

WORLD FUEL SERVICES CORP

Form 10-Q

April 30, 2014

[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, 2014

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, Suite 400

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 71,978,000 shares of common stock, par value \$0.01 per share, issued and outstanding as of April 24, 2014.

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, 2014 and December 31, 2013</u> | 2 |
| | | <u>Consolidated Statements of Income and Comprehensive Income for the Three Months ended March 31, 2014 and 2013</u> | 3 |
| | | <u>Consolidated Statements of Shareholders' Equity for the Three Months ended March 31, 2014 and 2013</u> | 4 |
| | | <u>Consolidated Statements of Cash Flows for the Three Months ended March 31, 2014 and 2013</u> | 5 |
| | | <u>Notes to the Consolidated Financial Statements</u> | 7 |
| | <u>Item 2.</u> | <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u> | 20 |
| | <u>Item 3.</u> | <u>Quantitative and Qualitative Disclosures About Market Risk</u> | 28 |
| | <u>Item 4.</u> | <u>Controls and Procedures</u> | 29 |
| <u>Part II.</u> | <u>Other Information</u> | | |
| | <u>Item 1.</u> | <u>Legal Proceedings</u> | 30 |
| | <u>Item 2.</u> | <u>Unregistered Sales of Equity Securities and Use of Proceeds</u> | 31 |
| | <u>Item 6.</u> | <u>Exhibits</u> | 31 |
| | <u>Signatures</u> | | |

Table of Contents

Part I Financial Information

General

The following unaudited consolidated financial statements and notes thereto of World Fuel Services Corporation and its subsidiaries have been prepared in accordance with the instructions to Quarterly Reports on Form 10-Q 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, 2014 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, 2014 (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, 2013 (2013 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, 2014 | As of | December 31, 2013 |
|--|---------------------|-----------|----------------------|
| Assets: | | | |
| Current assets: | | | |
| Cash and cash equivalents | \$ 446,499 | \$ | 292,061 |
| Accounts receivable, net | 2,771,626 | | 2,538,642 |
| Inventories | 584,842 | | 655,046 |
| Prepaid expenses | 88,731 | | 120,205 |
| Other current assets | 248,409 | | 209,547 |
| Total current assets | 4,140,107 | | 3,815,501 |
| Property and equipment, net | 189,721 | | 129,685 |
| Goodwill | 568,037 | | 483,591 |
| Identifiable intangible and other non-current assets | 369,101 | | 310,500 |
| Total assets | \$ 5,266,966 | \$ | 4,739,277 |
| Liabilities: | | | |
| Current liabilities: | | | |
| Short-term debt | \$ 15,701 | \$ | 14,647 |
| Accounts payable | 2,362,174 | | 2,210,427 |
| Accrued expenses and other current liabilities | 336,253 | | 289,441 |
| Total current liabilities | 2,714,128 | | 2,514,515 |
| Long-term debt | 712,960 | | 449,064 |
| Non-current income tax liabilities, net | 94,166 | | 82,532 |
| Other long-term liabilities | 13,868 | | 14,272 |
| Total liabilities | 3,535,122 | | 3,060,383 |
| Commitments and contingencies | | | |
| Equity: | | | |
| World Fuel shareholders' equity: | | | |
| Preferred stock, \$1.00 par value; 100 shares authorized, none issued | | | |
| Common stock, \$0.01 par value; 100,000 shares authorized, 71,978 and 71,883 issued and outstanding as of March 31, 2014 and December 31, 2013, respectively | 720 | | 719 |
| Capital in excess of par value | 496,793 | | 495,199 |
| Retained earnings | 1,255,377 | | 1,207,299 |
| Accumulated other comprehensive loss | (25,821) | | (29,319) |
| Total World Fuel shareholders' equity | 1,727,069 | | 1,673,898 |
| Noncontrolling interest equity | 4,775 | | 4,996 |
| Total equity | 1,731,844 | | 1,678,894 |
| Total liabilities and equity | \$ 5,266,966 | \$ | 4,739,277 |

