WORLD FUEL SERVICES CORP
Form 10-Q
August 02, 2011

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 10-Q

(Mark One)

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

FOR THE QUARTERLY PERIOD ENDED JUNE 30, 2011

o 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 o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer , accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large accelerated filer x	Accelerated filer o
Non-accelerated filer o	Smaller reporting company o

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

The registrant had a total of 71,135,000 shares of common stock, par value $0.01 per share, issued and outstanding as of July 27, 2011.

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Part I Financial Information

General

The following unaudited consolidated financial statements and notes thereto of World Fuel Services Corporation and its subsidiaries have been prepared in accordance with the instructions to Quarterly Reports 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, which are of a normal and recurring nature, have been made for the interim periods reported. Results of operations for the three and six months ended June 30, 2011 are not necessarily indicative of the results for the entire fiscal year. The unaudited consolidated financial statements and notes thereto included in this Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2011 (10-Q Report) should be read in conjunction with the audited consolidated financial statements and notes thereto included in our Annual Report on Form 10-K for the fiscal year ended December 31, 2010 (2010 10-K Report). World Fuel Services Corporation (World Fuel or the Company) and its subsidiaries are collectively referred to in this 10-Q Report as we, our and us.

Item 1. Financial Statements

World Fuel Services Corporation and Subsidiaries

Consolidated Balance Sheets

(Unaudited - In thousands, except per share data)

	As of	
	June 30, 2011	December 31, 2010
Assets:		
Current assets:		
Cash and cash equivalents	$ 149,735	$ 272,893
Accounts receivable, net	1,982,962	1,386,700
Inventories	429,206	211,526
Prepaid expenses	80,125	96,461
Transaction taxes receivable	82,337	55,125
Short-term derivative assets, net	21,750	7,686
Other current assets	47,817	37,476
Total current assets	2,793,932	2,067,867
Property and equipment, net	84,651	64,106
Goodwill	330,210	287,434
Identifiable intangible assets, net	123,472	117,726
Non-current other assets	29,793	29,317
Total assets	$ 3,362,058	$ 2,566,450
Liabilities:		
Current liabilities:		
Short-term debt	$ 15,787	$ 17,076
Accounts payable	1,646,847	1,131,228
Customer deposits	54,313	65,480
Transaction taxes payable	80,104	59,910
Short-term derivative liabilities, net	19,280	8,591
Accrued expenses and other current liabilities	64,424	76,199
Total current liabilities	1,880,755	1,358,484
Long-term debt	167,020	24,566
Non-current income tax liabilities, net	48,948	45,328
Other long-term liabilities	11,038	11,508
Total liabilities	2,107,761	1,439,886
Commitments and contingencies		
Equity:		
World Fuel shareholders equity:		
Preferred stock, $1.00 par value; 100 shares authorized, none issued		
Common stock, $0.01 par value; 100,000 shares authorized, 71,135 and 69,602 issued and outstanding at June 30, 2011 and December 31, 2010, respectively	711	696
Capital in excess of par value	497,851	468,963
Retained earnings	738,811	652,796
Accumulated other comprehensive income	5,894	4,753
Total World Fuel shareholders equity	1,243,267	1,127,208

Noncontrolling interest equity (deficit)		11,030		(644)
Total equity		1,254,297		1,126,564
Total liabilities and equity	$	3,362,058	$	2,566,450

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

World Fuel Services Corporation and Subsidiaries

Consolidated Statements of Income

(Unaudited - In thousands, except per share data)

	For the Three Months ended June 30, 2011	For the Three Months ended June 30, 2010	For the Six Months ended June 30, 2011	For the Six Months ended June 30, 2010
Revenue	$ 8,708,709	$ 4,397,275	$ 15,788,115	$ 8,315,296
Cost of revenue	8,543,607	4,289,706	15,486,245	8,108,909
Gross profit	165,102	107,569	301,870	206,387
Operating expenses:				
Compensation and employee benefits	54,877	38,900	101,946	73,701
Provision for bad debt	3,531	1,696	4,327	2,065
General and administrative	40,591	21,909	73,969	43,432
Total operating expenses	98,999	62,505	180,242	119,198
Income from operations	66,103	45,064	121,628	87,189
Non-operating expense, net:				
Interest expense and other financing costs, net	(4,298)	(841)	(6,823)	(1,481)
Other (expense) income, net	(83)	593	(1,011)	629
	(4,381)	(248)	(7,834)	(852)
Income before income taxes	61,722	44,816	113,794	86,337
Provision for income taxes	11,049	7,765	21,464	15,446
Net income including noncontrolling interest	50,673	37,051	92,330	70,891
Less: net income attributable to noncontrolling interest	470	74	1,018	211
Net income attributable to World Fuel	$ 50,203	$ 36,977	$ 91,312	$ 70,680
Basic earnings per common share	$ 0.71	$ 0.62	$ 1.30	$ 1.19
Basic weighted average common shares	70,856	59,418	70,400	59,371
Diluted earnings per common share	$ 0.70	$ 0.61	$ 1.28	$ 1.17
Diluted weighted average common shares	71,558	60,685	71,299	60,646

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

World Fuel Services Corporation

Consolidated Statements of Shareholders Equity and Comprehensive Income

(Unaudited - In thousands)

