WORLD FUEL SERVICES CORP
Form 10-Q
August 03, 2010
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 10-Q

(Mark One)

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

FOR THE QUARTERLY PERIOD ENDED JUNE 30, 2010

¨ **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	**(I.R.S. Employer**
incorporation or organization)	**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 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 ¨

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	¨
Non-accelerated filer	¨	Smaller reporting company	¨

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

The registrant had a total of 59,513,000 shares of common stock, par value $0.01 per share, issued and outstanding as of July 27, 2010.

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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, 2010 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, 2010 (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, 2009 (2009 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.

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Item 1. Financial Statements

World Fuel Services Corporation and Subsidiaries

Consolidated Balance Sheets

(Unaudited - In thousands, except per share data)

	As of June 30, 2010	As of December 31, 2009
Assets:		
Current assets:		
Cash and cash equivalents	$ 297,386	$ 298,843
Short-term investments	10,000	8,100
Accounts receivable, net	1,115,878	951,398
Inventories	140,693	126,793
Short-term derivative assets, net	10,171	11,853
Prepaid expenses and other current assets	81,082	66,991
Total current assets	1,655,210	1,463,978
Property and equipment, net	47,840	38,777
Goodwill	156,328	153,841
Identifiable intangible assets, net	68,804	72,805
Other assets	15,261	11,827
Total assets	$ 1,943,443	$ 1,741,228
Liabilities and equity:		
Liabilities:		
Current liabilities:		
Short-term debt	$ 6,259	$ 6,684
Accounts payable	947,214	796,978
Short-term derivative liabilities, net	10,970	9,133
Customer deposits	52,582	63,967
Accrued expenses and other current liabilities	71,106	70,980
Total current liabilities	1,088,131	947,742
Long-term debt	4,728	9,925
Non-current income tax liabilities, net	38,975	39,164
Deferred compensation and other long-term liabilities	10,632	11,148
Total liabilities	1,142,466	1,007,979
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, 59,514 and 59,385 issued and outstanding at June 30, 2010 and December 31, 2009, respectively	595	594
Capital in excess of par value	215,822	213,414
Retained earnings	581,441	515,218
Accumulated other comprehensive income	2,680	3,795

Total World Fuel shareholders equity	800,538	733,021
Noncontrolling interest equity	439	228
Total equity	800,977	733,249
Total liabilities and equity	$ 1,943,443	$ 1,741,228

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

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World Fuel Services Corporation and Subsidiaries

Consolidated Statements of Income

(Unaudited - In thousands, except per share data)

	For the Three Months ended June 30, 2010	For the Three Months ended June 30, 2009	For the Six Months ended June 30, 2010	For the Six Months ended June 30, 2009
Revenue	$ 4,397,275	$ 2,533,340	$ 8,315,296	$ 4,547,283
Cost of revenue	4,289,706	2,441,772	8,108,909	4,368,380
Gross profit	107,569	91,568	206,387	178,903
Operating expenses:				
Compensation and employee benefits	38,900	35,079	73,701	68,872
Provision for bad debt	1,696	464	2,065	922
General and administrative	21,909	19,898	43,432	39,877
Total operating expenses	62,505	55,441	119,198	109,671
Income from operations	45,064	36,127	87,189	69,232
Non-operating expenses, net:				
Interest expense and other financing costs, net	841	803	1,481	1,938
Other income, net	(593)	(242)	(629)	(21)
Total non-operating expenses, net	248	561	852	1,917
Income before income taxes	44,816	35,566	86,337	67,315
Provision for income taxes	7,765	7,623	15,446	13,553
Net income including noncontrolling interest	37,051	27,943	70,891	53,762
Less: net income attributable to noncontrolling interest	74	201	211	190
Net income attributable to World Fuel	$ 36,977	$ 27,742	$ 70,680	$ 53,572
Basic earnings per share	$ 0.62	$ 0.47	$ 1.19	$ 0.91
Basic weighted average common shares	59,418	58,864	59,371	58,586
Diluted earnings per share	$ 0.61	$ 0.46	$ 1.17	$ 0.91
Diluted weighted average common shares	60,685	59,846	60,646	59,132

