WORLD FUEL SERVICES CORP
Form 10-Q
October 28, 2015

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 SEPTEMBER 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	(I.R.S. Employer
incorporation or organization)	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 70,780,000 shares of common stock, par value $0.01 per share, issued and outstanding as of October 22, 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 nine months ended September 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 September 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 September 30, 2015	December 31, 2014
Assets:		
Current assets:		
Cash and cash equivalents	$ 609.6	$ 302.3
Accounts receivable, net	2,039.1	2,306.4
Inventories	414.0	437.6
Prepaid expenses	75.4	76.9
Short-term derivative assets, net	179.5	303.6
Other current assets	378.7	246.6
Current assets held for sale	4.4	-
Total current assets	3,700.7	3,673.4
Property and equipment, net	224.7	203.4
Goodwill	667.9	653.3
Identifiable intangible and other non-current assets	345.6	350.4
Non-current assets held for sale	34.0	-
Total assets	$ 4,972.9	$ 4,880.5
Liabilities:		
Current liabilities:		
Short-term debt	$ 23.2	$ 17.9
Accounts payable	1,629.2	1,850.1
Customer deposits	121.5	138.8
Accrued expenses and other current liabilities	329.9	232.5
Current liabilities held for sale	2.2	-
Total current liabilities	2,106.0	2,239.3
Long-term debt	861.2	672.0
Non-current income tax liabilities, net	101.0	85.0
Other long-term liabilities	25.4	19.3
Non-current liabilities held for sale	3.5	-
Total liabilities	3,097.1	3,015.6
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, 70.8 and 72.1 issued and outstanding as of September 30, 2015 and December 31, 2014, respectively	0.7	0.7
Capital in excess of par value	431.9	496.4
Retained earnings	1,541.0	1,418.5
Accumulated other comprehensive loss	(108.7)	(60.2)
Total World Fuel shareholders' equity	1,864.9	1,855.4
Noncontrolling interest equity	10.9	9.5
Total equity	1,875.8	1,864.9
Total liabilities and equity	$ 4,972.9	$ 4,880.5

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

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 September 30,		For the Nine Months ended September 30,	
	2015	2014	2015	2014
Revenue	$ 7,810.7	$ 11,713.5	$ 23,647.8	$ 33,606.8
Cost of revenue	7,584.0	11,498.9	23,015.2	33,012.7
Gross profit	226.7	214.6	632.6	594.1
Operating expenses:				
Compensation and employee benefits	94.2	85.2	270.5	233.6
Provision for bad debt	1.6	1.2	5.2	3.5
General and administrative	64.5	54.1	177.6	158.8
	160.3	140.5	453.3	395.9
Income from operations	66.4	74.1	179.3	198.2
Non-operating expenses, net:				
Interest expense and other financing costs, net	(7.9)	(8.8)	(21.5)	(17.8)
Other income, net	1.9	2.6	0.5	5.9
	(6.0)	(6.2)	(21.0)	(11.9)
Income before income taxes	60.4	67.9	158.3	186.3
Provision for income taxes	11.8	13.4	26.8	35.0
Net income including noncontrolling interest	48.6	54.5	131.5	151.3
Net loss attributable to noncontrolling interest	(1.0)	(1.2)	(3.6)	(3.3)
Net income attributable to World Fuel	$ 49.6	$ 55.7	$ 135.1	$ 154.6
Basic earnings per common share	$ 0.71	$ 0.79	$ 1.92	$ 2.18
Basic weighted average common shares	70.0	70.8	70.5	70.8
Diluted earnings per common share	$ 0.71	$ 0.78	$ 1.90	$ 2.17
Diluted weighted average common shares	70.3	71.3	71.0	71.3
Comprehensive income:				
Net income including noncontrolling interest	$ 48.6	$ 54.5	$ 131.5	$ 151.3
Other comprehensive loss:				
Foreign currency translation adjustments	(31.0)	(17.3)	(42.8)	(8.4)
Cash flow hedges, net of income tax benefit of $0.7 for the three and nine months ended September 30, 2015, respectively	(1.1)	—	(1.1)	—
Other comprehensive loss	(32.1)	(17.3)	(43.9)	(8.4)
Comprehensive income including noncontrolling interest	16.5	37.2	87.6	142.9
	1.1	(1.2)	1.0	(3.3)

