

WORLD FUEL SERVICES CORP
Form 10-Q
May 03, 2011
Table of Contents

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 10-Q

(Mark One)

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

FOR THE QUARTERLY PERIOD ENDED MARCH 31, 2011

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)

Edgar Filing: WORLD FUEL SERVICES CORP - Form 10-Q

Florida
(State or other jurisdiction of

59-2459427
(I.R.S. Employer

incorporation or organization)

Identification No.)

9800 N.W. 41st Street, Suite 400

Miami, Florida
(Address of Principal Executive Offices)

33178
(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 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 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 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

The registrant had a total of 70,805,000 shares of common stock, par value \$0.01 per share, issued and outstanding as of April 27, 2011.

Table of Contents

Table of Contents

Part I. <u>Financial Information</u>	
<u>General</u>	1
Item 1. <u>Financial Statements (Unaudited)</u>	
<u>Consolidated Balance Sheets as of March 31, 2011 and December 31, 2010</u>	2
<u>Consolidated Statements of Income for the Three Months ended March 31, 2011 and 2010</u>	3
<u>Consolidated Statements of Shareholders' Equity and Comprehensive Income for the Three Months ended March 31, 2011 and 2010</u>	4
<u>Consolidated Statements of Cash Flows for the Three Months ended March 31, 2011 and 2010</u>	5
<u>Notes to the Consolidated Financial Statements</u>	7
Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	18
Item 3. <u>Quantitative and Qualitative Disclosures About Market Risk</u>	25
Item 4. <u>Controls and Procedures</u>	27
Part II. <u>Other Information</u>	
Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	27
Item 6. <u>Exhibits</u>	28
<u>Signatures</u>	

Table of Contents

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 (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 months ended March 31, 2011 are not necessarily indicative of the results for the entire fiscal year. The unaudited consolidated financial statements and notes thereto included in this Form 10-Q should be read in conjunction with the audited consolidated financial statements and notes thereto included in our Annual Report on Form 10-K (Form 10-K) for the fiscal year ended December 31, 2010. World Fuel Services Corporation (World Fuel or the Company) and its subsidiaries are collectively referred to in this Form 10-Q Report as we, our and us.

Table of Contents**Item 1. Financial Statements****World Fuel Services Corporation and Subsidiaries****Consolidated Balance Sheets**

(Unaudited - In thousands, except per share data)

	As of	
	March 31, 2011	December 31, 2010
Assets:		
Current assets:		
Cash and cash equivalents	\$ 93,374	\$ 272,893
Accounts receivable, net	1,892,307	1,386,700
Inventories	312,379	211,526
Prepaid expenses	100,940	96,461
Transaction taxes receivable	55,152	55,125
Short-term derivative assets, net	23,361	7,686
Other current assets	33,773	37,476
Total current assets	2,511,286	2,067,867
Property and equipment, net	64,899	64,106
Goodwill	308,161	287,434
Identifiable intangible assets, net	124,048	117,726
Non-current other assets	29,389	29,317
Total assets	\$ 3,037,783	\$ 2,566,450
Liabilities:		
Current liabilities:		
Short-term debt	\$ 17,401	\$ 17,076
Accounts payable	1,488,592	1,131,228
Customer deposits	56,189	65,480
Transaction taxes payable	58,472	59,910
Short-term derivative liabilities, net	24,833	8,591
Accrued expenses and other current liabilities	73,609	76,199
Total current liabilities	1,719,096	1,358,484
Long-term debt	64,133	24,566
Non-current income tax liabilities, net	48,547	45,328
Other long-term liabilities	11,240	11,508
Total liabilities	1,843,016	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, 70,805 and 69,602 issued and outstanding at March 31, 2011 and December 31, 2010, respectively	708	696
Capital in excess of par value	496,662	468,963
Retained earnings	691,260	652,796
Accumulated other comprehensive income	5,454	4,753

Edgar Filing: WORLD FUEL SERVICES CORP - Form 10-Q

Total World Fuel shareholders' equity	1,194,084	1,127,208
Noncontrolling interest equity (deficit)	683	(644)
Total equity	1,194,767	1,126,564
Total liabilities and equity	\$ 3,037,783	\$ 2,566,450

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

Table of Contents**World Fuel Services Corporation and Subsidiaries****Consolidated Statements of Income**

(Unaudited - In thousands, except per share data)

	For the Three Months ended March 31,	
	2011	2010
Revenue	\$ 7,079,406	\$ 3,918,021
Cost of revenue	6,942,638	3,819,203
Gross profit	136,768	98,818
Operating expenses:		
Compensation and employee benefits	47,069	34,801
Provision for bad debt	796	369
General and administrative	33,378	21,523
Total operating expenses	81,243	56,693
Income from operations	55,525	42,125
Non-operating expense, net:		
Interest expense and other financing costs, net	(2,525)	(640)
Other (expense) income, net	(928)	36
	(3,453)	(604)
Income before income taxes	52,072	41,521
Provision for income taxes	10,415	7,681
Net income including noncontrolling interest	41,657	33,840
Less: net income attributable to noncontrolling interest	548	137
Net income attributable to World Fuel	\$ 41,109	\$ 33,703
Basic earnings per share	\$ 0.59	\$ 0.57
Basic weighted average common shares	69,970	59,324
Diluted earnings per share	\$ 0.58	\$ 0.56
Diluted weighted average common shares	70,982	60,601

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

Table of Contents**World Fuel Services Corporation****Consolidated Statements of Shareholders Equity and Comprehensive Income**

(Unaudited - In thousands)

	Common Stock		Capital in Excess of Par Value	Retained Earnings	Accumulated		Noncontrolling Interest	
	Shares	Amount			Other Comprehensive Income	World Fuel Shareholders Equity	Equity (Deficit)	Total
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				41,109		41,109	548	41,657
Foreign currency translation adjustment					701	701		701
Comprehensive income						41,810	548	42,358
Initial noncontrolling interest upon consolidation of joint venture							779	779
Cash dividends declared				(2,645)		(2,645)		(2,645)
Amortization of share-based payment awards			2,265			2,265		2,265
Issuance of shares related to share-based payment awards including income tax benefit of \$2,915	561	6	4,358			4,364		4,364
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	(49)	(1)	(6,415)			(6,416)		(6,416)
Balance at March 31, 2011	70,805	708	496,662	691,260	5,454	1,194,084	683	1,194,767
Balance at December 31, 2009	59,385	\$ 594	\$ 213,414	\$ 515,218	\$ 3,795	\$ 733,021	\$ 228	\$ 733,249
Comprehensive income:								
Net income				33,703		33,703	137	33,840
Foreign currency translation adjustment					(654)	(654)		(654)
Change in effective portion of cash flow hedges, net of income tax expense of \$187					482	482		482
Comprehensive income						33,531	137	33,668
Cash dividends declared				(2,224)		(2,224)		(2,224)
Amortization of share-based payment awards			1,306			1,306		1,306
Issuance of shares related to share-based payment awards	27		140			140		140
Other	(8)		116			116		116
Balance at March 31, 2010	59,404	594	214,976	546,697	3,623	765,890	365	766,255