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

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World Fuel Services Corporation and Subsidiaries

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	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
Balance at December 31, 2008	58,590	$ 586	$ 204,749	$ 406,953	$ (4,401)	$ 607,887	$ 259	$ 608,146
Comprehensive income:								
Net income				53,572		53,572	190	53,762
Foreign currency translation adjustment					4,327	4,327		4,327
Change in effective portion of cash flow hedges, net of income tax expense of $596					1,538	1,538		1,538
Comprehensive income						59,437	190	59,627
Cash dividends declared				(4,422)		(4,422)		(4,422)
Distribution of noncontrolling interest							(276)	(276)
Amortization of share-based payment awards			3,885			3,885		3,885
Issuance of shares related to share-based payment awards	720	7	6,853			6,860		6,860
Purchases of stock tendered by employees to satisfy the required withholding taxes related to payment awards share-based	(42)	(1)	(2,876)			(2,877)		(2,877)
Balance at June 30, 2009	59,268	$ 592	$ 212,611	$ 456,103	$ 1,464	$ 670,770	$ 173	$ 670,943

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

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World Fuel Services Corporation and Subsidiaries

Consolidated Statements of Cash Flows

(Unaudited - In thousands)

	For the Six Months ended June 30, 2010	2009
Cash flows from operating activities:		
Net income including noncontrolling interest	$ 70,891	$ 53,762
Adjustments to reconcile net income including noncontrolling interest to net cash provided by operating activities:		
Depreciation and amortization	8,624	8,140
Provision for bad debt	2,065	922
Gain on short-term investments	(1,900)	
Deferred income tax (benefit) provision	(1,272)	3,184
Share-based payment award compensation costs	3,717	3,885
Foreign currency losses (gains), net	428	(192)
Other	(96)	525
Changes in assets and liabilities, net of acquisitions:		
Accounts receivable, net	(163,387)	(78,048)
Inventories	(13,959)	(40,371)
Short-term derivative assets, net	1,682	34,300
Prepaid expenses and other current assets	(16,879)	23,013
Other assets	(1,606)	(839)
Accounts payable	142,955	140,171
Customer deposits	(11,457)	1,250
Short-term derivative liabilities, net	1,837	(13,434)
Accrued expenses and other current liabilities	811	(16,842)
Non-current income tax liabilities, net, deferred compensation and other long-term liabilities	1,318	1,559
Total adjustments	(47,119)	67,223
Net cash provided by operating activities	23,772	120,985
Cash flows from investing activities:		
Capital expenditures	(4,153)	(3,311)
Purchases of short-term investments		(25,185)
Proceeds from the sale of short-term investments		20,006
Acquisition of business, net of cash acquired	(8,315)	(51,982)
Net cash used in investing activities	(12,468)	(60,472)
Cash flows from financing activities:		
Dividends paid on common stock	(4,457)	(3,302)
Distribution of noncontrolling interest		(276)
Repayments of debt other than senior revolving credit facility	(5,521)	(19,985)
Borrowings from noncontrolling shareholders of a subsidiary		2,544
Proceeds from exercise of stock options	85	1,013
Purchases of stock tendered by employees to satisfy the required withholding taxes related to share-based payment awards	(1,518)	(2,877)
Net cash used in financing activities	(11,411)	(22,883)

Effect of exchange rate changes on cash and cash equivalents		(1,350)		829
Net (decrease) increase in cash and cash equivalents		(1,457)		38,459
Cash and cash equivalents, beginning of period		298,843		314,352
Cash and cash equivalents, end of period	$	297,386	$	352,811

Supplemental Schedule of Noncash Investing and Financing Activities:

Cash dividends declared of $0.0375 per share for the three months ended June 30, 2010 and 2009, but not yet paid, totaled $2.2 million at June 30, 2010 and 2009 and were paid in July 2010 and 2009.

