

WORLD FUEL SERVICES CORP

Form 10-Q

April 30, 2013

[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, 2013**

**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**  
(State or other jurisdiction of  
incorporation or organization)

**59-2459427**  
(I.R.S. Employer  
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 72,623,000 shares of common stock, par value \$0.01 per share, issued and outstanding as of April 24, 2013.



Table of Contents

**Table of Contents**

|                 |                              |  |    |
|-----------------|------------------------------|--|----|
| <u>Part I.</u>  | <u>Financial Information</u> |  |    |
|                 | <u>General</u>               |  | 1  |
|                 | <u>Item 1.</u>               | <u>Financial Statements (Unaudited)</u>  |    |
|                 |                              | <u>Consolidated Balance Sheets as of March 31, 2013 and December 31, 2012</u>  | 2  |
|                 |                              | <u>Consolidated Statements of Income and Comprehensive Income for the Three Months ended March 31, 2013 and 2012</u> | 3  |
|                 |                              | <u>Consolidated Statements of Shareholders' Equity for the Three Months ended March 31, 2013 and 2012</u>            | 4  |
|                 |                              | <u>Consolidated Statements of Cash Flows for the Three Months ended March 31, 2013 and 2012</u>                      | 5  |
|                 |                              | <u>Notes to the Consolidated Financial Statements</u>  | 6  |
|                 | <u>Item 2.</u>               | <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>                         | 16 |
|                 | <u>Item 3.</u>               | <u>Quantitative and Qualitative Disclosures About Market Risk</u>  | 24 |
|                 | <u>Item 4.</u>               | <u>Controls and Procedures</u>   | 25 |
| <u>Part II.</u> | <u>Other Information</u>     |  |    |
|                 | <u>Item 2.</u>               | <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>   | 26 |
|                 | <u>Item 6.</u>               | <u>Exhibits</u>  | 26 |

Signatures

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 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, 2013 are not necessarily indicative of the results for the entire fiscal year. The unaudited consolidated financial statements and notes thereto included in this Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2013 ( 10-Q Report ) should be read in conjunction with the audited consolidated financial statements and notes thereto included in our Annual Report on Form 10-K for the fiscal year ended December 31, 2012 ( 2012 10-K Report ). World Fuel Services Corporation ( World Fuel or the Company ) and its subsidiaries are collectively referred to in this 10-Q Report as we, our and us.

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

(Unaudited - In thousands, except per share data)

|  | March 31,<br>2013   | As of     | December 31,<br>2012 |
|--|---------------------|-----------|----------------------|
| <b>Assets:</b>   |                     |           |                      |
| <b>Current assets:</b>   |                     |           |                      |
| Cash and cash equivalents  | \$ 159,600          | \$        | 172,740              |
| Accounts receivable, net   | 2,494,373           |           | 2,193,866            |
| Inventories  | 634,057             |           | 572,313              |
| Prepaid expenses   | 112,430             |           | 158,909              |
| Other current assets   | 180,488             |           | 183,549              |
| <b>Total current assets</b>  | <b>3,580,948</b>    |           | <b>3,281,377</b>     |
| Property and equipment, net  | 119,636             |           | 112,525              |
| Goodwill   | 468,456             |           | 470,506              |
| Identifiable intangible and other non-current assets   | 240,217             |           | 243,343              |
| <b>Total assets</b>  | <b>\$ 4,409,257</b> | <b>\$</b> | <b>4,107,751</b>     |
| <b>Liabilities:</b>  |                     |           |                      |
| <b>Current liabilities:</b>  |                     |           |                      |
| Short-term debt  | \$ 28,362           | \$        | 26,065               |
| Accounts payable   | 2,185,325           |           | 1,814,794            |
| Accrued expenses and other current liabilities   | 283,654             |           | 308,439              |
| <b>Total current liabilities</b>   | <b>2,497,341</b>    |           | <b>2,149,298</b>     |
| Long-term debt   | 248,312             |           | 354,253              |
| Non-current income tax liabilities, net  | 59,459              |           | 50,879               |
| Other long-term liabilities  | 12,032              |           | 11,697               |
| <b>Total liabilities</b>   | <b>2,817,144</b>    |           | <b>2,566,127</b>     |
| <b>Commitments and contingencies</b>   |                     |           |                      |
| <b>Equity:</b>   |                     |           |                      |
| <b>World Fuel shareholders' equity:</b>  |                     |           |                      |
| Preferred stock, \$1.00 par value; 100 shares authorized, none issued  |                     |           |                      |
| Common stock, \$0.01 par value; 100,000 shares authorized, 72,583 and 72,147 issued and outstanding as of March 31, 2013 and December 31, 2012, respectively | 725                 |           | 721                  |
| Capital in excess of par value   | 518,598             |           | 517,589              |
| Retained earnings  | 1,060,932           |           | 1,014,882            |
| Accumulated other comprehensive loss   | (14,978)            |           | (16,018)             |
| <b>Total World Fuel shareholders' equity</b>   | <b>1,565,277</b>    |           | <b>1,517,174</b>     |
| Noncontrolling interest equity   | 26,836              |           | 24,450               |
| <b>Total equity</b>  | <b>1,592,113</b>    |           | <b>1,541,624</b>     |
| <b>Total liabilities and equity</b>  | <b>\$ 4,409,257</b> | <b>\$</b> | <b>4,107,751</b>     |

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

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 and Comprehensive Income**

(Unaudited - In thousands, except per share data)

|  | For the Three Months ended<br>March 31, |              |
|--|---|--------------|
|  | 2013                                    | 2012         |
| Revenue  | \$ 10,184,029                           | \$ 9,479,055 |
| Cost of revenue  | 10,001,650                              | 9,321,820    |
| Gross profit   | 182,379                                 | 157,235      |
| Operating expenses:  |   |              |
| Compensation and employee benefits                           | 69,429                                  | 54,527       |
| Provision for bad debt                                       | 1,103                                   | 141          |
| General and administrative                                   | 44,906                                  | 43,311       |
|  | 115,438                                 | 97,979       |
| Income from operations                                       | 66,941                                  | 59,256       |
| Non-operating expenses, net:                                 |   |              |
| Interest expense and other financing costs, net              | (3,659)                                 | (4,661)      |
| Other income, net  | 120                                     | 566          |
|  | (3,539)                                 | (4,095)      |
| Income before income taxes                                   | 63,402                                  | 55,161       |
| Provision for income taxes                                   | 12,291                                  | 6,615        |
| Net income including noncontrolling interest                 | 51,111                                  | 48,546       |
| Net income attributable to noncontrolling interest           | 2,386                                   | 2,131        |
| Net income attributable to World Fuel                        | \$ 48,725                               | \$ 46,415    |
| Basic earnings per common share                              | \$ 0.68                                 | \$ 0.65      |
| Basic weighted average common shares                         | 71,288                                  | 70,998       |
| Diluted earnings per common share                            | \$ 0.68                                 | \$ 0.65      |
| Diluted weighted average common shares                       | 71,999                                  | 71,774       |
| Comprehensive income:  |   |              |
| Net income including noncontrolling interest                 | \$ 51,111                               | \$ 48,546    |
| Other comprehensive income:                                  |   |              |
| Foreign currency translation adjustments                     | 1,109                                   | 2,807        |
| Cash flow hedges, net of income tax of \$21                  | (69)                                    |              |
| Other comprehensive income                                   | 1,040                                   | 2,807        |
| Comprehensive income including noncontrolling interest       | 52,151                                  | 51,353       |
| Comprehensive income attributable to noncontrolling interest | 2,386                                   | 2,131        |
| Comprehensive income attributable to World Fuel              | \$ 49,765                               | \$ 49,222    |

