WORLD FUEL SERVICES CORP
Form 10-K
March 01, 2007
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 10-K

(Mark One)

x ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2006

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

COMMISSION FILE NUMBER 1-9533

WORLD FUEL SERVICES CORPORATION

(Exact name of registrant as specified in its charter)

Florida	**59-2459427**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**

9800 Northwest 41st Street, Suite 400

Miami, Florida	**33178**
(Address of principal executive offices)	**(Zip Code)**

Registrant s telephone number, including area code: (305) 428-8000

Securities registered pursuant to Section 12(b) of the Act:

Title of each class:	**Name of each exchange on which registered:**
Common Stock, par value $0.01 per share	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes x No ¨.

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ¨ No x.

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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of Registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to the Form 10-K ¨.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. Large accelerated filer x Accelerated filer ¨ Non-accelerated filer ¨

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

The aggregate market value of the voting stock and non-voting common equity held by non-affiliates computed by reference to the price at which the common equity was last sold was $1.2 billion as of the last business day of the registrant s most recently completed second fiscal quarter.

The registrant had 28,509,000 shares of common stock, par value $.01 per share, outstanding as of February 26, 2007.

Documents incorporated by reference:

Part III Specified Portions of the Registrant s Definitive Proxy Statement for the 2007 Annual Meeting of Shareholders.

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PART I

Item 1. Business

Overview

World Fuel Services Corporation (the Company) was incorporated in Florida in July 1984 and along with its consolidated subsidiaries is referred to collectively in this Annual Report on Form 10-K (Form 10-K) as World Fuel, we, our and us. We commenced business as a recycler and reseller of fuel. We have since ceased the activities of a recycler. In 1986, we diversified our operations by entering the aviation fuel services business. In 1995, we entered the marine fuel services business by acquiring the Trans-Tec group of companies. In 2003, we started the land fuel services business.

We are engaged in the marketing and sale of marine, aviation and land fuel products and related services on a worldwide basis. In our marine segment, we offer fuel and related services to a broad base of maritime customers, including international container and tanker fleets and time-charter operators, as well as to the United States and foreign governments. 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, corporate fleets, fractional operators, private aircraft, military fleets and to the United States and foreign governments. In our land segment, we offer fuel and related services to petroleum distributors operating in the land transportation market. 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 offices located in the United States, United Kingdom, Denmark, Norway, The Netherlands, Germany, Greece, Turkey, the United Arab Emirates, Russia, China, Taiwan, South Korea, Singapore, Japan, Hong Kong, Costa Rica, Brazil, Chile, Argentina, Mexico, Colombia and South Africa. See Item 2 Properties for a list of principal offices by business segment and Exhibit 21.1 Subsidiaries of the Registrant included in this Form 10-K for a list of our subsidiaries.

Financial information with respect to our business segments (marine, aviation and land) and the geographic areas of our business is provided in Note 6 to the accompanying consolidated financial statements included in this Form 10-K.

Our principal executive offices are located at 9800 Northwest 41st Street, Suite 400, Miami, Florida 33178 and our telephone number at this address is (305) 428-8000. Our internet address is www.wfscorp.com and the investor relations section of our website is located at http://www.wfscorp.com/wfscorp/company/investor.html. We make available free of charge, on or through the investor relations section of our website, our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, Proxy Statements and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934 (the Exchange Act) with the Securities and Exchange Commission (SEC) as soon as reasonably practicable after such material is electronically filed with, or furnished to, the SEC. Also posted on our website are our Code of Corporate Conduct and Ethics, Board of Directors committee charters, and Corporate Governance Principles. If we make any substantive amendments to our Code of Corporate Conduct and Ethics (the Code) or grant any waiver, including any implicit waiver, from a provision of the Code to our Chief Executive Officer, Interim Chief Financial Officer or Corporate Controller, we will disclose the date and nature of such amendment or waiver on our internet website, in a periodic filing under the Exchange Act or in a report on Form 8-K. Our internet website and information contained on our internet website are not part of this Form 10-K and are not incorporated by reference in this Form 10-K.

Marine Segment

We market fuel and related services to a broad base of customers, including international container and tanker fleets, and time-charter operators, as well as to the United States and foreign governments. We provide marine fuel and related services throughout most of the world under the following trade names: World Fuel, Trans-Tec, Bunkerfuels, Oil Shipping, Marine Energy, Norse Bunker, Casa Petro and Tramp Oil.

Through our extensive network of offices, we provide our customers global market intelligence and rapid access to quality and competitively priced marine fuel, 24 hours a day, every day of the year. Our marine fuel related services include management services for the procurement of fuel, cost control through the use of price hedging instruments, quality control and claims management. Our customers need cost effective and professional fuel services since the cost of fuel is a major component of a vessel s operating overhead.

As ship owners, time charter operators and suppliers continue to outsource their marine fuel purchasing and/or marketing needs, our value added services have become an integral part of the oil and transportation industries push to shed non-core functions and reduce costs. Suppliers use our global sales, marketing and financial infrastructure to sell a spot or ratable term volume of product to a diverse, international purchasing community. End customers use our real time analysis of the availability, quality, and price of marine fuels in ports worldwide to maximize their competitive position.

In our marine segment, we primarily act as a reseller. When acting as a reseller, we contemporaneously purchase fuel from a supplier, mark it up, and resell the fuel to a customer, normally taking delivery for purchased fuel at the same place and time as we make delivery for fuel sold. We extend unsecured credit to most of our customers. We also act as a broker and as a source of market information for the end user, negotiate the transaction by arranging the fuel purchase contract between the supplier and the end user, and expedite the arrangements for the delivery of fuel. When acting as a broker, we are paid a commission from the supplier.

We purchase our marine fuel from suppliers worldwide. We enter into derivative contracts in order to mitigate the risk of market price fluctuations, and to offer our customers fuel pricing alternatives to meet their needs. Our cost of fuel is generally tied to spot pricing, market-based formulas or is governmentally controlled. We are usually extended unsecured trade credit from our suppliers for our fuel purchases. However, certain suppliers require us to provide a letter of credit. We may prepay our fuel purchases to take advantage of financial discounts, when limited by the amount of credit extended to us by suppliers or, as required to transact business in certain countries.

Because we typically arrange to have fuel delivered by our suppliers directly to our customers, inventory is maintained only for competitive reasons and at minimum operating levels. Inventory is primarily maintained at two locations and is hedged in an effort to protect us against price risk. We have arrangements with our suppliers and other third parties for the storage and delivery of fuel.

We utilize subcontractors to provide various services to customers, including fueling of vessels in port and at sea, and transportation of fuel and fuel products.

During each of the years presented in the accompanying consolidated statements of income, none of our marine customers accounted for more than 10% of total consolidated revenue.