	Common Stock Shares	Common Stock Amount	Capital in Excess of Par Value	Retained Earnings	Accumulated Other Comprehensive Income	World Fuel Shareholders Equity	Noncontrolling Interest (Deficit) Equity	Total Equity
Balance at December 31, 2010	69,602	$ 696	$ 468,963	$ 652,796	$ 4,753	$ 1,127,208	$ (644)	$ 1,126,564
Comprehensive income:								
Net income				91,312		91,312	1,018	92,330
Foreign currency translation adjustment					1,141	1,141		1,141
Comprehensive income						92,453	1,018	93,471
Initial noncontrolling interest upon consolidation of joint venture							614	614
Capital contribution for joint ventures							10,042	10,042
Cash dividends declared				(5,297)		(5,297)		(5,297)
Amortization of share-based payment awards			4,801			4,801		4,801
Issuance of shares related to share-based payment awards including income tax benefit of $3,810	920	9	5,250			5,259		5,259
Issuance of shares related to acquisition	691	7	27,491			27,498		27,498
Purchases of stock tendered by employees to satisfy the required withholding taxes related to share-based payment awards	(78)	(1)	(8,654)			(8,655)		(8,655)
Balance at June 30, 2011	71,135	$ 711	$ 497,851	$ 738,811	$ 5,894	$ 1,243,267	$ 11,030	$ 1,254,297

	Common Stock Shares	Common Stock Amount	Capital in Excess of Par Value	Retained Earnings	Accumulated Other Comprehensive Income	Total World Fuel Shareholders Equity	Noncontrolling Interest Equity	Total Equity
Balance at December 31, 2009	59,385	$ 594	$ 213,414	$ 515,218	$ 3,795	$ 733,021	$ 228	$ 733,249
Comprehensive income:								
Net income				70,680		70,680	211	70,891
Foreign currency translation adjustment					(1,115)	(1,115)		(1,115)
Comprehensive income						69,565	211	69,776
Cash dividends declared				(4,457)		(4,457)		(4,457)
Amortization of share-based payment awards			3,717			3,717		3,717

Issuance of shares related to share-based payment awards	184	2	208			210		210
Purchases of stock tendered by employees to satisfy the required withholding taxes related to payment awards share-based	(55)	(1)	(1,517)			(1,518)		(1,518)
Balance at June 30, 2010	59,514	$ 595	$ 215,822	$ 581,441	$ 2,680	$ 800,538	$ 439	$ 800,977

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

World Fuel Services Corporation and Subsidiaries

Consolidated Statements of Cash Flows

(Unaudited - In thousands)

	For the Six Months ended June 30, 2011	2010
Cash flows from operating activities:		
Net income including noncontrolling interest	$ 92,330	$ 70,891
Adjustments to reconcile net income including noncontrolling interest to net cash (used in) provided by operating activities:		
Depreciation and amortization	18,740	8,624
Provision for bad debt	4,327	2,065
Gain on short-term investments		(1,900)
Deferred income tax provision (benefit)	6,564	(1,272)
Share-based payment award compensation costs	5,658	3,717
Foreign currency (gains) losses, net	(411)	428
Other	893	(96)
Changes in assets and liabilities, net of acquisitions:		
Accounts receivable, net	(535,628)	(163,387)
Inventories	(180,534)	(13,959)
Prepaid expenses	29,252	(7,075)
Transaction taxes receivable	(25,422)	(3,028)
Other current assets	(15,118)	(6,776)
Short-term derivative assets, net	(13,968)	1,682
Non-current other assets	(1,415)	(1,606)
Accounts payable	477,888	142,955
Customer deposits	(14,779)	(11,457)
Transaction taxes payable	20,783	2,532
Short-term derivative liabilities, net	10,567	1,837
Accrued expenses and other current liabilities	(18,315)	(1,721)
Non-current income tax and other long-term liabilities	889	1,318
Total adjustments	(230,029)	(47,119)
Net cash (used in) provided by operating activities	(137,699)	23,772
Cash flows from investing activities:		
Capital expenditures	(7,394)	(4,153)
Issuance of short term note receivable	(8,148)	
Repayment of short term note receivable	8,148	
Acquisition of businesses, net of cash acquired	(106,013)	(8,315)
Net cash used in investing activities	(113,407)	(12,468)
Cash flows from financing activities:		
Dividends paid on common stock	(5,294)	(4,457)
Payment of assumed employee benefits	(5,421)	
Borrowings under revolving credit facility	2,416,000	
Repayments under revolving credit facility	(2,278,000)	
Capital contribution for joint venture	10,000	
Repayments of debt other than senior revolving credit facility	(6,123)	(5,521)
Proceeds from exercise of stock options		85
Federal and state tax benefits resulting from tax deductions in excess of the compensation cost recognized for share-based payment awards	3,810	
Purchases of stock tendered by employees to satisfy the required withholding taxes related to share-based payment awards	(8,654)	(1,518)
Net cash provided by (used in) financing activities	126,318	(11,411)
Effect of exchange rate changes on cash and cash equivalents	1,630	(1,350)
Net decrease in cash and cash equivalents	(123,158)	(1,457)

Cash and cash equivalents, at beginning of period		272,893		298,843
Cash and cash equivalents, at end of period	$	149,735	$	297,386

Supplemental Schedule of Noncash Investing and Financing Activities:

Cash dividends declared of $0.0375 per share for the three months ended June 30, 2011 and 2010, but not yet paid, totaled $2.7 million and $2.2 million, respectively at June 30, 2011 and 2010 and were paid in July 2011 and 2010.

As of June 30, 2011, we had accrued capital expenditures totaling $2.2 million, which was recorded in accrued expenses and other current liabilities.

In connection with our March 2011 and April 2011acquisitions, we issued $27.5 million of common stock and a promissory note of $7.5 million, respectively.

In January 2011, upon the consolidation of a joint venture that was previously accounted for as an equity investment, we recorded an initial noncontrolling interest of $0.8 million relating to its net assets.

