

WORLD FUEL SERVICES CORP

Form 10-Q

July 30, 2018

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srt:AsiaPacificMember int:AviationSegmentMember 2018-01-01 2018-06-30 0000789460 srt:AsiaPacificMember 2018-01-01 2018-06-30 0000789460 srt:NorthAmericaMember int:LandSegmentMember 2017-01-01 2017-06-30 0000789460 srt:NorthAmericaMember int:MarineSegmentMember 2017-04-01 2017-06-30 0000789460 srt:AsiaPacificMember 2018-04-01 2018-06-30 0000789460 srt:AsiaPacificMember int:LandSegmentMember 2017-04-01 2017-06-30 0000789460 srt:NorthAmericaMember 2017-01-01 2017-06-30 0000789460 srt:LatinAmericaMember int:LandSegmentMember 2017-01-01 2017-06-30 0000789460 srt:NorthAmericaMember int:MarineSegmentMember 2018-01-01 2018-06-30 0000789460 us-gaap:EMEAMember int:MarineSegmentMember 2018-01-01 2018-06-30 0000789460 srt:NorthAmericaMember int:AviationSegmentMember 2017-01-01 2017-06-30 0000789460 srt:NorthAmericaMember int:MarineSegmentMember 2017-01-01 2017-06-30 0000789460 us-gaap:EMEAMember int:LandSegmentMember 2017-04-01 2017-06-30 0000789460 srt:NorthAmericaMember int:LandSegmentMember 2017-04-01 2017-06-30 0000789460 srt:AsiaPacificMember int:AviationSegmentMember 2017-01-01 2017-06-30 0000789460 srt:AsiaPacificMember 2017-04-01 2017-06-30 0000789460 srt:NorthAmericaMember 2017-04-01 2017-06-30 0000789460 us-gaap:OperatingSegmentsMember 2017-01-01 2017-06-30 0000789460 int:AviationSegmentMember 2017-04-01 2017-06-30 0000789460 int:LandSegmentMember 2017-04-01 2017-06-30 0000789460 us-gaap:OperatingSegmentsMember int:AviationSegmentMember 2018-01-01 2018-06-30 0000789460 int:LandSegmentMember 2017-01-01 2017-06-30 0000789460 int:MarineSegmentMember 2018-04-01 2018-06-30 0000789460 us-gaap:OperatingSegmentsMember 2017-04-01 2017-06-30 0000789460 us-gaap:OperatingSegmentsMember int:LandSegmentMember 2018-04-01 2018-06-30 0000789460 us-gaap:OperatingSegmentsMember int:LandSegmentMember 2018-01-01 2018-06-30 0000789460 int:MarineSegmentMember 2017-01-01 2017-06-30 0000789460 us-gaap:OperatingSegmentsMember int:MarineSegmentMember 2017-01-01 2017-06-30 0000789460 int:MarineSegmentMember 2017-04-01 2017-06-30 0000789460 int:AviationSegmentMember 2018-04-01 2018-06-30 0000789460 us-gaap:CorporateNonSegmentMember 2018-01-01 2018-06-30 0000789460 us-gaap:OperatingSegmentsMember int:AviationSegmentMember 2017-04-01 2017-06-30 0000789460 int:LandSegmentMember 2018-04-01 2018-06-30 0000789460 us-gaap:OperatingSegmentsMember 2018-01-01 2018-06-30 0000789460 us-gaap:OperatingSegmentsMember int:MarineSegmentMember 2018-04-01 2018-06-30 0000789460 int:MarineSegmentMember 2018-01-01 2018-06-30 0000789460 us-gaap:CorporateNonSegmentMember 2017-04-01 2017-06-30 0000789460 us-gaap:CorporateNonSegmentMember 2017-01-01 2017-06-30 0000789460 us-gaap:CorporateNonSegmentMember 2018-04-01 2018-06-30 0000789460 int:AviationSegmentMember 2017-01-01 2017-06-30 0000789460 us-gaap:OperatingSegmentsMember int:MarineSegmentMember 2017-04-01 2017-06-30 0000789460 us-gaap:OperatingSegmentsMember int:AviationSegmentMember 2017-01-01 2017-06-30 0000789460 us-gaap:OperatingSegmentsMember int:LandSegmentMember 2017-01-01 2017-06-30 0000789460 us-gaap:OperatingSegmentsMember int:LandSegmentMember 2017-04-01 2017-06-30 0000789460 us-gaap:OperatingSegmentsMember int:MarineSegmentMember 2018-01-01 2018-06-30 0000789460 us-gaap:OperatingSegmentsMember 2018-04-01 2018-06-30 0000789460 us-gaap:OperatingSegmentsMember int:AviationSegmentMember 2018-04-01 2018-06-30 0000789460 us-gaap:OperatingSegmentsMember int:LandSegmentMember 2017-12-31 0000789460 us-gaap:OperatingSegmentsMember int:LandSegmentMember 2018-06-30 0000789460 us-gaap:OperatingSegmentsMember int:AviationSegmentMember 2017-12-31 0000789460 us-gaap:OperatingSegmentsMember int:MarineSegmentMember 2017-12-31 0000789460 int:MarineSegmentMember 2017-12-31 0000789460 us-gaap:OperatingSegmentsMember int:MarineSegmentMember 2018-06-30 0000789460 us-gaap:CorporateNonSegmentMember 2018-06-30 0000789460 us-gaap:OperatingSegmentsMember int:AviationSegmentMember 2018-06-30 0000789460 us-gaap:CorporateNonSegmentMember 2017-12-31 0000789460 int:MarineSegmentMember 2018-06-30 0000789460 int:TaxAuthorityAssessmentMember 2016-12-31 0000789460 int:TaxAuthorityAdditionalAssessmentMember 2017-06-30 iso4217:USD xbrli:shares xbrli:pure iso4217:USD int:acquisition xbrli:shares int:airport iso4217:KRW utreg:bbl int:segment

