

WORLD FUEL SERVICES CORP

Form 10-Q

July 29, 2016

Table of Contents

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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 JUNE 30, 2016

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

FOR THE TRANSITION PERIOD FROM TO

COMMISSION FILE NUMBER 1-9533

WORLD FUEL SERVICES CORPORATION

(Exact name of registrant as specified in its charter)

Florida	59-2459427
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
9800 N.W. 41st Street	
Miami, Florida	33178
(Address of Principal Executive Offices)	(Zip Code)

Registrant's Telephone Number, including area code: (305) 428-8000

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

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

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

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

The registrant had a total of 70,446,000 shares of common stock, par value \$0.01 per share, issued and outstanding as of July 20, 2016.



Table of Contents

Table of Contents

Part I. Financial Information

Item 1. Financial Statements (Unaudited)

<u>Consolidated Balance Sheets as of June 30, 2016 and December 31, 2015</u>	1
<u>Consolidated Statements of Income and Comprehensive Income for the Three and Six Months ended June 30, 2016 and 2015</u>	2
<u>Consolidated Statements of Shareholders' Equity for the Six Months ended June 30, 2016 and 2015</u>	3
<u>Consolidated Statements of Cash Flows for the Six Months ended June 30, 2016 and 2015</u>	4
<u>Notes to the Consolidated Financial Statements</u>	6

<u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	22
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<u>Item 3. Quantitative and Qualitative Disclosures About Market Risk</u>	33
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<u>Item 4. Controls and Procedures</u>	33
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Part II. Other Information

<u>Item 1. Legal Proceedings</u>	34
----------------------------------	----

<u>Item 1A. Risk Factors</u>	34
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<u>Item 2. Unregistered sales of Equity Securities and Use of Proceeds</u>	34
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<u>Item 6. Exhibits</u>	35
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<u>Signatures</u>	36
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Table of Contents

## Part I — Financial Information

## Item 1. Financial Statements

## World Fuel Services Corporation and Subsidiaries

## Consolidated Balance Sheets

(Unaudited - In millions, except per share data)

	As of June 30, 2016	December 31, 2015
Assets:		
Current assets:		
Cash and cash equivalents	\$ 737.2	\$ 582.5
Accounts receivable, net	2,030.7	1,812.6
Inventories	373.5	359.1
Prepaid expenses	46.0	57.9
Short-term derivative assets, net	44.7	220.4
Other current assets	282.7	208.0
Current assets held for sale	—	5.5
Total current assets	3,514.8	3,246.0
Property and equipment, net	220.9	225.6
Goodwill	672.2	675.8
Identifiable intangible and other non-current assets	340.6	341.4
Non-current assets held for sale	—	36.5
Total assets	\$ 4,748.5	\$ 4,525.3
Liabilities:		
Current liabilities:		
Short-term debt	\$ 28.8	\$ 25.5
Accounts payable	1,520.1	1,349.6
Customer deposits	102.3	118.3
Accrued expenses and other current liabilities	260.5	255.2
Current liabilities held for sale	—	5.6
Total current liabilities	1,911.7	1,754.2
Long-term debt	767.7	746.7

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Non-current income tax liabilities, net	93.1	87.7
Other long-term liabilities	22.9	25.8
Non-current liabilities held for sale	—	5.0
Total liabilities	2,795.3	2,619.4
Commitments and contingencies		
Equity:		
World Fuel shareholders' equity:		
Preferred stock, \$1.00 par value; 0.1 shares authorized, none issued	—	—
Common stock, \$0.01 par value; 100 shares authorized, 70.4 and 70.8 issued and outstanding as of June 30, 2016 and December 31, 2015, respectively	0.7	0.7
Capital in excess of par value	411.0	435.3
Retained earnings	1,642.7	1,569.4
Accumulated other comprehensive loss	(118.6)	(109.5)
Total World Fuel shareholders' equity	1,935.8	1,895.9
Noncontrolling interest equity	17.5	10.0
Total equity	1,953.3	1,905.9
Total liabilities and equity	\$ 4,748.6	\$ 4,525.3