Aviation Segment

We market fuel and related services to major commercial airlines, second and third-tier airlines, cargo carriers, regional and low cost carriers, corporate fleets, fractional operators, private aircraft, military fleets and to the United States and foreign governments. Our aviation related services include fuel management, price risk management and arranging ground handling and international trip planning, including flights plans, weather reports and overflight permits. We have developed an extensive network that enables us to provide aviation fuel and related services throughout most of the world under the following trade names: World Fuel, Baseops, Airdata, PetroServicios de Mexico, and PetroServicios de Costa Rica.

In general, the aviation industry is capital intensive and highly leveraged. Recognizing the financial risks of the airline industry, fuel suppliers generally refrain from extending unsecured lines of credit to airlines and avoid doing business with certain airlines directly. Consequently, most carriers are required to post a cash collateralized letter of credit or prepay for fuel purchases. This negatively impacts the airlines working capital. We recognize that the extension of credit is a risk, but believe it is also a significant area of opportunity. Accordingly, we extend unsecured credit to most of our customers.

We purchase our aviation fuel from suppliers worldwide. Our cost of fuel is generally tied to market-based formulas or is government controlled. We are usually extended unsecured trade credit from our suppliers for our fuel purchases. However, certain suppliers require us to provide a letter of credit. We may prepay our fuel purchases to take advantage of financial discounts when limited by amount of credit extended to us by suppliers or, as required to transact business in certain countries. We also enter into derivative contracts in order to mitigate the risk of market price fluctuations and to offer our customers fuel pricing alternatives to meet their needs.

Fuel is typically delivered into our customers aircraft or designated storage directly from our suppliers or from our fuel inventory. Inventory is held at multiple locations for competitive reasons and inventory levels are kept at an operating minimum. Inventory is purchased at airport locations or shipped via pipelines. Inventory in pipelines is hedged in an effort to protect us against price risk. We have arrangements with our suppliers and other third parties for the storage and delivery of fuel.

We utilize subcontractors to provide various services to customers, including into-plane fueling at airports and transportation and storage of fuel and fuel products.

During each of the years presented in the accompanying consolidated statements of income, none of our aviation customers accounted for more than 10% of total consolidated revenue.

Land Segment

We market fuel and related services to petroleum distributors operating in the land transportation market. Our land related services include management services for the procurement of fuel, price risk management and financing. Most of our business is generated from our offices in California, Texas and Miami, which provide the appropriate network to enable us to provide land fuel and related services throughout most of the United States.

In our land segment, we act as a reseller. We purchase fuel from a supplier, mark it up and resell it to our customers through rack spot sales and contract sales. We primarily purchase our land fuel from suppliers throughout the United States. Our suppliers typically extend us unsecured trade credit for our fuel purchases. Our cost of fuel is generally tied to market-based formulas. We extend unsecured credit to most of our customers and offer them fuel-pricing alternatives through our price risk management services.

Fuel is delivered to our customers directly at designated tanker truck loading terminals commonly referred to as racks. These racks are owned and operated by our suppliers or third-party consortiums. We do not hold any inventory. We engage in rack spot sales, contract sales and supply derivative contracts. Rack spot sales are sales that do not involve continuing contractual obligations by our customers to purchase fuel from us. Contract sales are made pursuant to fuel purchase contracts with our customers who commit to purchasing specific volumes of fuel from us during the contract term. We also enter into derivative contracts to offer our customers fuel pricing alternatives to meet their needs.

During each of the years presented in the accompanying consolidated statements of income, none of our land customers accounted for more than 10% of total consolidated revenue.

Competitors

Our competitors within the highly fragmented world-wide downstream market of marine, aviation and land fuel are numerous, ranging from large multinational corporations, which have significantly greater capital resources, to relatively small and specialized firms. In addition to competing with fuel resellers, we also compete with the major oil producers that market fuel directly to the large commercial airlines and shipping companies. We believe that our extensive market knowledge, world-wide presence, extension of credit and use of derivative to provide fuel pricing alternatives give us the ability to compete in the market place.

Employees

As of February 20, 2007, we employed 743 people worldwide. By segment, we had 225 employees in the marine segment, 331 employees in the aviation segment, 19 employees in the land segment and 168 employees in corporate.

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Regulation

The principal laws and regulations affecting our businesses are as follows:

Environmental Regulations. Our current and past activities are subject to substantial regulation by federal, state and local government agencies, inside and outside the United States, which enforce laws and regulations governing the transportation, sale, storage and disposal of fuel and the collection, transportation, processing, storage, use and disposal of hazardous substances and wastes, including waste oil and petroleum products. For example, United States Federal and state environmental laws applicable to us include statutes that: (i) allocate the cost of remedying contamination among specifically identified parties, and prevent future contamination; (ii) impose national ambient standards and, in some cases, emission standards, for air pollutants that present a risk to public health or welfare; (iii) govern the management, treatment, storage and disposal of hazardous wastes; and (iv) regulate the discharge of pollutants into waterways. International treaties also prohibit the discharge of petroleum products at sea. The penalties for violations of environmental laws include injunctive relief, recovery of damages for injury to air, water or property, and fines for non-compliance. See Item 1A Risk Factors, above, and Item 3 Legal Proceedings.

Taxes on Fuel. We are affected by various taxes imposed on the purchase and sale of marine, aviation and land fuel products. These taxes include sales, excise, goods and services taxes (GST), value added taxes (VAT) and other taxes, and are collectively referred to as transaction taxes. The transaction taxes imposed on marine, aviation and land fuel purchasers and sellers are also subject to various full and partial exemptions. Subject to exemptions available at the time of the transaction, in general, we pay the appropriate transaction tax to the supplier or charge the appropriate transaction tax to the customer. We monitor our compliance with U.S. and foreign laws that impose transaction taxes on our operations. However, in certain cases, we may be responsible for additional transaction taxes if the customer or we do not qualify for an exemption believed to be available at the time of purchase and/or sale.

Business, Fuel and Other Licenses. In certain jurisdictions, we are required to maintain business, fuel and/or other licenses in order to operate our business and/or purchase and sell fuel.

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 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, will be, will continue, will likely result, plan, or words or phrases of similar meaning.

Forward-looking statements are estimates and projections reflecting our best judgment and involve risks, uncertainties or other factors which may cause actual results to 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 beliefs and assumptions, which in turn are based on currently available information.