In connection with our January 2010 acquisition, we extinguished certain receivables totaling $6.4 million, of which $3.3 million was related to receivables attributable to a 2009 funding arrangement with a service provider.

During the six months ended June 30, 2011, we granted equity awards to certain employees, of which $1.5 million was previously recorded in accrued expenses and other current liabilities.

In connection with our acquisitions for the periods presented, the following table presents the assets acquired, net of cash and liabilities assumed:

	For the Six Months ended June 30,			
	2011		2010	
Assets aquired, net of cash	$	188,959	$	16,357
Liabilites assumed	$	47,967	$	1,641

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

World Fuel Services Corporation and Subsidiaries

Notes to the Consolidated Financial Statements

(Unaudited)

1. Acquisitions and Significant Accounting Policies

Acquisitions

2011 Acquisitions

During the three months ended June 30, 2011, we completed two acquisitions for an estimated purchase price of $48.9 million. We acquired all of the outstanding stock of Ascent Aviation Group, Inc. (Ascent) based in Parish, New York on April 1, 2011. Ascent supplies branded aviation fuel and de-icing fluid to more than 450 airports and fixed base operators throughout North America. The other acquisition was immaterial. The financial position, results of operations and cash flows of these acquisitions have been included in our consolidated financial statements since their respective acquisition dates. The revenues and net income of the acquisitions did not have a significant impact to our results for the three and six months ended June 30, 2011. The estimated purchase price for these acquisitions consisted of $37.9 million in cash, $7.5 million in the form of a promissory note and $3.5 million in amounts due to sellers and has been preliminarily allocated to the assets acquired and liabilities assumed based on their estimated fair value at their respective acquisition dates as follows: fixed assets of $18.2 million, identifiable intangible assets of $8.0 million, goodwill of $19.1 million and working capital of $3.6 million, including cash of $2.1 million. The identifiable intangible assets acquired primarily consist of customer relationships and will be amortized over a weighted average period of 2.5 years. At June 30, 2011, the valuation of the assets acquired and liabilities assumed have not been completed; accordingly, the allocation of the purchase price may change.

In connection with the Ascent acquisition, we paid certain assumed employee benefits which have been classified as a financing activity in the consolidated statement of cash flows due to the fact that the liability was paid on behalf of the seller subsequent to closing.

On March 1, 2011, we completed the acquisition of all of the outstanding stock of Nordic Camp Supply ApS and certain affiliates (NCS) based in Aalborg, Denmark. NCS is a full-service supplier of aviation fuel and related logistics solutions supporting NATO, US and other European armed forces operations in Iraq and Afghanistan. The financial position, results of operations and cash flows of NCS have been included in our consolidated financial statements since its acquisition date. The impact of NCS revenues and net income did not have a significant impact to our results for the three and six months ended June 30, 2011. The estimated purchase price for the NCS acquisition was $94.8 million which consisted of $67.3 million in cash and $27.5 million in shares of common stock issued to the sellers. The estimated purchase price for the NCS acquisition has been preliminarily allocated to the assets acquired and liabilities assumed based on their estimated fair value as follows: fixed assets of $1.6 million, identifiable intangible assets of $13.6 million, goodwill of $14.1 million, working capital of $68.9 million, including cash of $0.6 million and long-term deferred tax liabilities of $3.4 million. The identifiable intangible assets acquired primarily consist of customer relationships and will be amortized over a weighted average period of one year. At June 30, 2011, the valuation of the assets acquired and liabilities assumed have not been completed; accordingly, the allocation of the purchase price may change.

In connection with the 2011 acquisitions, we recorded goodwill of $30.4 million in our aviation segment and $2.8 million in our marine segment, of which $16.3 million is anticipated to be deductible for tax purposes.

Pro Forma Information

The following presents the unaudited pro forma results for the six months ended June 30, 2011 and the three and six months ended June 30, 2010 as if the 2011 acquisitions had been completed on January 1, 2010 (in thousands, except per share data):

	For the Three Months Ended June 30, 2010 (pro forma)	For the Six Months Ended June 30, 2011 (pro forma)	For the Six Months Ended June 30, 2010 (pro forma)
Revenue	$ 4,495,436	$ 15,974,965	$ 8,490,596
Net income attributable to World Fuel	$ 38,189	$ 98,903	$ 71,441
Earnings per common share:			
Basic	$ 0.64	$ 1.39	$ 1.19
Diluted	$ 0.62	$ 1.37	$ 1.16

2010 Acquisitions

Based on our ongoing fair value assessment of certain of our 2010 acquisitions, we recorded an increase in acquired net assets of $3.9 million with a related increase in the aggregate estimated purchase price of these acquisitions during the six months ended June 30, 2011. The increase in acquired net assets was mainly attributable to an increase in goodwill of $11.7 million and $1.5 million in our land and marine segments, respectively, a reduction of goodwill of $4.3 million in our aviation segment, a reduction in identifiable intangible assets of $3.9 million, a reduction in fixed assets of $0.5 million and an increase in long-term liabilities of $0.8 million.

There were no significant adjustments in total acquired net assets during the three months ended June 30, 2011.