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 Shareholders Equity**

(Unaudited - In thousands)

|   | Common Stock<br>Shares | Common Stock<br>Amount | Capital in<br>Excess of<br>Par Value | Retained<br>Earnings | Accumulated<br>Other<br>Comprehensive<br>Loss | Total<br>World Fuel<br>Shareholders<br>Equity | Noncontrolling<br>Interest<br>Equity | Total Equity |
|---|------------------------|------------------------|--------------------------------------|----------------------|---|---|--------------------------------------|--------------|
| Balance as of December 31, 2012   | 72,147                 | \$ 721                 | \$ 517,589                           | \$ 1,014,882         | \$ (16,018)                                   | \$ 1,517,174                                  | \$ 24,450                            | \$ 1,541,624 |
| Net income  |                        |                        |                                      | 48,725               |   | 48,725  | 2,386                                | 51,111       |
| Cash dividends declared   |                        |                        |                                      | (2,675)              |   | (2,675)                                       |                                      | (2,675)      |
| Amortization of share-based payment awards  |                        |                        | 3,748                                |                      |   | 3,748   |                                      | 3,748        |
| Issuance of common stock related to share-based payment awards including income tax benefit of \$1,721                          | 449                    | 4                      | 1,717                                |                      |   | 1,721   |                                      | 1,721        |
| Purchases of common stock tendered by employees to satisfy the required withholding taxes related to share-based payment awards | (13)                   |                        | (4,456)                              |                      |   | (4,456)                                       |                                      | (4,456)      |
| Other comprehensive income  |                        |                        |                                      |                      | 1,040   | 1,040   |                                      | 1,040        |
| Balance as of March 31, 2013  | 72,583                 | \$ 725                 | \$ 518,598                           | \$ 1,060,932         | \$ (14,978)                                   | \$ 1,565,277                                  | \$ 26,836                            | \$ 1,592,113 |

|   | Common Stock<br>Shares | Common Stock<br>Amount | Capital in<br>Excess of<br>Par Value | Retained<br>Earnings | Accumulated<br>Other<br>Comprehensive<br>Loss | Total<br>World Fuel<br>Shareholders<br>Equity | Noncontrolling<br>Interest<br>Equity | Total Equity |
|---|------------------------|------------------------|--------------------------------------|----------------------|---|---|--------------------------------------|--------------|
| Balance as of December 31, 2011   | 71,154                 | \$ 712                 | \$ 502,551                           | \$ 836,222           | \$ (6,524)                                    | \$ 1,332,961                                  | \$ 13,757                            | \$ 1,346,718 |
| Net income  |                        |                        |                                      | 46,415               |   | 46,415  | 2,131                                | 48,546       |
| Cash dividends declared   |                        |                        |                                      | (2,664)              |   | (2,664)                                       |                                      | (2,664)      |
| Distribution of noncontrolling interest   |                        |                        |                                      |                      |   |   | (923)                                | (923)        |
| Amortization of share-based payment awards  |                        |                        | 2,435                                |                      |   | 2,435   |                                      | 2,435        |
| Issuance of common stock related to share-based payment awards  | 758                    | 7                      | 2,722                                |                      |   | 2,729   |                                      | 2,729        |
| Purchases of common stock tendered by employees to satisfy the required withholding taxes related to share-based payment awards | (25)                   |                        | (4,072)                              |                      |   | (4,072)                                       |                                      | (4,072)      |
| Other comprehensive income  |                        |                        |                                      |                      | 2,807   | 2,807   |                                      | 2,807        |
| Balance as of March 31, 2012  | 71,887                 | \$ 719                 | \$ 503,636                           | \$ 879,973           | \$ (3,717)                                    | \$ 1,380,611                                  | \$ 14,965                            | \$ 1,395,576 |

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)

|   | <b>For the Three Months ended March 31,</b> |             |
|---|---|-------------|
|   | <b>2013</b>                                 | <b>2012</b> |
| Cash flows from operating activities:   |   |             |
| Net income including noncontrolling interest  | \$ 51,111                                   | \$ 48,546   |
| Adjustments to reconcile net income including noncontrolling interest to net cash provided by operating activities:                       |   |             |
| Depreciation and amortization   | 10,848                                      | 9,659       |
| Provision for bad debt  | 1,103                                       | 141         |
| Share-based payment award compensation costs  | 3,872                                       | 2,904       |
| Deferred income tax provision   | 739   | 10,730      |
| Extinguishment of liabilities   | (428)                                       | (3,490)     |
| Foreign currency (gains) losses, net  | (785)                                       | 2,274       |
| Other   | 228   | (743)       |
| Changes in assets and liabilities, net of acquisitions:   |   |             |
| Accounts receivable, net  | (303,010)                                   | (127,281)   |
| Inventories   | (60,162)                                    | 23,010      |
| Prepaid expenses  | 45,876                                      | (63,607)    |
| Other current assets  | 14,266                                      | (70,249)    |
| Cash collateral with financial counterparties   | 563   | 35,094      |
| Other non-current assets  | (154)                                       | 280         |
| Accounts payable  | 370,898                                     | 143,990     |
| Accrued expenses and other current liabilities  | (26,249)                                    | 40,329      |
| Non-current income tax, net and other long-term liabilities   | 794   | (2,795)     |
| Total adjustments   | 58,399                                      | 246         |
| Net cash provided by operating activities   | 109,510                                     | 48,792      |
| Cash flows from investing activities:   |   |             |
| Acquisitions and other investments, net of cash acquired  |   | (90)        |
| Capital expenditures  | (12,949)                                    | (3,948)     |
| Other   |   | (115)       |
| Net cash used in investing activities   | (12,949)                                    | (4,153)     |
| Cash flows from financing activities:   |   |             |
| Borrowings under senior revolving credit facility and senior term loans   | 1,376,800                                   | 815,000     |
| Repayments under senior revolving credit facility and senior term loans   | (1,477,550)                                 | (815,000)   |
| Repayments of other debt  | (2,901)                                     | (1,492)     |
| Dividends paid on common stock  | (2,667)                                     | (2,664)     |
| Distribution of noncontrolling interest   |   | (923)       |
| Federal and state tax benefits resulting from tax deductions in excess of the compensation cost recognized for share-based payment awards | 1,721                                       |             |
| Purchases of common stock tendered by employees to satisfy the required withholding taxes related to share-based payment awards           | (4,456)                                     | (4,072)     |
| Net cash used in financing activities   | (109,053)                                   | (9,151)     |
| Effect of exchange rate changes on cash and cash equivalents  | (648)                                       | 1,690       |
| Net (decrease) increase in cash and cash equivalents  | (13,140)                                    | 37,178      |
| Cash and cash equivalents, as of beginning of period  | 172,740                                     | 205,415     |
| Cash and cash equivalents, as of end of period  | \$ 159,600                                  | \$ 242,593  |

**Supplemental Schedule of Noncash Investing and Financing Activities:**

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

We declared cash dividends of \$0.0375 per common share of \$2.7 million for the three months ended March 31, 2013 and 2012, which were paid in April 2013 and 2012, respectively.

In March 2012, we granted equity awards to certain employees of which \$2.7 million was previously recorded in accrued expenses and other current liabilities.

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. 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 2012 10-K Report.

*Basis of Consolidation*

The accompanying consolidated financial statements and related notes include the accounts of our wholly-owned and majority-owned subsidiaries and joint ventures where we exercise operational control or have a primary benefit of its profits. All significant intercompany accounts, transactions and profits are eliminated upon consolidation.

*Reclassifications*

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

*Accounts Receivable Purchase Agreement*

We have a Receivables Purchase Agreement ( RPA ) to sell up to \$125.0 million of certain of our accounts receivable. On our sold receivables, we are charged a discount margin equivalent to a floating market rate plus 2% and certain other fees, as applicable and we retain a beneficial interest in certain of the sold accounts receivable which is included in accounts receivable, net in the accompanying consolidated balance sheets.

As of March 31, 2013, we had sold accounts receivable of \$70.8 million and retained a beneficial interest of \$4.8 million. During the three months ended March 31, 2013, the fees and interest paid under the receivables purchase agreement were not significant.

*Goodwill*

During the three months ended March 31, 2013, based on our ongoing fair value assessment of certain of our 2012 acquisitions, we recorded a \$2.0 million reduction in goodwill within our land segment primarily due to a \$3.3 million increase in identifiable intangible assets, partially offset by a \$0.9 million decrease in other acquired assets and a \$0.4 million increase in assumed liabilities. Additionally, we reclassified \$6.5 million in goodwill from our land segment to our aviation segment.

*Recent Accounting Pronouncements*

*Foreign Currency Matters Parent's Accounting for the Cumulative Translation Adjustment upon Derecognition of Certain Foreign Subsidiaries.* In March 2013, the Financial Accounting Standards Board ( FASB ) issued an accounting standards update ( ASU ) aimed at resolving the diversity in practice of accounting for the release of the cumulative translation adjustment into net income when a parent either sells a part or all of its investment in a foreign entity or no longer holds a controlling financial interest in a subsidiary or group of assets that is a nonprofit activity or a business within a foreign entity. In addition, the amendments in this ASU resolve the diversity in practice for the treatment of business combinations achieved in stages (sometimes also referred to as step acquisitions) involving a foreign entity. This update is effective for fiscal years, and interim periods within those years, beginning after December 15, 2013. We are currently evaluating whether the adoption of this new guidance will have a significant impact on our consolidated financial statements and disclosures.

*Disclosure Obligations Resulting from Joint and Several Liability Arrangements.* In February 2013, the FASB issued an ASU clarifying the guidance for the recognition, measurement and disclosure of obligations resulting from joint and several liability arrangements for which the total amount of the obligation within the scope of this ASU is fixed at the reporting date, except for obligations addressed within existing guidance in U.S. GAAP. This update is effective for fiscal years, and interim periods within those years, beginning after December 15, 2013. We are currently evaluating whether the adoption of this new guidance will have a significant impact on our consolidated financial statements and disclosures.