Comprehensive income (loss) attributable to noncontrolling interest				
Comprehensive income attributable to World Fuel	$ 15.4	$ 38.4	$ 86.6	$ 146.2

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 Stock Shares	Amount	Capital in Excess of ParValue	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)	—	—	—	135.1	—	135.1	(3.6)	131.5
Cash dividends declared	—	—	—	(12.6)	—	(12.6)	—	(12.6)
Investment by noncontrolling interest	—	—	—	—	—	—	0.5	0.5
Distribution of noncontrolling interest	—	—	—	—	—	—	(0.2)	(0.2)
Amortization of share-based payment awards	—	—	12.9	—	—	12.9		12.9
Issuance of common stock related to share-based payment awards	0.3	—	—	—	—	—	—	—
Purchases of common stock tendered by employees to satisfy the required withholding taxes related to share-based payment awards	—	—	(6.8)	—	—	(6.8)	—	(6.8)
Purchases of common stock	(1.6)	—	(70.5)	—	—	(70.5)	—	(70.5)
	—	—	—	—	(48.5)	(48.5)	4.6	(43.9)

Other comprehensive (loss) income								
Other	—	—	(0.1)	—	—	(0.1)	0.1	—
Balance as of September 30, 2015	70.8	$ 0.7	$ 431.9	$ 1,541.0	$ (108.7)	$ 1,864.9	$ 10.9	$ 1,875.8

	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, 2013	71.9	$ 0.7	$ 495.2	$ 1,207.3	$ (29.3)	$ 1,673.9	$ 5.0	$ 1,678.9
Net income (loss)	—	—	—	154.6	—	154.6	(3.3)	151.3
Cash dividends declared	—	—	—	(7.9)	—	(7.9)	—	(7.9)
Initial noncontrolling interest upon acquisition of joint venture	—	—	—	—	—	—	1.8	1.8
Distribution of noncontrolling interest	—	—	—	—	—	—	(0.2)	(0.2)
Amortization of share-based payment awards	—	—	10.7	—	—	10.7	—	10.7
Issuance of common stock related to share-based payment awards	0.4	—	—	—	—	—	—	—
Purchases of common stock tendered by employees to satisfy the required withholding taxes related to share-based payment awards	—	—	(4.5)	—	—	(4.5)	—	(4.5)
Purchases of common stock	(0.2)	—	(10.0)			(10.0)		(10.0)
Other comprehensive loss	—	—	—	—	(8.4)	(8.4)	—	(8.4)
Balance as of September 30, 2014	72.1	$ 0.7	$ 491.4	$ 1,354.0	$ (37.7)	$ 1,808.4	$ 3.3	$ 1,811.7

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 Nine Months ended September 30, 2015	2014
Cash flows from operating activities:		
Net income including noncontrolling interest	$ 131.5	$ 151.3
Adjustments to reconcile net income including noncontrolling interest to net cash provided by operating activities:		
Depreciation and amortization	44.9	41.9
Provision for bad debt	5.2	3.5
Share-based payment award compensation costs	13.2	11.3
Deferred income tax (benefit) provision	(0.7)	8.3
Extinguishment of liabilities	(6.9)	(3.7)
Foreign currency losses, net	(1.4)	(6.0)
Other	2.3	(3.0)
Changes in assets and liabilities, net of acquisitions:		
Accounts receivable, net	260.1	(57.7)
Inventories	22.6	(11.6)
Prepaid expenses	(9.9)	44.9
Short-term derivative assets, net	119.0	(64.4)
Other current assets	(115.6)	(36.9)
Cash collateral with financial counterparties	92.9	(30.9)
Other non-current assets	3.8	(2.7)
Accounts payable	(213.4)	10.0
Customer deposits	(13.5)	26.0
Accrued expenses and other current liabilities	(13.6)	35.2
Non-current income tax, net and other long-term liabilities	4.7	13.6
Total adjustments	193.7	(22.2)
Net cash provided by operating activities	325.2	129.1
Cash flows from investing activities:		
Acquisition of businesses, net of cash acquired and other investments	(82.0)	(230.7)
Capital expenditures	(36.4)	(37.1)
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)	(1.2)
Repayment of notes receivable	—	0.5
Net cash used in investing activities	(114.0)	(290.2)
Cash flows from financing activities:		
Borrowings of debt	4,169.0	4,738.0
Repayments of debt	(3,977.6)	(4,455.5)
Payments of senior revolving credit facility and senior term loan facility loan costs	(3.4)	—