2009 Acquisitions

In April 2009, we acquired all of the outstanding stock of Henty Oil Limited, Tank and Marine Engineering Limited and Henty Shipping Services Limited (collectively, Henty), a provider of marine and land based fuels in the United Kingdom. The Henty purchase agreement includes an Earn-out based on Henty meeting certain operating targets over the three-year period ending April 30, 2012. The maximum Earn-out that may be paid is £6.0 million ($9.6 million as of June 30, 2011) if all operating targets are achieved with a minimum Earn-out of £2.7 million ($4.3 million as of June 30, 2011). We estimate the fair value of the Earn-out at each reporting period based on our assessment of the probability of Henty achieving such operating targets over the three-year period. As of June 30, 2011, we have recorded an Earn-out liability of £3.2 million ($5.2 million). The impact of Henty s revenues and net income did not have a significant impact to our results for the three and six months ended June 30, 2011.

Significant Accounting Policies

Except as updated below, the significant accounting policies we use for quarterly financial reporting are the same as those disclosed in Note 1 of the Notes to the Consolidated Financial Statements included in our 2010 10-K Report.

Basis of Presentation

The accompanying consolidated financial statements and related notes to the consolidated financial statements include our accounts and those of our majority-owned or controlled subsidiaries, after elimination of all significant intercompany accounts, transactions, and profits.

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

Accounts Receivable Purchase Agreement

In March 2011, we entered into a Receivables Purchase Agreement to sell up to $50.0 million of certain of our accounts receivable, which was amended in June 2011 to increase the availability to $100.0 million (RPA). The sale price is an amount equal to either 90% or 100%, depending on the customer, of the sold accounts receivable balance less a discount margin equivalent to a floating market rate plus 2% and certain other fees, as applicable. Under the terms of the RPA, we retain a beneficial interest in certain of the sold accounts receivable of 10%, which is included in accounts receivable, net in the accompanying consolidated balance sheet.

As of June 30, 2011, we had sold accounts receivable of $60.8 million and recorded a retained beneficial interest of $3.0 million. During the three and six months ended June 30, 2011, the fees and interest paid under this facility were not significant.

Goodwill

Goodwill represents the future earnings and cash flow potential of the acquired business in excess of the fair values that are assigned to all other identifiable assets and liabilities. Goodwill arises because the purchase price paid reflects numerous factors, including the strategic fit and expected synergies these targets bring to existing operations and the prevailing market value for comparable companies. Of the increase in goodwill from December 31, 2010, $42.3 million was related to acquisitions (see Acquisitions above) and $0.5 million was a result of foreign currency translation adjustments of our Brazilian subsidiary in our marine segment.

Extinguishment of Liability

In the normal course of business, we accrue liabilities for fuel and services received for which invoices have not yet been received. These liabilities are derecognized, or extinguished, if either 1) payment is made to relieve our obligation for the liability or 2) we are legally released from our obligation for the liability, such as when our legal obligations with respect to such liabilities lapse or otherwise no longer exist. During the three and six months ended June 30, 2011, we derecognized vendor liability accruals due to the legal release of our obligations in the amount of $2.4 million and $3.2 million, as compared to $1.5 million and $4.6 million during the three and six months ended June 30, 2010, which is reflected as a reduction of cost of revenue in the accompanying consolidated statements of income.

Recent Accounting Pronouncements

Disclosure Relating to Comprehensive Income. In June 2011, the Financial Accounting Standards Board (FASB) issued an accounting standards update (ASU) aimed at increasing the prominence of items reported in other comprehensive income in the financial statements. This update requires companies to present comprehensive income in a single statement below net income or in a separate statement of comprehensive income immediately following the income statement. This ASU becomes effective on a prospective basis at the beginning of our 2012 fiscal year. We do not believe that the adoption of this ASU will have a material impact on our consolidated financial statements and disclosures.

Fair Value Measurements. In May 2011, the FASB issued to provide a consistent definition of fair value and common requirements for measurement of and disclosure about fair value between International Financial Reporting Standards and U.S. Generally Accepted Accounting Principals. This ASU changes some fair value measurement principles and enhances disclosure requirements related to activities in Level 3 of the fair value hierarchy. The guidance becomes effective on a prospective basis at the beginning our 2012 fiscal year. We do not believe that the adoption of this ASU will have a material impact on our consolidated financial statements and disclosures.

Transfers and Servicing: Reconsideration of Effective Control for Repurchase Agreements. In April 2011, the FASB issued an ASU that affects all entities that enter into agreements to transfer financial assets that both entitle and obligate the transferor to repurchase or redeem the financial assets before their maturity. This ASU removes from the assessment of effective control the criterion relating to the transferor s ability to repurchase or redeem financial assets on substantially the agreed terms, even in the event of default by the transferee and also eliminates the requirement to demonstrate that the transferor possesses adequate collateral to fund substantially all the cost of purchasing replacement financial assets. This ASU is effective at the beginning of our 2012 fiscal year and is required to be applied prospectively to transactions or modifications of existing transactions that occur on or after January 1, 2012. We are currently evaluating whether the adoption of this ASU will have a material impact on our consolidated financial statements and disclosures.

Disclosure of Supplementary Pro Forma Information for Business Combinations. In January 2011, we adopted an ASU which clarifies the acquisition date that should be used for reporting pro forma financial information when comparative financial statements are presented and also expands the supplemental pro forma disclosures required. The adoption of this ASU did not have a material impact on our consolidated financial statements and disclosures.

When to Perform Step 2 of the Goodwill Impairment Test for Reporting Units with Zero or Negative Carrying Amounts. In January 2011, we adopted an ASU which modifies the requirements of step 1 of the goodwill impairment test for reporting units with zero or negative carrying amounts. The adoption of this ASU did not have a material impact on our consolidated financial statements and disclosures.

Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses. In July 2010, the FASB issued an ASU relating to improved disclosures about the credit quality of financing receivables and the related allowance for credit losses. In December 2010, we adopted the portion of the guidance which pertains to disclosures as of the end of the reporting period. In January 2011, we adopted the portion of the guidance which pertains to the disclosures for activity that occurs during a reporting period. The adoption of this ASU did not have a material impact on our consolidated financial statements and disclosures.