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

Table of Contents**World Fuel Services Corporation and Subsidiaries****Consolidated Statements of Cash Flows**

(Unaudited - In thousands)

	For the Three Months ended March 31,	
	2011	2010
Cash flows from operating activities:		
Net income including noncontrolling interest	\$ 41,657	\$ 33,840
Adjustments to reconcile net income including noncontrolling interest to net cash (used in) provided by operating activities:		
Depreciation and amortization	8,167	4,419
Provision for bad debt	796	369
Deferred income tax provision (benefit)	123	(1,455)
Share-based payment award compensation costs	2,865	1,306
Foreign currency (gains) losses, net	(818)	360
Other	446	(90)
Changes in assets and liabilities, net of acquisitions:		
Accounts receivable, net	(457,573)	(80,847)
Inventories	(64,061)	4,814
Prepaid expenses	7,476	(7,958)
Transaction taxes receivable	1,776	(849)
Other current assets	1,554	910
Short-term derivative assets, net	(15,553)	(4,218)
Non-current other assets	960	(1,451)
Accounts payable	330,242	80,445
Customer deposits	(9,407)	(16,768)
Transaction taxes payable	(1,625)	62
Short-term derivative liabilities, net	16,170	4,387
Accrued expenses and other current liabilities	(7,622)	(755)
Non-current income tax and other long-term liabilities	(59)	45
Total adjustments	(186,143)	(17,274)
Net cash (used in) provided by operating activities	(144,486)	16,566
Cash flows from investing activities:		
Capital expenditures	(2,628)	(891)
Acquisition of business, net of cash acquired	(67,000)	(8,315)
Net cash used in investing activities	(69,628)	(9,206)
Cash flows from financing activities:		
Dividends paid on common stock	(2,598)	(2,226)
Borrowings under revolving credit facility	374,000	
Repayments under revolving credit facility	(334,000)	
Repayments of debt other than senior revolving credit facility	(463)	(2)
Proceeds from exercise of stock options		250
Federal and state tax benefits resulting from tax deductions in excess of the compensation cost recognized for share-based payment awards	2,915	
Purchases of stock tendered by employees to satisfy the required withholding taxes related to share-based payment awards	(6,416)	(119)

Edgar Filing: WORLD FUEL SERVICES CORP - Form 10-Q

Net cash provided by (used in) financing activities	33,438	(2,097)
Effect of exchange rate changes on cash and cash equivalents	1,157	(1,026)
Net (decrease) increase in cash and cash equivalents	(179,519)	4,237
Cash and cash equivalents, at beginning of period	272,893	298,843
Cash and cash equivalents, at end of period	\$ 93,374	\$ 303,080

Supplemental Schedule of Noncash Investing and Financing Activities:

Cash dividends declared of \$0.0375 per share for the three months ended March 31, 2011 and 2010, but not yet paid, totaled \$2.6 million and \$2.2 million, respectively at March 31, 2011 and 2010 and were paid in April 2011 and 2010.

Table of Contents

As of March 31, 2011, we had accrued capital expenditures totaling \$2.7 million, which was recorded in accrued expenses and other current liabilities and deferred compensation and other long-term liabilities in the amount of \$1.6 million and \$1.1 million, respectively.

In connection with our March 2011 acquisition, we issued equity of \$27.5 million.

In January 2011, upon the consolidation of a joint venture that was previously accounted 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 of certain assets of Falmouth Oil Services Limited, we extinguished certain receivables totaling \$6.4 million, of which \$3.3 million was related to receivables attributable to the 2009 funding arrangement to service provider.

In March 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 Three Months ended March 31,	
	2011	2010
Assets acquired, net of cash	\$ 127,360	\$ 16,357
Liabilities assumed	\$ 32,979	\$ 1,641

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

Table of Contents**World Fuel Services Corporation and Subsidiaries****Notes to the Consolidated Financial Statements**

(Unaudited)

1. Acquisitions and Significant Accounting Policies
Acquisitions*2011 Acquisitions*

On April 1, 2011, we completed the acquisition of all of the outstanding stock of Ascent Aviation Group, Inc. (Ascent) based in Parish, New York. Ascent supplies branded aviation fuel and deicing fluid to more than 450 airports and fixed base operators throughout North America. The estimated aggregate purchase price was \$42.4 million, which is subject to change based on the finalization of the value of the net assets acquired. As the Ascent acquisition was completed in April 2011, the allocation of the purchase price is not yet available, and Ascent's financial position, results of operations and cash flows are not reflected in our consolidated financial statements as of and for the three months ended March 31, 2011.

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 months ended March 31, 2011.

The estimated purchase price for the NCS acquisition was \$94.9 million which consisted of \$67.4 million in cash, and \$27.5 million in shares of common stock issued to the sellers. The estimated purchase price for the NCS acquisition was allocated to the assets acquired and liabilities assumed based on their estimated fair value at the acquisition date. At March 31, 2011, the valuation of the assets acquired and liabilities assumed have not been completed; accordingly, the allocation of the purchase price may change. The estimated purchase price allocation for the NCS acquisition is as follows (in thousands):

Assets acquired:	
Cash	\$ 522
Accounts receivable	48,192
Inventories	36,827
Prepaid expenses and other current assets	12,586
Fixed assets	1,622
Goodwill	12,913
Identifiable intangible assets	15,220
Liabilities assumed:	
Accounts payable and other current liabilities	(29,169)
Deferred tax liabilities	(3,810)
Estimated purchase price	\$ 94,903

In connection with the NCS acquisition, we recorded goodwill of \$12.9 million in our aviation segment, none of which is anticipated to be deductible for tax purposes.

2010 Acquisitions

During the three months ended March 31, 2011, we completed the valuation of the net assets acquired related to certain of our 2010 acquisitions, which resulted in an increase in the aggregate purchase price of those acquisitions of \$4.2 million, and based on our ongoing fair value

Edgar Filing: WORLD FUEL SERVICES CORP - Form 10-Q

assessment of certain of our 2010 acquisitions, we recorded an increase in goodwill of \$11.7 million in our land segment and \$1.1 million in our marine segment, a reduction of goodwill of \$5.2 million in our aviation segment and a reduction in identifiable intangible assets of \$4.0 million. As of March 31, 2011, we have not yet completed the fair value assessment of the acquisitions made during the last six months of 2010.

Table of Contents*Pro Forma Information*

The following presents the unaudited pro forma results for the three months ended March 31, 2011 and 2010 as if the NCS acquisition and the 2010 acquisitions had been completed on January 1, 2010 (in thousands, except per share data):

	For the Three Months Ended March 31,	
	2011 (pro forma)	2010 (pro forma)
Revenue	\$ 7,200,379	\$ 4,467,590
Net income attributable to World Fuel	\$ 47,642	\$ 34,774
Earnings per share:		
Basic	\$ 0.67	\$ 0.57
Diluted	\$ 0.66	\$ 0.56

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. Pursuant to an amendment to the purchase agreement in September 2010, the maximum Earn-out that may be paid was reduced from £9.0 million to £6.0 million (\$9.6 million as of March 31, 2011) if all operating targets are achieved. In consideration for the reduction in the maximum Earn-out, a minimum Earn-out of £2.7 million (\$4.3 million as of March 31, 2011) was established. 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 March 31, 2011, the estimated fair value of the Earn-out liability is £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 months ended March 31, 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 Form 10-K.