[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 JUNE 30, 2018

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 (I.R.S. Employer
incorporation or organization) Identification No.)

9800 N.W. 41st Street **33178**
Miami, Florida (Zip Code)
(Address of Principal Executive Offices)

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 Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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 67,944,090 shares of common stock, par value \$0.01 per share, issued and outstanding as of July 19, 2018.

Table of Contents

Table of Contents

Part I. Financial Information

<u>Item</u>	<u>Financial Statements (Unaudited)</u>	
<u>1.</u>	<u>Consolidated Balance Sheets as of June 30, 2018 and December 31, 2017</u>	<u>1</u>
	<u>Consolidated Statements of Income and Comprehensive Income for the Three and Six Months ended June 30, 2018 and 2017</u>	<u>2</u>
	<u>Consolidated Statements of Shareholders' Equity for the Six Months ended June 30, 2018 and 2017</u>	<u>3</u>
	<u>Consolidated Statements of Cash Flows for the Six Months ended June 30, 2018 and 2017</u>	<u>4</u>
	<u>Notes to the Consolidated Financial Statements</u>	<u>6</u>
<u>Item</u>	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>21</u>
<u>2.</u>		
<u>Item</u>	<u>Quantitative and Qualitative Disclosures About Market Risk</u>	<u>31</u>
<u>3.</u>		
<u>Item</u>	<u>Controls and Procedures</u>	<u>31</u>
<u>4.</u>		

Part II. Other Information

<u>Item</u>	<u>Legal Proceedings</u>	<u>32</u>
<u>1.</u>		
<u>Item</u>	<u>Unregistered sales of Equity Securities and Use of Proceeds</u>	<u>32</u>
<u>2.</u>		
<u>Item</u>	<u>Exhibits</u>	<u>33</u>
<u>6.</u>		

<u>Signatures</u>	<u>34</u>
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Table of Contents**Part I — Financial Information****Item 1. Financial Statements****World Fuel Services Corporation****Consolidated Balance Sheets**

(Unaudited - In millions, except per share data)

	As of	
	June 30,	December
	2018	31,
		2017
Assets:		
Current assets:		
Cash and cash equivalents	\$ 187.6	\$ 372.3
Accounts receivable, net	2,951.9	2,705.6
Inventories	559.2	505.0
Prepaid expenses	59.8	64.4
Short-term derivative assets, net	70.6	51.1
Other current assets	247.8	241.9
Total current assets	4,076.8	3,940.4
Property and equipment, net	335.0	329.8
Goodwill	856.7	845.5
Identifiable intangible and other non-current assets	488.6	472.1
Total assets	\$ 5,757.0	\$ 5,587.8
Liabilities:		
Current liabilities:		
Current maturities of long-term debt and capital leases	\$ 33.7	\$ 25.6
Accounts payable	2,536.0	2,239.7
Customer deposits	95.0	108.3
Accrued expenses and other current liabilities	348.8	344.9
Total current liabilities	3,013.5	2,718.6
Long-term debt	731.6	884.6
Non-current income tax liabilities, net	187.2	202.4
Other long-term liabilities	49.5	44.2
Total liabilities	\$ 3,981.7	\$ 3,849.8
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; 100.0 shares authorized, 67.8 and 67.7 issued and outstanding as of June 30, 2018 and December 31, 2017, respectively	0.7	0.7
Capital in excess of par value	359.3	354.9
Retained earnings	1,546.3	1,492.8
Accumulated other comprehensive loss	(146.3)	(126.5)
Total World Fuel shareholders' equity	1,760.0	1,721.9
Noncontrolling interest	15.3	16.0
Total equity	1,775.3	1,738.0
Total liabilities and equity	\$ 5,757.0	\$ 5,587.8

