

WORLD FUEL SERVICES CORP

Form 10-Q

July 30, 2015

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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, 2015

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 71,778,000 shares of common stock, par value \$0.01 per share, issued and outstanding as of July 23, 2015.

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Part I — Financial Information

General

The following unaudited consolidated financial statements and notes thereto of World Fuel Services Corporation and its subsidiaries have been prepared in accordance with the instructions to Quarterly Reports on Form 10-Q and, therefore, omit or condense certain footnotes and other information normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States. In the opinion of management, all adjustments necessary for a fair presentation of the financial information, which are of a normal and recurring nature, have been made for the interim periods reported. Results of operations for the three and six months ended June 30, 2015 are not necessarily indicative of the results for the entire fiscal year. The unaudited consolidated financial statements and notes thereto included in this Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2015 (“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, 2014 (“2014 10-K Report”). World Fuel Services Corporation (the “Company”) and its subsidiaries are collectively referred to in this 10-Q Report as “World Fuel,” “we,” “our” and “us.”

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Item 1. Financial Statements

World Fuel Services Corporation and Subsidiaries

Consolidated Balance Sheets

(Unaudited - In millions, except per share data)

	As of June 30, 2015	December 31, 2014
Assets:		
Current assets:		
Cash and cash equivalents	\$ 489.7	\$ 302.3
Accounts receivable, net	2,358.2	2,307.4
Inventories	450.8	437.6
Prepaid expenses	62.0	76.9
Short-term derivative assets, net	129.3	303.6
Other current assets	392.5	246.6
Total current assets	3,882.5	3,674.4
Property and equipment, net	212.4	203.4
Goodwill	650.3	651.9
Identifiable intangible and other non-current assets	357.3	350.4
Total assets	\$ 5,102.5	\$ 4,880.1
Liabilities:		
Current liabilities:		
Short-term debt	\$ 22.2	\$ 17.9
Accounts payable	1,897.4	1,850.1
Customer deposits	94.3	138.8
Accrued expenses and other current liabilities	302.2	232.6
Total current liabilities	2,316.1	2,239.4
Long-term debt	751.6	672.0
Non-current income tax liabilities, net	112.5	84.5
Other long-term liabilities	22.2	19.3
Total liabilities	3,202.4	3,015.2
Commitments and contingencies		
Equity:		
World Fuel shareholders' equity:		
Preferred stock, \$1.00 par value; 0.1 shares authorized, none issued	—	—

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Common stock, \$0.01 par value; 100 shares authorized, 71.8 and 72.1 issued and outstanding as of June 30, 2015 and December 31, 2014, respectively	0.7	0.7
Capital in excess of par value	468.9	496.4
Retained earnings	1,495.5	1,418.5
Accumulated other comprehensive loss	(74.5)	(60.2)
Total World Fuel shareholders' equity	1,890.6	1,855.4
Noncontrolling interest equity	9.5	9.5
Total equity	1,900.1	1,864.9
Total liabilities and equity	\$ 5,102.5	\$ 4,880.1

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

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World Fuel Services Corporation and Subsidiaries

Consolidated Statements of Income and Comprehensive Income

(Unaudited – In millions, except per share data)

	For the Three Months ended June 30,		For the Six Months ended June 30,	
	2015	2014	2015	2014
Revenue	\$ 8,496.4	\$ 11,342.5	\$ 15,837.1	\$ 21,893.4
Cost of revenue	8,306.0	11,151.0	15,431.3	21,513.9
Gross profit	190.4	191.5	405.8	379.5
Operating expenses:				
Compensation and employee benefits	87.5	77.4	176.2	148.4
Provision for bad debt	2.3	1.2	3.6	2.3
General and administrative	59.0	53.1	113.0	104.7
	148.8	131.7	292.8	255.4
Income from operations	41.6	59.8	113.0	124.1
Non-operating expenses, net:				
Interest expense and other financing costs, net	(6.4)	(4.7)	(13.7)	(9.0)
Other (expense) income, net	(1.6)	1.5	(1.3)	3.3
	(8.0)	(3.2)	(15.0)	(5.7)
Income before income taxes	33.6	56.6	98.0	118.4
Provision for income taxes	5.2	10.2	15.1	21.5
Net income including noncontrolling interest	28.4	46.4	82.9	96.9
Net loss attributable to noncontrolling interest	(1.5)	(1.8)	(2.6)	(2.1)
Net income attributable to World Fuel	\$ 29.9	\$ 48.2	\$ 85.5	\$ 99.0
Basic earnings per common share	\$ 0.42	\$ 0.68	\$ 1.21	\$ 1.40
Basic weighted average common shares	70.7	70.8	70.7	70.8
Diluted earnings per common share	\$ 0.42	\$ 0.68	\$ 1.20	\$ 1.39
Diluted weighted average common shares	71.2	71.4	71.3	71.4
Comprehensive income:				
Net income including noncontrolling interest	\$ 28.4	\$ 46.4	\$ 82.9	\$ 96.9
Other comprehensive income (loss):				
Foreign currency translation adjustments	22.0	5.4	(11.8)	8.9
Other comprehensive income (loss)	22.0	5.4	(11.8)	8.9
Comprehensive income including noncontrolling interest	50.4	51.8	71.1	105.8
Comprehensive loss attributable to noncontrolling interest	(1.2)	(1.8)	(0.1)	(2.1)
Comprehensive income attributable to World Fuel	\$ 51.6	\$ 53.6	\$ 71.2	\$ 107.9