*Disclosure Relating to Amounts Reclassified Out of Accumulated Other Comprehensive Income.* In February 2013, the FASB issued an ASU amending the information that companies will be required to present relating to reclassifications out of accumulated other comprehensive income. The amendments require presentation, either on the face of the financial statements or in the notes, of amounts reclassified out of accumulated other comprehensive income by component and by net income line item. This update is effective for fiscal years, and interim periods within those years, beginning after December 15, 2012. The adoption of this ASU resulted in additional derivative disclosures included in Note 2 - Derivatives and did not have a significant impact on our consolidated financial statements.

Table of Contents

*Disclosure About Offsetting Assets and Liabilities.* In December 2011, the FASB issued an ASU which requires companies to disclose information about financial instruments that have been offset and related arrangements to enable users of its financial statements to understand the effect of those arrangements on its financial position. Companies will be required to provide both net (offset amounts) and gross information in the notes to the financial statements for relevant assets and liabilities that are offset. In January 2013, the FASB issued an ASU clarifying that the requirement to disclose information about financial instruments that have been offset and related arrangements applies only to derivatives, repurchase agreements and reverse purchase agreements, and securities borrowing and lending transactions that are either offset in accordance with specific criteria contained in the FASB Accounting Standards Codification or subject to a master netting arrangement or similar agreement. This update became effective at the beginning of our 2013 fiscal year. The adoption of this ASU did not have a significant impact on our consolidated financial statements and disclosures.

**2. Derivatives**

We enter into financial derivative contracts in order to mitigate the risk of market price fluctuations in aviation, marine and land fuel, to offer our customers fuel pricing alternatives to meet their needs and to mitigate the risk of fluctuations in foreign currency exchange rates. We also enter into proprietary derivative transactions, primarily intended to capitalize on arbitrage opportunities related to basis or time spreads 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 or futures as well as certain fixed price purchase and sale contracts and proprietary trading. In addition, non-designated derivatives are also entered into to hedge the risk of currency rate fluctuations.



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

Table of Contents

As of March 31, 2013, our derivative instruments, at their respective fair value positions were as follows (in thousands, except weighted average fixed price and weighted average mark-to-market amount):

| Hedge Strategy   | Settlement Period                  | Derivative Instrument                             | Notional   | Unit | Weighted Average Fixed Price | Weighted Average Mark-to-Market Amount | Fair Value Amount |
|------------------|------------------------------------|---|------------|------|------------------------------|--|-------------------|
| Cash Flow Hedge  | 2013                               | Foreign currency contracts (long)                 | 1,290      | EUR  | \$ 0.81                      | \$ 0.05                                | \$ 58             |
| Fair Value Hedge | 2013                               | Commodity contracts for inventory hedging (long)  | 344        | BBL  | \$ 123.50                    | \$ 0.42                                | \$ 146            |
|                  | 2013                               | Commodity contracts for inventory hedging (short) | 1,969      | BBL  | 124.88                       | (0.15)                                 | (305)             |
|                  |                                    |   |            |      |                              |  | \$ (159)          |
| Non-Designated   | 2013                               | Commodity contracts (long)                        | 38,792     | BBL  | \$ 73.58                     | \$ 0.88                                | \$ 33,977         |
|                  | 2013                               | Commodity contracts (short)                       | 28,789     | BBL  | 88.44                        | (0.87)                                 | (25,070)          |
|                  | 2014                               | Commodity contracts (long)                        | 892        | BBL  | 78.21                        | 3.10                                   | 2,765             |
|                  | 2014                               | Commodity contracts (short)                       | 870        | BBL  | 77.22                        | (3.10)                                 | (2,693)           |
|                  | 2015                               | Commodity contracts (long)                        | 26         | BBL  | 115.68                       | 0.58                                   | 15                |
|                  | 2015                               | Commodity contracts (short)                       | 32         | BBL  | 113.77                       |  |                   |
|                  | 2013                               | Foreign currency contracts (long)                 | 22,007     | AUD  | 1.04                         | 0.01                                   | 130               |
|                  | 2013                               | Foreign currency contracts (short)                | 32,427     | AUD  | 1.03                         | (0.01)                                 | (190)             |
|                  | 2013                               | Foreign currency contracts (long)                 | 412        | BRL  | 2.02                         | 0.01                                   | 5                 |
|                  | 2013                               | Foreign currency contracts (long)                 | 71,669     | CAD  | 1.01                         | (0.01)                                 | (1,036)           |
|                  | 2013                               | Foreign currency contracts (short)                | 79,647     | CAD  | 1.01                         | 0.01                                   | 843               |
|                  | 2013                               | Foreign currency contracts (long)                 | 2,598,733  | CLP  | 474.79                       | 0.00                                   | 22                |
|                  | 2013                               | Foreign currency contracts (short)                | 1,163,807  | CLP  | 479.85                       | (0.00)                                 | (37)              |
|                  | 2013                               | Foreign currency contracts (long)                 | 48,270,679 | COP  | 1,800.41                     | (0.00)                                 | (475)             |
|                  | 2013                               | Foreign currency contracts (short)                | 42,162,424 | COP  | 1,804.60                     | 0.00                                   | 361               |
|                  | 2013                               | Foreign currency contracts (long)                 | 39,638     | DKK  | 5.68                         | (0.00)                                 | (141)             |
|                  | 2013                               | Foreign currency contracts (short)                | 25,010     | DKK  | 5.72                         | 0.00                                   | 53                |
|                  | 2013                               | Foreign currency contracts (long)                 | 17,069     | EUR  | 0.76                         | (0.03)                                 | (463)             |
|                  | 2013                               | Foreign currency contracts (short)                | 34,160     | EUR  | 0.76                         | 0.03                                   | 943               |
|                  | 2013                               | Foreign currency contracts (long)                 | 136,493    | GBP  | 0.64                         | (0.04)                                 | (4,982)           |
|                  | 2013                               | Foreign currency contracts (short)                | 193,282    | GBP  | 0.64                         | 0.04                                   | 8,060             |
|                  | 2013                               | Foreign currency contracts (short)                | 111,367    | INR  | 54.73                        | (0.00)                                 | (4)               |
|                  | 2013                               | Foreign currency contracts (long)                 | 110,038    | JPY  | 84.51                        | (0.00)                                 | (32)              |
|                  | 2013                               | Foreign currency contracts (short)                | 210,921    | JPY  | 86.79                        | 0.00                                   | 166               |
|                  | 2013                               | Foreign currency contracts (long)                 | 1,586,573  | MXN  | 12.75                        | 0.00                                   | 3,919             |
|                  | 2013                               | Foreign currency contracts (short)                | 1,471,020  | MXN  | 12.78                        | (0.00)                                 | (3,450)           |
|                  | 2013                               | Foreign currency contracts (long)                 | 14,700     | NOK  | 5.67                         | (0.01)                                 | (92)              |
|                  | 2013                               | Foreign currency contracts (short)                | 16,367     | NOK  | 5.66                         | 0.01                                   | 103               |
|                  | 2013                               | Foreign currency contracts (long)                 | 3,856      | PLN  | 3.22                         | (0.01)                                 | (25)              |
|                  | 2013                               | Foreign currency contracts (short)                | 9,160      | PLN  | 3.17                         | 0.01                                   | 76                |
|                  | 2013                               | Foreign currency contracts (short)                | 8,533      | RON  | 3.42                         | (0.00)                                 | (5)               |
|                  | 2013                               | Foreign currency contracts (long)                 | 27,737     | SGD  | 1.23                         | (0.00)                                 | (76)              |
| 2013             | Foreign currency contracts (short) | 26,490  | SGD        | 1.24 | 0.00                         | 121                                    |                   |
| 2013             | Foreign currency contracts (short) | 30,264  | ZAR        | 9.12 | 0.00                         | 15                                     |                   |
| 2014             | Foreign currency contracts (long)  | 250   | GBP        | 0.62 | (0.10)                       | (24)                                   |                   |
| 2014             | Foreign currency contracts (short) | 4,290   | GBP        | 0.64 | 0.06                         | 274                                    |                   |
|                  |                                    |   |            |      |                              |  | \$ 13,053         |