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 (RPA) to sell up to \$50.0 million of certain of our accounts receivable. The sale price will be at an amount equal to 90% 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 RPA, we retain a beneficial interest in the sold accounts receivable of 10%, which is included in accounts receivable, net in the accompanying consolidated balance sheet.

During the three months ended March 31, 2011, we sold accounts receivable of \$38.7 million for which we received cash proceeds of \$34.8 million and recorded a retained beneficial interest of \$3.9 million.

Table of Contents

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. During the three months ended March 31, 2011, goodwill increased by an aggregate \$20.7 million due to acquisitions (See Acquisitions) and \$0.2 million as a result of foreign currency translation adjustments of our Brazilian subsidiary in our marine segment. There were no goodwill impairment losses recognized during the periods presented.

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 months ended March 31, 2011, we derecognized vendor liability accruals due to the legal release of our obligations in the amount of \$0.8 million, as compared to \$3.1 million during the three months ended March 31, 2010, which is reflected as a reduction of cost of revenue in the accompanying consolidated statements of income.

Recent Accounting Pronouncements

Disclosure of Supplementary Pro Forma Information for Business Combinations. In January 2011, we adopted an accounting standard update (ASU) which clarifies the acquisition date that should be used for reporting pro forma financial information when comparative financial statements are presented and also to expand 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 Financial Accounting Standards Board 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.

Table of Contents

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 related to fuel products 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.

Table of Contents

As of March 31, 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
Fair Value Hedge	2011	Commodity contracts for firm commitment hedging (long)	2,058	GAL	\$ 0.336	\$ 691
	2011	Commodity contracts for inventory hedging (short)	43,344	GAL	(0.077)	(3,341)
	2011	Commodity contracts for firm commitment hedging (long)	59	MT	78.249	4,626
	2011	Commodity contracts for firm commitment hedging (short)	23	MT	(128.224)	(2,885)
	2011	Commodity contracts for inventory hedging (short)	35	MT	(35.820)	(1,236)
Non-Designated	2011	Commodity contracts (long)	16,791	GAL	0.670	11,301
	2011	Commodity contracts (short)	28,788	GAL	(0.463)	(13,342)
	2011	Commodity contracts (long)	397	MT	47.299	18,758
	2011	Commodity contracts (short)	590	MT	(27.400)	(16,171)
	2011	Foreign currency contracts (long)	286	BRL	0.012	3
	2011	Foreign currency contracts (short)	20,959	BRL	(0.016)	(339)
	2011	Foreign currency contracts (short)	4,400	CAD	(0.002)	(10)
	2011	Foreign currency contracts (long)	2,912,863	CLP	(0.000)	(14)
	2011	Foreign currency contracts (short)	11,200	EUR	(0.015)	(168)
	2011	Foreign currency contracts (long)	2,960	GBP	(0.011)	(31)
	2011	Foreign currency contracts (short)	27,524	GBP	0.015	411
	2011	Foreign currency contracts (long)	110,000	MXN	0.001	75
	2011	Foreign currency contracts (long)	6,800	SGD	0.004	24
	2011	Foreign currency contracts (short)	533	AUD	(0.026)	(14)
	2012	Commodity contracts (long)	749	GAL	0.402	301
	2012	Commodity contracts (short)	848	GAL	(0.440)	(373)
	2012	Commodity contracts (long)	36	MT	2.344	84
	2012	Commodity contracts (short)	77	MT	(4.773)	(367)
2013	Commodity contracts (long)	199	GAL	0.031	6	
2013	Commodity contracts (short)	199	GAL	(0.004)	(1)	
						\$ 133

Table of Contents

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	March 31, 2011	As of December 31, 2010
Derivative assets:			
Derivatives designated as hedging instruments			
Commodity contracts	Short-term derivative assets, net	\$ 4,753	\$ 439
Commodity contracts	Short-term derivative liabilities, net	1,753	448
Total hedging instrument derivatives		6,506	887
Derivatives not designated as hedging instruments			
Commodity contracts	Short-term derivative assets, net	30,586	11,296
Commodity contracts	Short-term derivative liabilities, net	748	2,195
Commodity contracts	Non-current other assets	296	637
Commodity contracts	Other long-term liabilities	13	
Foreign exchange contracts	Short-term derivative assets, net	531	369
Foreign exchange contracts	Short-term derivative liabilities, net	22	92
Total non-designated derivatives		32,196	14,589
Total derivative assets		\$ 38,702	\$ 15,476
Derivative liabilities:			
Derivatives designated as hedging instruments			
Commodity contracts	Short-term derivative assets, net	\$ 4,841	\$ 229
Commodity contracts	Short-term derivative liabilities, net	3,810	2,853
Total hedging instrument derivatives		8,651	3,082
Derivatives not designated as hedging instruments			
Commodity contracts	Short-term derivative assets, net	7,445	4,001
Commodity contracts	Short-term derivative liabilities, net	23,736	9,519
Commodity contracts	Non-current other assets	28	81
Commodity contracts	Other long-term liabilities	238	502
Foreign exchange contracts	Short-term derivative assets, net	225	185
Foreign exchange contracts	Short-term derivative liabilities, net	391	389
Total non-designated derivatives		32,063	14,677
Total derivative liabilities		\$ 40,714	\$ 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 statement of income (in thousands):

Derivatives	Location	Realized and Unrealized		Hedged Items	Location	Realized and Unrealized	
		Gain (Loss)	2011			2010	Gain (Loss)

Edgar Filing: WORLD FUEL SERVICES CORP - Form 10-Q

Three months ended March 31,

Commodity contracts	Revenue	\$ 10,687	\$ 5,486	Firm commitments	Revenue	\$ (11,433)	\$ (5,011)
Commodity contracts	Cost of revenue	(7,461)	495	Firm commitments	Cost of revenue	8,037	(808)
Commodity contracts	Cost of revenue	(40,259)	(2,885)	Inventories	Cost of revenue	47,341	4,729
		\$ (37,033)	\$ 3,096			\$ 43,945	\$ (1,090)

There were no gains or losses for the three months ended March 31, 2011 and 2010 that were excluded from the assessment of the effectiveness of our fair value hedges.

Table of Contents

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		Location of Realized Gain (Loss) (Effective Portion)	Realized Gain (Loss) (Effective Portion)	
	Income			2011	2010
	2011	2010		2011	2010
Three months ended March 31,					
Foreign exchange contracts	\$	\$ 2,154	Cost of revenue	\$	\$ 793
	\$	\$ 2,154		\$	\$ 793

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 months ended March 31, 2011 and 2010 (in thousands):

Derivatives	Location	Realized and Unrealized Gain (Loss)	
		2011	2010
Three months ended March 31,			
Commodity contracts	Revenue	\$ 1,558	\$ 1,332
Commodity contracts	Cost of revenue	663	(144)
Foreign exchange contracts	Other (expense) income, net	(1,909)	942
		\$ 312	\$ 2,130

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 is not significant as of March 31, 2011.