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 millions, except per share data)

	For the Three Months ended June 30,		For the Six Months ended June 30,	
	2016	2015	2016	2015
Revenue	\$ 6,633.0	\$ 8,496.4	\$ 11,823.9	\$ 15,837.1
Cost of revenue	6,414.5	8,306.0	11,383.9	15,433.1
Gross profit	218.5	190.4	440.0	404.0
Operating expenses:				
Compensation and employee benefits	103.7	87.5	199.6	176.2
Provision for bad debt	2.5	2.3	3.9	3.6
General and administrative	66.8	59.0	129.9	115.0
	173.0	148.8	333.4	294.8
Income from operations	45.6	41.6	106.6	109.2
Non-operating expenses, net:				
Interest expense and other financing costs, net	(8.1)	(6.4)	(15.7)	(13.7)
Other (expense) income, net	(0.6)	(1.6)	0.7	(1.3)
	(8.7)	(8.0)	(15.0)	(15.0)
Income before income taxes	36.9	33.6	91.6	94.2
Provision for income taxes	7.1	4.6	10.3	15.9
Net income including noncontrolling interest	29.8	29.0	81.3	78.3
Net loss attributable to noncontrolling interest	(0.2)	(1.5)	(0.3)	(2.6)
Net income attributable to World Fuel	\$ 30.0	\$ 30.5	\$ 81.6	\$ 80.9
Basic earnings per common share	\$ 0.43	\$ 0.43	\$ 1.17	\$ 1.14
Basic weighted average common shares	69.5	70.7	69.5	70.7
Diluted earnings per common share	\$ 0.43	\$ 0.43	\$ 1.17	\$ 1.13
Diluted weighted average common shares	70.0	71.2	70.0	71.3
Comprehensive income:				
Net income including noncontrolling interest	\$ 29.8	\$ 29.0	\$ 81.3	\$ 78.3
Other comprehensive (loss) income:				
Foreign currency translation adjustments	(14.5)	21.4	(13.2)	(10.6)
Derivative instruments, net of income tax expense of \$3.3 and \$3.4 for the three and six months ended June 30, 2016, respectively	5.2	—	5.0	—
Other comprehensive (loss) income	(9.3)	21.4	(8.3)	(10.6)
Comprehensive income including noncontrolling interest	20.5	50.4	73.0	67.7

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Comprehensive (loss) income attributable to noncontrolling interest	(1.0)	(1.2)	0.5	(0.1)
Comprehensive income attributable to World Fuel	\$ 21.5	\$ 51.6	\$ 72.5	\$ 67.8

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

2

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Table of Contents

World Fuel Services Corporation and Subsidiaries

Consolidated Statements of Shareholders' Equity

(Unaudited - In millions)

	Common Stock		Capital in Excess of Par Value	Retained Earnings	Accumulated Other Comprehensive Loss	Total World Fuel Shareholders' Equity	Noncontrolling Interest Equity	Total Equity
	Shares	Amount						
Balance as of December 31, 2015	70.8	\$ 0.7	\$ 435.3	\$ 1,569.4	\$ (109.5)	\$ 1,895.9	\$ 10.0	\$ 1,905.9
Net income (loss)	—	—	—	81.6	—	81.6	(0.3)	81.3
Cash dividends declared	—	—	—	(8.3)	—	(8.3)	—	(8.3)
Distribution of noncontrolling interest	—	—	—	—	—	—	(0.2)	(0.2)
Amortization of share-based payment awards	—	—	8.9	—	—	8.9	—	8.9
Issuance of common stock related to share-based payment awards	0.1	—	—	—	—	—	—	—
Purchases of common stock tendered by employees to satisfy the required withholding taxes related to share-based payment awards	(0.1)	—	(3.9)	—	—	(3.9)	—	(3.9)
Purchases of common stock	(0.4)	—	(18.4)	—	—	(18.4)	—	(18.4)
Acquisition of remaining 49% equity interest(a)	—	—	(10.9)	—	—	(10.9)	7.2	(3.7)