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

1

Table of Contents

World Fuel Services Corporation
Consolidated Statements of Income and Comprehensive Income
(Unaudited – In millions, except per share data)

	For the Three Months Ended		For the Six Months Ended	
	June 30, 2018	2017	June 30, 2018	2017
Revenue	\$ 10,150.8	\$ 8,086.2	\$ 19,332.2	\$ 16,280.4
Cost of revenue	9,904.7	7,855.2	18,842.6	15,818.0
Gross profit	246.2	231.0	489.6	462.4
Operating expenses:				
Compensation and employee benefits	110.2	102.3	224.1	206.8
General and administrative	74.9	77.4	147.2	154.0
	185.1	179.7	371.3	360.9
Income from operations	61.1	51.2	118.3	101.6
Non-operating expenses, net:				
Interest expense and other financing costs, net	(17.9)	(13.8)	(34.2)	(26.5)
Other expense, net	(1.6)	(2.6)	(3.9)	(4.1)
	(19.5)	(16.4)	(38.1)	(30.6)
Income before income taxes	41.6	34.9	80.2	70.9
Provision for income taxes	12.4	4.6	19.7	9.6
Net income including noncontrolling interest	29.2	30.3	60.5	61.3
Net income attributable to noncontrolling interest	0.5	0.2	0.6	—
Net income attributable to World Fuel	\$ 28.7	\$ 30.0	\$ 59.9	\$ 61.4
Basic earnings per common share	\$ 0.42	\$ 0.44	\$ 0.89	\$ 0.90
Basic weighted average common shares	67.7	68.4	67.6	68.5
Diluted earnings per common share	\$ 0.42	\$ 0.44	\$ 0.88	\$ 0.89
Diluted weighted average common shares	68.0	68.7	67.9	68.9
Comprehensive income:				
Net income including noncontrolling interest	\$ 29.2	\$ 30.3	\$ 60.5	\$ 61.3
Other comprehensive income (loss):				
Foreign currency translation adjustments	(28.6)	11.2	(18.3)	17.6
Cash flow hedges, net of income tax expense of \$3.1 for the three months ended June 30, 2018 and net of income tax benefit of \$1.1 and income tax expense of \$6.6 for the six months ended June 30, 2018 and 2017, respectively	6.9	—	(2.8)	10.5
Other comprehensive income (loss):	(21.7)	11.2	(21.1)	28.1
Comprehensive income including noncontrolling interest	7.5	41.5	39.3	89.4
Comprehensive (loss) income attributable to noncontrolling interest	(1.1)	1.1	(1.3)	1.0
Comprehensive income attributable to World Fuel	\$ 8.6	\$ 40.3	\$ 40.7	\$ 88.4

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

Table of Contents

World Fuel Services Corporation
Consolidated Statements of Shareholders' Equity
(Unaudited - In millions)

	Common Stock Shares	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, 2017	67.7	\$ 0.7	\$ 354.9	\$ 1,492.8	\$ (126.5)	\$ 1,721.9	\$ 16.0	\$ 1,738.0
Net income	—	—	—	59.9	—	59.9	0.6	60.5
Cash dividends declared	—	—	—	(8.1)	—	(8.1)	—	(8.1)
Amortization of share-based payment awards	—	—	6.5	—	—	6.5	—	6.5
Issuance of common stock related to share-based payment awards	0.2	—	—	—	—	—	—	—
Purchases of common stock tendered by employees to satisfy the required withholding taxes related to share-based payment awards	—	—	(2.1)	—	—	(2.1)	—	(2.1)
Other comprehensive income (loss)	—	—	—	—	(19.8)	(19.8)	(1.3)	(21.1)
Reclassification of certain tax effects from U.S. Tax Reform	—	—	—	1.6	—	1.6	—	1.6
Balance as of June 30, 2018	67.8	\$ 0.7	\$ 359.3	\$ 1,546.3	\$ (146.3)	\$ 1,760.0	\$ 15.3	\$ 1,775.3