Examples of forward-looking statements in this report include, but are not limited to, our expectations regarding our business strategy, business prospects, operating results, 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, outcomes 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:

- our ability to collect accounts receivable;
- changes in the political, economic or regulatory conditions in the markets in which we operate;
- currency exchange fluctuations;
- non-performance of third party service providers;
- the fuel we sell failing to meet specifications;
- our failure to effectively hedge certain financial risks associated with our business and our price risk management services;
- non-performance by counterparties or customers to derivatives contracts;
- material disruptions in the availability or supply of fuel;
- changes in the market price of fuel;
- adverse conditions in the business segments in which our customers operate;
- uninsured losses;
- the impact of natural disasters;
- our failure to comply with restrictions and covenants in our revolving credit facility;
- increases in interest rates;
- our ability to retain and attract senior management and other key employees;
- our ability to manage growth;

- our ability to integrate acquired businesses;
- changes in United States or foreign tax laws;
- increased levels of competition;
- changes in credit terms extended to us from our suppliers;
- our ability to successfully implement our enterprise integration project;
- compliance or lack of compliance with various environmental and other applicable laws and regulations; and
- other risks, including those described in Item 1A Risk Factors and those described from time to time in our filings with the SEC.

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. We believe these forward-looking statements are reasonable. However, you should not place undue reliance on any forward-looking statements, which are based on current expectations. 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 update publicly any of them in light of new information or future events.

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

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Item 1A. Risk Factors

We extend unsecured credit to most of our customers, and our business, financial condition and results of operations will be adversely affected if we are unable to collect accounts receivable.

We extend unsecured credit to most of our customers. Our success in attracting customers has been due, in part, to our willingness to extend credit on an unsecured basis to customers that would otherwise be required to prepay or post letters of credit with their suppliers of fuel and related services. Diversification of credit risk is limited because we sell primarily within the marine, aviation and land transportation industries.

Credit losses may be influenced by factors other than the financial condition of our customers, including deteriorating conditions in the world economy or in the marine, aviation or land transportation industries, political instability, terrorist activities, military action and natural disasters in our market areas. Any credit losses, if significant, would have a material adverse effect on our business, financial condition and results of operations.

Economic, political and other risks associated with international sales and operations could adversely affect our business and future operating results.

Because we resell fuel worldwide, our business is subject to risks associated with doing business internationally. Our business and future operating results could be harmed by a variety of factors, including:

- trade protection measures and import or export licensing requirements, which could increase our costs of doing business internationally;
- the costs of hiring and retaining senior management in overseas operations;
- difficulty in staffing and managing widespread operations, which could reduce our productivity;
- unexpected changes in regulatory requirements, which may be costly and require significant time to implement;
- laws restricting us from repatriating profits earned from our activities within foreign countries, including the payment of distributions;
- political risks specific to foreign jurisdictions; and
- terrorism, war, civil unrest and natural disasters.

Fluctuations in foreign exchange rates could materially affect our reported results.

The majority of our business transactions are denominated in United States dollars. However, in certain markets, primarily in Mexico, Colombia, Brazil and the United Kingdom, payments to some of our fuel suppliers and from some of our customers are denominated in local currency. This subjects us to foreign currency exchange risk. Although we use hedging strategies to manage and minimize the impact of foreign currency exchange risk, at any given time, only a portion of such risk may be hedged. As a result, fluctuations in foreign exchange rates could adversely affect our profitability.

In addition, many of our customers are foreign customers and may be required to purchase United States dollars to pay for our products and services. A rapid depreciation or devaluation in currency affecting our customers could have an adverse effect on our customers operations and their ability to convert local currency to United States dollars to make required payments to us. This would in turn increase our credit losses which would adversely affect our business, financial condition and results of operations.

Third parties who fail to provide services to us and our customers as agreed could harm our business.

We use third parties to provide various services to our customers, including into-plane fueling at airports and fueling of vessels in port and at sea. The failure of these third parties to perform these services in accordance with the agreed terms could affect our relationships with our customers and subject us to claims and other liabilities which might have a material adverse effect on our business, financial condition and results of operations.

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We also use third parties to store our fuel inventory and to transport fuel. If these third parties become bankrupt or otherwise fail to meet their commitments to creditors, our fuel could be seized and applied against amounts owed to such creditors. This could cause both disruptions in our business and financial losses.

If the fuel we purchase from our suppliers fails to meet the specifications we have agreed to supply to our customers, our business could be adversely affected.

We purchase the fuel we resell from various suppliers. If the fuel fails to meet the specifications we have agreed to supply to our customers, our relationship with our customers could be adversely affected and we could be subject to claims and other liabilities which could have a material adverse effect on our business, financial condition and results of operations.

We are exposed to various risks in connection with the price risk management services we offer to our customers.

As part of our price risk management services, we offer our customers various pricing structures on future purchases of fuel, as well as derivative products designed to assist our customers in hedging their exposure to fluctuations in fuel prices. In connection with offering our customers these services, we are exposed to financial risk associated with fluctuations in fuel prices. We typically hedge this risk by entering into commodity based derivative instruments with a counterparty. Should we fail to adequately hedge the risks associated with offering these services, or should a customer or counterparty to a derivative instrument fail to honor its obligations under our agreements with them, we could sustain significant losses which could have a material adverse effect on our business, financial condition and results of operations. Also, the failure of our employees to comply with our policies and procedures concerning the administration of our price risk management services, for example by failing to hedge a specific financial risk, could subject us to significant financial losses which could have a material adverse effect on our business, financial condition and results of operations.

Material disruptions in the availability or supply of fuel would adversely affect our business.

The success of our business depends on our ability to purchase, sell and coordinate delivery of fuel and fuel-related services to our customers. Our business would be adversely affected to the extent that political instability, natural disasters, terrorist activity, military action or other conditions disrupt the availability or supply of fuel.

Changes in the market price of fuel may have a material adverse effect on our business.

Increases in fuel prices can adversely affect our customers businesses, and consequently increase our credit losses. Increases in fuel prices could also affect the amount of fuel our suppliers extend to us on credit, potentially affecting our liquidity and profitability. In addition, increases in fuel prices will make it more difficult for our customers to operate and affect the amount of fuel we can sell to our customers based on their credit limit. Conversely, a rapid decline in fuel prices could adversely affect our profitability because inventory we purchased when fuel prices were high may have to be sold at lower prices.

Adverse conditions in the marine, aviation and land transportation industries may have an adverse effect on our business.

Our business is focused on the marketing of fuel and fuel-related services to the marine, aviation and land transportation industries. Therefore, any adverse economic conditions in these industries may have an adverse effect on our business. In addition, any political instability, natural disasters, terrorist activity or military action that disrupts shipping, flight operations or land transportation will adversely affect our customers and may reduce the demand for our products and services. Our business could also be adversely affected by increased merger activity in the marine, aviation and land transportation industries, which may reduce the number of customers that purchase our products and services, as well as the prices we are able to charge for such products and services.

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Insurance coverage for some of our operations may be insufficient to cover losses.