During the six months ended June 30, 2009, we issued $5.8 million in equity to certain employees which was previously recorded in accrued expenses and other current liabilities and deferred compensation and other liabilities in the amount of $4.5 million and $1.3 million, respectively.

In connection with our April 2009 acquisition of Henty (see Note 1), we recorded an increase in other long-term liabilities and goodwill of £4.2 million ($6.2 million) related to an Earn-out.

In connection with our acquisitions for the periods presented, the following table presents the assets acquired, net of cash, and liabilities assumed based on their estimated fair value:

	For the Six Months ended June 30,	
	2010	**2009**
Assets acquired, net of cash	$ 15,874	$ 71,225
Liabilities assumed	$ 1,158	$ 13,287

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

2010 Acquisitions

In July 2010, we completed the acquisition of certain assets of Lakeside Oil Company, Inc., including the assets comprising its wholesale motor fuel distribution business (the Lakeside business). The Lakeside business, based in Milwaukee, Wisconsin, is primarily an independent distributor of branded and unbranded gasoline and diesel fuel to retail petroleum operators and industrial, commercial and government customers. The estimated aggregate purchase price of the acquired net assets was $44.2 million, which is subject to change based on the finalization of the value of certain net assets acquired. The allocation of the purchase price is not available due to the proximity of the acquisition date to the filing date of this 10-Q Report. The financial position and results of operations of the Lakeside business are not reflected in our consolidated financial statements as of and for the three and six months ended June 30, 2010 as the acquisition was completed in July 2010.

In January 2010, we completed the acquisition of certain assets of Falmouth Oil Services Limited (the FOS business). The FOS business is primarily a marine oil terminal for fuel oil and diesel strategically located in the United Kingdom, which we used for fuel storage prior to the acquisition. The financial position and results of operations of the FOS business have been included in our consolidated financial statements since January 1, 2010. The revenue and net income contributed by our acquisition of the FOS business is not significant as there were no significant third-party customers of the FOS business and it has been integrated into our existing business.

The aggregate purchase price of the acquired net assets of the FOS business was £9.2 million ($14.9 million) which consisted of £5.2 million ($8.5 million) in cash and the extinguishment of certain receivables from Falmouth Oil Services Limited of £4.0 million ($6.4 million). The purchase price for the acquisition of the FOS business was allocated to the acquired net assets based on their estimated fair value: fixed assets of $9.5 million, intangible assets, primarily goodwill, of $2.7 million and net working capital of $2.7 million. At June 30, 2010, we had not yet completed the allocation of the purchase price for the acquisition of the FOS business since the valuation of the acquired assets, including goodwill and assumed liabilities, had not been completed. All of the goodwill is anticipated to be deductible for tax purposes.

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), an independent provider of marine and land based fuels in the United Kingdom. Henty services three ports on the Irish Sea and provides fuel and gas oil to a broad range of customers throughout the United Kingdom. For the three and six months ended June 30, 2010, Henty contributed revenue of $59.7 million and $112.7 million, respectively, and net income of $0.8 million and $1.3 million, respectively. The Henty purchase agreement includes a contingent consideration clause (the 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 £9.0 million ($13.6 million as of June 30, 2010) if all operating targets are achieved. As of the acquisition date, we estimated the fair value of the Earn-out to be £4.2 million ($6.2 million) which was recorded as a liability and as part of the purchase consideration. 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. The change in the estimated fair value of the Earn-out from the acquisition date to June 30, 2010 was not significant.

Also in April 2009, we completed the acquisition of certain assets of TGS Petroleum, Inc., including the assets comprising its wholesale motor fuel distribution business (the TGS business). The TGS business, based in Chicago, Illinois, is primarily an independent distributor of branded and unbranded gasoline and diesel fuel to retail petroleum operators.