	Common Stock Shares	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, 2016	69.9	\$ 0.7	\$ 399.9	\$ 1,679.3	\$ (154.8)	\$ 1,925.0	\$ 15.0	\$ 1,940.0
Net income	—	—	—	61.4	—	61.4	—	61.3
Cash dividends declared	—	—	—	(8.2)	—	(8.2)	—	(8.2)
Distribution of noncontrolling interest	—	—	—	—	—	—	(0.4)	(0.4)
Amortization of share-based payment awards	—	—	9.3	—	—	9.3	—	9.3
Issuance (cancellation) of common stock related to share-based payment awards	(0.6)	—	—	—	—	—	—	—
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	(0.9)	—	(31.9)	—	—	(31.9)	—	(31.9)
Other comprehensive income (loss)	—	—	—	—	27.0	27.0	1.1	28.1
Balance as of June 30, 2017	68.6	\$ 0.7	\$ 373.3	\$ 1,732.4	\$ (127.8)	\$ 1,978.6	\$ 15.7	\$ 1,994.3

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

Table of Contents

World Fuel Services Corporation
Consolidated Statements of Cash Flows
(Unaudited - In millions)

	For the Six Months Ended June 30,	
	2018	2017
Cash flows from operating activities:		
Net income including noncontrolling interest	\$60.5	\$61.3
Adjustments to reconcile net income including noncontrolling interest to net cash provided by operating activities:		
Depreciation and amortization	38.4	43.3
Provision for bad debt	4.0	3.9
Share-based payment award compensation costs	6.4	9.2
Deferred income tax benefit	(1.0)	(8.0)
Foreign currency gains, net	(2.5)	(6.5)
Other	0.4	(1.8)
Changes in assets and liabilities, net of acquisitions:		
Accounts receivable, net (reduced by beneficial interests received in exchange for accounts receivables sold of \$122.5 million and \$83.2 million for the three months ended June 30, 2018 and 2017, respectively, and \$241.5 million and \$157.1 million for the six months ended June 30, 2018 and 2017, respectively.)	(499.7)	(47.7)
Inventories	(56.7)	15.2
Prepaid expenses	2.1	0.3
Short-term derivative assets, net	(22.0)	14.2
Other current assets	(32.2)	3.1
Cash collateral with financial counterparties	41.7	(5.9)
Other non-current assets	(32.8)	(12.4)
Accounts payable	301.0	12.8
Customer deposits	(12.2)	(1.0)
Accrued expenses and other current liabilities	(22.5)	(72.7)
Non-current income tax, net and other long-term liabilities	(1.4)	(8.1)
Total adjustments	(289.1)	(61.9)
Net cash used in operating activities	(228.6)	(0.6)
Cash flows from investing activities:		
Cash receipts of retained beneficial interests in receivable sales	241.9	156.4
Acquisition of businesses, net of cash acquired	(21.0)	(88.4)
Capital expenditures	(28.9)	(31.5)
Other investing activities, net	7.6	(0.4)
Net cash provided by investing activities	199.5	36.0
Cash flows from financing activities:		
Borrowings of debt	2,875.0	1,991.8
Repayments of debt	(3,019.5)	(2,111.1)
Dividends paid on common stock	(8.1)	(8.2)
Purchases of common stock tendered by employees to satisfy the required withholding taxes related to share-based payment awards	(2.1)	(3.9)
Purchases of common stock	—	(31.9)
Other financing activities, net	—	(0.4)
Net cash used in financing activities	(154.7)	(163.7)
Effect of exchange rate changes on cash and cash equivalents	(1.1)	5.2
Net decrease in cash and cash equivalents	(184.8)	(123.0)
Cash and cash equivalents, as of beginning of period	372.3	698.6
Cash and cash equivalents, as of end of period	\$187.6	\$575.6

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

4

Table of Contents

Supplemental Schedule of Noncash Investing and Financing Activities:

Cash dividends declared, but not yet paid, were \$4.1 million as of June 30, 2018 and 2017, respectively.

Beneficial interests obtained in exchange for accounts receivable sold were \$241.5 million and \$157.1 million as of June 30, 2018 and 2017, respectively.

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

Table of Contents

World Fuel Services Corporation

Notes to the Consolidated Financial Statements

(Unaudited)

1. Basis of Presentation and Significant Accounting Policies

World Fuel Services Corporation (the “Company”) was incorporated in Florida in July 1984 and along with its consolidated subsidiaries is referred to collectively in this Quarterly Report on Form 10 Q (“10-Q Report”) as “World Fuel,” “we,” “our” and “us.”

We are a leading global fuel services company, principally engaged in the distribution of fuel and related products and services in the aviation, marine and land transportation industries. We have expanded our product and service offerings to include energy advisory services and supply fulfillment with respect to natural gas and power and transaction and payment management solutions to commercial and industrial customers. Our intention is to become a leading global energy management company offering a full suite of energy advisory, management and fulfillment services and technology solutions across the energy product spectrum. We also seek to become a leading transaction and payment management company, offering payment management solutions to commercial and industrial customers, principally in the aviation, land and marine transportation industries.