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

Table of Contents

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

| Balance Sheet Location                            |  | As of             |                      |
|---|--|-------------------|----------------------|
|   |  | March 31,<br>2013 | December 31,<br>2012 |
| <b>Derivative assets:</b>                         |  |                   |                      |
| Derivatives designated as hedging instruments     |  |                   |                      |
| Commodity contracts                               | Other current assets                                 | \$ 39             | \$ 991               |
| Commodity contracts                               | Accrued expenses and other current liabilities       | 2,067             |                      |
| Foreign currency contracts                        | Other current assets                                 | 58                | 148                  |
|   |  | 2,164             | 1,139                |
| Derivatives not designated as hedging instruments |  |                   |                      |
| Commodity contracts                               | Other current assets                                 | 34,577            | 67,533               |
| Commodity contracts                               | Identifiable intangible and other non-current assets | 1,906             | 1,423                |
| Commodity contracts                               | Accrued expenses and other current liabilities       | 46,744            | 5,776                |
| Commodity contracts                               | Other long-term liabilities                          |                   | 46                   |
| Foreign currency contracts                        | Other current assets                                 | 14,105            | 741                  |
| Foreign currency contracts                        | Identifiable intangible and other non-current assets | 104               |                      |
| Foreign currency contracts                        | Accrued expenses and other current liabilities       | 2,530             | 1,545                |
|   |  | 99,966            | 77,064               |
|   |  | \$ 102,130        | \$ 78,203            |
| <b>Derivative liabilities:</b>                    |  |                   |                      |
| Derivatives designated as hedging instruments     |  |                   |                      |
| Commodity contracts                               | Other current assets                                 | \$ 14             | \$ 2,284             |
| Commodity contracts                               | Accrued expenses and other current liabilities       | 2,250             |                      |
|   |  | 2,264             | 2,284                |
| Derivatives not designated as hedging instruments |  |                   |                      |
| Commodity contracts                               | Other current assets                                 | 10,406            | 41,410               |
| Commodity contracts                               | Identifiable intangible and other non-current assets | 265               | 47                   |
| Commodity contracts                               | Accrued expenses and other current liabilities       | 62,541            | 20,927               |
| Commodity contracts                               | Other long-term liabilities                          | 1,022             | 1,034                |
| Foreign currency contracts                        | Other current assets                                 | 9,395             | 595                  |
| Foreign currency contracts                        | Identifiable intangible and other non-current assets | 24                |                      |
| Foreign currency contracts                        | Accrued expenses and other current liabilities       | 3,261             | 3,151                |
| Foreign currency contracts                        | Other long-term liabilities                          |                   | 99                   |
|   |  | 86,914            | 67,263               |
|   |  | \$ 89,178         | \$ 69,547            |

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

| Derivative Instruments | Location | Realized and Unrealized Gain (Loss) |      | Hedged Items | Location | Realized and Unrealized Gain (Loss) |      |
|------------------------|----------|-------------------------------------|------|--------------|----------|-------------------------------------|------|
|                        |          | 2013                                | 2012 |              |          | 2013                                | 2012 |

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

Three months ended March 31,

|                     | Revenue | \$       | \$ | Firm<br>265 commitments | Revenue | \$     | \$ | (201)  |
|---------------------|---------|----------|----|-------------------------|---------|--------|----|--------|
| Commodity contracts | Cost of |          |    | Firm                    | Cost of |        |    |        |
| Commodity contracts | revenue |          |    | (1,417) commitments     | revenue |        |    | 739    |
| Commodity contracts | Cost of |          |    | Inventories             | Cost of |        |    |        |
|                     | revenue | 5,079    |    | (26,329)                | revenue | 893    |    | 29,428 |
|                     |         | \$ 5,079 | \$ | (27,481)                |         | \$ 893 | \$ | 29,966 |

There were no gains or losses for the three months ended March 31, 2013 and 2012 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 and comprehensive income (in thousands):

| Derivative Instruments              | Amount of Loss<br>Recognized in Accumulated<br>Other Comprehensive Income<br>(Effective Portion) |      | Location of<br>Realized Gain<br>(Effective Portion) | Amount of Gain<br>Reclassified from Accumulated<br>Other Comprehensive Income<br>(Effective Portion) |       |
|-------------------------------------|--|------|---|--|-------|
|                                     | 2013   | 2012 |   | 2013   | 2012  |
| <b>Three months ended March 31,</b> |  |      |   |  |       |
| Foreign currency contracts          | \$   | (51) | \$  | Other income, net  | \$ 39 |

In the event forecasted cash outflows are less than the hedged amounts, a portion or all of the gains or losses recorded in accumulated other comprehensive income are reclassified to the consolidated statements of income and comprehensive income. As of March 31, 2013, the maximum amount that could be reclassified to the consolidated statements of income and comprehensive income for the next twelve months is not significant.

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 and comprehensive income (in thousands):

| Derivatives                         | Location          | Realized and Unrealized<br>Gain (Loss) |          |
|-------------------------------------|-------------------|--|----------|
|                                     |                   | 2013                                   | 2012     |
| <b>Three months ended March 31,</b> |                   |  |          |
| Commodity contracts                 | Revenue           | \$ 5,395                               | \$ (223) |
| Commodity contracts                 | Cost of revenue   | (293)                                  | 7,021    |
| Foreign currency contracts          | Revenue           | 2,668                                  | (1,552)  |
| Foreign currency contracts          | Other income, net | 3,479                                  | (1,662)  |
|                                     |                   | \$ 11,249                              | \$ 3,584 |

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, 2013.

### 3. Interest Income, Expense and Other Financing Costs

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

|  | For the Three Months ended<br>March 31, |         |      |         |
|--|---|---------|------|---------|
|  | 2013                                    |         | 2012 |         |
| Interest income                            | \$                                      | 424     | \$   | 272     |
| Interest expense and other financing costs |   | (4,083) |      | (4,933) |
|  | \$                                      | (3,659) | \$   | (4,661) |

Table of Contents**4. Other Comprehensive Income and Accumulated Other Comprehensive Loss**

Our other comprehensive income, consisting of foreign currency translation adjustments related to our subsidiaries that have a functional currency other than the U.S. dollar and cash flow hedges, was as follows (in thousands):

|                                   | <b>Foreign<br/>Currency<br/>Translation<br/>Adjustments</b> |    | <b>Cash<br/>Flow Hedges</b> |    | <b>Total</b> |
|-----------------------------------|---|----|-----------------------------|----|--------------|
| Balance as of December 31, 2012   | \$ (16,130)   | \$ | 112                         | \$ | (16,018)     |
| Other comprehensive income (loss) | 1,109   |    | (69)                        |    | 1,040        |
| Balance as of March 31, 2013      | \$ (15,021)   | \$ | 43                          | \$ | (14,978)     |

The foreign currency translation adjustment gains for the three months ended March 31, 2013 were primarily due to the strengthening of the Brazilian Real as compared to the U.S. dollar.

Additional information relating to our cash flow hedges for the periods presented is included in Note 2 - Derivatives.

**5. Income Taxes**

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

|                           | <b>For the Three Months ended<br/>March 31,</b> |        |             |       |
|---------------------------|---|--------|-------------|-------|
|                           | <b>2013</b>                                     |        | <b>2012</b> |       |
| Income tax provision      | \$  | 12,291 | \$          | 6,615 |
| Effective income tax rate |   | 19.4%  |             | 12.0% |

Our provision for income taxes for each of the three-month periods ended March 31, 2013 and 2012 were calculated based on the estimated annual effective income tax rate for the full 2013 and 2012 fiscal years. The provision for income taxes for the three-month period ended March 31, 2012 includes an adjustment for an income tax benefit of \$3.3 million for a discrete item related to a change in estimate in an uncertain income tax position. The actual effective income tax rate for the full 2013 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.

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

In March 2013, we received final approval that we were awarded an additional five year special income tax concession in Singapore beginning January 1, 2013. The special income tax concession is conditional upon our meeting certain employment and investment thresholds which, if not met in accordance with our agreement, may eliminate the benefit beginning with the first year in which the conditions are not satisfied.



Table of Contents**6. Earnings per Common Share**

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

|  | <b>For the Three Months ended<br/>March 31,</b> |             |
|--|---|-------------|
|  | <b>2013</b>                                     | <b>2012</b> |
| <b>Numerator:</b>  |   |             |
| Net income attributable to World Fuel  | \$ 48,725                                       | \$ 46,415   |
| <b>Denominator:</b>  |   |             |
| Weighted average common shares for basic earnings per common share   | 71,288  | 70,998      |
| Effect of dilutive securities  | 711   | 776         |
| Weighted average common shares for diluted earnings per common share   | 71,999  | 71,774      |
| Weighted average securities which are not included in the calculation of diluted earnings per common share because their impact is anti-dilutive or their performance conditions have not been met | 763   | 54          |
| Basic earnings per common share  | \$ 0.68   | \$ 0.65     |
| Diluted earnings per common share  | \$ 0.68   | \$ 0.65     |

**7. Commitments and Contingencies****Legal Matters***Cathay Pacific Litigation*

Since April 2012, one of our subsidiaries, World Fuel Services (Singapore) Pte Ltd. ( WFSS ) has been involved in litigation with Cathay Pacific Airways Limited ( Cathay ) arising out of the emergency landing of a Cathay aircraft in Hong Kong in 2010, which Cathay alleges was caused by contaminated fuel supplied by WFSS. Cathay claims damages relating to the incident of approximately \$34.0 million. Because the outcome of litigation is inherently uncertain, we cannot estimate the possible loss or range of loss for this matter. We intend to vigorously defend against this claim, and we believe our liability in this matter (if any) should be adequately covered by insurance. As of March 31, 2013, we have not recorded any accruals associated with this claim.