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Other comprehensive (loss) income	—	—	—	—	(9.1)	(9.1)	0.8	(8.3)
Balance as of June 30, 2016	70.4	\$ 0.7	\$ 411.0	\$ 1,642.7	\$ (118.6)	\$ 1,935.8	\$ 17.5	\$ 1,953.3

(a) Relates to Tobras. See Note 3. Acquisitions, Asset and Liabilities Held for Sale.

	Common Shares	Stock Amount	Capital in Excess of Par Value	Retained Earnings	Accumulated Other Comprehensive Loss	Total World Fuel Shareholders' Equity	Noncontrolling Equity	Total Equity
Balance as of December 31, 2014	72.1	\$ 0.7	\$ 496.4	\$ 1,412.0	\$ (59.2)	\$ 1,849.9	\$ 9.5	\$ 1,859.4
Net income (loss)	—	—	—	80.9	—	80.9	(2.6)	78.3
Cash dividends declared	—	—	—	(8.5)	—	(8.5)	—	(8.5)
Amortization of share-based payment awards	—	—	8.1	—	—	8.1	—	8.1
Issuance of common stock related to share-based payment awards, including income tax benefit of \$1.5	0.3	—	1.5	—	—	1.5	—	1.5
Purchases of common stock tendered by employees to satisfy the required withholding taxes related to share-based payment awards	(0.1)	—	(7.0)	—	—	(7.0)	—	(7.0)
Purchases of common stock	(0.5)	—	(30.0)	—	—	(30.0)	—	(30.0)
Other comprehensive (loss) income	—	—	—	—	(13.1)	(13.1)	2.5	(10.6)
Other	—	—	(0.1)	—	—	(0.1)	0.1	—
Balance as of June 30, 2015	71.8	\$ 0.7	\$ 468.9	\$ 1,484.4	\$ (72.3)	\$ 1,881.7	\$ 9.5	\$ 1,891.2

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

3

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Table of Contents

## World Fuel Services Corporation and Subsidiaries

## Consolidated Statements of Cash Flows

(Unaudited - In millions)

	For the Six Months ended	
	June 30,	
	2016	2015
Cash flows from operating activities:		
Net income including noncontrolling interest	\$ 81.3	\$ 78.3
Adjustments to reconcile net income including noncontrolling interest to net cash provided by operating activities:		
Depreciation and amortization	36.7	30.6
Provision for bad debt	3.9	3.6
Gain on sale of held for sale assets and liabilities	(3.8)	
Share-based payment award compensation costs	8.8	8.4
Deferred income tax provision (benefit)	0.2	3.0
Extinguishment of liabilities	(1.7)	(5.3)
Foreign currency losses, net	(4.2)	15.8
Other	2.8	1.4
Changes in assets and liabilities, net of acquisitions:		
Accounts receivable, net	(230.1)	(50.1)
Inventories	(10.2)	(17.2)
Prepaid expenses	12.4	6.6
Short-term derivative assets, net	174.6	165.5
Other current assets	(56.6)	(117.8)
Cash collateral with financial counterparties	113.0	149.2
Other non-current assets	6.8	7.9
Accounts payable	190.0	50.8
Customer deposits	(15.9)	(42.0)
Accrued expenses and other current liabilities	(101.2)	(94.9)
Non-current income tax, net and other long-term liabilities	(5.8)	(16.0)
Total adjustments	119.7	99.5
Net cash provided by operating activities	201.0	177.8
Cash flows from investing activities:		
Acquisition of businesses, net of cash acquired and other investments	(49.7)	(6.5)
Proceeds from sale of business	29.3	—
Capital expenditures	(23.3)	(21.9)
Other investing activities, net	6.9	4.4
Net cash (used in) investing activities	(36.8)	(24.0)
Cash flows from financing activities:		
Borrowings of debt	1,577.5	2,601.0
Repayments of debt	(1,557.3)	(2,520.5)
Payments of senior revolving credit facility and senior term loan facility loan costs	—	(3.4)
Dividends paid on common stock	(8.3)	(6.9)
Purchases of common stock	(18.4)	(30.0)