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 U.S. (“U.S. GAAP”) can be condensed or omitted.

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. In our opinion, all adjustments necessary for a fair statement of the financial statements, 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 2017 Annual Report on Form 10-K (“2017 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.

There have been no significant changes, other than those related to the adopted new accounting standards below, in the Company’s accounting policies from those disclosed in our 2017 10 K Report. 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 2017 10 K Report, and in the adopted accounting standards below.

Adoption of New Accounting Standard

Revenue Recognition (Topic 606): Revenue from Contracts with Customers. In May 2014, ASU 2014-09 was issued. Under this ASU and subsequently issued amendments, we recognize the amount of revenue when delivery is made and our customer obtains control, and we are entitled to compensation for performance completed. The updated standard replaced most existing revenue recognition guidance in U.S. GAAP. We adopted this standard as of January 1, 2018 using the modified retrospective adoption approach, and elected to apply it only to those contracts that were not considered completed contracts as of this adoption date. This approach required us to recognize the cumulative effect of initially applying the new standard as an adjustment to the opening balance of retained earnings. This cumulative adjustment did not have a material impact on our financial statements.

Income Statement - Reporting Comprehensive Income (Topic 220). In February 2018 ASU 2018-02, Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income, was issued. ASU 2018-02 provides the option to reclassify stranded tax effects within AOCI to retained earnings in each period in which the effect of the

change in the U.S. federal corporate tax rate in the Tax Cuts and Jobs Act is recorded. ASU 2018-02 is effective for fiscal years beginning after December 15, 2018, and interim periods within those years. Early adoption is permitted. This updated standard allows for adoption in the period of adoption or retrospectively to each period in which the effect of the change in the U.S. federal corporate income tax rate in the Tax Cuts and Jobs Act is recognized. We adopted this updated standard in the first quarter of 2018, and subsequently reclassified the tax rate disparity to retained earnings.

Income Taxes (Topic 740). In March 2018 ASU 2018-05, Amendments to SEC Paragraphs Pursuant to SEC Staff Accounting Bulletin No. 118, was issued. ASU 2018-05 amends certain SEC material in Topic 740 for the income tax accounting implications of the recently issued Tax Cuts and Jobs Act (Act). We have adopted these amendments and where the accounting under Topic 740 is incomplete for certain specific income tax effects of the Act, we reported provisional amounts.

Table of Contents

Business Combinations (Topic 805): Clarifying the Definition of a Business. In January 2017, ASU 2017-01 was issued. The update clarifies the definition of a business with the objective of adding guidance to assist entities with evaluating whether transactions should be accounted for as acquisitions (or disposals) of businesses after adoption. This standard was effective at the beginning of our 2018 fiscal year and did not have a material impact on our consolidated financial statements and disclosures.

Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities. In August 2017, ASU 2017-12 was issued. The ASU is targeted at simplifying hedge accounting requirements, creating more transparency around how economic results are presented and disclosed on the consolidated financial statements and accompanying footnote disclosures. We early adopted this updated standard, which did not have a material impact on our consolidated financial statements. We have provided updated disclosures in *Note 3. Derivatives*.

Cash Flows: Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments. In August 2016 ASU 2016-15 was issued. The ASU provides guidance on classification of eight specific cash flows items. This standard is effective at the beginning of our 2018 fiscal year and we have provided an updated line item attributable to retained beneficial interests associated with our receivables purchase agreements on our consolidated statements of cash flows. The adoption resulted in a \$157.1 million retrospective reclassification of the beneficial interest received in exchange for accounts receivable sales for the six months ended June 30, 2017 from cash flows from operating activities to cash flows from investing activities.

Income Taxes (Topic 740): Intra-Entity Transfers of Assets Other than Inventory. In October 2016, ASU 2016-16 was issued. The update prohibits the recognition of current and deferred income taxes for an intra-entity asset transfer until the asset has been sold to an outside party. This standard is effective at the beginning of our 2018 fiscal year. The adoption of this ASU did not have a material impact on our consolidated financial statements and disclosures.

Cash Flows: Statement of Cash Flows (Topic 230): Restricted Cash. In November 2016, ASU 2016-18 was issued. The update requires that a statement of cash flows explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. This standard is effective at the beginning of our 2018 fiscal year. The adoption of this ASU did not have a material impact on our consolidated financial statements and disclosures.

