

Edgar Filing: - Form

Form

Unknown document format

pan>

\$
123.8

\$
28.0

Land segment

46.7

64.0

(17.3
)

Marine Segment

19.9

32.8

(12.9
)

218.4

220.5

(2.2
)

Corporate overhead - unallocated

(55.5
)

(55.7
)

0.2

\$
162.8

\$
164.8

\$
(2.0
)

31

Table of Contents

Our income from operations, including unallocated corporate overhead, for the first nine months of 2017 was \$162.8 million, a decrease of \$2.0 million, or 1.2%, as compared to the first nine months of 2016. The decrease was attributable to our land and marine segments. In our land segment, income from operations for the first nine months of 2017 was \$46.7 million a decrease of \$17.3 million or 27.0%, as compared to the first nine months of 2016. Within our land segment we experienced continued lower profits from our supply and trading activities in the U.S., hurricane-related disruptions, as well as increased acquisition-related costs that were directly attributable to our acquired businesses. In our marine segment, income from operations for the first nine months of 2017 was \$19.9 million, a decrease of \$12.9 million, or 39.3%, as compared to the first nine months of 2016. Our marine segment was adversely impacted by the prolonged weakness in the overall maritime industry. The declines in our land and marine segments were partially offset by increases in our aviation segment, where we experienced increased volumes from our international fueling operations, and increased activity in our government-related business.

Corporate overhead costs not charged to the business segments for the first nine months of 2017 were \$55.5 million, a decrease of \$0.2 million, or 0.3%, as compared to the first nine months of 2016, principally driven by additional costs related to overall corporate enterprise activities that are not charged to the business segments and are designed to support our growing global business.

Non-Operating Expenses, net. We had non-operating expenses, net of \$47.3 million, for the first nine months of 2017, an increase of \$22.5 million as compared to the first nine months of 2016 driven principally by higher finance costs.

Income Taxes. For the first nine months of 2017, our effective income tax rate was 79.8% and our income tax provision was \$92.2 million, as compared to an effective income tax rate of 11.2% and an income tax provision of \$15.7 million for the first nine months of 2016. Our higher provision for income taxes for the first nine months of 2017 was attributable to the Company recording a valuation allowance against the net U.S. deferred tax assets in the amount of \$76.9 million, which is comprised of \$24.0 million of deferred tax assets generated during 2017 and \$52.9 million related to deferred tax assets generated in previous years. In addition, the provision also includes other net discrete items totaling \$5.6 million, primarily related to changes in estimates in uncertain tax positions and an adjustment for stock based compensation. Without the valuation allowance of \$76.9 million and other discrete items, the effective income tax rate for the first nine months of 2017 would have been 8.3%.

Net Income Attributable to Noncontrolling Interest. For the first nine months of 2017, net income attributable to noncontrolling interest was \$0.6 million, an increase of \$0.5 million as compared to the first nine months of 2016.

Net Income and Diluted Earnings per Common Share. Our net income for the first nine months of 2017 was \$22.8 million, a decrease of \$101.5 million as compared to the first nine months of 2016. Diluted earnings per common share for the first nine months of 2017 was \$0.33 per common share, a decrease of \$1.45 per common share, as compared to the first nine months of 2016.

Liquidity and Capital Resources*Cash Flows*

The following table reflects the major categories of cash flows for the nine months ended September 30, 2017 and 2016 (in millions). For additional details, please see the consolidated statements of cash flows.

	For the Nine Months Ended September 30,	
	2017	2016
Net cash provided by operating activities	\$45.2	\$220.3

Edgar Filing: - Form

Net cash (used in) investing activities	(133.0)	(259.2)
Net cash (used in) provided by financing activities	(72.7)	325.7

Operating Activities. For the first nine months of 2017, net cash provided by operating activities was \$45.2 million as compared to \$220.3 million for the first nine months of 2016. The \$175.1 million decrease in operating cash flows was primarily due to year-over-year changes in assets and liabilities, net of acquisitions. Cash flows from short-term derivative assets, net and the associated cash collateral we are required to post with our financial counterparties declined, as a result of reduced hedging activities. In addition, cash flows from accounts receivable, net declined as a result of increased volumes and higher average fuel prices per gallon sold. Offsetting these declines were increased cash flows from accounts payable primarily as a result of increased average fuel prices.