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Pro Forma Information

The following presents the unaudited pro forma results for the six months ended June 30, 2009 as if the Henty and TGS business acquisitions had been completed on January 1, 2009 (in thousands, except per share data):

	For the Six Months ended June 30, 2009 (pro forma)	
Revenue	$	4,613,041
Net income attributable to World Fuel	$	54,446
Earnings per share:		
Basic	$	0.93
Diluted	$	0.92

The FOS business is not included in the pro forma information above as its impact on the pro forma amounts is not significant. Pro forma information related to the Lakeside business is not available due to the proximity of the acquisition date to the filing of these financial statements.

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 2009 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.

In November 2009, we announced a two-for-one split of our common stock. All references to number of shares and per share amounts in the financial statements and notes to the financial statements reflect the stock split.

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

Goodwill

Goodwill represents the future earnings and cash flow potential of acquired businesses 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 acquisitions bring to existing operations and the prevailing market value for comparable companies. During the six months ended June 30, 2010, goodwill increased by an aggregate $2.5 million and was recorded in our marine segment; $2.7 million as a result of the acquisition of the FOS business (see Note 1) partially offset by a reduction in goodwill of $0.2 million as a result of foreign currency translation adjustments of our Brazilian subsidiary.

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, 2010, we derecognized vendor liability accruals due to the legal release of our obligations in the amount of $1.5 million and $4.6 million, as compared to $1.5 million and $3.3 million during the three months and six months ended June 30, 2009, which is reflected as a reduction of cost of revenue in the accompanying consolidated statements of income.

Recent Accounting Pronouncements

Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses. In July 2010, the Financial Accounting Standards Board (FASB) issued an accounting standard update (ASU) relating to improved disclosures about the credit quality of financing receivables and the related allowance for credit losses. This ASU will be effective for interim and annual periods beginning on or after December 15, 2010. We do not believe that the adoption of this ASU will have a material impact on our consolidated financial statements and disclosures.

Scope Exception Related to Embedded Credit Derivatives. In July 2010, we adopted an ASU for embedded credit derivatives. This ASU clarifies that the type of embedded credit derivatives that are exempt from embedded derivative bifurcation requirements relates only to the subordination of one financial instrument to another. The adoption of this ASU did not have a material impact on our consolidated financial statements and disclosures.

Revenue Recognition: Multiple-Deliverable Revenue Arrangements. In July 2010, we adopted an ASU regarding revenue recognition relating to multiple-deliverable revenue arrangements. This ASU requires expanded qualitative and quantitative disclosures and will be applied prospectively for revenue arrangements entered into or materially modified in fiscal years beginning on or after June 15, 2010. The adoption of this ASU did not have a material impact on our consolidated financial statements and disclosures.

Fair Value Measurements and Disclosures: Improving Disclosures about Fair Value Measurements. In the first quarter of 2010, we adopted an ASU relating to additional disclosures regarding fair value measurements. The adoption of this ASU resulted in additional fair value disclosures (see Note 8) and did not have a material impact on our consolidated financial statements.

Variable Interest Entities. In the first quarter of 2010, we adopted an ASU regarding the consolidation of variable interest entities. The adoption of this ASU did not have a material impact on our consolidated financial statements and disclosures.

Accounting for Transfers of Financial Assets. In the first quarter of 2010, we adopted an ASU regarding the accounting and disclosure requirements for transfers of financial assets and extinguishment of liabilities. The adoption of this ASU did not have a material impact on our consolidated financial statements and disclosures.

2. Short-Term Investments

At December 31, 2009, our short-term investments consisted of commercial paper valued at $8.1 million, with a par value of $10.0 million, as a result of a $1.9 million impairment charge recorded in September 2007. During the second quarter of 2010, we recorded a gain of $1.9 million, which is reflected in other income, net in the consolidated statements of income, due to the collection of the full par value of $10.0 million in July 2010.

3. Derivatives

We enter into derivative contracts in order to mitigate the risk of market price fluctuations in marine, aviation and land fuel and to offer our customers fuel pricing alternatives to meet their needs. We also enter into proprietary derivative transactions, primarily intended to capitalize on arbitrage opportunities related to basis or time spreads related to fuel products we sell. We also enter into derivatives in order to mitigate the risk of fluctuations in foreign currency exchange rates. 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.