Accounting Standards Issued but Not Yet Adopted

Leases (Topic 842). In February 2016, ASU 2016-02, Leases, was issued. The new standard requires lessors to account for leases using an approach that is substantially equivalent to existing guidance for direct financing and operating leases. Upon adoption, this standard will require all lessees to recognize a right of use asset and a liability to make lease payments (lease liability) on the balance sheet, except for leases with durations of twelve months or less. Lessees (for capital and operating leases) must apply a modified retrospective transition approach for leases existing at or after the beginning of the earliest comparative period presented in the consolidated financial statements. The modified retrospective approach would not require any transition accounting for leases that expired before the earliest comparative period presented. This standard is effective at the beginning of our 2019 fiscal year. In preparation for adoption of the standard, we developed a cross-functional team and engaged a third-party service provider to assist us throughout our evaluation. We continue to evaluate the overall impact the adoption of this new guidance will have on our consolidated financial statements and related disclosures.

2. Acquisitions

2018 Acquisition

During the first quarter of 2018, we completed one acquisition in the land segment. The financial position, results of operations and cash flows of the 2018 acquisition has been included in our consolidated financial statements since its acquisition date and did not have a material impact on our consolidated revenue and net income for the six months ended June 30, 2018.

2017 Acquisitions

In the first quarter of 2016, we signed a definitive agreement to acquire from certain ExxonMobil affiliates their aviation fueling operations at more than 80 airport locations in Canada, the United Kingdom ("U.K."), Germany, Italy, France, Australia and New Zealand. During 2016, we completed the acquisitions of the aviation fueling operations in Canada, the U.K. and France. During the first quarter of 2017, we completed the acquisition of substantially all of the remaining airport locations in Italy, Germany, Australia and New Zealand.

In addition to the above acquisitions, we completed two acquisitions during the first quarter of 2017 which were not significant individually or in the aggregate.

Table of Contents

The following table summarizes the aggregate consideration paid for acquisitions during the six months ended June 30, 2017 and the amounts of the assets acquired and liabilities assumed, recognized at the acquisition date.

(In millions)

Cash paid for acquisition of businesses	\$87.6
Non-monetary consideration	4.3
Purchase price	\$91.9

Assets acquired:

Property and equipment	11.2
Goodwill and identifiable intangible assets	79.4
Other current and long-term assets	8.0

Liabilities assumed:

Long-term liabilities and deferred tax liabilities	(6.7)
Purchase price	\$91.9

The goodwill assigned, of which \$22.4 million is anticipated to be deductible for tax purposes, is attributable primarily to the expected synergies and other benefits that we believe will result from combining the operations acquired with the operations of our aviation segment. The identifiable intangible assets consists of \$40.1 million of customer relationships with weighted average lives of 6.9 years.

The financial position, results of operations and cash flows of the 2017 acquisitions have been included in our consolidated financial statements since their respective acquisition dates and did not have a significant impact on our revenue and net income for the three and six months ended June 30, 2017. Pro forma information for the 2017 acquisitions has not been provided as the impact is not material.

3. Derivatives

We enter into financial derivative contracts to mitigate the risk of market price fluctuations in aviation, land and marine fuel, to offer our customers fuel pricing alternatives to meet their needs and to mitigate the risk of fluctuations in foreign currency exchange rates. If the derivative instrument is not designated in a hedge relationship, changes in the estimated fair market value are recognized as a component of revenue, cost of revenue, or other income (expense) in the consolidated statements of income and comprehensive income.

Derivatives which qualify for hedge accounting may be designated as either a fair value or cash flow hedge. For our fair value hedges, changes in the estimated fair market value of the hedging instrument and the hedged item are recognized in the same line item as the underlying transaction type in the consolidated statements of income and comprehensive income. The gains or losses on derivative instruments designated as cash flow hedges of forecasted transactions are initially reported as a component of accumulated other comprehensive income and subsequently reclassified into earnings once the future transactions affect earnings.

Cash flows for our hedging instruments are classified in the same category as the underlying hedged items. If for any reason hedge accounting is discontinued, then any cash flows subsequent to the date of discontinuance will be classified in a manner consistent with the nature of the instrument.

The following describes our derivative classifications:

Fair Value Hedges. Includes derivative contracts we hold to hedge the risk of changes in the price of our inventory.

Cash Flow Hedges. Includes certain derivative contracts we execute to mitigate the risk of price or foreign currency volatility in forecasted transactions.

Non-designated Derivatives. Includes derivatives we primarily transact to mitigate the risk of market price fluctuations in the form of swaps or futures contracts, certain forward fixed price purchase and sale contracts, and for portfolio optimization. In addition, non-designated derivatives are held to hedge the risk of currency rate fluctuations.