3. 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 March 31,	
	2011	2010
Numerator:		

Edgar Filing: WORLD FUEL SERVICES CORP - Form 10-Q

Net income attributable to World Fuel	\$ 41,109	\$ 33,703
Denominator:		
Weighted average common shares for basic earnings per share	69,970	59,324
Effect of dilutive securities	1,012	1,277
Weighted average common shares for diluted earnings per share	70,982	60,601
Weighted average anti-dilutive securities which are not included in the calculation of diluted earnings per share		117
Basic earnings per share	\$ 0.59	\$ 0.57
Diluted earnings per share	\$ 0.58	\$ 0.56

Table of Contents**4. Interest Income, Expense and Other Financing Costs**

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 March 31,	
	2011	2010
Interest income	\$ 79	\$ 186
Interest expense and other financing costs, net	(2,604)	(826)
	\$ (2,525)	\$ (640)

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 March 31,	
	2011	2010
Income tax provision	\$ 10,415	\$ 7,681
Effective income tax rate	20.0%	18.5%

Our provision for income taxes for each of the three-month periods ended March 31, 2011 and 2010 was 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 months ended March 31, 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 period 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 (PRPs), 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 PRPs 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.

Edgar Filing: WORLD FUEL SERVICES CORP - Form 10-Q

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

Table of Contents

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 March 31, 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 March 31, 2011	Level 1	Level 2	Level 3	Sub-Total	Netting and Collateral	Total
Assets:						
Cash equivalents	\$ 10	\$	\$	\$ 10	\$	\$ 10
Commodity contracts	3,777	34,372		38,149	(14,828)	23,321
Foreign exchange contracts		553		553	(247)	306
Hedged item inventories		4,918		4,918		4,918
Hedged item commitments		2,936		2,936	(2,931)	5
Total	\$ 3,787	\$ 42,779	\$	\$ 46,566	\$ (18,006)	\$ 28,560
Liabilities:						
Commodity contracts	\$ 4,869	\$ 35,229	\$	\$ 40,098	\$ (15,410)	\$ 24,688
Foreign exchange contracts		616		616	(247)	369
Hedged item commitments		5,406		5,406	(2,931)	2,475
Earn-out			5,151	5,151		5,151
Total	\$ 4,869	\$ 41,251	\$ 5,151	\$ 51,271	\$ (18,588)	\$ 32,683

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:

Edgar Filing: WORLD FUEL SERVICES CORP - Form 10-Q

Commodity contracts	\$ 2,226	\$ 14,926	\$ 33	\$ 17,185	\$ (8,391)	\$ 8,794
Foreign exchange contractcts		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

Table of Contents

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 March 31, 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 March 31, 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 March 31, 2011					
Commodity contracts, net	\$ 90	\$	\$ (90)	\$	\$
Earn-out	(5,012)	(139)		(5,151)	(139)
Total	\$ (4,922)	\$ (139)	\$ (90)	\$ (5,151)	\$ (139)
Three months ended March 31, 2010					
Commodity contracts, net	\$ (2)	\$	\$ 2	\$	\$
Foreign exchange contracts, net	(152)		152		
Earn-out	(6,728)	405		(6,323)	405
Total	\$ (6,882)	\$ 405	\$ 154	\$ (6,323)	\$ 405

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 months ended March 31, 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).

Table of Contents

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

	For the Three Months ended March 31,	
	2011	2010
Revenue:		
Aviation segment	\$ 2,646,592	\$ 1,459,724
Marine segment	2,999,419	2,098,612
Land segment	1,433,395	359,685
	\$ 7,079,406	\$ 3,918,021
Gross profit:		
Aviation segment	\$ 70,128	\$ 48,375
Marine segment	40,215	39,389
Land segment	26,425	11,054
	\$ 136,768	\$ 98,818
Income from operations:		
Aviation segment	\$ 38,170	\$ 26,694
Marine segment	17,355	20,007
Land segment	10,663	2,348
	66,188	49,049
Corporate overhead	10,663	6,924
	\$ 55,525	\$ 42,125

Information concerning our accounts receivable and total assets by segment is as follows (in thousands):

	As of	
	March 31, 2011	December 31, 2010
Accounts receivable, net:		
Aviation segment, net of allowance for bad debt of \$7,434 and \$7,363 March 31, 2011 and December 31, 2010, respectively	\$ 555,649	\$ 420,788
Marine segment, net of allowance for bad debt of \$8,016 and \$7,761 at March 31, 2011 and December 31, 2010, respectively	1,043,126	761,629
Land segment, net of allowance for bad debt of \$4,990 and \$5,077 at March 31, 2011 and December 31, 2010, respectively	293,532	204,283
	\$ 1,892,307	\$ 1,386,700
Total assets:		
Aviation segment	1,001,563	\$ 740,563
Marine segment	1,286,440	1,000,042
Land segment	629,771	524,592
Corporate	120,009	301,253
	\$ 3,037,783	\$ 2,566,450

Table of Contents

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

The following discussion should be read in conjunction with our 2010 Form 10-K and the consolidated financial statements and related notes in Item 1 - Financial Statements appearing elsewhere in this Form 10-Q. The following discussion may contain forward-looking statements, and our actual results may differ significantly from the results suggested by these forward-looking statements. Some factors that may cause our results to differ materially from the results and events anticipated or implied by such forward-looking statements are described in Part II of this Form 10-Q under Item 1A Risk Factors.

Forward-Looking Statements

Certain statements made in this report and the information incorporated by reference in it, or made by us in other reports, filings with the Securities and Exchange Commission (SEC), press releases, teleconferences, industry conferences or otherwise, are forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. The forward-looking statements include, without limitation, any statement that may predict, forecast, indicate or imply future results, performance or achievements, and may contain the words believe, anticipate, expect, estimate, project, could, would, will, will be, will continue, will likely result, plan, or words or phrases

Forward-looking statements are estimates and projections reflecting our best judgment and involve risks, uncertainties or other factors relating to our operations and business environment, all of which are difficult to predict and many of which are beyond our control. The Company's actual results may differ materially from the future results, performance or achievements expressed or implied by the forward-looking statements. These statements are based on our management's expectations, beliefs and assumptions concerning future events affecting us, which in turn are based on currently available information.

Examples of forward-looking statements in this Form 10-Q include, but are not limited to, our expectations regarding our business strategy, business prospects, operating results, effectiveness of internal controls to manage risk, working capital, liquidity, capital expenditure requirements and future acquisitions. Important assumptions relating to the forward-looking statements include, among others, assumptions regarding demand for our products, the cost, terms and availability of fuel from suppliers, pricing levels, the timing and cost of capital expenditures, outcome of pending litigation, competitive conditions, general economic conditions and synergies relating to acquisitions, joint ventures and alliances. These assumptions could prove inaccurate. Although we believe that the estimates and projections reflected in the forward-looking statements are reasonable, our expectations may prove to be incorrect.