We do not maintain insurance coverage for various risks, including environmental claims. Although we generally require our subcontractors to carry liability insurance, not all subcontractors carry adequate insurance. Our marine business does not have liability insurance to cover the acts or omissions of our subcontractors. In addition, our liability insurance does not cover acts of war and terrorism. A significant uninsured claim against us would have a material adverse effect on our financial position and results of operations.

Our failure to comply with the restrictions of our revolving credit facility could adversely affect our operating flexibility.

We borrow money pursuant to a revolving credit facility that imposes certain operating and financial covenants on us. Our failure to comply with obligations under the revolving credit facility, including meeting certain financial ratios, could result in an event of default. An event of default, if not cured or waived, would permit acceleration of any outstanding indebtedness under the revolving 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 could have a material adverse effect on our business, financial condition and results of operations.

Increases in interest rates, the failure of our interest rate protection arrangements to reduce our interest rate volatility or both may increase our interest expense and adversely affect our cash flow and our ability to service our indebtedness.

Borrowings under our revolving credit facility are subject to variable interest rates. However, from time to time, we may enter into interest rate protection arrangements that, in effect, fix the rate of interest on our debt. The amount of debt covered by such arrangements may change depending on our working capital needs. As of December 31, 2006 we had entered into two interest rate protection arrangements in the form of interest rate swaps for the entire $20.0 million of borrowings under our revolving credit facility. As of December 31, 2006, our weighted average interest rate on borrowings under the revolving credit facility adjusting for the interest rate swaps was 5.2% per annum. An increase in interest rates, our failure to maintain adequate interest rate protection arrangements or both would increase our interest expense and could adversely affect our cash flow and our ability to service our indebtedness.

If we are unable to retain our senior management and key employees, our business and results of operations could be harmed.

Our ability to maintain our competitive position is dependent largely on the services of our senior management and professional team. If we are unable to retain the existing senior management and professional personnel, or to attract other qualified senior management and professional personnel, our business will be adversely affected.

Businesses we may acquire in the future will expose us to increased operating risks.

As part of our growth strategy, we intend to explore acquisition opportunities of fuel resellers and other related service businesses.

This expansion could expose us to additional business and operating risks and uncertainties, including:

- the ability to effectively integrate and manage acquired businesses;
- the ability to realize our investment in the acquired businesses;
- the diversion of management s time and attention from other business concerns;
- the risk of entering markets in which we may have no or limited direct prior experience;

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- the potential loss of key employees of the acquired businesses;
- the risk that an acquisition could reduce our future earnings; and
- exposure to unknown liabilities.

Although our management will endeavor to evaluate the risks inherent in any particular transaction, we cannot assure you that we will properly ascertain all such risks. In addition, prior acquisitions have resulted, and future acquisitions could result, in the incurrence of substantial additional indebtedness and other expenses. Future acquisitions may also result in potentially dilutive issuances of equity securities and may affect the market price of our common stock. Difficulties encountered with acquisitions may have a material adverse effect on our business, financial condition and results of operations.

Changes in United States or foreign tax laws could adversely affect our business and future operating results.

We are affected by various United States and foreign taxes imposed on the purchase and sale of marine, aviation and land fuel products. These taxes include sales, excise, GST, VAT, and other taxes. Changes in United States and foreign tax laws or our failure to comply with those tax laws could adversely affect our business and operating results.

We face intense competition and, if we are not able to effectively compete in our markets, our revenues and profits may decrease.

Competitive pressures in our markets could adversely affect our competitive position, leading to a possible loss of market share or a decrease in prices, either of which could result in decreased revenues and profits. Our competitors are numerous, ranging from large multinational corporations, which have significantly greater capital resources, to relatively small and specialized firms. In addition to competing with fuel resellers, we also compete with the major oil producers that market fuel directly to the large commercial airlines and shipping companies. Our business could be adversely affected because of increased competition from the larger oil companies who may choose to directly market to smaller airlines and shipping companies, or to provide less advantageous price and credit terms to us than our fuel reseller competitors.

If we fail to successfully implement our enterprise integration project, our business could be harmed

We are currently undertaking the implementation of an enterprise integration project (the Project), which consists of a company-wide financial and commercial information system upgrade. With respect to the implementation of the Project, we currently believe we will incur $24.8 million in capitalized expenditures and $11.3 million in costs which are expensed as incurred. If we fail to successfully implement the Project, or should we experience material delays in implementation, our ability to grow our business could be adversely affected. Estimating the expenditures related to an enterprise integration project is very complex and subject to variables that can significantly increase in expected costs. Should the actual costs of the Project exceed our estimates, our liquidity and capital position could be adversely affected.

If we fail to comply with environmental laws and governmental regulations, we could suffer penalties or be required to make significant changes to our operations.

We are required to comply with extensive and complex environmental laws and regulations at the international, federal, state and local government levels relating to, among other things:

- the handling of fuel and fuel products;
- the operation of bulk fuel storage facilities;
- workplace safety;

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- fuel spillage or seepage;
- environmental damage; and
- hazardous waste disposal.

If we are involved in a spill or other accident involving hazardous substances; if there are releases of fuel and fuel products we own; or if we are found to be in violation of environmental laws or regulations, we could be subject to liabilities that could have a material adverse effect on our business, financial condition and results of operations. We are also subject to possible claims by customers, employees and others who may be injured by a fuel spill, exposure to fuel or other accidents. If we should fail to comply with applicable environmental regulations, we could be subject to substantial fines or penalties and to civil and criminal liability.

If we are held liable for clean up and other costs related to several businesses we exited, which handled hazardous and non-hazardous waste, such liability could adversely affect our business and financial condition.

We have exited several businesses that handled hazardous and non-hazardous waste. We treated and/or transported this waste to various disposal facilities. We have been sued in the past and may be sued in the future as a potentially responsible party for the clean up of such disposal facilities and may be held liable for these and other clean up costs pursuant to United States federal and state laws and regulations. In addition, under these laws and regulations, we may be required to clean up facilities previously operated by us.

We are exposed to risks from legislation requiring companies to have adequate internal controls over financial reporting and to evaluate those internal controls.

Section 404 of the Sarbanes-Oxley Act of 2002 requires our management to assess, and our independent registered public accounting firm to attest to, the effectiveness of our internal control structure and procedures for financial reporting. We completed an evaluation of the effectiveness of our internal control over financial reporting for the fiscal year ended December 31, 2006, and we have an ongoing program to perform the system and process evaluation and testing necessary to continue to comply with these requirements. We expect to continue to incur increased expense and to devote additional management resources to Section 404 compliance. In the event that our chief executive officer, chief financial officer or independent registered public accounting firm determines that our internal control over financial reporting is not effective as defined under Section 404, investor perceptions and our reputation may be adversely affected and the market price of our stock could decline.