*Other Matters*

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

We are a party to various claims, complaints and proceedings arising in the ordinary course of our business including, but not limited to, environmental claims, commercial and governmental contract claims, such as property damage, demurrage, billing and fuel quality claims, as well as bankruptcy preference claims. We have established loss provisions for these ordinary course claims as well as other matters in which losses are probable and can be reasonably estimated. As of March 31, 2013, we had recorded certain reserves which were not significant. For those matters where a reserve has not been established and for which we believe a loss is reasonably possible, as well as for matters where a reserve has been recorded but for which an exposure to loss in excess of the amount accrued is reasonably possible, we believe that such losses will not have a material adverse effect on our business or financial condition. However, any adverse resolution of one or more such claims, complaints or proceedings during a particular period could have a material adverse effect on our results of operations or cash flow for that period.

Our estimates regarding potential losses and materiality are based on our judgment and assessment of the claims utilizing currently available information. Although we will continue to reassess our reserves and estimates based on future developments, our objective assessment of the legal merits of such claims may not always be predictive of the outcome and actual results may vary from our current estimates.

Table of Contents**8. Fair Value Measurements**

The carrying amounts of cash and cash equivalents, accounts receivable, net, accounts payable and accrued expenses and other current liabilities approximate fair value based on the short-term maturities of these instruments. We believe the carrying values of our debt and notes receivable approximate fair value since these instruments bear interest either at variable rates or fixed rates which are not significantly different than market rates. Based on the fair value hierarchy, our debt of \$276.7 million and \$380.3 million as of March 31, 2013 and December 31, 2012, respectively, and our notes receivable of \$10.7 million and \$12.7 million as of March 31, 2013 and December 31, 2012, respectively, are categorized in Level 3.

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

|                                | Level 1   | Level 2   | Level 3 | Sub-Total  | Netting and Collateral | Total     |
|--------------------------------|-----------|-----------|---------|------------|------------------------|-----------|
| <u>As of March 31, 2013</u>    |           |           |         |            |                        |           |
| Assets:                        |           |           |         |            |                        |           |
| Commodity contracts            | \$ 21,689 | \$ 63,644 | \$      | \$ 85,333  | \$ (67,929)            | \$ 17,404 |
| Foreign currency contracts     |           | 16,797    |         | 16,797     | (11,949)               | 4,848     |
| Inventories                    |           | 819       |         | 819        | (819)                  |           |
| Total                          | \$ 21,689 | \$ 81,260 | \$      | \$ 102,949 | \$ (80,697)            | \$ 22,252 |
| Liabilities:                   |           |           |         |            |                        |           |
| Commodity contracts            | \$ 25,593 | \$ 50,905 | \$      | \$ 76,498  | \$ (63,814)            | \$ 12,684 |
| Foreign currency contracts     |           | 12,680    |         | 12,680     | (11,949)               | 731       |
| Inventories                    |           | 998       |         | 998        | (819)                  | 179       |
| Total                          | \$ 25,593 | \$ 64,583 | \$      | \$ 90,176  | \$ (76,582)            | \$ 13,594 |
| <u>As of December 31, 2012</u> |           |           |         |            |                        |           |
| Assets:                        |           |           |         |            |                        |           |
| Commodity contracts            | \$ 18,087 | \$ 57,682 | \$      | \$ 75,769  | \$ (56,115)            | \$ 19,654 |
| Foreign currency contracts     |           | 2,434     |         | 2,434      | (2,289)                | 145       |
| Inventories                    |           | 818       |         | 818        | (525)                  | 293       |
| Total                          | \$ 18,087 | \$ 60,934 | \$      | \$ 79,021  | \$ (58,929)            | \$ 20,092 |
| Liabilities:                   |           |           |         |            |                        |           |
| Commodity contracts            | \$ 20,970 | \$ 44,732 | \$      | \$ 65,702  | \$ (49,562)            | \$ 16,140 |
| Foreign currency contracts     |           | 3,845     |         | 3,845      | (2,289)                | 1,556     |
| Inventories                    |           | 525       |         | 525        | (525)                  |           |
| Total                          | \$ 20,970 | \$ 49,102 | \$      | \$ 70,072  | \$ (52,376)            | \$ 17,696 |

The following table presents information regarding the balance sheet location of our commodity and foreign currency contracts net assets and liabilities (in thousands):

|                            | As of          |                   |
|----------------------------|----------------|-------------------|
|                            | March 31, 2013 | December 31, 2012 |
| <u>Commodity Contracts</u> |                |                   |
| Assets:                    |                |                   |
| Other current assets       | \$ 15,764      | \$ 18,277         |

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

|  |    |        |    |        |
|--|----|--------|----|--------|
| Identifiable intangible and other non-current assets |    | 1,640  |    | 1,377  |
| Total net assets                                     | \$ | 17,404 | \$ | 19,654 |

Liabilities:

|  |    |        |    |        |
|--|----|--------|----|--------|
| Accrued expenses and other current liabilities | \$ | 11,662 | \$ | 15,152 |
| Other long-term liabilities                    |    | 1,022  |    | 988    |
| Total net liabilities                          | \$ | 12,684 | \$ | 16,140 |

Foreign Currency Contracts

Assets:

|  |    |       |    |     |
|--|----|-------|----|-----|
| Other current assets                                 | \$ | 4,768 | \$ | 145 |
| Identifiable intangible and other non-current assets |    | 80    |    |     |
| Total net assets                                     | \$ | 4,848 | \$ | 145 |

Liabilities:

|  |    |     |    |       |
|--|----|-----|----|-------|
| Accrued expenses and other current liabilities | \$ | 731 | \$ | 1,458 |
| Other long-term liabilities                    |    |     |    | 98    |
| Total net liabilities                          | \$ | 731 | \$ | 1,556 |

For our derivative 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 positions executed with the same counterparty under the same master netting or offset agreement.

As of March 31, 2013, we had \$26.6 million of cash collateral deposits held by financial counterparties of which \$4.3 million have been offset against the total amount of commodity fair value liabilities in the above table and the remaining \$22.3 million is included in other current assets in the accompanying consolidated balance sheets. Additionally, as of March 31, 2013, we have offset \$8.4 million of cash collateral received from customers against the total amount of commodity fair value assets in the above table. As of December 31, 2012, we had \$22.9 million of cash collateral deposits held by financial counterparties included in other current assets in the accompanying consolidated balance sheets. Additionally, as of December 31, 2012, we have offset \$6.6 million of cash collateral received from customers against the total amount of commodity fair value assets in the above table.

Table of Contents

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 period presented (in thousands):

|                                     | Beginning<br>of Period | Total Losses<br>Included in<br>Earnings | End<br>of Period | Change in<br>Unrealized<br>Losses<br>Relating to<br>Liabilities that<br>are Held at end<br>of Period | Location of Total Losses<br>Included in Earnings |
|-------------------------------------|------------------------|---|------------------|--|--|
| <u>Three months ended March 31,</u> |                        |   |                  |  |  |
| <u>2012</u>                         |                        |   |                  |  |  |
| Liabilities:                        |                        |   |                  |  |  |
| Earn-out                            | \$ 4,194               | \$ (129)                                | \$ 4,323         | \$ (129)   | Other income, net                                |

There were no transfers between Level 1, 2 or 3 during the period presented. In addition, there were no significant Level 3 settlements, purchases, sales or issuances for the period presented.

**9. 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. Our results of operations include (i) the results of the acquisition of certain assets of CarterEnergy Corporation in our land segment commencing on September 1, 2012, its acquisition date, and (ii) the results of the acquisition of certain assets of Multi Service Corporation, primarily in our land segment, commencing on December 31, 2012, its acquisition date. The accounting policies of the reportable operating segments are the same as those described in the Summary of Significant Accounting Policies (see Note 1).