Table of Contents

Investing Activities. For the first nine months of 2017, net cash used in investing activities was \$133.0 million as compared to \$259.2 million for the first nine months of 2016. The \$126.2 million decrease in cash used in investing activities was primarily due to decreased cash used for the acquisition of businesses of \$171.8 million partially offset by an \$8.9 million increase in capital expenditures and \$29.3 million related to the proceeds from the sale of a business in 2016.

Financing Activities. For the first nine months of 2017, net cash used in financing activities was \$72.7 million as compared to \$325.7 million net cash provided by financing activities for the first nine months of 2016. The \$398.4 million change was principally due to a \$351.9 million decrease in net borrowings under our credit facility in the first nine months of 2017 as compared to the first nine months of 2016 and a \$43.5 million increase in cash used for common stock repurchases in the first nine months of 2017 as compared to the first nine months of 2016.

Other Liquidity Measures

Cash and Cash Equivalents. As of September 30, 2017 and December 31, 2016, we had cash and cash equivalents of \$546.0 million and \$698.6 million, respectively. Our primary use of cash and cash equivalents are to fund working capital and strategic investments. We are usually extended unsecured trade credit from our suppliers for our fuel purchases. 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.

Credit Facility and Term Loans. We had \$840.0 million in Term Loans outstanding as of September 30, 2017 and December 31, 2016. We also have a Credit Facility which permits borrowing up to \$1.26 billion with a sublimit of \$400.0 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 \$200.0 million, subject to the satisfaction of certain conditions. The credit facility matures in October 2021. We had outstanding borrowings under our Credit Facility totaling \$297.0 million and \$325.2 million as of September 30, 2017 and December 31, 2016, respectively. Our issued letters of credit under the Credit Facility totaled \$6.5 million and \$8.3 million as of September 30, 2017 and December 31, 2016, respectively. As of September 30, 2017 and December 31, 2016, the unused portion of our Credit Facility was \$956.5 million and \$926.5 million, 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. Availability under our Credit Facility is also limited by, among other things our financial leverage ratio, which limits the total amount of indebtedness we may incur, and may therefore fluctuate from period to period. Our Credit Facility and our Term Loans contain certain financial and other covenants with which we are required to comply. Our failure to comply with the 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 certain other agreements to which we are a party and impair our ability to obtain working capital advances 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 September 30, 2017, we were in compliance with all financial covenants contained in our Credit Facility and our Term Loans.

Other Agreements. Additionally, we have other uncommitted credit lines 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 September 30, 2017 and December 31, 2016, our outstanding letters of credit and bank guarantees under these credit lines totaled \$169.4 million and \$176.5 million, respectively. We also have Receivables Purchase Agreements ("RPAs") that allow for the sale of up to an aggregate of \$600.0 million of our accounts receivable. As of September 30, 2017, we had sold accounts receivable of \$381.0 million under the RPAs.

Short-Term Debt. As of September 30, 2017, our short-term debt of \$23.6 million primarily represents the current maturities (within the next twelve months) of Term Loan borrowings, certain promissory notes related to acquisitions and capital lease obligations.

We previously committed to undertake a multi-year project designed to drive greater improvement in operating efficiencies and optimize scalability designed to incorporate acquisitions that we may undertake in the future. We will accomplish this in part by a global design and deployment of an upgrade to our existing ERP platform. We are currently in the planning phase and the cost incurred during the first nine months of 2017 was not material. We expect the total cost of the project over the next three years to range between \$30.0 million and \$40.0 million.

Table of Contents

We believe that our cash and cash equivalents as of September 30, 2017 (of which approximately \$27.6 million was available for use by our U.S. subsidiaries without incurring additional costs) and available funds from 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 general, our foreign cash balances of approximately \$518.4 million are not available to fund our U.S. operations unless the funds are repatriated or used to repay certain foreign intercompany loans, which could expose us to tax obligations we currently have not made a tax provision for in our results of operations. As of September 30, 2017, we intend to retain our foreign cash balances outside of the U.S., as we believe that our U.S. liquidity is sufficient to meet the anticipated cash requirements of our U.S. operations.

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 by 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

Except for changes in the contractual obligations and off-balance sheet arrangements described below, there were no other material changes from December 31, 2016 to September 30, 2017. For a discussion of these matters, refer to “Contractual Obligations and Off-Balance Sheet Arrangements” in Item 7 of our 2016 10-K Report.