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

The following pages set forth our principal leased properties by segment as of February 20, 2007. We consider our properties and facilities to be suitable and adequate for our present needs and do not anticipate that we will experience difficulty in renewing or replacing those that expire.

WORLD FUEL SERVICES CORPORATION and SUBSIDIARIES

PROPERTIES

Location	Principal Use	Lease Expiration
Corporate		
9800 Northwest 41st Street, Suite 400 Miami, FL 33178, USA	Executive and administrative office	Two leases: May 2011 and March 2013

Marine Segment		
9800 Northwest 41st Street, Suite 400 Miami, FL 33178, USA	Executive and administrative office	Two leases: May 2011 and March 2013
Raritan Plaza III 101 Fieldcrest Avenue, Suite 2B Edison, NJ 08837, USA	Administrative, operations and sales office	January 2010

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WORLD FUEL SERVICES CORPORATION and SUBSIDIARIES

PROPERTIES (Continued)

Location	Principal Use	Lease Expiration
Marine Segment, continued		
2 Greenwich Office Park Greenwich, CT 06830, USA	Administrative, operations and sales office	December 2011
1101 Fifth Avenue, Suite 280 San Rafeal, CA 94901, USA	Administrative, operations and sales office	July 2008
238A Thompson Road #17-08 Novena Square Tower A Singapore 307684	Administrative, operations and sales office	December 2009
9 F/L., Dongwon-Bldg., 128-27 Dangju Dong, Chongno Ku Seoul, 110-759, South Korea	Marketing office	September 2007
4th floor, Tozan Building, 4-4-2 Nihonbashi Hon-Cho, Chuo-Ku Tokyo 103-0023, Japan	Marketing office	June 2010
No. 93 Jafee Road, Nos 21-25, Luard Road Wanchai, Hong Kong	Marketing office	February 2010
Poseidonos 60 Av., Third Floor Glyfada 166-75 Athens, Greece	Marketing office	February 2008
Room 4, 6th Floor, No. 172 Changchun Road Taipei 104, Taiwan	Marketing office	July 2008
The Fairmont Dubai Hotel Building, Office 1701, Sheikh Zayed Road Dubai, United Arab Emirates	Marketing office	February 2008
The Foundry, 4th Floor, Unit 1, Cardiff Road Green Point, South Africa 8001	Marketing office	August 2007
Westminster Tower, 3 Albert Embankment London SE1 75P, United Kingdom	Administrative, operations and sales office	March 2010
7 Priory Tech Park, Saxon Park,	Sales office	July 2015

Saxon Way, Hessle, Hull East Yorkshire HU13 9PB, United Kingdom		
15-17 Elmfield Road Bromley, Kent BR1 1LT, United Kingdom	Administrative, operations and sales office	March 2011
Gammelbyved 2 Karise, Denmark 4553	Marketing office	December 2007
Vasteland 6 3011 BK Rotterdam, Netherlands	Marketing office	Month-to-month
Niels Juels gate 11 B 0272 Oslo, Norway	Marketing office	Month-to-month
Oficentro Ejécutivo La Sabana Sur, Edificio #7, Piso 2, San Jose, Costa Rica	Administrative, operations and sales office	May 2009
Avenida Libertad 798, Suite 301 Vina del Mar, Chile	Sales office	February 2010
Tucuman 373 Pis 3, 1049 CF Buenos Aires, Argentina	Marketing office	September 2009
Av. Rio Branco 181/3004 Rio de Janeiro, Brazil 20040 007	Sales office	Month-to-month

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WORLD FUEL SERVICES CORPORATION and SUBSIDIARIES

PROPERTIES (Continued)

Location	Principal Use	Lease Expiration
Marine Segment, continued		
Yener Sok, Ayaz Apr No. 123, D-3 Erenkoy, Istanbul Turkey	Marketing office	Month-to-month
Bremer, 2, D-28816 Stuhr Bremen, Germany	Marketing office	May 2008
Aviation Segment		
9800 Northwest 41st Street, Suite 400 Miami, FL 33178, USA	Executive, administrative, operations, and sales office	Two leases: May 2011 and March 2013
333 Cypress Run #200 Houston, Texas 77094, USA	Administrative, operations and sales office	May 2014
238A Thompson Road #17-08 Novena Square Tower A Singapore 307684	Administrative, operations and sales office	December 2009
Kingfisher House, Northwood Park Gatwick Road, Crawley West Sussex, RH10 2XN United Kingdom	Administrative, operations and sales office	December 2007
Oficentro Ejécutivo La Sabana Sur, Edificio #7, Piso 2 San José, Costa Rica	Administrative, operations and sales office	May 2009
Av. Rio Branco 181/3004 Rio de Janeiro, Brazil 20040 007	Sales office	Month-to-month
Calle Francisco Sarabia No. 34 B Colonia Penon de los Banos Delegación Venustiano Carranza C.P. 15520, Mexico D.F.	Administrative, operations and sales office	September 2011
Slavjanskaya Business Center, 8th Floor Europe Square 2, Moscow 121059	Administrative, operations and marketing office	Month-to-month

Russian Federation		
Calle 93B No. 11A-33, oficina 303 Bogota, Colombia	Administrative, operations and sales office	Month-to-month
Room 906, Building 113 Shaoyaojubeili Chao Yang District Beijing, China	Administrative, operations and marketing office	Month-to-month
Land Segment		
9800 Northwest 41st Street, Suite 400 Miami, FL 33178, USA	Executive and administrative office	Two leases: May 2011 and March 2013
333 Cypress Run #200 Houston, Texas 77094, USA	Administrative, operations and sales office	May 2014
1101 Fifth Avenue, Suite 280 San Rafeal, CA 94901, USA	Administrative, operations and sales office	July 2008
15-17 Elmfield Road Bromley, Kent BR1 1LT, United Kingdom	Administrative, operations and sales office	March 2011
Av. Rio Branco 181/3004 Rio de Janeiro, Brazil 20040 007	Sales office	Month-to-month

Item 3. Legal Proceedings

Miami Airport Litigation

In April 2001, Miami-Dade County, Florida (the County) filed suit (the County Suit) against 17 defendants to seek reimbursement for the cost of remediating environmental contamination at Miami International Airport (the Airport). One of our subsidiaries, Page Avjet Fuel Corporation, now known as Page Avjet Fuel Co., LLC (PAFCO), is a defendant. We acquired a 50% interest in PAFCO from Signature Flight Support Corporation (Signature) in December 2000. Pursuant to the PAFCO acquisition agreement, Signature agreed to indemnify us for all PAFCO liabilities arising prior to the closing date (Closing). Because the Airport contamination occurred prior to Closing, we believe that the County Suit is covered by Signature s indemnification obligation. We have notified Signature of the County Suit, as stipulated in the acquisition agreement. We expect Signature to defend this claim on behalf of PAFCO and at Signature s expense.