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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 some of 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 marine, aviation and land fuel in the form of swaps as well as 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, 2010, our derivative instruments 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 Gains (Losses)
Fair Value Hedge	2010	Commodity contracts for firm commitment hedging (long)	4,714	GAL	$ (0.064)	$ (303)
	2010	Commodity contracts for inventory hedging (short)	30,072	GAL	0.064	1,939
	2010	Commodity contracts for firm commitment hedging (long)	256	MT	(13.004)	(3,329)
	2010	Commodity contracts for firm commitment hedging (short)	54	MT	31.315	1,691
	2010	Commodity contracts for inventory hedging (short)	63	MT	3.556	224
	2011	Commodity contracts for firm commitment hedging (long)	5	MT	(46.800)	(234)
						$ (12)
Non-Designated	2010	Commodity contracts (long)	64,447	GAL	$ 0.036	$ 2,343
	2010	Commodity contracts (short)	64,115	GAL	(0.027)	(1,716)
	2010	Commodity contracts (long)	537	MT	(15.415)	(8,278)
	2010	Commodity contracts (short)	535	MT	18.307	9,794
	2010	Foreign currency contracts (long)	2,670	BRL	(0.006)	(15)
	2010	Foreign currency contracts (long)	1,612,558	CLP	(0.000)	(50)
	2010	Foreign currency contracts (long)	980	GBP	0.006	6
	2010	Foreign currency contracts (long)	43,500	MXN	0.001	34
	2010	Foreign currency contracts (long)	8,476	NOK	(0.001)	(5)
	2010	Foreign currency contracts (long)	5,896	SGD	0.002	9
	2010	Foreign currency contracts (short)	900	CAD	0.011	10
	2010	Foreign currency contracts (short)	7,000	EUR	0.010	71
	2010	Foreign currency contracts (short)	10,844	GBP	(0.021)	(230)
	2011	Commodity contracts (long)	5,562	GAL	0.087	484
	2011	Commodity contracts (short)	5,562	GAL	(0.076)	(422)
	2011	Commodity contracts (long)	34	MT	(21.353)	(726)
	2011	Commodity contracts (short)	34	MT	26.794	911
	2012	Commodity contracts (long)	100	GAL	0.130	13
	2012	Commodity contracts (short)	100	GAL	(0.130)	(13)
						$ 2,220

For information on the fair value of the hedged items associated with fair value hedging, see Note 8.

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

		As of	
	Balance Sheet Location	June 30, 2010	December 31, 2009
Derivative assets:			
Derivatives designated as hedging instruments			
Commodity contracts	Short-term derivative assets, net	$ 3,315	$ 1,633
Commodity contracts	Short-term derivative liabilities, net	853	187
		4,168	1,820
Derivatives not designated as hedging instruments			
Commodity contracts	Short-term derivative assets, net	13,169	10,652
Commodity contracts	Short-term derivative liabilities, net	4,801	1,701
Commodity contracts	Other assets	332	169
Commodity contracts	Deferred compensation and other long-term liabilities		2
Foreign exchange contracts	Short-term derivative assets, net		4
Foreign exchange contracts	Short-term derivative liabilities, net	141	11
		18,443	12,539
		$ 22,611	$ 14,359
Derivative liabilities:			
Derivatives designated as hedging instruments			
Commodity contracts	Short-term derivative assets, net	$ 699	$ 74
Commodity contracts	Short-term derivative liabilities, net	3,481	3,367
		4,180	3,441
Derivatives not designated as hedging instruments			
Commodity contracts	Short-term derivative assets, net	2,675	362
Commodity contracts	Short-term derivative liabilities, net	12,973	10,727
Commodity contracts	Deferred compensation and other long-term liabilities	264	127
Foreign exchange contracts	Short-term derivative liabilities, net	311	166
		16,223	11,382
		$ 20,403	$ 14,823

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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 for the periods presented (in thousands):