Important factors that could cause actual results to differ materially from the results and events anticipated or implied by such forward-looking statements include, but are not limited to:

customer and counterparty creditworthiness and our ability to collect accounts receivable and settle derivative contracts;

changes in the market price of fuel;

changes in the political, economic or regulatory conditions generally and in the markets in which we operate;

our failure to effectively hedge certain financial risks and the use of derivatives;

non-performance by counterparties or customers to derivative contracts;

changes in credit terms extended to us from our suppliers;

non-performance of suppliers on their sale commitments and customers on their purchase commitments;

loss of, or reduced sales to a significant customer;

non-performance of third-party service providers;

adverse conditions in the industries in which our customers operate, including a continuation of the global recession and its impact on the airline and shipping industries;

currency exchange fluctuations;

Table of Contents

failure of the fuel we sell to meet specifications;

our ability to manage growth;

our ability to integrate acquired businesses;

material disruptions in the availability or supply of fuel;

risks associated with operating in high risk locations, such as Iraq and Afghanistan;

uninsured losses;

the impact of natural disasters, such as hurricanes;

our failure to comply with restrictions and covenants in our senior revolving credit facility (Credit Facility);

the liquidity and solvency of banks within our Credit Facility;

increases in interest rates;

declines in the value and liquidity of cash equivalents and investments;

our ability to retain and attract senior management and other key employees;

changes in U.S. or foreign tax laws or changes in the mix of taxable income among different tax jurisdictions;

our ability to comply with U.S. and international laws and regulations including those related to anti-corruption, economic sanction programs and environmental matters;

increased levels of competition;

the outcome of litigation; and

other risks, including those described in Item 1A - Risk Factors in our 2010 Form 10-K and those described from time to time in our other filings with the SEC.

Edgar Filing: WORLD FUEL SERVICES CORP - Form 10-Q

We operate in a very competitive and rapidly changing environment. New risks emerge from time to time. It is not possible for us to predict all of those risks, nor can we assess the impact of all of those risks on our business or the extent to which any factor may cause actual results to differ materially from those contained in any forward-looking statement. The forward-looking statements in this interim report on Form 10-Q are based on assumptions management believes are reasonable. However, due to the uncertainties associated with forward-looking statements, you should not place undue reliance on any forward-looking statements. Further, forward-looking statements speak only as of the date they are made, and unless required by law, we expressly disclaim any obligation or undertaking to publicly update any of them in light of new information, future events, or otherwise.

For these statements, we claim the protection of the safe harbor for forward-looking statements contained in Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934 (the Exchange Act).

Overview

We are a leading global fuel logistics company, principally engaged in the marketing, sale and distribution of aviation, marine, and land fuel products and related services on a worldwide basis. We compete by providing our customers value-added benefits, including single-supplier convenience, competitive pricing, the availability of trade credit, price risk management, logistical support, fuel quality control and fuel procurement outsourcing. We have three reportable operating business segments: aviation, marine, and land. We primarily contract with third parties for the delivery and storage of fuel products and in some cases own storage and transportation assets for strategic purposes. In our aviation segment, we offer fuel and related services to major commercial airlines, second and third-tier airlines, cargo carriers, regional and low cost carriers, airports, fixed based operators, corporate fleets, fractional operators, private aircraft, military fleets and to the U.S. and

Table of Contents

foreign governments, and we also offer card processing services in connection with the purchase of aviation fuel and related services. In our marine segment, we offer fuel and related services to a broad base of marine customers, including international container and tanker fleets, commercial cruise lines and time-charter operators, as well as to the U.S. and foreign governments. In our land segment, we offer fuel and related services to petroleum distributors operating in the land transportation market, retail petroleum operators, and industrial, commercial and government customers. Additionally, we also operate a small number of retail gas stations in the U.S and Gibraltar.

In our aviation and land segments, we primarily purchase and resell fuel, and we do not act as brokers. Profit from our aviation and land segments is primarily determined by the volume and the gross profit achieved on fuel resales, and in the case of the aviation segment, a percentage of processed charge card revenue. In our marine segment, we primarily purchase and resell fuel and also act as brokers for others. Profit from our marine segment is determined primarily by the volume and gross profit achieved on fuel resales and by the volume and commission rate of the brokering business. Our profitability in our segments also depends on our operating expenses, which may be significantly affected to the extent that we are required to provide for potential bad debt.

Our revenue and cost of revenue are significantly impacted by world oil prices, as evidenced in part by our revenue and cost of revenue fluctuations in recent fiscal years, while our gross profit is not necessarily impacted by changes in world oil prices. However, due to our inventory average costing methodology, significant movements in fuel prices during any given financial period can have a significant impact on our gross profit, either positively or negatively depending on the direction, volatility and timing of such price movements.

We may experience decreases in future sales volumes and margins as a result of the ongoing deterioration in the world economy, transportation industry, natural disasters and continued conflicts and instability in the Middle East, Asia and Latin America, as well as potential future terrorist activities and possible military retaliation. In addition, because fuel costs represent a significant part of our customers' operating expenses, volatile and/or high fuel prices can adversely affect our customers' businesses, and consequently the demand for our services and our results of operations. Our hedging activities may not be effective to mitigate volatile fuel prices and may expose us to counterparty risk. See Item 1A Risk Factors under Part II of our 2010 Form 10-K.

Reportable Segments

We have three reportable operating segments: aviation, marine and land. Corporate expenses are allocated to the segment based on usage, where possible, or on other factors according to the nature of the activity. We evaluate and manage our business segments using the performance measurement of income from operations. Financial information with respect to our business segments is provided in Note 8 to the accompanying consolidated financial statements included in this Form 10-Q.

Results of Operations

The results of operations of Nordic Camp Supply ApS and certain affiliates (NCS) are included in our aviation segment commencing on March 1, 2011, its acquisition date. The results of operations for the first quarter of 2010 do not include the results of NCS and The Hiller Group Incorporated and certain affiliates (Hiller) in our aviation segment, Shell Company of Gibraltar, Limited, (Gib Oil) in our aviation, marine and land segments, Western Petroleum Company, (Western) in our aviation and land segments and Lakeside Oil Company, Inc. (Lakeside) in our land segment since these acquisitions were completed after March 31, 2010.

Three Months Ended March 31, 2011 Compared to Three Months Ended March 31, 2010

Revenue. Our revenue for the first quarter of 2011 was \$7.1 billion, an increase of \$3.2 billion, or 80.7%, as compared to the first quarter of 2010. Our revenue during these periods was attributable to the following segments (in thousands):

	For the Three Months ended		
	March 31,		\$ Change
	2011	2010	
Aviation segment	\$ 2,646,592	\$ 1,459,724	\$ 1,186,868
Marine segment	2,999,419	2,098,612	900,807
Land segment	1,433,395	359,685	1,073,710

Edgar Filing: WORLD FUEL SERVICES CORP - Form 10-Q

\$ 7,079,406	\$ 3,918,021	\$ 3,161,385
--------------	--------------	--------------

Our aviation segment contributed \$2.6 billion in revenue for the first quarter of 2011, an increase of \$1.2 billion, or 81.3% as compared to the first quarter of 2010. Of the total increase in aviation segment revenue, \$0.6 billion was due to an increase in the average price per gallon sold as a result of higher world oil prices in first quarter of 2011 as compared to the first quarter of 2010. The remaining increase of \$0.6 billion was due to increased sales volume primarily due to additional sales to both new and existing customers, as well as incremental sales derived from the NCS, Western and Hiller acquisitions.