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: (1) neither we nor any of our subsidiaries were responsible for any environmental contamination at the Airport, and (2) 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.

The claims asserted by the County relating to environmental contamination at the Airport remain pending; however, neither we, nor any of our subsidiaries, have been added as defendants in the County Suit. We intend to vigorously defend these claims, and we believe our liability in these matters (if any) should be adequately covered by the indemnification obligations of Signature as to PAFCO, and the County as to World Fuel Services Corporation and our other subsidiaries.

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 approximately $1.0 million owed to Atlantic by Isthmian Petroleum Supply & Services, S.A. (Isthmian). 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 (1) that Isthmian breached a barge charter agreement entered into between the two parties, (2) that Isthmian entered into the agreement as an agent on behalf of TOM, and (3) that TOM is liable, as a principal, for Isthmian s breach of the agreement. Although TOM utilized the services of Isthmian for storage and delivery of fuel, at no time did TOM request or authorize Isthmian to enter into any agreement with Atlantic, nor did TOM request that Isthmian utilize Atlantic to provide services on its behalf. We do not believe that Isthmian acted as TOM s agent in its dealings with Atlantic, and we do not believe TOM is responsible for any liabilities of Isthmian. We believe this suit is completely without merit and we intend to vigorously defend the action.

In August 2005, TOM filed a lawsuit against Isthmian seeking damages of approximately $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 completely without merit and we intend to vigorously defend the action.

Southeast Airlines Litigation

On November 15, 2004, World Fuel Services, Inc. (WFSI), one of our subsidiaries, filed suit against Southeast Airlines (Southeast), to recover approximately $1.3 million for jet fuel sold by WFSI to Southeast. The receivable related to the sale of jet fuel to Southeast was written off in 2005. On December 21, 2004, the court granted World Fuel s motion to obtain a pre-judgment writ of attachment directing the seizure of

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several aircraft owned by Southeast. On January 25, 2005, the court granted our motion to file an amended complaint and to add additional parties having an interest in Southeast s assets, including Joda LLC (Joda).

On February 24, 2005, Joda filed a counterclaim against World Fuel and a crossclaim to foreclose an aircraft security agreement between Joda and Southeast, for damages and for replevin of certain aircraft and engines, alleging that its interest is superior to our interest in the Southeast aircraft and engines. We have defended this action and alleged that Joda s claims are barred because any interest that Joda may have in the collateral which is in our possession is subordinate to our claims and/or interest. The case is pending in the Circuit Court of the 11^{th} Judicial Circuit in and for Miami-Dade County, Florida.

On November 28, 2006, three of Southeast s creditors, including World Fuel, filed involuntary bankruptcy petitions against Southeast and its principal (the Debtors) in the U.S. Bankruptcy Court, Tampa Division. World Fuel is in the process of serving the petitions on the Debtors. Once service of process is effected, which will occur by publication, we expect that the bankruptcy court will appoint a Trustee to handle the Debtors estates and who will have authority to sell the assets of the Debtors. The bankruptcy filing has effectively stayed Joda s counterclaim against World Fuel. We intend to vigorously defend the priority of our claim against the other creditors in the bankruptcy proceedings.

We may not prevail in the legal proceedings described above and we cannot estimate our ultimate exposure if we do not prevail. A ruling against us in any of the proceedings described above could have a material adverse effect on our financial condition and results of operations.

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

Item 4. Submission of Matters to a Vote of Security Holders

No matter was submitted to a vote of shareholders, through the solicitation of proxies or otherwise, during the quarter ended December 31, 2006.

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PART II

Item 5. Market for Registrant s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

Our common stock is traded on the New York Stock Exchange (NYSE) under the symbol INT. As of February 20, 2007, there were 278 shareholders of record of our common stock and the closing price of our stock on the NYSE was $47.09. The following table sets forth, for each quarter in 2006 and 2005, the high and low closing sales prices of our common stock as reported by the NYSE.

	Price	
	High	Low
2006		
First quarter	$ 41.32	$ 30.30
Second quarter	51.87	37.90
Third quarter	48.99	34.85
Fourth quarter	49.30	38.55
2005		
First quarter	$ 31.50	$ 23.46
Second quarter	32.82	23.25
Third quarter	35.63	22.68
Fourth quarter	37.05	29.16

Dividends

The following table sets forth the amount, the declaration date, record date, and payment date for each quarterly dividend declared in 2006 and 2005.

	Per Share Amount	Declaration Date	Record Date	Payment Date
2006				
First quarter	$ 0.0375	March 10, 2006	March 24, 2006	April 12, 2006
Second quarter	0.0375	June 9, 2006	June 23, 2006	July 12, 2006
Third quarter	0.0375	September 8, 2006	September 22, 2006	October 11, 2006
Fourth quarter	0.0375	December 8, 2006	December 22, 2006	January 10, 2007
2005				
First quarter	$ 0.0375	March 4, 2005	March 18, 2005	April 6, 2005
Second quarter	0.0375	June 3, 2005	June 17, 2005	July 6, 2005
Third quarter	0.0375	September 2, 2005	September 16, 2005	October 5, 2005
Fourth quarter	0.0375	December 2, 2005	December 16, 2005	January 4, 2006

Our revolving credit facility agreement restricts the payment of cash dividends to a maximum of 35% of our net income for the four quarters preceding the date of the dividend. The payments of the above dividends were in compliance with the revolving credit facility agreement. For additional information regarding our revolving credit facility agreement, see Note 2 to the accompanying consolidated financial statements, included herein, and Liquidity and Capital Resources in Item 7 Management s Discussion and Analysis of Financial Condition and Results of Operations. On February 27, 2007, our Board of Directors approved a cash dividend of $0.0375 per share for each quarter in 2007.

Stock Splits

On January 20, 2005, we announced a two-for-one split of our common stock. The additional shares issued pursuant to the stock split were distributed on February 15, 2005 to stockholders of record as of February 1, 2005. All references in this Form 10-K to number of shares and per share amounts reflect the stock split.

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Issuance of Common Stock

In September 2005, we completed a public offering of 4,112,000 shares of our common stock at a price of $31.00 per share. We received net proceeds of $120.3 million from the offering, after deducting $6.4 million in commissions paid to the underwriters and $0.8 million in other expenses incurred in connection with the offering.

Repurchase of Common Stock

There were no repurchases of common stock made by us during the quarterly period ended December 31, 2006. For information on repurchases of common stock for the first three quarters of 2006, see the respective Form 10-Q for each quarterly period ended during the first three quarters of 2006.