Table of Contents

The following table presents the gross fair value of our derivative instruments and their locations on the consolidated balance sheets (in millions):

Derivative Instruments	Consolidated Balance Sheets location	Gross Derivative Assets		Gross Derivative Liabilities	
		As of June 30, 2018	As of December 31, 2017	As of June 30, 2018	As of December 31, 2017
<u>Derivatives designated as hedging instruments</u>					
Commodity contracts	Short-term derivative assets, net	\$23.9	\$ 0.4	\$45.5	\$ 0.5
	Accrued expenses and other current liabilities	—	2.3	0.1	43.1
		\$23.9	\$ 2.7	\$45.5	\$ 43.6
Foreign currency contracts	Short-term derivative assets, net	\$7.1	\$ —	\$2.4	\$ —
	Accrued expenses and other current liabilities	—	—	1.2	—
		\$7.1	\$ —	\$3.6	\$ —
Total derivatives designated as hedging instruments		\$30.9	\$ 2.7	\$49.2	\$ 43.6
<u>Derivatives not designated as hedging instruments</u>					
Commodity contracts	Short-term derivative assets, net	\$373.4	\$ 191.4	\$292.8	\$ 123.3
	Identifiable intangible and other non-current assets	67.5	18.2	43.4	5.2
	Accrued expenses and other current liabilities	25.6	86.1	114.5	138.2
	Other long-term liabilities	24.6	5.2	44.2	13.5
		\$491.2	\$ 300.9	\$494.8	\$ 280.2
Foreign currency contracts	Short-term derivative assets, net	\$11.3	\$ 4.5	\$4.5	\$ 2.8
	Accrued expenses and other current liabilities	0.4	3.9	0.7	5.7
	Other long-term liabilities	—	—	—	0.2
		\$11.8	\$ 8.5	\$5.2	\$ 8.7
Total derivatives not designated as hedging instruments		\$503.0	\$ 309.4	\$500.0	\$ 288.9
Total derivatives		\$533.9	\$ 312.0	\$549.2	\$ 332.5

For information regarding our derivative instruments measured at fair value after netting and collateral see Note 6.

The following table summarizes the gross notional values of our commodity and foreign currency exchange derivative contracts used for risk management purposes that were outstanding as of June 30, 2018 (in millions):

Derivative Instruments	As of June 30, Units 2018
Commodity contracts	
Buy / Long	BBL 77.5
Sell / Short	BBL (87.7)
Foreign currency exchange contracts	
Sell U.S. dollar, buy other currencies	USD (275.6)
Buy U.S. dollar, sell other currencies	USD 401.2

Table of Contents

As of June 30, 2018, and December 31, 2017, the following amounts were recorded on the consolidated balance sheets related to cumulative basis adjustments for fair value hedges (in million):

Line item in the Consolidated Balance Sheets in which the hedged item is included	Carrying Amount of Hedged Asset/(Liabilities)		Cumulative Amount of Fair Value Hedging Adjustment Included in the Carrying Amount of the Hedged Asset/(Liabilities)	
	As of		As of	
	June 30, 2018	December 31, 2017	June 30, 2018	December 31, 2017
Inventory	\$ 56.4	\$ 50.9	\$ 1.9	\$ 2.7

The following table presents the effect of fair value and cash flow hedges on income and expense line items in our Consolidated Statements of Income and Comprehensive Income (in millions):

	Location and Amount of Gain and (Loss) Recognized in Income on Fair Value and Cash Flow Hedging Relationships For the Three Months Ended			
	June 30, 2018		June 30, 2017	
	Revenue	Cost of Revenue	Revenue	Cost of Revenue
Total amounts of income and expense line items in which the effects of fair value or cash flow hedged are recorded	\$ 10,150.8	\$ 9,904.7	\$ 8,086.2	\$ 7,855.2
Gains or Loss on fair value hedge relationships				
Commodity contracts				
Hedged Item	—	11.3	—	1.5
Derivatives designated as hedging instruments	—	(10.9)	—	1.4
Gains or Loss on cash flow hedge relationships				
Commodity contracts				
Amount of Gain (Loss) Reclassified from Accumulated OCI into Income	(20.3)	10.2	15.9	(10.6)
Total amount of income and expense line items excluding the impact of hedges	\$ 10,171.2	\$ 9,915.2	\$ 8,070.2	\$ 7,847.5
	Location and Amount of Gain and (Loss) Recognized in Income on Fair Value and Cash Flow Hedging Relationships For the Six Months Ended			
	June 30, 2018		June 30, 2017	
	Revenue	Cost of Revenue	Revenue	Cost of Revenue
Total amounts of income and expense line items in which the effects of fair value or cash flow hedged are recorded	\$ 19,332.2	\$ 18,842.6	\$ 16,280.4	\$ 15,818.0
Gains or Loss on fair value hedge relationships				
Commodity contracts				
Hedged Item	—	16.7	—	(2.0)
Derivatives designated as hedging instruments	—	(16.5)	—	6.7
Gains or Loss on cash flow hedge relationships				
Commodity contracts				
Amount of Gain (Loss) Reclassified from Accumulated OCI into Income	(23.9)	28.4	5.8	(3.8)
Total amount of income and expense line items excluding the impact of hedges	\$ 19,356.1	\$ 18,871.2	\$ 16,274.7	\$ 15,818.9