Table of Contents

Our marine segment contributed \$3.0 billion in revenue for the first quarter of 2011, an increase of \$0.9 billion, or 42.9%, as compared to the first quarter of 2010. Of the total increase in marine segment revenue, \$0.6 billion was due to an increase in the average price per metric ton sold as a result of higher world oil prices in first quarter of 2011 as compared to the first quarter of 2010. The remaining increase of \$0.3 billion was due to increased sales volume primarily due to additional sales to both new and existing customers.

Our land segment contributed \$1.4 billion in revenue for the first quarter of 2011, an increase of \$1.1 billion as compared to the first quarter of 2010. Of the total increase in land segment revenue, \$0.8 billion was primarily due to incremental sales derived from the Western and Lakeside acquisitions. The remaining increase of \$0.3 billion was due to an increase in the average price per gallon sold as a result of higher world oil prices in the first quarter of 2011 as compared to the first quarter of 2010.

Gross Profit. Our gross profit for the first quarter of 2011 was \$136.8 million, an increase of \$38.0 million, or 38.4%, as compared to the first quarter of 2010. Our gross profit during these periods was attributable to the following segments (in thousands):

	For the Three Months		
	ended March 31,		
	2011	2010	\$ Change
Aviation segment	\$ 70,128	\$ 48,375	\$ 21,753
Marine segment	40,215	39,389	826
Land segment	26,425	11,054	15,371
	\$ 136,768	\$ 98,818	\$ 37,950

Our aviation segment gross profit for the first quarter of 2011 was \$70.1 million, an increase of \$21.8 million, or 45.0%, as compared to the first quarter of 2010. The increase in aviation segment gross profit was due to increased sales volume from new and existing customers and incremental sales derived from the NCS, Western and Hiller acquisitions.

Our marine segment gross profit for the first quarter of 2011 was \$40.2 million, an increase of \$0.8 million, or 2.1%, as compared to the first quarter of 2010. The increase in marine segment gross profit was due to \$5.8 million of increased sales volume from new and existing customers which was partially offset by \$5.0 million in decreased gross profit per metric ton sold primarily due to the weakness in the shipping industry as compared to the prior year.

Our land segment gross profit for the first quarter of 2011 was \$26.4 million, an increase of \$15.4 million as compared to the first quarter of 2010. The increase in land segment gross profit was primarily due to incremental sales derived from the Western and Lakeside acquisitions.

Operating Expenses. Total operating expenses for the first quarter of 2011 were \$81.2 million, an increase of \$24.6 million, or 43.3%, as compared to the first quarter of 2010. The following table sets forth our expense categories (in thousands):

	For the Three Months		
	ended March 31,		
	2011	2010	\$ Change
Compensation and employee benefits	\$ 47,069	\$ 34,801	\$ 12,268
Provision for bad debt	796	369	427
General and administrative	33,378	21,523	11,855
	\$ 81,243	\$ 56,693	\$ 24,550

Of the total increase in operating expenses, \$12.3 million was related to compensation and employee benefits, \$0.4 million was related to provision for bad debt and \$11.9 million was related to general and administrative expenses. The increase in compensation and employee benefits was primarily due to compensation related

Table of Contents

to employees of acquired businesses and compensation for new hires to support our growing global business. The increase in general and administrative expenses was due to the inclusion of the acquired businesses, including related amortization of acquired identifiable intangible assets, as well as increases related to systems development, depreciation and business travel.

Income from Operations. Our income from operations for the first quarter of 2011 was \$55.5 million, an increase of \$13.4 million, or 31.8%, as compared to the first quarter of 2010. Income from operations during these periods was attributable to the following segments (in thousands):

	For the Three Months		
	ended March 31,		
	2011	2010	\$ Change
Aviation segment	\$ 38,170	\$ 26,694	\$ 11,476
Marine segment	17,355	20,007	(2,652)
Land segment	10,663	2,348	8,315
	66,188	49,049	17,139
Corporate overhead - unallocated	10,663	6,924	3,739
	\$ 55,525	\$ 42,125	\$ 13,400

Our aviation segment income from operations was \$38.2 million for the first quarter of 2011, an increase of \$11.5 million, or 43.0%, as compared to the first quarter of 2010. This increase resulted from \$21.8 million in higher gross profit, which was partially offset by increased operating expenses of \$10.3 million. The increase in aviation segment operating expenses was attributable to higher compensation and employee benefits, provision for bad debt and general and administrative expenses primarily attributable to the inclusion of the operating results of the NCS, Western and Hiller acquisitions, as well as increased compensation for new hires to support growth.

Our marine segment earned \$17.4 million in income from operations for the first quarter of 2011, a decrease of \$2.7 million, or 13.3%, as compared to the first quarter of 2010. This decrease resulted from increased operating expenses of \$3.5 million partially offset by \$0.8 million in higher gross profit. The increase in marine segment operating expenses was attributable to higher compensation and employee benefits, provision for bad debt and general and administrative expenses.

Our land segment income from operations was \$10.7 million for the first quarter of 2011, an increase of \$8.3 million as compared to the first quarter of 2010. The increase was primarily due to the incremental income from operations resulting from the Western and Lakeside acquisitions.

Corporate overhead costs not charged to the business segments were \$10.7 million for the first quarter of 2011, an increase of \$3.7 million, or 54.0%, as compared to the first quarter of 2010. The increase in corporate overhead costs not charged to the business segments was attributable to higher compensation and employee benefits and general and administrative expenses incurred.

Non-Operating Expenses, net. For the first quarter of 2011, we had non-operating expenses, net of \$3.5 million, an increase of \$2.9 million as compared to non-operating expenses, net of \$0.6 million for the first quarter of 2010. This increase was primarily due to increased interest expense and other financing costs, net related to the new credit facility.

Taxes. For the first quarter of 2011, our effective tax rate was 20.0% and our income tax provision was \$10.4 million, as compared to an effective tax rate of 18.5% and an income tax provision of \$7.7 million for the first quarter of 2010. The higher effective tax rate for the first quarter of 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 first quarter of 2010.

Net Income and Diluted Earnings per Share. Our net income for the first quarter of 2011 was \$41.1 million, an increase of \$7.4 million, or 22.0%, as compared to the first quarter of 2010. Diluted earnings per share for the first quarter of 2011 was \$0.58 per share, an increase of \$0.02 per share, or 3.6%, as compared to the first quarter of 2010.