2. Derivatives

We enter into financial derivative contracts in order to mitigate the risk of market price fluctuations in aviation, marine and land fuel, to offer our customers fuel pricing alternatives to meet their needs and to mitigate the risk of fluctuations in foreign currency exchange rates. We also enter into proprietary derivative transactions, primarily intended to capitalize on arbitrage opportunities related to basis or time spreads for fuel products that we sell. We have applied the normal purchase and normal sales exception (NPNS), as provided by accounting guidance for derivative instruments and hedging activities, to certain of our physical forward sales and purchase contracts. While these contracts are considered derivative instruments under the guidance for derivative instruments and hedging activities, they are not recorded at fair value, but rather are recorded in our consolidated financial statements when physical settlement of the contracts occurs. If it is determined that a transaction designated as NPNS no longer meets the scope of the exception, the fair value of the related contract is recorded as an asset or liability on the consolidated balance sheet and the difference between the fair value and the contract amount is immediately recognized through earnings.

The following describes our derivative classifications:

Cash Flow Hedges. Includes certain of our foreign currency forward contracts we enter into in order to mitigate the risk of currency exchange rate fluctuations.

Fair Value Hedges. Includes derivatives we enter into in order to hedge price risk associated with our inventory and certain firm commitments relating to fixed price purchase and sale contracts.

Non-designated Derivatives. Includes derivatives we primarily enter into in order to mitigate the risk of market price fluctuations in aviation, marine and land fuel in the form of swaps as well as certain fixed price purchase and sale contracts (which do not qualify for hedge accounting) to offer our customers fuel pricing alternatives to meet their needs and for proprietary trading. In addition, non-designated derivatives are also entered into to hedge the risk of currency rate fluctuations.

As of June 30, 2011, our derivative instruments, at their respective fair value positions were as follows (in thousands, except mark-to-market prices):

Hedge Strategy	Settlement Period	Derivative Instrument	Notional	Unit	Mark-to-Market Prices	Mark-to-Market Gain (Loss)
Fair Value Hedge	2011	Commodity contracts for firm commitment hedging (long)	3,435	GAL	$ (0.06)	$ (193)
	2011	Commodity contracts for firm commitment (short)	4,578	GAL	(0.11)	(485)
	2011	Commodity contracts for inventory hedging (short)	60,438	GAL	(0.01)	(822)
	2011	Commodity contracts for firm commitment hedging (long)	114	MT	22.32	2,545
	2011	Commodity contracts for inventory hedging (short)	75	MT	(16.97)	(1,273)
	2012	Commodity contracts for firm commitment hedging (long)	106	GAL	0.10	11
	2012	Commodity contracts for firm commitment hedging (long)	95	MT	30.33	2,881
						$ 2,664
Non-Designated	2011	Commodity contracts (long)	68,796	GAL	0.04	2,419
	2011	Commodity contracts (short)	45,943	GAL	(0.11)	(5,127)
	2011	Commodity contracts (long)	1,309	MT	11.19	14,349
	2011	Commodity contracts (short)	1,037	MT	(13.58)	(13,785)
	2011	Foreign currency contracts (long)	696	BRL	0.01	5
	2011	Foreign currency contracts (short)	7,298	BRL	(0.01)	(104)
	2011	Foreign currency contracts (short)	5,700	CAD	(0.02)	(131)
	2011	Foreign currency contracts (long)	2,880,216	CLP	(0.00)	(33)
	2011	Foreign currency contracts (long)	679	EUR	0.01	8
	2011	Foreign currency contracts (short)	4,600	EUR	(0.02)	(76)
	2011	Foreign currency contracts (long)	3,884	GBP	(0.01)	(25)
	2011	Foreign currency contracts (short)	27,529	GBP	0.01	238
	2011	Foreign currency contracts (short)	584	AUD	(0.01)	(5)
	2011	Foreign currency contracts (long)	498	DKK	0.00	2
	2011	Foreign currency contracts (short)	4,000	DKK	(0.00)	(10)
	2011	Foreign currency contracts (long)	281	NOK	0.00	1
	2011	Foreign currency contracts (short)	2,700	CZK	(0.00)	(2)
	2011	Foreign currency contracts (short)	6,261,150	COP	(0.00)	(15)
	2011	Foreign currency contracts (short)	600	CHF	0.01	8
	2012	Commodity contracts (long)	5,959	GAL	0.13	773
	2012	Commodity contracts (short)	14,365	GAL	(0.04)	(609)
	2012	Commodity contracts (long)	347	MT	9.41	2,635
	2012	Commodity contracts (short)	261	MT	(6.72)	(1,124)
	2013	Commodity contracts (long)	679	GAL	0.20	139
	2013	Commodity contracts (short)	679	GAL	(0.19)	(132)
	2013	Commodity contracts (short)	6	MT	(21.00)	(126)
						$ (727)

The following table presents information about our derivative instruments measured at fair value and their locations on the consolidated balance sheet (in thousands):