Derivatives	**Location**	**Realized and Unrealized Gain (Loss)**		**Hedged Items**	**Location**	**Realized and Unrealized Gain (Loss)**	
		2010	**2009**			**2010**	**2009**
Three months ended June 30,							
Commodity contracts	Revenue	$ (8,032)	$ 7,270	Firm commitments	Revenue	$ 8,306	$ (8,506)
Commodity contracts	Cost of revenue	2,249	(11,189)	Firm commitments	Cost of revenue	(2,875)	10,756
Commodity contracts	Cost of revenue	11,605	(11,691)	Inventories	Cost of revenue	(10,243)	13,338
		$ 5,822	$ (15,610)			$ (4,812)	$ 15,588
Six months ended June 30,							
Commodity contracts	Revenue	$ (2,546)	$ 8,582	Firm commitments	Revenue	$ 3,295	$ (9,103)
Commodity contracts	Cost of revenue	2,744	(11,532)	Firm commitments	Cost of revenue	(3,683)	10,449
Commodity contracts	Cost of revenue	8,720	(11,286)	Inventories	Cost of revenue	(5,514)	14,195
		$ 8,918	$ (14,236)			$ (5,902)	$ 15,541

There were no gains or losses for the three and six months ended June 30, 2010 and 2009 that were excluded from the assessment of the effectiveness of our fair value hedges.

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

Derivatives	**Unrealized Gain (Loss) Recorded in Accumulated Other Comprehensive Income (Effective Portion)**		**Location of Realized Gain (Loss) (Effective Portion)**	**Realized Gain (Loss) (Effective Portion)**	
	2010	**2009**		**2010**	**2009**
Three months ended June 30,					
Foreign exchange contracts	$	$ 648	Cost of revenue	$ 417	$ (13)
Foreign exchange contracts		1,288	Operating expenses		(7)
Foreign exchange contracts			Other income, net	252	
	$	$ 1,936		$ 669	$ (20)
Six months ended June 30,					
Foreign exchange contracts	$ 1,902	$ 555	Cost of revenue	$ 1,210	$ (169)
Foreign exchange contracts		1,092	Operating expenses		(318)
Foreign exchange contracts	252		Other income, net	252	
	$ 2,154	$ 1,647		$ 1,462	$ (487)

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 would be reclassified to the consolidated statements of income. During the six months ended June 30, 2010, a net realized gain of $0.7 million representing the fair value of hedging instruments at the date of de-designation, due to the hedged forecasted foreign currency cash outflows no longer being probable, was reclassified from accumulated other comprehensive income to other income, net in the consolidated statements of income.

During the three and six months ended June 30, 2010 and 2009, there were no amounts recognized in the consolidated statements of income related to the ineffective portion of our cash flow hedges or amounts excluded from the assessment of our cash flow hedge effectiveness.

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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 periods presented (in thousands):

Derivatives	Location	Realized and Unrealized Gain (Loss) 2010	2009
Three months ended June 30,			
Commodity contracts	Revenue	$ (561)	$ (3,674)
Commodity contracts	Cost of revenue	2,392	8,309
Foreign exchange contracts	Other income, net	(560)	826
		$ 1,271	$ 5,461
Six months ended June 30,			
Commodity contracts	Revenue	$ 771	$ (407)
Commodity contracts	Cost of revenue	2,248	3,891
Foreign exchange contracts	Other income, net	382	1,463
		$ 3,401	$ 4,947

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 following table presents the net liability 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 (in thousands):

	As of June 30, 2010
Aggregate fair value amounts of derivative instruments that are in a net liability position	$ 1,978
Less: aggregate fair value of assets posted as collateral	
Aggregate fair value of additional assets that would be required to be posted as collateral and/or needed to settle the instruments immediately, if the contingent features were triggered	$ 1,978

4. Earnings per Share

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

	For the Three Months ended June 30, 2010	2009	For the Six Months ended June 30, 2010	2009
Numerator:				
Net income attributable to World Fuel	$ 36,977	$ 27,742	$ 70,680	$ 53,572