Table of Contents

Non-GAAP Net Income and Non-GAAP Diluted Earnings per Share. The following table sets forth the reconciliation between our net income and our non-GAAP net income for the first quarter of 2011 and 2010 (in thousands):

	For the Three Months ended March 31,	
	2011	2010
Net income	\$ 41,109	\$ 33,703
Share-based compensation expense, net of taxes	2,009	1,003
Intangible asset amortization expense, net of taxes	3,662	1,494
Non-GAAP net income	\$ 46,780	\$ 36,200

The following table sets forth the reconciliation between our diluted earnings per share and our non-GAAP diluted earnings per share for the first quarter of 2011 and 2010:

	For the Three Months ended March 31,	
	2011	2010
Diluted earnings per share	\$ 0.58	\$ 0.56
Share-based compensation expense, net of taxes	0.03	0.02
Intangible asset amortization expense, net of taxes	0.05	0.02
Non-GAAP diluted earnings per share	\$ 0.66	\$ 0.60

The non-GAAP financial measures exclude costs associated with share-based compensation and amortization of acquired intangible assets, primarily because we do not believe they are reflective of the Company's core operating results. We believe the exclusion of share-based compensation from operating expenses is useful given the variation in expense that can result from changes in the fair value of our common stock, the effect of which is unrelated to the operational conditions that give rise to variations in the components of our operating costs. Also, we believe the exclusion of the amortization of acquired intangible assets is useful for purposes of evaluating operating performance of our core operating results and comparing them period-over-period. We believe that these non-GAAP financial measures, when considered in conjunction with our financial information prepared in accordance with GAAP, are useful to investors to further aid in evaluating the ongoing financial performance of the company and to provide greater transparency as supplemental information to our GAAP results. Non-GAAP financial measures should not be considered in isolation from, or as a substitute for, financial information prepared in accordance with GAAP. In addition, our presentation of non-GAAP net income and non-GAAP earnings per share may not be comparable to the presentation of such metrics by other companies. Investors are encouraged to review the reconciliation of these non-GAAP measures to their most directly comparable GAAP financial measure.

Liquidity and Capital Resources

The following table reflects the major categories of cash flows for the three months ended March 31, 2011 and 2010. For additional details, please see the consolidated statements of cash flows in the consolidated financial statements.

	For the Three Months ended March 31,	
	2011	2010
Net cash (used in) provided by operating activities	\$ (144,486)	\$ 16,566
Net cash used in investing activities	(69,628)	(9,206)
Net cash provided by (used in) financing activities	33,438	(2,097)

Edgar Filing: WORLD FUEL SERVICES CORP - Form 10-Q

Operating activities. For the three months ended March 31, 2011, net cash used in operating activities totaled \$144.5 million as compared to net cash provided by operating activities of \$16.6 million in 2010. The \$161.1 million change in operating cash flows was primarily due to changes in net operating assets and liabilities, primarily net working capital, driven by increased sales volume and world oil prices as compared to 2010, which were partially offset by increased net income.

Investing activities. For the three months ended March 31, 2011, net cash used in investing activities was \$69.6 million as compared to \$9.2 million in 2010. The \$60.4 million increase in cash used in investing activities in 2010 was primarily due to the acquisition of NCS in the first quarter of 2011.

Financing activities. For the three months ended March 31, 2011, net cash provided by financing activities was \$33.4 million as compared to net cash used in financing activities of \$2.1 million in 2010. The \$35.5 million change in cash flows from financing activities was primarily due to net borrowings under our Credit Facility.

Table of Contents**Other Liquidity Measures**

Cash and cash equivalents. As of March 31, 2011, we had \$93.4 million of cash and cash equivalents compared to \$272.9 million of cash and cash equivalents as of December 31, 2010. Our primary uses of cash and cash equivalents are to fund accounts receivable, purchase inventory and make strategic investments, primarily acquisitions. We are usually extended unsecured trade credit from our suppliers for our fuel purchases; however, certain suppliers require us to either prepay or provide a letter of credit. Increases in oil prices can negatively affect liquidity by increasing the amount of cash needed to fund fuel purchases as well as reducing the amount of fuel which we can purchase on an unsecured basis from our suppliers.

Credit Facility. Our Credit Facility permits borrowings of up to \$800.0 million with a sublimit of \$300.0 million for the issuance of letters of credit and bankers' acceptances. Under the Credit Facility, we have the right to request increases in available borrowings up to an additional \$150.0 million, subject to the satisfaction of certain conditions. We had outstanding borrowings of \$40.0 million at March 31, 2011 and no outstanding borrowings at December 31, 2010 under our Credit Facility. Our issued letters of credit under the Credit Facility totaled \$52.3 million and \$72.0 million at March 31, 2011 and December 31, 2010, respectively. The Credit Facility expires in September 2015.

Our liquidity consisting of cash and cash equivalents and availability under the Credit Facility fluctuate based on a number of factors, including the timing of receipts from our customers and payments to our suppliers as well as commodity prices. Our Credit Facility contains certain financial covenants with which we are required to comply. Our failure to comply with the financial covenants contained in our Credit Facility could result in an event of default. An event of default, if not cured or waived, would permit acceleration of any outstanding indebtedness under the Credit Facility, trigger cross-defaults under other agreements to which we are a party and impair our ability to obtain working capital advances and letters of credit, which would have a material adverse effect on our business, financial condition and results of operations. As of March 31, 2011, we were in compliance with all financial covenants contained in our Credit Facility.

Other credit lines. We have other credit lines aggregating \$101.1 million for the issuance of letters of credit, bank guarantees and bankers' acceptances. These credit lines are renewable on an annual basis and are subject to fees at market rates. As of March 31, 2011 and December 31, 2010, our outstanding letters of credit and bank guarantees under these credit lines totaled \$90.7 million and \$44.0 million, respectively. Additionally we entered into a Receivables Purchase Agreement which allows for the sale of up to \$50.0 million of our accounts receivable.

Short-Term Debt. As of March 31, 2011, our short-term debt of \$17.4 million represents the current maturities (within the next twelve months) of certain promissory notes related to acquisitions, loans payable to noncontrolling shareholders of a consolidated subsidiary and capital lease obligations.

We believe that available funds from existing cash and cash equivalents and our Credit Facility, together with cash flows generated by operations, remain sufficient to fund our working capital and capital expenditure requirements for at least the next twelve months. In addition, to further enhance our liquidity profile, we may choose to raise additional funds which may or may not be needed for additional working capital, capital expenditures or other strategic investments. Our opinions concerning liquidity are based on currently available information. To the extent this information proves to be inaccurate, or if circumstances change, future availability of trade credit or other sources of financing may be reduced and our liquidity would be adversely affected. Factors that may affect the availability of trade credit or other forms of financing include our performance (as measured by various factors, including cash provided from operating activities), the state of worldwide credit markets, and our levels of outstanding debt. Depending on the severity and direct impact of these factors on us, financing may be limited or unavailable when needed or desired on terms that are favorable to us.

Contractual Obligations and Off-Balance Sheet Arrangements

Except for changes in our derivatives, liabilities for unrecognized tax benefits, interest and penalties (Unrecognized Tax Liabilities) and letters of credit, as described below, our remaining contractual obligations and off-balance sheet arrangements did not change materially from December 31, 2010 to March 31, 2011. For a discussion of these matters, refer to Contractual Obligations and Off-Balance Sheet Arrangements in Item 7 of our 2010 Form 10-K.