	Balance Sheet Location	As of June 30, 2011	As of December 31, 2010
Derivative assets:			
Derivatives designated as hedging instruments			
Commodity contracts	Short-term derivative assets, net	$ 5,348	$ 439
Commodity contracts	Non-current other assets	1,085	448
Commodity contracts	Short-term derivative liabilities, net	155	
Total hedging instrument derivatives		6,588	887
Derivatives not designated as hedging instruments			
Commodity contracts	Short-term derivative assets, net	25,195	11,296
Commodity contracts	Short-term derivative liabilities, net	1,139	2,195
Commodity contracts	Non-current other assets	1,468	637
Commodity contracts	Other long-term liabilities	122	
Foreign exchange contracts	Short-term derivative assets, net	319	369
Foreign exchange contracts	Short-term derivative liabilities, net	31	92
Total non-designated derivatives		28,274	14,589
Total derivative assets		$ 34,862	$ 15,476
Derivative liabilities:			
Derivatives designated as hedging instruments			
Commodity contracts	Short-term derivative assets, net	$ 1,838	$ 229
Commodity contracts	Short-term derivative liabilities, net	2,086	2,853
Total hedging instrument derivatives		3,924	3,082
Derivatives not designated as hedging instruments			
Commodity contracts	Short-term derivative assets, net	7,203	4,001
Commodity contracts	Short-term derivative liabilities, net	19,983	9,519
Commodity contracts	Non-current other assets	617	81
Commodity contracts	Other long-term liabilities	709	502
Foreign exchange contracts	Short-term derivative assets, net	39	185
Foreign exchange contracts	Short-term derivative liabilities, net	450	389
Total non-designated derivatives		29,001	14,677
Total derivative liabilities		$ 32,925	$ 17,759

The following table presents the effect and financial statement location of our derivative instruments and related hedged items in fair value hedging relationships on our consolidated statements of income (in thousands):

Derivatives	Location	Realized and Unrealized Gain (Loss) 2011	Realized and Unrealized Gain (Loss) 2010	Hedged Items	Location	Realized and Unrealized Gain (Loss) 2011	Realized and Unrealized Gain (Loss) 2010
Three months ended June 30,							
Commodity contracts	Revenue	$ 5,518	$ (8,032)	Firm commitments	Revenue	$ (5,356)	$ 8,306
Commodity contracts	Cost of revenue	(369)	2,249	Firm commitments	Cost of revenue	274	(2,875)
Commodity contracts	Cost of revenue	6,665	11,605	Inventories	Cost of revenue	(3,045)	(10,243)
		$ 11,814	$ 5,822			$ (8,127)	$ (4,812)
Six months ended June 30,							
Commodity contracts	Revenue	$ 16,205	$ (2,546)	Firm commitments	Revenue	$ (16,789)	$ 3,295
Commodity contracts	Cost of revenue	(7,830)	2,744	Firm commitments	Cost of revenue	8,311	(3,683)
Commodity contracts	Cost of revenue	(33,594)	8,720	Inventories	Cost of revenue	44,296	(5,514)
		$ (25,219)	$ 8,918			$ 35,818	$ (5,902)

There were no gains or losses for the three and six months ended June 30, 2011 and 2010 that were excluded from the assessment of the effectiveness of our fair value hedges.

The following table presents the effect and financial statement location of our derivative instruments in cash flow hedging relationships on our accumulated other comprehensive income and consolidated statements of income (in thousands):

Derivatives	Unrealized Gain (Loss) Recorded in Accumulated Other Comprehensive Income (Effective Portion) 2011	Unrealized Gain (Loss) Recorded in Accumulated Other Comprehensive Income (Effective Portion) 2010	Location of Realized Gain (Loss) (Effective Portion)	Realized Gain (Loss) (Effective Portion) 2011	Realized Gain (Loss) (Effective Portion) 2010
Three months ended June 30,					
Foreign exchange contracts	$	$	Cost of revenue	$	$ 417
Foreign exchange contracts	$	$	Other income, net	$	$ 252
	$	$		$	$ 669
Six months ended June 30,					
Foreign exchange contracts	$	$ 1,902	Cost of revenue	$	$ 1,210
Foreign exchange contracts	$	$ 252	Other income, net	$	$ 252
	$	$ 2,154		$	$ 1,462

In the event forecasted foreign currency cash outflows are less than the hedged amounts, a portion or all of the gains or losses recorded in accumulated other comprehensive income (loss) would be reclassified to the consolidated statement of income.

The following table presents the effect and financial statement location of our derivative instruments not designated as hedging instruments on our consolidated statements of income for the three and six months ended June 30, 2011 and 2010 (in thousands):

Derivatives	Location	Realized and Unrealized Gain (Loss) 2011	2010
Three months ended June 30,			
Commodity contracts	Revenue	$ 1,490	$ (561)
Commodity contracts	Cost of revenue	2,560	2,392
Foreign exchange contracts	Other expense, net	(963)	(560)
		$ 3,087	$ 1,271
Six months ended June 30,			
Commodity contracts	Revenue	$ 3,048	$ 771
Commodity contracts	Cost of revenue	3,223	2,248
Foreign exchange contracts	Other (expense) income, net	(2,872)	382
		$ 3,399	$ 3,401

We enter into derivative instrument contracts which may require us to periodically post collateral. Certain of these derivative contracts contain clauses that are similar to credit-risk-related contingent features, including material adverse change, general adequate assurance and internal credit review clauses that may require additional collateral to be posted and/or settlement of the instruments in the event an aforementioned clause is triggered. The triggering events are not a quantifiable measure; rather they are based on good faith and reasonable determination by the counterparty that the triggers have occurred. The net liability position for such contracts, the collateral posted and the amount of assets required to be posted and/or to settle the positions should a contingent feature be triggered was not significant as of June 30, 2011.