Contractual Obligations

Derivative Obligations. As of September 30, 2017, our net derivative obligations were \$41.9 million, principally due within one year.

Purchase Commitment Obligations. As of September 30, 2017, fixed purchase commitments under our derivative programs amounted to \$278.4 million, principally due within one year.

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 September 30, 2017, we had issued letters of credit and bank guarantees totaling \$175.9 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 new 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

Edgar Filing: - Form

For information about our derivative instruments, at their respective fair value positions as of September 30, 2017, see Notes to the Consolidated Financial Statements – *Note 3. Derivatives*

There have been no material changes to our exposures to interest rate or foreign currency risk since December 31, 2016. Please refer to our 2016 10-K Report for a complete discussion of our exposure to these risks.

Item 4. Controls and Procedures

Management's Evaluation of Disclosure Controls and Procedures

Table of Contents

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 ("CEO") and our Chief Financial Officer ("CFO"), as appropriate, to allow timely decisions regarding required financial disclosure.

As of the end of the period covered by this 10-Q Report, we evaluated, under the supervision and with the participation of our CEO and CFO, 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 CEO and CFO concluded that our disclosure controls and procedures were effective at a reasonable assurance level as of September 30, 2017.

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 September 30, 2017.

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 1. Legal Proceedings

On July 20, 2016, the Company was informed that the U.S. Department of Justice (the "DOJ") is conducting an investigation into the aviation fuel supply industry, including certain activities of the Company and other industry participants at an airport in Central America. In connection therewith, the Company was served with formal requests by the DOJ about its activities at that airport and its aviation fuel supply business more broadly. The Company continues to cooperate with the investigation.

From time to time, we are under review by the Internal Revenue Service and various other domestic and foreign tax authorities with regards to income tax and indirect tax matters and are involved in various challenges and litigation in a number of countries, including, in particular, the U.S., Brazil and South Korea, where the amounts under controversy may be significant. See notes 7 and 10 of the accompanying consolidated financial statements for additional details regarding certain tax matters.

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, personal injury, billing and fuel quality claims, as well as bankruptcy preference claims and administrative claims. We are not currently a party to any such claim, complaint or proceeding that we expect to 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 reporting period could have a material adverse effect on our consolidated financial statements or disclosures for that period.

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 September 30, 2017 (in thousands, except average price per share):

35

Table of Contents

Period	Total Number of Shares Purchased ⁽¹⁾	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs ^{(2) (3)}
7/1/2017 - 7/31/2017	—	\$ —	—	\$ 45,321
8/1/2017 - 8/31/2017	886	33.99	882	15,330
9/1/2017 - 9/30/2017	—	—	—	15,330
Total	886	\$ 33.99	882	\$ 15,330

(1) These amounts include shares purchased as part of our publicly announced programs and shares owned and tendered by employees to satisfy the required withholding taxes related to share-based payment awards, which are not deducted from shares available to be purchased under publicly announced programs.

(2) In September 2016, our Board of Directors approved a common stock repurchase program which replaced the remainder of the prior authorization and authorized the purchase of up to \$100.0 million in common stock (the “2016-2017 Repurchase Program”). The 2016-2017 Repurchase Program does not require a minimum number of shares of common stock to be purchased, has no expiration date and may be suspended or discontinued at any time. As of September 30, 2017, \$15.3 million remains available for purchase under the 2016-2017 Repurchase Program. The timing and amount of shares of common stock to be repurchased under the 2016-2017 Repurchase Program will depend on market conditions, share price, securities law and other legal requirements and factors.

(3) In October 2017, our Board of Directors approved a new common stock repurchase program which replaced the remainder of the 2016-2017 Repurchase Program and authorized the purchase of up to \$100.0 million in common stock (the “2017-2018 Repurchase Program”). The 2017-2018 Repurchase Program does not require a minimum number of shares of common stock to be purchased, has no expiration date and may be suspended or discontinued at any time. The timing and amount of shares of common stock to be repurchased under the 2017-2018 Repurchase Program will depend on market conditions, share price, securities law and other legal requirements and factors.

Table of Contents

Item 6. Exhibits

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

Description

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.

The following materials from World Fuel Services Corporation's Quarterly Report on Form 10-Q for the quarter ended September 30, 2017, 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: October 31, 2017 World Fuel Services Corporation

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

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