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Federal and state tax benefits resulting from tax deductions in excess of the compensation cost recognized for share-based payment awards	—	1.5
Purchases of common stock tendered by employees to satisfy the required withholding taxes related to share-based payment awards	(3.9)	(7.0)
Other financing activities, net	(0.2)	—
Net cash (used in) provided by financing activities	(10.6)	34.7
Effect of exchange rate changes on cash and cash equivalents	1.1	(1.1)
Net increase in cash and cash equivalents	154.7	187.4
Cash and cash equivalents, as of beginning of period	582.5	302.3
Cash and cash equivalents, as of end of period	\$ 737.2	\$ 489.7

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

Table of Contents

Supplemental Schedule of Noncash Investing and Financing Activities:

Cash dividends declared, but not yet paid, were \$4.2 million as of June 30, 2016 and \$4.2 million as of June 30, 2015.

Prior to the acquisition of the remaining 49% of the outstanding equity interest of Tobras Distribuidora de Combustiveis Limitada (“Tobras”) from the minority owners, the Company completed a \$17.7 million non-cash settlement related to two promissory notes outstanding between the Company and Tobras which were offset and settled.

The proceeds from the sale of fixed assets for the six months ended June 30, 2015 were in connection with a sale-leaseback arrangement.

In connection with our acquisitions, the following table presents the assets acquired, net of cash and liabilities assumed (in millions):

	For the Six Months ended June 30, 2016
Assets acquired, net of cash	\$ 31.3
Liabilities assumed	\$ 1.7

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. Basis of Presentation and Significant Accounting Policies

Basis of Presentation

We prepared the consolidated financial statements following the requirements of the United States (U.S.) Securities and Exchange Commission (SEC) for interim reporting. As permitted under those rules, certain footnotes or other financial information that are normally required by accounting principles generally accepted in the United States of America (U.S. GAAP) can be condensed or omitted. Unless the context requires otherwise, references to “World Fuel”, “the Company”, “we”, “us”, or “our” in this Quarterly Report on Form 10-Q (“10-Q Report”) refer to World Fuel Services Corporation and its subsidiaries.

Revenues, expenses, assets and liabilities can vary during each quarter of the year. Therefore, the results and trends in these interim financial statements may not be representative of those for the full year. As further discussed in Note 2, certain 2015 amounts contained in this 10-Q Report have been updated to reflect corrections to our previously issued financial statements. 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. The information included in this 10-Q Report should be read in conjunction with the consolidated financial statements and accompanying notes included in our 2015 Annual Report on Form 10-K (“2015 10-K Report”). Certain amounts in the consolidated financial statements and associated notes may not add due to rounding. All percentages have been calculated using unrounded amounts.

Significant Accounting Policies

The significant accounting policies we use for quarterly financial reporting are disclosed in Note 1 of the “Notes to the Consolidated Financial Statements” included in our 2015 10-K Report, and as updated in our 10-Q Report for the quarter ended March 31, 2016, “Item 2. Management’s Discussion and Analysis of Financial Condition”.

## Adoption of New Accounting Standards

The following accounting standards updates were recently adopted by the Company:

**Business Combinations: Simplifying the Accounting for Measurement – Period Adjustments.** In September 2015, the Financial Accounting Standards Board (“FASB”) issued an Accounting Standards Update (“ASU”), to simplify the accounting for adjustments made to provisional amounts recognized in a business combination; the amendments eliminate the requirement to retrospectively account for those adjustments. The ASU requires that an acquirer recognize adjustments to provisional amounts that are identified during the measurement period in the reporting period in which the adjustment amounts are determined. It also requires the acquirer to record, in the same period’s financial statements, the effect on earnings of changes in depreciation, amortization, or other income effects, if any, as a result of the change to the provisional amounts, calculated as if the accounting had been completed at the acquisition date. This update became effective at the beginning of our 2016 fiscal year. The adoption of this ASU did not have a significant impact on our consolidated financial statements and disclosures.