3. Earnings per Common Share

The following table sets forth the computation of basic and diluted earnings per common share for the periods presented (in thousands, except per share amounts):

	For the Three Months ended June 30, 2011	2010	For the Six Months ended June 30, 2011	2010
Numerator:				
Net income attributable to World Fuel	$ 50,203	$ 36,977	$ 91,312	$ 70,680
Denominator:				
Weighted average common shares for basic earnings per common share	70,856	59,418	70,400	59,371
Effect of dilutive securities	702	1,267	899	1,275
Weighted average common shares for diluted earnings per common share	71,558	60,685	71,299	60,646
Weighted average anti-dilutive securities which are not included in the calculation of diluted earnings per common	124	297	70	205

share								
Basic earnings per common share	$	0.71	$	0.62	$	1.30	$	1.19
Diluted earnings per common share	$	0.70	$	0.61	$	1.28	$	1.17

4. Debt

On July 28, 2011, we amended our senior revolving credit facility (Credit Facility) to, among other things, (i) provide for a $250.0 million senior term loan facility with a maturity date of July 2016 (Term Loan Facility), the full amount of which we received on the date of the Credit Facility amendment, (ii) extend the expiration date of the Credit Facility to July 2016 and (iii) reduce certain fees, including applicable margins for Base Rate Loans and Eurodollar Rate Loans. Borrowings under the Term Loan Facility may be designated as Base Rate Loans or Eurodollar Rate Loans and bear floating interest rates plus applicable margins. The Term Loan Facility requires principal payments as follows: $2.5 million in 2012, $7.5 million in 2013, $12.5 million in 2014, $17.5 million in 2015 and $210.0 million in 2016.

The following table provides additional information about our interest income, expense and other financing costs, for the periods presented (in thousands):

	For the Three Months ended June 30, 2011	For the Three Months ended June 30, 2010	For the Six Months ended June 30, 2011	For the Six Months ended June 30, 2010
Interest income	$ 147	$ 163	$ 226	$ 349
Interest expense and other financing costs, net	(4,445)	(1,004)	(7,049)	(1,830)
	$ (4,298)	$ (841)	$ (6,823)	$ (1,481)

5. Income Taxes

Our income tax provision for the periods presented and the respective effective tax rates for such periods are as follows (in thousands, except for tax rates):

	For the Three Months ended June 30, 2011	For the Three Months ended June 30, 2010	For the Six Months ended June 30, 2011	For the Six Months ended June 30, 2010
Income tax provision	$ 11,049	$ 7,765	$ 21,464	$ 15,446
Effective income tax rate	17.9%	17.3%	18.9%	17.9%

Our provision for income taxes for each of the three-month and six-month periods ended June 30, 2011 and 2010 were calculated based on the estimated effective tax rate for the full 2011 and 2010 fiscal years. However, the actual effective tax rate for the full 2011 fiscal year may be materially different as a result of differences between estimated versus actual results and the geographic tax jurisdictions in which the results are earned. The increased effective tax rate for the three and six months ended June 30, 2011 resulted primarily from differences in the actual and forecasted results of our subsidiaries in tax jurisdictions with different tax rates as compared to the corresponding periods in 2010.

6. Commitments and Contingencies

Legal Matters

Miami Airport Litigation

In April 2001, Miami-Dade County, Florida (the County) filed suit (the County Suit) in the state circuit court in and for Miami-Dade County against 17 defendants to seek reimbursement for the cost of remediating environmental contamination at Miami International Airport (the Airport).

Also in April 2001, the County sent a letter to approximately 250 potentially responsible parties (PRP s), including World Fuel Services Corporation and one of our subsidiaries, advising of our potential liability for the clean-up costs of the contamination that is the subject of the County Suit. The County has threatened to add the PRP s as defendants in the County Suit, unless they agree to share in the cost of the environmental clean-up at the Airport. We have advised the County that: (i) neither we nor any of our subsidiaries were responsible for any environmental contamination at the Airport, and (ii) to the extent that we or any of our subsidiaries were so responsible, our liability was subject to indemnification by the County pursuant to the indemnity provisions contained in our lease agreement with the County.

If we are added as a defendant in the County Suit, we would vigorously defend any claims, and we believe our liability in these matters (if any) should be adequately covered by the indemnification obligations of the County.

Brendan Airways Litigation

One of our subsidiaries, World Fuel Services, Inc. (WFSI), is involved in a dispute with Brendan Airways, LLC (Brendan), an aviation fuel customer, with respect to certain amounts Brendan claims to have been overcharged in connection with fuel sale transactions from 2003 to 2006. In August 2007, WFSI filed an action in the state circuit court in and for Miami-Dade County, Florida, seeking declaratory relief with respect to the matters disputed by Brendan. In October 2007, Brendan filed a counterclaim against WFSI. In February 2008, the court dismissed WFSI s declaratory action. Brendan s counterclaim remains pending as a separate lawsuit against WFSI, and Brendan is seeking $4.5 million in damages, plus interest and attorney s fees, in its pending action. We believe Brendan s claims are without merit and we intend to vigorously defend all of Brendan s claims.

As of June 30, 2011, we had recorded certain reserves related to the proceedings described above which were not significant. Because the outcome of litigation is inherently uncertain, we may not prevail in these proceedings and we cannot estimate our ultimate exposure in such proceedings if we do not prevail. Accordingly, a ruling against us in any of the above proceedings could have a material adverse effect on our financial condition, results of operations or cash flows.

Other Matters

In addition to the matters described above, we are 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, our liability, if any, under any other pending litigation or administrative proceedings, even if determined adversely, would not materially affect our financial condition, results of operations or cash flows.