Stock Performance

COMPARISON OF 69 MONTH CUMULATIVE TOTAL RETURN*

AMONG WORLD FUEL SERVICES CORPORATION, THE RUSSELL 2000 INDEX

AND THE S & P ENERGY INDEX

* $100 invested on 3/31/01 in stock or index-including reinvestment of dividends. The Company s fiscal year end changed to December 31st in 2002.

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www.researchdatagroup.com/S&P.htm

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Item 6. Selected Financial Data

WORLD FUEL SERVICES CORPORATION AND SUBSIDIARIES

SELECTED FINANCIAL DATA

(In thousands, except earnings per share data)

	For the Year ended December 31,				
	2006	2005	2004 [1]	2003	2002 [2] (Unaudited)
Revenue	$ 10,785,136	$ 8,733,947	$ 5,654,373	$ 2,671,557	$ 1,904,365
Cost of sales	10,571,067	8,555,283	5,524,417	2,570,434	1,820,538
Gross profit	214,069	178,664	129,956	101,123	83,827
Operating expenses [3]	137,423	122,044	91,984	73,491	63,688
Income from operations	76,646	56,620	37,972	27,632	20,139
Other income (expense), net [4]	4,753	(792)	(2,138)	490	(1,898)
Income from operations before income taxes	81,399	55,828	35,834	28,122	18,241
Provision for income taxes	17,353	15,475	6,969	5,809	3,948
	64,046	40,353	28,865	22,313	14,293
Minority interest in income of consolidated subsidiaries	98	744	306	152	140
Net income	$ 63,948	$ 39,609	$ 28,559	$ 22,161	$ 14,153
Basic earnings per share:	$ 2.33	$ 1.67	$ 1.29	$ 1.04	$ 0.68
Basic weighted average shares	27,467	23,700	22,104	21,234	20,898
Diluted earnings per share:	$ 2.21	$ 1.57	$ 1.22	$ 0.99	$ 0.65
Diluted weighted average shares	28,923	25,214	23,454	22,338	21,790
Cash dividends declared per share	$ 0.15	$ 0.15	$ 0.15	$ 0.15	$ 0.15

	As of December 31,				
	2006	2005 [5]	2004 [1]	2003	2002
Cash, cash equivalents and short-term investments	$ 188,995	$ 143,284	$ 64,178	$ 76,256	$ 57,776
Accounts and notes receivable, net	860,084	689,605	490,780	243,612	212,578
Total current assets	1,196,091	948,310	648,068	354,663	295,289
Total assets	1,277,400	1,014,001	712,171	400,850	344,996
Total current liabilities	826,761	635,556	466,985	246,595	212,016
Total long-term liabilities	24,670	25,098	56,683	4,537	4,198
Total stockholders equity	425,969	353,347	188,503	149,718	128,782

(1) We acquired Tramp Oil in April 2004. The financial position and results of operations of this acquisition have been consolidated into our consolidated financial statements since April 2004.

(2) In August 2002, we changed our fiscal year-end from March 31st to a calendar year-end of December 31st. We initiated this change so we could be more directly comparable to other public companies that use a calendar year for their fiscal year. This change was first effective with respect to the nine months ended December 31, 2002. The results for the calendar year ended December 31, 2002, presented for comparative purposes, are unaudited. The 2002 calendar year results combined the audited results for the nine months ended December 31, 2002 and the unaudited results for the three months ended March 31, 2002.

(3) Included in operating expenses are total compensation costs associated with share-based payments of $7.0 million, $4.0 million, $1.7 million, $0.9 million and $0.5 million for 2006, 2005, 2004, 2003 and 2002, respectively. Also included in operating expenses were executive severance charges of $4.5 million relating to the termination of employment of our former Chief Executive Officer and four other executives during the year ended December 31, 2002 and executive severance costs totaling $1.5 million relating to the June 2006 separation agreement between us and our former Chief Financial Officer during the year ended December 31, 2006.

(4) Included in other income (expense), net for the year ended December 31, 2006 was a $1.5 million benefit related to the settlement of certain claims made against the former owners of Tramp Oil. Also included in other income (expense), net for year ended December 31, 2002 was a charge of $1.6 million in connection with a settlement adjustment of the remaining balance due us from the sale of our oil-recycling segment to EarthCare Company.

(5) In September 2005, we completed a public offering of 4,112,000 shares of our common stock at a price of $31.00 per share. We received net proceeds of $120.3 million from the offering, after deducting $6.4 million in commissions paid to the underwriters and $0.8 million in other expenses incurred in connection with the offering.

Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations

The following discussion should be read in conjunction with Item 6 Selected Financial Data, and with the accompanying consolidated financial statements and related notes thereto appearing elsewhere in this Form 10-K. 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 Item 1A Risk Factors.

Overview

We are engaged in the marketing and sale of marine, aviation and land fuel products and related services on a worldwide basis. In our marine segment, we offer fuel and related services to a broad base of maritime customers, including international container and tanker fleets and time-charter operators, as well as to the United States and foreign governments. 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, corporate fleets, fractional operators, private aircraft, military fleets and to the United States and foreign governments. In our land segment, we offer fuel and related services to petroleum distributors operating in the land transportation market. 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.

Our revenue and cost of sales are significantly impacted by world oil prices as evidenced in part by our revenue and cost of sales increases year over year. However, our gross profit is not necessarily impacted by the change in world oil prices as our profitability is driven by gross profit per unit which is not directly correlated to the price of fuel. Therefore, in a period of increasing or decreasing oil prices, our revenue and cost of sales would increase or decrease proportionately but our gross profit may not be negatively or positively impacted by such price changes.

In our marine segment, we primarily purchase and resell fuel, and 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 brokering business. 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. 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 debts.

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We may experience decreases in future sales volume and margins as a result of 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. See Item 1A Risk Factors of this Form 10-K.

In April 2004, we acquired Tramp Oil. This acquisition primarily added to our marine segment. The results of operations of this acquisition have been included with our results since April 2004.

Reportable Segments

We have three reportable operating business segments as of December 31, 2006: marine, aviation and land. In the first quarter of 2006, we determined that due to expanding business operations, increased infrastructure support and management s approach to reviewing operational results, our activities for fuel sales and related services to the land transportation market would be treated as a separate reportable operating business segment. Prior to this determination, the reporting of our land activities was aggregated with the activities of our aviation reportable operating business segment. Corporate expenses are allocated to the segments based on usage, where possible, or on other factors according to the nature of the activity. Financial information with respect to our business segments is provided in Note 6 to the accompanying consolidated financial statements included in this Form 10-K. We evaluate and manage our business segments using the performance measurement of income from operations.

Critical Accounting Policies and Estimates

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

We have identified the policies below as critical to our business operations and the understanding of our results of operations. For a detailed discussion on the application of these and other accounting policies, see Note 1 to the accompanying consolidated financial statements included in this Form 10-K.