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

|                      | For the Three Months ended<br>March 31, |              |
|----------------------|---|--------------|
| <b>Revenue:</b>      |   |              |
| Aviation segment     | \$ 3,930,588                            | \$ 3,411,547 |
| Marine segment       | 3,717,139                               | 3,904,191    |
| Land segment         | 2,536,302                               | 2,163,317    |
|                      | \$ 10,184,029                           | \$ 9,479,055 |
| <b>Gross profit:</b> |   |              |
| Aviation segment     | \$ 76,984                               | \$ 64,914    |
| Marine segment       | 41,682                                  | 55,077       |
| Land segment         | 63,713                                  | 37,244       |

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

|                                  |    |         |    |         |
|----------------------------------|----|---------|----|---------|
|                                  | \$ | 182,379 | \$ | 157,235 |
| <b>Income from operations:</b>   |    |         |    |         |
| Aviation segment                 | \$ | 34,880  | \$ | 26,833  |
| Marine segment                   |    | 15,259  |    | 27,445  |
| Land segment                     |    | 27,380  |    | 16,200  |
|                                  |    | 77,519  |    | 70,478  |
| Corporate overhead - unallocated |    | 10,578  |    | 11,222  |
|                                  | \$ | 66,941  | \$ | 59,256  |

Table of Contents

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

|   | March 31,<br>2013 | As of | December 31,<br>2012 |
|---|-------------------|-------|----------------------|
| <b>Accounts receivable, net:</b>  |                   |       |                      |
| Aviation segment, net of allowance for bad debt of \$8,901 and \$8,997 as of March 31, 2013 and December 31, 2012, respectively | \$ 694,816        |       | \$ 674,973           |
| Marine segment, net of allowance for bad debt of \$8,425 and \$7,742 as of March 31, 2013 and December 31, 2012, respectively   | 1,240,230         |       | 1,069,833            |
| Land segment, net of allowance for bad debt of \$6,804 and \$6,980 as of March 31, 2013 and December 31, 2012, respectively     | 559,327           |       | 449,060              |
|   | \$ 2,494,373      |       | \$ 2,193,866         |
| <b>Total assets:</b>  |                   |       |                      |
| Aviation segment  | \$ 1,490,633      |       | \$ 1,463,423         |
| Marine segment  | 1,519,351         |       | 1,330,796            |
| Land segment  | 1,229,576         |       | 1,145,756            |
| Corporate   | 169,697           |       | 167,776              |
|   | \$ 4,409,257      |       | \$ 4,107,751         |

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 2012 10-K Report and the consolidated financial statements and related notes in Item 1 - Financial Statements appearing elsewhere in this 10-Q Report. 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 of our 2012 10-K Report.

**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 10-Q Report 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 government 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;

Table of Contents

- currency exchange fluctuations;
- 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 the storage, transportation and delivery of petroleum products;
- 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 ) and our senior term loans ( Term Loans );
- the liquidity and solvency of banks within our Credit Facility and Term Loans;
- increases in interest rates;

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

- 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 2012 10-K Report and those described from time to time in our other 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. The forward-looking statements in this 10-Q Report 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, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended (the Exchange Act ).

Table of Contents

**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 with 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, however, in some cases we own storage and transportation assets for strategic purposes. Additionally, we offer transaction management services which consist of card payment solutions and merchant processing services to customers in the aviation, marine and land transportation industries. 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 foreign governments. 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, yachts 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 and we engage in crude oil marketing activities.

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 a percentage of card payment and processing 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, 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, the decline of the 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 of our 2012 10-K Report.

**Reportable Segments**

We have three reportable operating segments: aviation, marine and land. Corporate expenses are allocated to each 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 9 to the accompanying consolidated financial statements included in this 10-Q Report.



Table of Contents**Results of Operations**

Our results of operations include (i) the results of the acquisition of certain assets of CarterEnergy Corporation in our land segment commencing on September 1, 2012, its acquisition date, and (ii) the results of the acquisition of certain assets of Multi Service Corporation, primarily in our land segment, commencing on December 31, 2012, its acquisition date.

*Three Months Ended March 31, 2013 Compared to Three Months Ended March 31, 2012*

*Revenue.* Our revenue for the first quarter of 2013 was \$10.2 billion, an increase of \$0.7 billion, or 7.4%, as compared to the first quarter of 2012. Our revenue during these periods was attributable to the following segments (in thousands):

|                  | <b>For the Three Months ended<br/>March 31,</b> |              |            | <b>\$ Change</b> |
|------------------|---|--------------|------------|------------------|
|                  | <b>2013</b>                                     | <b>2012</b>  |            |                  |
| Aviation segment | \$ 3,930,588                                    | \$ 3,411,547 | \$ 519,041 |                  |
| Marine segment   | 3,717,139                                       | 3,904,191    | (187,052)  |                  |
| Land segment     | 2,536,302                                       | 2,163,317    | 372,985    |                  |
|                  | \$ 10,184,029                                   | \$ 9,479,055 | \$ 704,974 |                  |

Our aviation segment revenue for the first quarter of 2013 was \$3.9 billion, an increase of \$0.5 billion, or 15.2% as compared to the first quarter of 2012. Of the increase in aviation segment revenue, \$0.4 billion was due to increased volume principally attributable to new and existing customers and \$0.1 billion was due to an increase in the average price per gallon sold as a result of higher average jet fuel prices in the first quarter of 2013 as compared to the first quarter of 2012.

Our marine segment revenue for the first quarter of 2013 was \$3.7 billion, a decrease of \$0.2 billion, or 4.8%, as compared to the first quarter of 2012. Of the decrease in marine segment revenue, \$0.4 billion was due to a decrease in the average price per metric ton sold as a result of lower average marine fuel prices in the first quarter of 2013 as compared to the first quarter of 2012, which was partially offset by \$0.2 billion in increased volume attributable to new and existing customers.

Our land segment revenue for the first quarter of 2013 was \$2.5 billion, an increase of \$0.4 billion, or 17.2%, as compared to the first quarter of 2012. The increase in land segment revenue was principally due to the inclusion of revenue from acquired businesses.

*Gross Profit.* Our gross profit for the first quarter of 2013 was \$182.4 million, an increase of \$25.1 million, or 16.0% as compared to the first quarter of 2012. Our gross profit during these periods was attributable to the following segments (in thousands):

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

For the Three Months ended  
March 31,

|  | 2013 |  | 2012 | \$ Change |
|--|------|--|------|-----------|
|--|------|--|------|-----------|

|                  |            |  |            |           |
|------------------|------------|--|------------|-----------|
| Aviation segment | \$ 76,984  |  | \$ 64,914  | \$ 12,070 |
| Marine segment   | 41,682     |  | 55,077     | (13,395)  |
| Land segment     | 63,713     |  | 37,244     | 26,469    |
|                  | \$ 182,379 |  | \$ 157,235 | \$ 25,144 |

Our aviation segment gross profit for the first quarter of 2013 was \$77.0 million, an increase of \$12.1 million, or 18.6%, as compared to the first quarter of 2012. Of the increase in aviation segment gross profit, \$7.1 million was due to increased volume attributable to new and existing customers, \$3.7 million was due to gross profit from acquired businesses and \$1.3 million was principally due to fluctuations in customer mix.

Our marine segment gross profit for the first quarter of 2013 was \$41.7 million, a decrease of \$13.4 million, or 24.3%, as compared to the first quarter of 2012. Of the decrease in marine segment gross profit, \$16.9 million was due to decreased gross profit per metric ton sold principally due to a further shift in business mix to lower risk, lower margin business and a lack of price volatility during the quarter. This was partially offset by \$3.5 million in increased volume attributable to new and existing customers.

Table of Contents

Our land segment gross profit for the first quarter of 2013 was \$63.7 million, an increase of \$26.5 million, or 71.1%, as compared to the first quarter of 2012. Of the increase in land segment gross profit, \$20.4 million was due to gross profit from acquired businesses and \$6.1 million was due to higher gross profit per gallon sold principally due to fluctuations in customer mix.

*Operating Expenses.* Total operating expenses for the first quarter of 2013 were \$115.4 million, an increase of \$17.5 million, or 17.8%, as compared to the first quarter of 2012. The following table sets forth our expense categories (in thousands):

|                                    | For the Three Months ended<br>March 31, |    |        | \$ Change |
|------------------------------------|---|----|--------|-----------|
|                                    | 2013                                    |    | 2012   |           |
| Compensation and employee benefits | \$ 69,429                               | \$ | 54,527 | \$ 14,902 |
| Provision for bad debt             | 1,103                                   |    | 141    | 962       |
| General and administrative         | 44,906                                  |    | 43,311 | 1,595     |
|                                    | \$ 115,438                              | \$ | 97,979 | \$ 17,459 |

The \$14.9 million increase in compensation and employee benefits was principally due to the inclusion of expenses from acquired businesses. The \$1.0 million increase in provision for bad debt was principally due to an overall increase in the accounts receivable balance. The \$1.6 million increase in general and administrative expenses was due to \$5.9 million related to the inclusion of expenses from acquired businesses, which was partially offset by \$4.3 million in decreased expenses due to efforts to drive greater operational efficiencies.

*Income from Operations.* Our income from operations for the first quarter of 2013 was \$66.9 million, an increase of \$7.7 million, or 13.0%, as compared to the first quarter of 2012. Income from operations during these periods was attributable to the following segments (in thousands):

|                                  | For the Three Months ended<br>March 31, |    |        | \$ Change |
|----------------------------------|---|----|--------|-----------|
|                                  | 2013                                    |    | 2012   |           |
| Aviation segment                 | \$ 34,880                               | \$ | 26,833 | \$ 8,047  |
| Marine segment                   | 15,259                                  |    | 27,445 | (12,186)  |
| Land segment                     | 27,380                                  |    | 16,200 | 11,180    |
|                                  | 77,519                                  |    | 70,478 | 7,041     |
| Corporate overhead - unallocated | 10,578                                  |    | 11,222 | (644)     |
|                                  | \$ 66,941                               | \$ | 59,256 | \$ 7,685  |

Our aviation segment income from operations for the first quarter of 2013 was \$34.9 million, an increase of \$8.0 million, or 30.0%, as compared to the first quarter of 2012. This increase resulted from \$12.1 million in higher gross profit, which was partially offset by increased operating expenses of \$4.1 million. Of the increase in aviation segment operating expenses, \$2.6 million was related to the inclusion of acquired businesses.