For the three and six months ended June 30, 2018 and 2017, there were no gains or losses recognized in earnings related to our fair value or cash flow hedges that were excluded from the assessment of hedge effectiveness.

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, Consolidated Statements of Income and Comprehensive Income (in millions):

Amount of Gain (Loss) Recognized in Accumulated Other Comprehensive Income	For the Three Months Ended June 30,		Amount of Gain (Loss) Reclassified from Accumulated Other Comprehensive Income into Income	Location	For the Three Months Ended June 30,	
	2018	2017			2018	2017
Derivative Instruments						
Commodity contracts	\$(25.3)	\$49.3		Revenue	\$(20.3)	\$15.9
Commodity contracts	19.5	(43.9)		Cost of Revenue	10.2	(10.6)
Foreign Currency contracts	2.1	—		Other Income (expense) net	—	—
Total (Loss) Gain	\$(3.7)	\$5.4		Total (Loss) Gain	\$(10.2)	\$5.4

Amount of Gain (Loss) Recognized in Accumulated Other Comprehensive Income	For the Six Months Ended June 30,		Amount of Gain (Loss) Reclassified from Accumulated Other Comprehensive Income into Income	Location	For the Six Months Ended June 30,	
	2018	2017			2018	2017
Derivative Instruments						
Commodity contracts	\$(27.6)	\$106.4		Revenue	\$(23.9)	\$5.8
Commodity contracts	29.7	(93.9)		Cost of Revenue	28.4	(3.8)
Foreign Currency contracts	(0.8)	—		Other Income (expense) net	—	—
Total Gain	\$1.3	\$12.5		Total Gain	\$4.5	\$2.0

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 millions):

Amount of Realized and Unrealized Gain (Loss)	Location	For the Three Months Ended June 30,	
		2018	2017
Derivative Instruments - Non-designated			
Commodity contracts			
	Revenue	\$(3.6)	\$19.1
	Cost of revenue	(6.8)	2.6
		\$(10.4)	\$21.7
Foreign currency contracts			
	Revenue	\$1.5	\$(1.6)
	Other (expense), net	6.2	(4.8)
		\$7.7	\$(6.5)
Total (Loss) Gain		\$(2.7)	\$15.2

Amount of Realized and Unrealized Gain (Loss)	Location	For the Six Months Ended June 30,	
		2018	2017
Derivative Instruments - Non-designated			
Commodity contracts			
	Revenue	\$44.0	\$68.2
	Cost of revenue	(43.8)	(36.2)
		\$0.3	\$32.1
Foreign currency contracts			
	Revenue	\$0.9	\$(2.1)
	Other (expense), net	3.4	(6.4)
		\$4.2	\$(8.5)

Total Gain	\$4.5	\$23.6
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11

Table of Contents**Credit-Risk-Related Contingent Features**

We enter into derivative instrument contracts which may require us to periodically provide collateral. Certain derivative contracts contain credit-risk-related contingent clauses which are triggered by credit events. These credit events may include the requirement to provide additional collateral or the immediate settlement of the derivative instruments upon the occurrence of a credit downgrade or if certain defined financial ratios fall below an established threshold. The following table presents the potential collateral requirements for derivative liabilities with credit-risk-contingent features (in millions):

	Potential Collateral Requirements for Derivative Liabilities with Credit-Risk-Contingent Features	
	As of June 30, 2018	As of December 31, 2017
Net derivatives liability positions with credit contingent features	\$ 13.0	\$ 11.8
Maximum potential collateral requirements	\$ 13.0	\$ 11.8

At June 30, 2018 and December 31, 2017, there was no collateral held by our counterparties on these derivative contracts with credit-risk-contingent features.

Table of Contents

4. Goodwill

Goodwill arises because the purchase price paid for our acquisitions reflects numerous factors, including the strategic fit and expected synergies these acquisitions bring to our existing operations. Goodwill is recorded at fair value and is reviewed at least annually for impairment.

The following table provides the components of and changes in the carrying amount of goodwill (in millions):