future physical fuel sales to customers.

Non-designated Derivatives

As of September 30, 2004, our non-designated derivatives consisted of swap contracts with our customers and swap and collar contracts with counterparties. As part of our price risk management services, we offer swap contracts to our customers to fix their fuel prices and simultaneously we enter into a swap contract with a counterparty with substantially the same terms and conditions, and for this, we earn a fee. We recognize the fee revenue when both of the swap contracts are settled. Because these contracts are back-to-back transactions, changes in the fair value of these derivatives have no impact on earnings and are recorded in prepaid expenses and other current assets and related accrued expenses and other current liabilities.

As of September 30, 2004 we had the following commodity related derivative instruments outstanding with average underlying prices that represent hedged prices of commodities at various market locations:

Settlement Period	Derivative Instrument	Hedge Strategy	Notional Amount		Average Underlying Prices	Fair Value Asset (Liability)
			Marine (metric tons)	Aviation (gallons)		
						(In thousands)
2004	Swap	Cash flow	11,900		$ 158.92	$ 477
	Sales commitments	Cash flow	11,900		157.75	(477)
	Swap	Non-designated	63,947		170.03	814
	Swap	Non-designated	63,947		171.00	(814)
	Swap	Non-designated		4,400,000	99.20	2,605
	Swap	Non-designated		4,400,000	101.20	(2,605)
	Swap	Fair value	2,850		184.00	(27)
	Futures	Fair value		5,712,000	138.61	(314)

2005	Swap	Cash flow	12,000	162.00	378
			12,000	182.50	(378)
	Sales commitments	Cash flow	57,000	154.21	1,176
			57,000	154.70	(1,176)
	Swap	Non-designated	42,000	162.00	(1,323)
	Swap	Non-designated			
	Swap	Fair value			
2006	Swap	Non-designated	7,200	152.40	171
			7,200	152.70	(171)
	Swap	Non-designated			
2007	Swap	Non-designated	3,000	147.32	87
			3,000	147.75	(87)
	Swap	Non-designated			
					$ (1,664)

Our policy is to not use fuel related derivative financial instruments for speculative purposes.

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We conduct the vast majority of our business transactions in U.S. dollars. However, in certain markets, such as Mexico, Colombia and the United Kingdom, payments to some of our fuel suppliers and receipts from some of our customers are denominated in local currency. This subjects us to foreign currency exchange risk, which may adversely affect our results of operations and financial condition. We seek to minimize the risks from currency exchange rate fluctuations through our regular operating and financing activities.

Item 4. Controls and Procedures

In connection with the Original Form 10-Q, as required under Rule 13a-15(e) of the Exchange Act, the Company s management, including our Chief Executive Officer, Chief Operating Officer and Chief Financial Officer, conducted an evaluation of the effectiveness of the Company s disclosure controls and procedures. Based on this evaluation, the Company s Chief Executive Officer, Chief Operating Officer and Chief Financial Officer concluded that the Company s disclosure controls and procedures were effective as of September 30, 2004.

In March 2005, the Company s management and the Audit Committee of the Company s Board of Directors concluded that the Company needed to correct its cutoff procedures used to recognize sales and sales related costs as well as the accounting for inventory derivatives. As a result, the Company restated its historical financial statements for the year ended December 31, 2003, the nine months ended December 31, 2002, the year ended March 31, 2002, and the interim periods in 2004 and 2003.

In April 2005, the Company s management and the Audit Committee of the Company s Board of Directors concluded that the Company needed to correct its presentation of borrowings and repayments under the Company s revolving credit facility in its statements of cash flows to show these amounts on a gross rather than net basis. Accordingly, the Company restated its consolidated statements of cash flows for the years ended December 31, 2004 and 2003, the nine months ended December 31, 2002, the year ended March 31, 2002, and the interim periods in 2004 and 2003.

The above restatements are described in more detail in Note 2 to the condensed consolidated financial statements.

Controls over the application of accounting policies are within the scope of internal controls. Therefore, management has concluded that there were material weaknesses in the Company s internal controls, as defined by the Public Company Accounting Oversight Board.

In connection with the filing of this Form 10-Q/A, the Company s management, including the Chief Executive Officer, Chief Operating Officer, Chief Financial Officer and Chief Risk and Administrative Officer, has re-evaluated the effectiveness of the Company s disclosure controls and procedures as of September 30, 2004. Because of the issues discussed above, the Company s Chief Executive Officer, Chief Operating Officer, Chief Financial Officer and Chief Risk and Administrative Officer have now concluded that the Company s disclosure controls and procedures were not effective as of September 30, 2004.

There were no changes in the Company s internal controls over financial reporting that materially affected, or are reasonably likely to materially affect the Company s internal control over financial reporting during the quarter ended September 30, 2004. During March 2005 and April 2005, the Company did, however, correct its accounting to recognize sales and sales related costs on an accrual basis, to record changes in the market value of inventory derivatives in the statement of income, and to report borrowings and repayments under the Company s revolving credit facility on a gross rather than net basis.

It should be noted that a control system, no matter how well designed and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. As a result, there can be no assurance that a control system will succeed in preventing all possible instances of error and fraud. The Company s disclosure controls and procedures are designed to provide reasonable assurance of achieving their objectives, and the conclusions of our Chief Executive Officer, Chief Operating Officer, Chief Financial Officer and Chief Risk and Administrative Officer are made at the reasonable assurance level.

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Part II

Item 6. Exhibits

The exhibits set forth in the following index of exhibits are filed as part of this Form 10-Q/A:

Exhibit No.	Description
31.1	Certification of the Chief Executive Officer pursuant to Rule 13a-14(a) or 15d 14(a).
31.2	Certification of the Chief Operating Officer pursuant to Rule 13a-14(a) or 15d 14(a).
31.3	Certification of the Chief Financial Officer pursuant to Rule 13a-14(a) or 15d 14(a).
31.4	Certification of the Chief Risk and Administrative Officer pursuant to Rule 13a-14(a) or 15d 14(a).
32.1	Statement of Chief Executive Officer, Chief Operating Officer, and Chief Financial Officer under Section 906 of the Sarbanes-Oxley Act of 2002.

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Signatures

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Date: May 6, 2005

World Fuel Services Corporation

/s/ Michael J. Kasbar

Michael J. Kasbar, President and
Chief Operating Officer

/s/ Robert S. Tocci

Robert S. Tocci, Executive Vice President
and Chief Financial Officer
(Principal Financial and Accounting Officer)