Our marine segment income from operations for the first quarter of 2013 was \$15.3 million, a decrease of \$12.2 million, or 44.4%, as compared to the first quarter of 2012. This decrease resulted from \$13.4 million in lower gross profit, which was partially offset by decreased operating



expenses of \$1.2 million.

Our land segment income from operations for the first quarter of 2013 was \$27.4 million, an increase of \$11.2 million, or 69.0%, as compared to the first quarter of 2012. This increase resulted from \$26.5 million in higher gross profit, which was partially offset by increased operating expenses of \$15.3 million. Of the increase in land segment operating expenses, \$14.1 million was related to the inclusion of acquired businesses.

Corporate overhead costs not charged to the business segments for the first quarter of 2013 were \$10.6 million, a decrease of \$0.6 million, or 5.7%, as compared to the first quarter of 2012.

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

### Table of Contents

*Non-Operating Expenses, net.* For the first quarter of 2013, we had non-operating expenses, net of \$3.5 million, a decrease of \$0.6 million as compared to the first quarter of 2012. This decrease was principally due to a \$1.1 million decrease in interest expense and other financing costs, net as a result of lower average borrowing rates under the Credit Facility in the first quarter of 2013 as compared to the first quarter of 2012 and \$0.5 million in earnings from our equity investments in the first quarter of 2013. This was partially offset by a \$1.0 million change resulting from foreign currency exchange losses of \$0.5 million for the first quarter of 2013 as compared to foreign currency exchange gains of \$0.5 million for the first quarter of 2012.

*Income Taxes.* For the first quarter of 2013, our effective income tax rate was 19.4% and our income tax provision was \$12.3 million, as compared to an effective income tax rate of 12.0% and an income tax provision of \$6.6 million for the first quarter of 2012. The higher effective income tax rate for the first quarter of 2013 resulted principally from differences in the results of our subsidiaries in tax jurisdictions with different income tax rates as compared to the first quarter of 2012 and an income tax benefit of \$3.3 million for a discrete item related to a change in estimate for an uncertain tax position recorded in the first quarter of 2012.

*Net Income and Diluted Earnings per Common Share.* Our net income for the first quarter of 2013 was \$48.7 million, an increase of \$2.3 million, or 5.0%, as compared to the first quarter of 2012. Diluted earnings per common share for the first quarter of 2013 was \$0.68 per common share, an increase of \$0.03 per common share, or 4.6%, as compared to the first quarter of 2012.

*Non-GAAP Net Income and Non-GAAP Diluted Earnings per Common Share.* Our non-GAAP net income for the first quarter of 2013 was \$55.0 million, an increase of \$2.1 million, or 4.0%, as compared to the first quarter of 2012. Non-GAAP diluted earnings per common share for the first quarter of 2013 was \$0.77 per common share, an increase of \$0.03 per common share, or 4.1%, as compared to the first quarter of 2012. The following table sets forth the reconciliation between our net income and non-GAAP net income for the first quarter of 2013 and 2012 (in thousands):

|   | For the Three Months ended<br>March 31, |           |
|---|---|-----------|
|   | 2013                                    | 2012      |
| Net income attributable to World Fuel   | \$ 48,725                               | \$ 46,415 |
| Share-based compensation expense, net of income taxes of \$1,329 and \$904 for 2013 and 2012, respectively      | 2,543                                   | 2,001     |
| Intangible asset amortization expense, net of income taxes of \$2,113 and \$245 for 2013 and 2012, respectively | 3,732                                   | 4,466     |
| Non-GAAP net income attributable to World Fuel  | \$ 55,000                               | \$ 52,882 |

The following table sets forth the reconciliation between our diluted earnings per common share and non-GAAP diluted earnings per common share for the first quarter of 2013 and 2012:

|   | For the Three Months ended<br>March 31, |         |
|---|---|---------|
|   | 2013                                    | 2012    |
| Diluted earnings per common share                     | \$ 0.68                                 | \$ 0.65 |
| Share-based compensation expense, net of income taxes | 0.04                                    | 0.03    |

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

|  |    |      |    |      |
|--|----|------|----|------|
| Intangible asset amortization expense, net of income taxes |    | 0.05 |    | 0.06 |
| Non-GAAP diluted earnings per common share                 | \$ | 0.77 | \$ | 0.74 |

Table of Contents

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 common 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***Cash Flows*

The following table reflects the major categories of cash flows for the three months ended March 31, 2013 and 2012. For additional details, please see the consolidated statements of cash flows.

|   | <b>For the Three Months ended<br/>March 31,</b> |             |
|---|---|-------------|
|   | <b>2013</b>                                     | <b>2012</b> |
| Net cash provided by operating activities | \$ 109,510                                      | \$ 48,792   |
| Net cash used in investing activities     | (12,949)  | (4,153)     |
| Net cash used in financing activities     | (109,053)                                       | (9,151)     |

*Operating Activities.* For the three months ended March 31, 2013, net cash provided by operating activities was \$109.5 million as compared to \$48.8 million for the first three months of 2012. The \$60.7 million increase in operating cash flows was primarily due to favorable year-over-year changes in working capital items.

*Investing Activities.* For the three months ended March 31, 2013, net cash used in investing activities was \$12.9 million as compared to \$4.2 million for the first three months of 2012. The \$8.7 million increase in cash used in investing activities was principally due to capital expenditures for fuel transportation equipment and the upgrade and expansion of one of our inventory storage facilities during the first three months of 2013.

*Financing activities.* For the three months ended March 31, 2013, net cash used in financing activities was \$109.1 million as compared \$9.2 million for the first three months of 2012. The \$99.9 million increase in cash used in financing activities was principally due to net repayments of borrowings under our Credit Facility in the first three months of 2013 as compared to the first three months of 2012.

*Other Liquidity Measures*

*Cash and Cash Equivalents.* As of March 31, 2013 and December 31, 2012, we had cash and cash equivalents of \$159.6 million and \$172.7 million, respectively, of which \$74.3 million and \$172.7 million, respectively, was available for usage by our U.S. subsidiaries without incurring additional costs. 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.

Table of Contents

*Credit Facility and Term Loans.* We have a senior revolving credit facility ( *Credit Facility* ) which 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. The Credit Facility expires in July 2016. We had no outstanding borrowings under our Credit Facility as of March 31, 2013 and had \$100.5 million of outstanding borrowings as of December 31, 2012. Our issued letters of credit under the Credit Facility totaled \$19.1 million and \$47.4 million as of March 31, 2013 and December 31, 2012, respectively. We also had \$247.3 million and \$247.5 million in senior term loans ( *Term Loans* ) outstanding as of March 31, 2013 and December 31, 2012, respectively.

Our liquidity, consisting of cash and cash equivalents and availability under the Credit Facility, fluctuates 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 and our Term Loans contain certain financial covenants with which we are required to comply. Our failure to comply with the financial covenants contained in our Credit Facility and our Term Loans 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 and our Term Loans, trigger cross-defaults under other agreements to which we are a party and impair our ability to borrow and issue letters of credit, which would have a material adverse effect on our business, financial condition, results of operations and cash flows. As of March 31, 2013, we were in compliance with all financial covenants contained in our Credit Facility and our Term Loans.

*Other Credit Lines.* Additionally, we have other uncommitted credit lines aggregating \$203.3 million primarily 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, 2013 and December 31, 2012, our outstanding letters of credit and bank guarantees under these credit lines totaled \$168.9 million and \$184.2 million, respectively. We also have a Receivables Purchase Agreement ( *RPA* ) to allow for the sale of up to \$125.0 million of our accounts receivable. As of March 31, 2013, we had sold accounts receivable of \$70.8 million and recorded a retained beneficial interest of \$4.8 million under the RPA.

*Short-Term Debt.* As of March 31, 2013, our short-term debt of \$28.4 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, Term Loan borrowings 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 financial 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 on terms favorable to us.

**Contractual Obligations and Off-Balance Sheet Arrangements**

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

Except for changes in the contractual obligations and off-balance sheet arrangements described below, there were no other material changes from December 31, 2012 to March 31, 2013. For a discussion of these matters, refer to Contractual Obligations and Off-Balance Sheet Arrangements in Item 7 of our 2012 10-K Report.

### *Contractual Obligations*

*Derivative Obligations.* As of March 31, 2013, our net derivative obligations were \$13.4 million, principally due within one year.

*Purchase Commitment Obligations.* As of March 31, 2013, our purchase commitment obligations were \$25.0 million, principally due within one year.