Contractual Obligations

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

Table of Contents

Unrecognized Tax Liabilities. As of March 31, 2011, our Unrecognized Tax Liabilities were \$39.9 million. The timing of any settlement of our Unrecognized Tax Liabilities with the respective taxing authority cannot be reasonably estimated.

Off-Balance Sheet Arrangements

Letters of Credit and Bank Guarantees. In the normal course of business, we are required to provide letters of credit or bank guarantees to certain suppliers. A majority of these letters of credit and bank guarantees expire within one year from their issuance, and expired letters of credit or bank guarantees are renewed as needed. As of March 31, 2011, we had issued letters of credit and bank guarantees totaling \$143.1 million under our Credit Facility and other unsecured credit lines. For additional information on our Credit Facility and credit lines, see the discussion thereof in *Liquidity and Capital Resources* above.

Recent Accounting Pronouncements

Information regarding recent accounting pronouncements is included in Note 1 - Significant Accounting Policies in the *Notes to the Consolidated Financial Statements* in this Form 10-Q.

Item 3. Quantitative and Qualitative Disclosures About Market Risk 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 related to fuel products 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.

Table of Contents

As of March 31, 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
Fair Value Hedge	2011	Commodity contracts for firm commitment hedging (long)	2,058	GAL	\$ 0.336	\$ 691
	2011	Commodity contracts for inventory hedging (short)	43,344	GAL	(0.077)	(3,341)
	2011	Commodity contracts for firm commitment hedging (long)	59	MT	78.249	4,626
	2011	Commodity contracts for firm commitment hedging (short)	23	MT	(128.224)	(2,885)
	2011	Commodity contracts for inventory hedging (short)	35	MT	(35.820)	(1,236)
Non-Designated	2011	Commodity contracts (long)	16,791	GAL	0.670	11,301
	2011	Commodity contracts (short)	28,788	GAL	(0.463)	(13,342)
	2011	Commodity contracts (long)	397	MT	47.299	18,758
	2011	Commodity contracts (short)	590	MT	(27.400)	(16,171)
	2011	Foreign currency contracts (long)	286	BRL	0.012	3
	2011	Foreign currency contracts (short)	20,959	BRL	(0.016)	(339)
	2011	Foreign currency contracts (short)	4,400	CAD	(0.002)	(10)
	2011	Foreign currency contracts (long)	2,912,863	CLP	(0.000)	(14)
	2011	Foreign currency contracts (short)	11,200	EUR	(0.015)	(168)
	2011	Foreign currency contracts (long)	2,960	GBP	(0.011)	(31)
	2011	Foreign currency contracts (short)	27,524	GBP	0.015	411
	2011	Foreign currency contracts (long)	110,000	MXN	0.001	75
	2011	Foreign currency contracts (long)	6,800	SGD	0.004	24
	2011	Foreign currency contracts (short)	533	AUD	(0.026)	(14)
	2012	Commodity contracts (long)	749	GAL	0.402	301
	2012	Commodity contracts (short)	848	GAL	(0.440)	(373)
	2012	Commodity contracts (long)	36	MT	2.344	84
	2012	Commodity contracts (short)	77	MT	(4.773)	(367)
	2013	Commodity contracts (long)	199	GAL	0.031	6
	2013	Commodity contracts (short)	199	GAL	(0.004)	(1)
						\$ 133

Table of Contents**Item 4. Controls and Procedures****Evaluation of Disclosure Controls and Procedures**

We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

As of the end of the period covered by this Form 10-Q, we evaluated, under the supervision and with the participation of our Chief Executive Officer and Chief Financial Officer, the effectiveness of the design and operation of our disclosure controls and procedures pursuant to Exchange Act Rule 13a-15(e). Based upon this evaluation, the Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective as of March 31, 2011.

Changes in Internal Control over Financial Reporting

There were no changes in our internal control over financial reporting that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting during the quarter ended March 31, 2011.

It should be noted that any system of controls, however well designed and operated, can provide only reasonable, and not absolute, assurance that the objectives of the system will be met. In addition, the design of any control system is based in part upon certain assumptions about the likelihood of future events. Because of these and other inherent limitations of control systems, there is only the reasonable assurance that our controls will succeed in achieving their goals under all potential future conditions.

Part II Other Information**Item 2. Unregistered Sales of Equity Securities and Use of Proceeds***Recent Sale of Unregistered Securities*

On March 1, 2011, we issued 691,422 shares of unregistered common stock with an estimated fair value of \$27.5 million to the sellers of NCS. We relied on Section 4(2) of the Securities Act of 1933, as amended, for an exemption from registration of these shares.

Issuer Purchases of Equity Securities

The following table presents information with respect to repurchases of common stock made by us during the quarterly period ended March 31, 2011 (in thousands, except average per share):

Period	Total Number of Shares Purchased (1)	Average Price Per Share Paid	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs (2)	Total Cost of Shares Purchased as Part of Publicly Announced Plans or Programs (2)	Remaining Authorized Stock Repurchases under Publicly Announced Plans or Programs (2)
1/1/11-1/31/11		\$		\$	50,000
2/1/11-2/28/11					50,000
3/1/11-3/31/11	49	39.27			50,000
Total	49	\$ 39.27		\$	\$ 50,000

- (1) These shares relate to the purchase of stock tendered by employees to exercise share-based payment awards and satisfy the required withholding taxes related to share-based payment awards.
- (2) In October 2008, our Board of Directors authorized a \$50.0 million share repurchase program. The program does not require a minimum number of shares to be purchased and has no expiration date but may be suspended or discontinued at any time. As of December 31, 2010, no shares of our common stock had been repurchased under this program. The timing and amount of shares to be repurchased under the program will depend on market conditions, share price, securities law and other legal requirements and other factors.

Table of Contents**Item 6. Exhibits**

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

Exhibit No.	Description
31.1	Certification of the Chief Executive Officer pursuant to Rule 13a-14(a) or Rule 15d-14(a).
31.2	Certification of the Chief Financial Officer pursuant to Rule 13a-14(a) or Rule 15d-14(a).
32.1	Certification of Chief Executive Officer and Chief Financial Officer under Section 906 of the Sarbanes-Oxley Act of 2002.
101*	The following materials from World Fuel Services Corporation's Quarterly Report on Form 10-Q for the quarter ended March 31, 2011, formatted in XBRL (Extensible Business Reporting Language); (i) Consolidated Balance Sheets, (ii) Consolidated Statements of Income, (iii) Consolidated Statements of Shareholders' Equity and Comprehensive Income, (iv) Consolidated Statements of Cash Flows, and (v) Notes to the Consolidated Financial Statements.

* Pursuant to Rule 406T of Regulation S-T, the Interactive Data Files on Exhibit 101 hereto are deemed not filed or part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933, as amended, are deemed not filed for purposes of Section 18 of the Securities and Exchange Act of 1934, as amended, and otherwise are not subject to liability under those sections.

Table of Contents

Signatures

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

Date: May 3, 2011

World Fuel Services Corporation

/s/ Paul H. Stebbins
Paul H. Stebbins

Chairman and Chief Executive Officer

/s/ Ira M. Birns
Ira M. Birns

Executive Vice-President and Chief Financial Officer
(Principal Financial Officer)