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

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World Fuel Services Corporation and Subsidiaries

Consolidated Statements of Shareholders' Equity

(Unaudited - In millions)

	Common Shares	Stock Amount	Capital in Excess of Par Value	Retained Earnings	Accumulated Other Comprehensive Loss	Total World Fuel Shareholders' Equity	Noncontrolling Interest Equity	Total Equity
Balance as of December 31, 2014	72.1	\$ 0.7	\$ 496.4	\$ 1,418.5	\$ (60.2)	\$ 1,855.4	\$ 9.5	\$ 1,864.9
Net income (loss)	—	—	—	85.5	—	85.5	(2.6)	82.9
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 Other	(0.5)	—	(30.0)	—	—	(30.0)	—	(30.0)
comprehensive (loss) income	—	—	—	—	(14.3)	(14.3)	2.5	(11.8)
Other	—	—	(0.1)	—	—	(0.1)	0.1	—

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Balance as of June 30, 2015	71.8	\$ 0.7	\$ 468.9	\$ 1,495.5	\$ (74.5)	\$ 1,890.6	\$ 9.5	\$ 1,900.1
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	Common Shares	Stock Amount	Capital in Excess of Par Value	Retained Earnings	Accumulated Other Comprehensive Loss	Total World Fuel Shareholders' Equity	Noncontrolling Interest Equity	Total Equity
Balance as of December 31, 2013	71.9	\$ 0.7	\$ 495.2	\$ 1,207.3	\$ (29.3)	\$ 1,673.9	\$ 5.0	\$ 1,678.9
Net income (loss)	—	—	—	99.0	—	99.0	(2.1)	96.9
Cash dividends declared	—	—	—	(5.3)	—	(5.3)	—	(5.3)
Initial noncontrolling interest upon acquisition of joint venture	—	—	—	—	—	—	2.0	2.0
Amortization of share-based payment awards	—	—	6.9	—	—	6.9	—	6.9
Issuance of common stock related to share-based payment awards, including income tax benefit of \$0.8	0.4	—	0.8	—	—	0.8	—	0.8
Purchases of common stock tendered by employees to satisfy the required withholding taxes related to share-based payment awards	—	—	(4.3)	—	—	(4.3)	—	(4.3)
Other comprehensive income	—	—	—	—	8.9	8.9	—	8.9
Balance as of June 30, 2014	72.3	\$ 0.7	\$ 498.6	\$ 1,301.0	\$ (20.4)	\$ 1,779.9	\$ 4.9	\$ 1,784.8

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

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World Fuel Services Corporation and Subsidiaries

Consolidated Statements of Cash Flows

(Unaudited - In millions)

	For the Six Months ended	
	June 30,	
	2015	2014
Cash flows from operating activities:		
Net income including noncontrolling interest	\$ 82.9	\$ 96.9
Adjustments to reconcile net income including noncontrolling interest to net cash provided by operating activities:		
Depreciation and amortization	28.5	27.1
Provision for bad debt	3.6	2.3
Share-based payment award compensation costs	8.4	7.7
Deferred income tax (benefit) provision	(0.4)	8.9
Extinguishment of liabilities	(5.3)	(2.9)
Foreign currency losses, net	14.6	2.8
Other	1.4	(4.4)
Changes in assets and liabilities, net of acquisitions:		
Accounts receivable, net	(51.9)	(159.6)
Inventories	(17.2)	(25.2)
Prepaid expenses	6.6	13.8
Short-term derivative assets, net	165.5	(15.1)
Other current assets	(117.8)	(32.9)
Cash collateral with financial counterparties	149.2	(1.2)
Other non-current assets	7.9	(2.5)
Accounts payable	50.8	121.5
Customer deposits	(42.0)	61.0
Accrued expenses and other current liabilities	(91.0)	3.8
Non-current income tax, net and other long-term liabilities	(16.0)	—
Total adjustments	94.9	5.1
Net cash provided by operating activities	177.8	102.0
Cash flows from investing activities:		
Acquisition of businesses, net of cash acquired and other investments	(6.5)	(164.2)
Capital expenditures	(21.9)	(20.0)
Proceeds from the sale of fixed assets	5.3	—
Escrow payment related to an assumed obligation of an acquired business	—	(21.7)
Purchase of investments	(0.9)	(1.1)
Repayment of notes receivable	—	0.2
Net cash used in investing activities	(24.0)	(206.8)
Cash flows from financing activities:		
Borrowings of debt	2,601.0	2,977.3
Repayments of debt	(2,520.5)	(2,760.4)
Payments of senior revolving credit facility and senior term loan facility loan costs	(3.4)	—
Dividends paid on common stock	(6.9)	—