Table of Contents

*Off-Balance Sheet Arrangements*

*Letters of Credit and Bank Guarantees.* In the normal course of business, we are required to provide letters of credit to certain suppliers. A majority of these letters of credit expire within one year from their issuance, and expired letters of credit are renewed as needed. As of March 31, 2013, we had issued letters of credit and bank guarantees totaling \$188.0 million under our Credit Facility and other uncommitted credit lines. For additional information on our Credit Facility and other credit lines, see the discussion 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 10-Q Report.

**Item 3. Quantitative and Qualitative Disclosures About Market Risk**

**Derivatives**

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 or futures as well as certain fixed price purchase and sale contracts and proprietary trading. In addition, non-designated derivatives are also entered into to hedge the risk of currency rate fluctuations.



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

Table of Contents

As of March 31, 2013, our derivative instruments, at their respective fair value positions were as follows (in thousands, except weighted average fixed price and weighted average mark-to-market amount):

| Hedge Strategy   | Settlement Period                  | Derivative Instrument                             | Notional   | Unit | Weighted Average Fixed Price | Weighted Average Mark-to-Market Amount | Fair Value Amount |
|------------------|------------------------------------|---|------------|------|------------------------------|--|-------------------|
| Cash Flow Hedge  | 2013                               | Foreign currency contracts (long)                 | 1,290      | EUR  | \$ 0.81                      | \$ 0.05                                | \$ 58             |
| Fair Value Hedge | 2013                               | Commodity contracts for inventory hedging (long)  | 344        | BBL  | \$ 123.50                    | \$ 0.42                                | \$ 146            |
|                  | 2013                               | Commodity contracts for inventory hedging (short) | 1,969      | BBL  | 124.88                       | (0.15)                                 | (305)             |
|                  |                                    |   |            |      |                              |  | \$ (159)          |
| Non-Designated   | 2013                               | Commodity contracts (long)                        | 38,792     | BBL  | \$ 73.58                     | \$ 0.88                                | \$ 33,977         |
|                  | 2013                               | Commodity contracts (short)                       | 28,789     | BBL  | 88.44                        | (0.87)                                 | (25,070)          |
|                  | 2014                               | Commodity contracts (long)                        | 892        | BBL  | 78.21                        | 3.10                                   | 2,765             |
|                  | 2014                               | Commodity contracts (short)                       | 870        | BBL  | 77.22                        | (3.10)                                 | (2,693)           |
|                  | 2015                               | Commodity contracts (long)                        | 26         | BBL  | 115.68                       | 0.58                                   | 15                |
|                  | 2015                               | Commodity contracts (short)                       | 32         | BBL  | 113.77                       |  |                   |
|                  | 2013                               | Foreign currency contracts (long)                 | 22,007     | AUD  | 1.04                         | 0.01                                   | 130               |
|                  | 2013                               | Foreign currency contracts (short)                | 32,427     | AUD  | 1.03                         | (0.01)                                 | (190)             |
|                  | 2013                               | Foreign currency contracts (long)                 | 412        | BRL  | 2.02                         | 0.01                                   | 5                 |
|                  | 2013                               | Foreign currency contracts (long)                 | 71,669     | CAD  | 1.01                         | (0.01)                                 | (1,036)           |
|                  | 2013                               | Foreign currency contracts (short)                | 79,647     | CAD  | 1.01                         | 0.01                                   | 843               |
|                  | 2013                               | Foreign currency contracts (long)                 | 2,598,733  | CLP  | 474.79                       | 0.00                                   | 22                |
|                  | 2013                               | Foreign currency contracts (short)                | 1,163,807  | CLP  | 479.85                       | (0.00)                                 | (37)              |
|                  | 2013                               | Foreign currency contracts (long)                 | 48,270,679 | COP  | 1,800.41                     | (0.00)                                 | (475)             |
|                  | 2013                               | Foreign currency contracts (short)                | 42,162,424 | COP  | 1,804.60                     | 0.00                                   | 361               |
|                  | 2013                               | Foreign currency contracts (long)                 | 39,638     | DKK  | 5.68                         | (0.00)                                 | (141)             |
|                  | 2013                               | Foreign currency contracts (short)                | 25,010     | DKK  | 5.72                         | 0.00                                   | 53                |
|                  | 2013                               | Foreign currency contracts (long)                 | 17,069     | EUR  | 0.76                         | (0.03)                                 | (463)             |
|                  | 2013                               | Foreign currency contracts (short)                | 34,160     | EUR  | 0.76                         | 0.03                                   | 943               |
|                  | 2013                               | Foreign currency contracts (long)                 | 136,493    | GBP  | 0.64                         | (0.04)                                 | (4,982)           |
|                  | 2013                               | Foreign currency contracts (short)                | 193,282    | GBP  | 0.64                         | 0.04                                   | 8,060             |
|                  | 2013                               | Foreign currency contracts (short)                | 111,367    | INR  | 54.73                        | (0.00)                                 | (4)               |
|                  | 2013                               | Foreign currency contracts (long)                 | 110,038    | JPY  | 84.51                        | (0.00)                                 | (32)              |
|                  | 2013                               | Foreign currency contracts (short)                | 210,921    | JPY  | 86.79                        | 0.00                                   | 166               |
|                  | 2013                               | Foreign currency contracts (long)                 | 1,586,573  | MXN  | 12.75                        | 0.00                                   | 3,919             |
|                  | 2013                               | Foreign currency contracts (short)                | 1,471,020  | MXN  | 12.78                        | (0.00)                                 | (3,450)           |
|                  | 2013                               | Foreign currency contracts (long)                 | 14,700     | NOK  | 5.67                         | (0.01)                                 | (92)              |
|                  | 2013                               | Foreign currency contracts (short)                | 16,367     | NOK  | 5.66                         | 0.01                                   | 103               |
|                  | 2013                               | Foreign currency contracts (long)                 | 3,856      | PLN  | 3.22                         | (0.01)                                 | (25)              |
|                  | 2013                               | Foreign currency contracts (short)                | 9,160      | PLN  | 3.17                         | 0.01                                   | 76                |
|                  | 2013                               | Foreign currency contracts (short)                | 8,533      | RON  | 3.42                         | (0.00)                                 | (5)               |
|                  | 2013                               | Foreign currency contracts (long)                 | 27,737     | SGD  | 1.23                         | (0.00)                                 | (76)              |
| 2013             | Foreign currency contracts (short) | 26,490  | SGD        | 1.24 | 0.00                         | 121                                    |                   |
| 2013             | Foreign currency contracts (short) | 30,264  | ZAR        | 9.12 | 0.00                         | 15                                     |                   |
| 2014             | Foreign currency contracts (long)  | 250   | GBP        | 0.62 | (0.10)                       | (24)                                   |                   |
| 2014             | Foreign currency contracts (short) | 4,290   | GBP        | 0.64 | 0.06                         | 274                                    |                   |
|                  |                                    |   |            |      |                              |  | \$ 13,053         |

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

There have been no material changes to our exposures to interest rate or foreign currency risk since December 31, 2012. Please refer to our 2012 10-K Report for a complete discussion of our exposure to these risks.

### **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.

Table of Contents

As of the end of the period covered by this 10-Q Report, 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, 2013.

**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, 2013.

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***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, 2013 (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 Common Stock Repurchases under Publicly Announced Plans or Programs (2) |
|----------------|--------------------------------------|------------------------------|--|--|--|
| 1/1/13-1/31/13 |                                      | \$                           |  | \$   | \$ 50,000  |
| 2/1/13-2/28/13 |                                      |                              |  |  | 50,000   |
| 3/1/13-3/31/13 | 13                                   | 39.58                        |  |  | 50,000   |
| Total          | 13                                   | \$ 39.58                     |  | \$   | \$ 50,000  |

(1) These shares relate to the purchase of common stock tendered by employees to satisfy the required withholding taxes related to share-based payment awards.

(2) In October 2008, our Board of Directors authorized a \$50.0 million common stock repurchase program. The program does not require a minimum number of shares of common stock to be purchased and has no expiration date but may be suspended or discontinued at any time. As of March 31, 2013, no shares of our common stock had been repurchased under this program. The timing and amount of shares of common stock to be repurchased under the program will depend on market conditions, share price, securities law and other legal requirements and other factors.

**Item 6. Exhibits**

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

| <b>Exhibit No.</b> | <b>Description</b>  |
|--------------------|---|
| 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, 2013, formatted in XBRL (Extensible Business Reporting Language); (i) Consolidated Balance Sheets, (ii) Consolidated Statements of Income and Comprehensive Income, (iii) Consolidated Statements of Shareholders' Equity, (iv) Consolidated Statements of Cash Flows, and (v) Notes to the Consolidated Financial Statements. |

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: April 30, 2013

World Fuel Services Corporation

/s/ Michael J. Kasbar  
Michael J. Kasbar  
President and Chief Executive Officer

/s/ Ira M. Birns  
Ira M. Birns  
Executive Vice-President and Chief Financial Officer

---