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 March 31, | |
|---|---|---------------|
| | 2014 | 2013 |
| Revenue | \$ 10,550,896 | \$ 10,184,029 |
| Cost of revenue | 10,362,864 | 10,001,650 |
| Gross profit | 188,032 | 182,379 |
| Operating expenses: | | |
| Compensation and employee benefits | 71,075 | 69,429 |
| Provision for bad debt | 1,154 | 1,103 |
| General and administrative | 51,499 | 44,906 |
| | 123,728 | 115,438 |
| Income from operations | 64,304 | 66,941 |
| Non-operating expenses, net: | | |
| Interest expense and other financing costs, net | (4,356) | (3,659) |
| Other income, net | 1,858 | 120 |
| | (2,498) | (3,539) |
| Income before income taxes | 61,806 | 63,402 |
| Provision for income taxes | 11,300 | 12,291 |
| Net income including noncontrolling interest | 50,506 | 51,111 |
| Net (loss) income attributable to noncontrolling interest | (221) | 2,386 |
| Net income attributable to World Fuel | \$ 50,727 | \$ 48,725 |
| Basic earnings per common share | \$ 0.72 | \$ 0.68 |
| Basic weighted average common shares | 70,705 | 71,288 |
| Diluted earnings per common share | \$ 0.71 | \$ 0.68 |
| Diluted weighted average common shares | 71,394 | 71,999 |
| Comprehensive income: | | |
| Net income including noncontrolling interest | \$ 50,506 | \$ 51,111 |
| Other comprehensive income: | | |
| Foreign currency translation adjustments | 3,498 | 1,109 |
| Cash flow hedges, net of income tax of \$21 | | (69) |
| Other comprehensive income | 3,498 | 1,040 |
| Comprehensive income including noncontrolling interest | 54,004 | 52,151 |
| Comprehensive (loss) income attributable to noncontrolling interest | (221) | 2,386 |
| Comprehensive income attributable to World Fuel | \$ 54,225 | \$ 49,765 |

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 Shares | Common 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 | 71,883 | \$ 719 | \$ 495,199 | \$ 1,207,299 | \$ (29,319) | \$ 1,673,898 | \$ 4,996 | \$ 1,678,894 |
| Net income | | | | 50,727 | | 50,727 | (221) | 50,506 |
| Cash dividends declared | | | | (2,649) | | (2,649) | | (2,649) |
| Amortization of share-based payment awards | | | 3,783 | | | 3,783 | | 3,783 |
| Issuance of common stock related to share-based payment awards including income tax benefit of \$523 | 117 | 1 | 658 | | | 659 | | 659 |
| Purchases of common stock tendered by employees to satisfy the required withholding taxes related to share-based payment awards | (22) | | (2,847) | | | (2,847) | | (2,847) |
| Other comprehensive income | | | | | 3,498 | 3,498 | | 3,498 |
| Balance as of March 31, 2014 | 71,978 | \$ 720 | \$ 496,793 | \$ 1,255,377 | \$ (25,821) | \$ 1,727,069 | \$ 4,775 | \$ 1,731,844 |

| | Common Stock Shares | Common 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, 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 | (13) | | (4,456) | | | (4,456) | | (4,456) |

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

taxes related to
share-based payment
awards

| | | | | | | | | | | | | | | | |
|------------------------------|--------|----|-----|----|---------|-------|-----------|-------|----------|----|-----------|----|--------|----|-----------|
| 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 |

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

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

(Unaudited - In thousands)