**Interest—Imputation of Interest: Simplifying the Presentation of Debt Issuance Costs.** In April 2015, the FASB issued an ASU which requires that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. The recognition and measurement guidance for debt issuance costs are not affected by the amendments in this ASU. This update became effective at the beginning of our 2016 fiscal year. The adoption of this ASU did not have a significant impact on our consolidated financial statements and disclosures.

**Consolidation: Amendments to the Consolidation Analysis.** In February 2015, the FASB issued an ASU which is intended to improve targeted areas of consolidation guidance for legal entities such as limited partnerships, limited liability corporations, and securitization structures. This update became effective at the beginning of our 2016 fiscal year. The adoption of this ASU did not have a significant impact on our consolidated financial statements and disclosures.

**Income Statement-Extraordinary and Unusual Items: Simplifying Income Statement Presentation by Eliminating the Concept of Extraordinary Items.** In January 2015, the FASB issued an ASU which eliminates the concept of extraordinary items. This update



## Table of Contents

became effective at the beginning of our 2016 fiscal year. The adoption of this ASU did not have a significant impact on our consolidated financial statements and disclosures.

**Derivatives and Hedging: Determining Whether the Host Contract in a Hybrid Financial Instrument Issued in the Form of a Share Is More Akin to Debt or to Equity.** In November 2014, the FASB issued an ASU which clarifies how current generally accepted accounting principles in the United States should be interpreted in evaluating the economic characteristics and risks of a host contract in a hybrid financial instrument that is issued in the form of a share. This update became effective at the beginning of our 2016 fiscal year. The adoption of this ASU did not have a significant impact on our consolidated financial statements and disclosures.

**Compensation - Stock Compensation. Accounting for Share-Based Payments when the Terms of an Award Provide that a Performance Target could be Achieved after the Requisite Service Period.** In June 2014, the FASB issued an ASU which includes guidance that requires a performance target that affects vesting and that could be achieved after the requisite service period to be treated as a performance condition. This update became effective at the beginning of our 2016 fiscal year. The adoption of this ASU did not have a significant impact on our consolidated financial statements and disclosures.

## 2. Correction of Previously Issued Financial Information

During the second quarter of 2016, we identified a correction to our provision for income taxes for certain prior periods, due to the accounting for the tax effects of foreign currency translation changes on intercompany loans that are considered to be of a long-term investment nature. The Company determined that it had incorrectly applied the accounting guidance in ASC 740, Income Taxes and recorded a deferred tax asset related to foreign currency translation losses in the provision for income taxes, resulting in the Company reporting a lower provision for income taxes in the periods that were impacted.

In accordance with Staff Accounting Bulletin (“SAB”) No. 99, Materiality, and SAB No. 108, Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements, management evaluated the materiality of the error from qualitative and quantitative perspectives, and concluded the error was not material to its previously issued annual and interim financial statements. The cumulative amounts of the corrections were approximately \$20.0 million, of which approximately \$12.5 million was attributable to the year ended December 31, 2015. The cumulative amount of the prior period adjustments would have been material to our current Statement of Income and Comprehensive Income had we made the correction in the current period, and accordingly we revise our previously issued financial statements prospectively to correct these errors.

The corrections associated with the provision for income taxes line items as well as other immaterial adjustments are reflected in this 10-Q Report for all periods presented and those corrections will be reflected in our future filings.



Table of Contents

The following tables present the effect of the correction on the previously reported consolidated balance sheet as of December 31, 2015 and the statements of income and comprehensive income for the three and six months ended June 30, 2015:

Consolidated Balance Sheets

(Unaudited - In millions, except per share data)