Revenue Recognition

Revenue is recognized when fuel deliveries are made and title passes to the customer, or as fuel related services are performed, provided that there is persuasive evidence of an arrangement, the sales price is fixed or determinable, and collectibility is reasonably assured.

Accounts Receivable and Allowance for Bad Debts

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

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We continuously monitor collections and payments from our customers and maintain a provision for estimated credit losses based upon our historical experience with our customers, current market and industry conditions affecting our customers, and any specific customer collection issues that we have identified. Accounts receivable are reduced by an allowance for estimated credit losses.

If credit losses exceed established allowances, our results of operations and financial condition may be adversely affected. For additional information on the credit risks inherent in our business, see Item 1A Risk Factors of this Form 10-K.

Share-Based Payment

In January 2006, we adopted Statement of Financial Accounting Standard (SFAS) No. 123(R), Share-Based Payment, a revision of SFAS No. 123, Accounting for Stock-Based Compensations using the modified prospective transition method. SFAS No. 123(R) requires that all share-based payments to employees and non-employee directors be recognized in the financial statements based on their grant-date fair value. Under previous accounting guidance, companies had the option of recognizing the fair value of share-based compensation to employees and non-employee directors in the financial statements or disclosing the pro forma impact on the statement of income of share-based compensation to employees and non-employee directors in the notes to the financial statements. In April 2002, we adopted the fair value accounting provisions of SFAS No. 123 using the prospective method. Therefore, for stock options granted prior to April 2002, we continued to use the intrinsic value method promulgated under Accounting Principles Board Opinion No. 25, Accounting for Stock Issued to Employees, and related interpretations. The last stock options granted prior to April 2002 became fully vested and exercisable in September 2003. Because we adopted the fair value provisions of SFAS No. 123 in April 2002, the adoption of SFAS No. 123(R) did not significantly impact our financial position or results of operations.

Under fair value accounting of share-based payment awards, the grant-date fair value of the share-based payment is amortized over the vesting period for both graded and cliff vesting awards on a straight-line basis as compensation expense. As required by SFAS 123(R), annual compensation expense for share-based payment is reduced by an expected forfeiture amount on outstanding share-based payment. Prior to the adoption of SFAS No. 123(R), forfeiture benefits were recorded as a reduction to compensation expense when the share-based payment award was forfeited.

SFAS No. 123(R) also requires that cash flows from tax benefits resulting from tax deductions in excess of the compensation cost recognized for share-based awards (excess tax benefits) be classified as financing cash flows prospectively from January 1, 2006. Prior to the adoption of SFAS No. 123(R), such excess tax benefits were presented as operating cash flows.

We currently use the Black-Scholes option pricing model to estimate the fair value of stock options and stock-settled stock appreciation rights (SSARs). The estimation of the fair value of share-based payment awards on the date of grant using an option-pricing model is affected by our stock price as well as assumptions regarding a number of complex and subjective variables. These variables include our expected stock price volatility over the term of the awards, actual and projected employee stock option exercise behaviors, risk-free interest rate and expected dividends. The expected term of the stock options and SSARs represents the estimated period of time from grant until exercise or conversion and is based on vesting schedules and expected post-vesting, exercise and employment termination behavior. Expected volatility is based on the historical volatility of our common stock over the period that is equivalent to the award s expected life. Any adjustment to the historical volatility as an indicator of future volatility would be based on the impact to historical volatility of significant non-recurring events that would not be expected in the future. Risk-free interest rates are based on the U.S. Treasury yield curve at the time of grant for the period that is equivalent to the award s expected life. Dividend yields are based on the historical dividends of World Fuel over the period that is equivalent to the award s expected life, as adjusted for stock splits.

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The estimated fair value of common stock, restricted stock and restricted stock units is based on the grant-date market value of our common stock, as defined in the respective plans under which they were issued.

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 derivatives in order to mitigate the risk of fluctuation in interest rates. All derivatives are recognized as a component of prepaid expenses and other current assets or accrued expenses and other current liabilities on the balance sheet at estimated fair market value based on quoted market prices or available market information. If the derivative does not qualify as a hedge under SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities, or is not designated as a hedge, changes in the fair market value of the derivative are recognized as a component of cost of sales in the statement of income. Derivatives which qualify for hedge accounting are designated as either a fair value or cash flow hedge. For fair value hedges, changes in the fair market value of the hedge and the hedged item are recognized as a component of cost of sales in the statement of income. For cash flow hedges, changes in the fair market value of the hedge are recognized as a component of other comprehensive income in the stockholders equity section of the balance sheet.

To qualify for hedge accounting, as either a fair value or cash flow hedge, the hedging relationship between the hedging instruments and hedged items must be highly effective over an extended period of time in achieving the offset of changes in fair values or cash flows attributable to the hedged risk at the inception of the hedge. We use a three year period in assessing the qualification for our fair value hedges. Hedge accounting is discontinued prospectively if and when the hedging relationship over an extended period of time is determined to be ineffective. We assess hedge effectiveness based on total changes in the fair market value of our hedging instruments and hedged items and any ineffectiveness is recognized in the statement of income. Adjustment to the carrying amounts of hedged items is discontinued in instances where the related fair value hedging instrument becomes ineffective and any previously recorded fair market value changes are not adjusted until the fuel is sold.

For additional information on derivatives, see Item 7A Quantitative and Qualitative Disclosures About Market Risk of this Form 10-K.

Goodwill and Identifiable Intangible Assets

Goodwill represents our cost in excess of the estimated fair value of net assets, including identifiable intangible assets, of acquired companies and the joint venture interest in PAFCO. Goodwill is not subject to periodic amortization. Instead, it is reviewed annually at year-end (or more frequently under certain circumstances) for impairment. The initial step of the goodwill impairment test compares the estimated fair value of a reporting unit, which is the same as our reporting segments, with its carrying amount, including goodwill. The fair value of our reporting segment is estimated using discounted cash flow and market capitalization methodologies.

In connection with our acquisitions, we recorded identifiable intangible assets for customer relationships existing at the date of the acquisitions and non-compete agreements. Identifiable intangible assets are being amortized over their useful lives that range from five to seven years.

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Results of Operations

2006 compared to 2005

Revenue. Our revenue for 2006 was $10.8 billion, an increase of $2.1 billion, or 23.5%, as compared to 2005. Our revenue during these years was attributable to the following segments (in thousands):

	2006	2005	$ Change
Marine segment	$ 5,785,095	$ 4,467,695	$ 1,317,400
Aviation segment	4,579,337	3,938,266	641,071
Land segment	420,704	327,986	92,718
Total	$ 10,785,136	$ 8,733,947	$ 2,051,189

Our marine segment contributed $5.8 billio