| | For the Three Months ended March 31, | |
|---|---|-------------|
| | 2014 | 2013 |
| Cash flows from operating activities: | | |
| Net income including noncontrolling interest | \$ 50,506 | \$ 51,111 |
| Adjustments to reconcile net income including noncontrolling interest to net cash provided by operating activities: | | |
| Depreciation and amortization | 12,457 | 10,848 |
| Provision for bad debt | 1,154 | 1,103 |
| Share-based payment award compensation costs | 3,968 | 3,872 |
| Deferred income tax provision | 4,152 | 739 |
| Extinguishment of liabilities | (1,785) | (428) |
| Other | 2,057 | (557) |
| Changes in assets and liabilities, net of acquisitions: | | |
| Accounts receivable, net | (15,638) | (303,010) |
| Inventories | 91,329 | (60,162) |
| Prepaid expenses | 35,949 | 45,876 |
| Other current assets | (10,535) | 14,266 |
| Cash collateral with financial counterparties | (10,096) | 563 |
| Other non-current assets | (5,405) | (154) |
| Accounts payable | (77,885) | 370,898 |
| Accrued expenses and other current liabilities | 10,693 | (26,249) |
| Non-current income tax, net and other long-term liabilities | 672 | 794 |
| Total adjustments | 41,087 | 58,399 |
| Net cash provided by operating activities | 91,593 | 109,510 |
| Cash flows from investing activities: | | |
| Acquisitions, net of cash acquired | (153,963) | |
| Capital expenditures | (8,872) | (12,949) |
| Escrow payment related to an assumed obligation of an acquired business | (21,724) | |
| Net cash used in investing activities | (184,559) | (12,949) |
| Cash flows from financing activities: | | |
| Borrowings under senior revolving credit facility | 1,245,000 | 1,376,800 |
| Repayments under senior revolving credit facility and senior term loans | (989,000) | (1,477,550) |
| Borrowings of other debt | 4,462 | |
| Repayments of other debt | (8,166) | (2,901) |
| Dividends paid on common stock | (2,644) | (2,667) |
| Federal and state tax benefits resulting from tax deductions in excess of the compensation cost recognized for share-based payment awards | 523 | 1,721 |
| Purchases of common stock tendered by employees to satisfy the required withholding taxes related to share-based payment awards | (2,847) | (4,456) |
| Net cash provided by (used in) financing activities | 247,328 | (109,053) |
| Effect of exchange rate changes on cash and cash equivalents | 76 | (648) |
| Net increase (decrease) in cash and cash equivalents | 154,438 | (13,140) |
| Cash and cash equivalents, as of beginning of period | 292,061 | 172,740 |
| Cash and cash equivalents, as of end of period | \$ 446,499 | \$ 159,600 |

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 \$2.6 million as of March 31, 2014 and \$2.7 million as of March 31, 2013.

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

| | For the Three Months ended March 31, | |
|------------------------------|---|-------------|
| | 2014 | 2013 |
| Assets acquired, net of cash | \$ 451,701 | \$ |
| Liabilities assumed | \$ 297,862 | \$ |

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

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

(Unaudited)

1. Acquisitions and Significant Accounting Policies**Acquisitions****2014 Acquisition**

On March 7, 2014, we completed the acquisition of all of the outstanding stock of Watson Petroleum Limited (Watson Petroleum) a leading distributor of gasoline, diesel, heating oil, lubricants and other products and related services. Watson Petroleum is headquartered in Brinkworth, England and is one of the largest fuel distributors in the United Kingdom.

The estimated purchase price for Watson Petroleum was \$165.0 million, and is subject to change based on the final value of the net assets acquired. The following reconciles the estimated purchase price for Watson Petroleum to the cash paid for the acquisition, net of cash acquired (in thousands):

| | | |
|---|----|---------|
| Estimated purchase price | \$ | 165,004 |
| Less: Cash acquired | | 11,165 |
| Cash paid for acquisition, net of cash acquired | \$ | 153,839 |

The estimated purchase price of Watson Petroleum was allocated to the assets acquired and liabilities assumed based on their estimated fair value as of the acquisition date. Since the valuations of the assets acquired and liabilities assumed in connection with the acquisition of Watson Petroleum have not been finalized, the allocation of the purchase price of this acquisition may change. The estimated purchase price allocation for Watson Petroleum is as follows (in thousands):

| | | |
|------------------------------------|----|---------|
| Assets acquired: | | |
| Cash and cash equivalents | \$ | 11,165 |
| Accounts receivable | | 217,502 |
| Inventories | | 20,283 |
| Property and equipment | | 58,070 |
| Identifiable intangible assets | | 60,527 |
| Goodwill | | 83,832 |
| Other current and long-term assets | | |