7. Fair Value Measurements

The following table presents information about our assets and liabilities that are measured at fair value on a recurring basis (in thousands):

As of June 30, 2011	Level 1	Level 2	Level 3	Sub-Total	Netting and Collateral	Total
Assets:						
Cash equivalents	$ 10	$	$	$ 10	$	$ 10
Commodity contracts	6,140	28,372		34,512	(11,105)	23,407
Foreign exchange contracts		350		350	(70)	280
Hedged item inventories		1,600		1,600		1,600
Hedged item commitments		657		657		657
Total	$ 6,150	$ 30,979	$	$ 37,129	$ (11,175)	$ 25,954
Liabilities:						
Commodity contracts	$ 2,629	$ 29,807	$	$ 32,436	$ (12,987)	$ 19,449
Foreign exchange contracts		489		489	(70)	419
Hedged item commitments		5,206		5,206		5,206
Earn-out			5,156	5,156		5,156
Total	$ 2,629	$ 35,502	$ 5,156	$ 43,287	$ (13,057)	$ 30,230
As of December 31, 2010						
Assets:						
Cash equivalents	$ 32	$	$	$ 32	$	$ 32
Commodity contracts	753	14,139	123	15,015	(7,000)	8,015
Foreign exchange contracts		461		461	(277)	184
Hedged item inventories		2,518		2,518		2,518
Hedged item commitments		797		797	(265)	532
Total	$ 785	$ 17,915	$ 123	$ 18,823	$ (7,542)	$ 11,281
Liabilities:						
Commodity contracts	$ 2,226	$ 14,926	$ 33	$ 17,185	$ (8,391)	$ 8,794
Foreign exchange contracts		574		574	(277)	297
Hedged item inventories		361		361	(265)	96
Earn-out			5,012	5,012		5,012
Total	$ 2,226	$ 15,861	$ 5,045	$ 23,132	$ (8,933)	$ 14,199

Fair value of commodity contracts and hedged item commitments is derived using forward prices that take into account commodity prices, basis differentials, interest rates, credit risk ratings, option volatility and currency rates. Fair value of hedged item inventories is derived using spot commodity prices and basis differentials. Fair value of foreign currency forwards is derived using forward prices that take into account interest rates, credit risk ratings and currency rates.

For our derivative related contracts, we may enter into master netting, collateral and offset agreements with counterparties. These agreements provide us the ability to offset a counterparty s rights and obligations, request additional collateral when necessary or liquidate the collateral in the event of counterparty default. We net fair value of cash collateral paid or received against fair value amounts recognized for net derivative related positions executed with the same counterparty under the same master netting or offset agreement.

There were no amounts recognized for the obligation to return cash collateral that have been offset against fair value assets included within netting and collateral in the above table as of June 30, 2011 and December 31, 2010. There were no amounts recognized for the right to reclaim cash collateral that have been offset against fair value liabilities included within netting and collateral in the table above as of June 30, 2011 and December 31, 2010.

The following table presents information about our assets and liabilities that are measured at fair value on a recurring basis that utilized Level 3 inputs for the periods presented (in thousands):

	Balance, Beginning of Period, Assets (Liabilities)	Realized and Unrealized Gains (Losses) Included in Earnings	Settlements	Balance, End of Period	Change in Unrealized Gains (Losses) Relating to Instruments Still Held at end of Period
Three months ended June 30, 2011					
Earn-out	$ (5,151)	$ (5)	$	$ (5,156)	$ (5)
Total	$ (5,151)	$ (5)	$	$ (5,156)	$
Three months ended June 30, 2010					
Earn-out	$ (6,323)	$ 98	$	$ (6,225)	$ 98
Total	$ (6,323)	$ 98	$	$ (6,225)	$ 98
Six months ended June 30, 2011					
Commodity contracts, net	$ 90	$	$ (90)	$	$
Earn-out	(5,012)	(144)		(5,156)	(144)
Total	$ (4,922)	$ (144)	$ (90)	$ (5,156)	$ (144)
Six months ended June 30, 2010					
Commodity contracts, net	$ (2)	$	$ 2	$	$
Foreign exchange contracts, net	(152)		152		
Earn-out	(6,728)	503		(6,225)	503
Total	$ (6,882)	$ 503	$ 154	$ (6,225)	$ 503

Our policy is to recognize transfers between Level 1, 2 or 3 as of the beginning of the reporting period in which the event or change in circumstances caused the transfer to occur. There were no transfers between Level 1, 2 or 3 during the periods presented. In addition, there were no Level 3 purchases, sales or issuances for the periods presented. The unrealized gains on the Earn-out shown in the above table represent foreign currency gains recorded during the three and six months ended June 30, 2011.

8. Business Segments

Based on the nature of operations and quantitative thresholds pursuant to accounting guidance for segment reporting, we have three reportable operating business segments: aviation, marine and land. Corporate expenses are allocated to the segments based on usage, where possible, or on other factors according to the nature of the activity. Please refer to Note 1 for the dates that the results of operations and related assets and liabilities of our acquisitions have been included in our operating segments. The accounting policies of the reportable operating segments are the same as those described in the Summary of Significant Accounting Policies (see Note 1).

Information concerning our revenue, gross profit and income from operations by segment is as follows (in thousands):

	For the Three Months ended June 30,		For the Six Months ended June 30,	
	2011	2010	2011	2010
Revenue:				
Aviation segment	$ 3,364,829	$ 1,691,042	$ 6,011,421	$ 3,150,766
Marine segment	3,532,983	2,276,651	6,532,402	4,375,263
Land segment	1,810,897	429,582	3,244,292	789,267
	$ 8,708,709	$ 4,397,275	$ 15,788,115	$ 8,315,296
Gross profit:				
Aviation segment	$ 82,027	$ 52,887	$ 152,155	