Denominator:				
Weighted average common shares for basic earnings per share	59,418	58,864	59,371	58,586
Effect of dilutive securities	1,267	982	1,275	546
Weighted average common shares for diluted earnings per share	60,685	59,846	60,646	59,132
Weighted average anti-dilutive securities which are not included in the calculation of diluted earnings per share	297	818	205	1,378
Basic earnings per share	$ 0.62	$ 0.47	$ 1.19	$ 0.91
Diluted earnings per share	$ 0.61	$ 0.46	$ 1.17	$ 0.91

5. Interest Income, Expense and Other Financing Costs

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

	For the Three Months ended June 30,		For the Six Months ended June 30,	
	2010	2009	2010	2009
Interest income	$ (163)	$ (349)	$ (349)	$ (609)
Interest expense and other financing costs	1,004	1,152	1,830	2,547
	$ 841	$ 803	$ 1,481	$ 1,938

6. 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,		For the Six Months ended June 30,	
	2010	2009	2010	2009
Income tax provision	$ 7,765	$ 7,623	$ 15,446	$ 13,553
Effective income tax rate	17.3%	21.4%	17.9%	20.1%

Our provision for income taxes for each of the three-month and six-month periods ended June 30, 2010 and 2009 was calculated based on the estimated effective tax rate for the full 2010 and 2009 fiscal years. However, the actual effective tax rate for the full 2010 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 lower effective tax rate for the three and six months ended June 30, 2010 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 2009.

7. 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.

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Panama Litigation

In July 2005, Atlantic Service Supply, S.A. (Atlantic), a Panamanian fuel barge operator, filed suit against Tramp Oil & Marine Limited (TOM), one of our subsidiaries, alleging that TOM is jointly and severally liable for barging fees of $1.0 million owed to Atlantic by Isthmian Petroleum Supply & Services, S.A. (Isthmian). In July 2007, the court ruled against Atlantic, finding that TOM was not liable for any barging fees owed to Atlantic by Isthmian. Isthmian has appealed this ruling. TOM and Isthmian were parties to an agreement pursuant to which Isthmian provided storage, delivery and other fuel-related services to TOM in Panama. In its suit, Atlantic alleges (i) Isthmian breached a barge charter agreement entered into between the two parties, (ii) Isthmian entered into the agreement as an agent on behalf of TOM, and (iii) TOM is liable, as a principal, for Isthmian s breach of the agreement. We believe this suit is without merit and we intend to vigorously defend the action.

In August 2005, TOM filed a lawsuit against Isthmian seeking damages of $3.1 million for breach of contract and wrongful conversion of fuel owned by TOM. In September 2005, Isthmian filed a counterclaim against TOM alleging that TOM is in breach of contract and seeking $5.0 million in damages. These actions are pending in a Panamanian maritime court. We believe Isthmian s suit against TOM is without merit and we intend to vigorously defend the action.

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 $3.5 million in damages, plus interest and attorneys fees, in its pending action. In October 2009, Brendan filed a motion with the court seeking, among other things, leave to file a third amended complaint to add various additional claims, including a claim under the Florida Racketeer Influenced and Corrupt Organizations (RICO) Act, and claims for civil conspiracy, promissory estoppel and constructive fraud. In January 2010, the court ruled that Brendan may not amend the complaint to assert claims for violation of Florida s RICO Act or for civil conspiracy, and WFSI filed a motion to dismiss the additional claims, including the claims for promissory estoppel and constructive fraud. In April 2010, the court dismissed the additional claims with prejudice. We believe Brendan s claims are without merit and we intend to vigorously defend all of Brendan s claims.

TransContinental Litigation

In April 2009, Soneet Kapila (the Plaintiff), as Chapter 11 Trustee for Louis Pearlman, TransContinental Airlines, Inc., and Louis J. Pearlman Enterprises, Inc. (collectively, the Debtors), filed a complaint in the United States Bankruptcy Court for the Middle District of Florida against WFSI seeking $0.5 million in damages, representing payments made by the Debtors for the benefit of Planet Aviation, Inc., a WFSI customer, for which the Debtors claim they received no consideration. In June 2009, the Plaintiff, as Chapter 11 Trustee for TransContinental Aviation, Inc. (TCA), filed a complaint in the United States Bankruptcy Court for the Middle District of Florida against WFSI seeking $1.3 million in damages, representing payments made by TCA for which TCA claims it did not receive adequate value. We believe the claims asserted are without merit and we intend to vigorously defend these claims.

Other Matters

As of June 30, 2010, 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.

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.

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8. Fair Value Measurements

Information about our assets and liabilities that are measured at fair value on a recurring basis is as follows (in thousands):

As of June 30, 2010	**Level 1**	**Level 2**	**Level 3**	**Sub-Total**	**Netting and Collateral**	**Total**
Assets:						
Cash equivalents	$ 106	$	$	$ 106	$	$ 106
Hedged item inventories		(1,973)		(1,973)		(1,973)
Commodity contracts	2,208	20,262		22,470	(11,967)	10,503
Foreign exchange contracts		141		141	(141)	
Hedged item commitments		4,511		4,511	(1,179)	3,332
	$ 2,314	$ 22,941	$	$ 25,255	$ (13,287)	$ 11,968
Liabilities:						
Commodity contracts	$ 22	$ 20,070	$	$ 20,092	$ (9,028)	$ 11,064
Foreign exchange contracts		311		311	(141)	170
Hedged item commitments		2,005		2,005	(1,179)	826
Earn-out			6,225	6,225		6,225
	$ 22	$ 22,386	$ 6,225	$ 28,633	$ (10,348)	$ 18,285

As of December 31, 2009	**Level 1**	**Level 2**	**Level 3**	**Sub-Total**	**Netting and Collateral**	**Total**
Assets:						
Cash equivalents	$ 106	$	$	$ 106	$	$ 106
Commodity contracts	191	14,153		14,344	(2,326)	12,018
Foreign exchange contracts			15	15	(11)	4
Hedged item inventories		5,568		5,568		5,568
Hedged item commitments		407		407	(3)	404
	$ 297	$ 20,128	$ 15	$ 20,440	$ (2,340)	$ 18,100
Liabilities:						
Commodity contracts	$ 2,944	$ 11,710	$ 3	$ 14,657	$ (5,554)	$ 9,103
Foreign exchange contracts			166	166	(11)	155
Hedged item commitments		1,486		1,486	(3)	1,483
Earn-out			6,728	6,728		6,728
	$ 2,944	$ 13,196	$ 6,897	$ 23,037	$ (5,568)	$ 17,469

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 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.

The amount recognized for the obligation to return cash collateral that has been offset against fair value assets included within netting and collateral in the above table was $1.1 million as of June 30, 2010. There were no such offsets in the above table as of December 31, 2009. There were no amounts recognized for the right to reclaim cash collateral that has been offset against fair value liabilities included within netting and collateral in the above table as of June 30, 2010 as compared to $3.2 million at December 31, 2009.

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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):

	Beginning of Period, Assets (Liabilities)	Realized and Unrealized Gains (Losses) Included in Earnings	Realized and Unrealized Gains (Losses) Included in Other Comprehensive Income	Contingent Consideration	Settlements	End of Period, Assets (Liabilities)	Change in Unrealized Gains (Losses) Relating to Instruments Still Held at end of Period
Three months ended June 30, 2010							
Commodity contracts, net	$	$	$	$	$	$	$
Foreign exchange contracts, net							
Earn-out	(6,323)	98				(6,225)	98
	$ (6,323)	$ 98	$	$	$	$ (6,225)	$ 98
Three months ended June 30, 2009							
Commodity contracts, net	$ (1,737)	$	$	$	$ 1,737	$	$
Foreign exchange contracts, net	(1,233)	126	1,960		(63)	790	790
Earn-out		(680)	&nbs				