Dividends paid on common stock	(11.1)	(7.9)
Investment by noncontrolling interest	0.5	—
Distribution of noncontrolling interest	(0.2)	(0.2)
Purchases of common stock	(70.5)	(10.0)
Purchases of common stock tendered by employees to satisfy the required withholding taxes related to share-based payment awards	(6.8)	(4.5)
Net cash provided by financing activities	99.9	259.9
Effect of exchange rate changes on cash and cash equivalents	(3.8)	(2.3)
Net increase in cash and cash equivalents	307.3	96.5
Cash and cash equivalents, as of beginning of period	302.3	292.1
Cash and cash equivalents, as of end of period	$ 609.6	$ 388.6

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

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Supplemental Schedule of Noncash Investing and Financing Activities:

Cash dividends declared, but not yet paid, were $4.2 million as of September 30, 2015 and $2.6 million as of September 30, 2014.

The proceeds from the sale of fixed assets for the nine months ended September 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 Nine Months ended	
	September 30, 2015	September 30, 2014
Assets acquired, net of cash	$ 100.1	$ 454.5
Liabilities assumed	$ 22.3	$ 297.4

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

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World Fuel Services Corporation and Subsidiaries

Notes to the Consolidated Financial Statements

(Unaudited)

1.Acquisitions and Significant Accounting Policies

Acquisitions

On September 1, 2015, we completed the acquisition of all of the outstanding stock of Pester Marketing Company ("Pester"), a leading distributor, transporter, and blender of branded motor fuels and lubricants to wholesale, industrial, commercial and agricultural customers. Pester is headquartered in Denver, Colorado and is also a leading operator of retail convenience stores in the Rocky Mountain region.

In addition to the above acquisition, in September 2015, we completed an acquisition in our aviation segment which was not significant.

The estimated aggregate purchase price for the 2015 acquisitions was $80.1 million, and is subject to change based on the final value of the net assets acquired. The following reconciles the estimated aggregate purchase price for the 2015 acquisitions to the cash paid for the acquisitions, net of cash acquired (in millions):

Estimated purchase price	$ 80.1
Less: Cash acquired	1.2
Estimated purchase price, net of cash acquired	78.9
Less: Amounts due to sellers	0.9
Cash paid for acquisition of businesses	$ 78.0

The estimated purchase price of the 2015 acquisitions 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 2015 acquisitions have not been finalized, the allocation of the purchase price of these acquisitions may change. The estimated purchase price allocation for the 2015 acquisitions is as follows (in millions):

Assets acquired:	
Cash and cash equivalents	$ 1.2
Accounts receivable	5.8
Inventories	7.4
Property and equipment	39.7
Identifiable intangible assets	16.6
Goodwill	25.4
Other current and long-term assets	5.1
Liabilities assumed:	
Short-term debt	(0.5)
Accounts payable	(9.9)
Accrued expenses and other current liabilities	(3.9)
Non-current income tax liabilities and other long term liabilities	(6.8)
Estimated purchase price	$ 80.1

In connection with the 2015 acquisitions, we recorded goodwill of $25.4 million of which $2.7 million is anticipated to be deductible for tax purposes. The identifiable intangible assets consisted of $11.3 million of customer relationships and $4.4 million of other identifiable intangible assets with weighted average lives of 10 years and 9.4 years, respectively, as well as $0.9 million of indefinite-lived trademark/trade name rights.

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The following presents the unaudited pro forma results for 2015 and 2014 as if the 2015 and 2014 acquisitions had been completed on January 1, 2014 (in millions, except per share data):

	For the Three Months ended September 30,		For the Nine Months ended September 30,	
	2015 (pro forma)	2014 (pro forma)	2015 (pro forma)	2014 (pro forma)
Revenue	$ 7,948.7	$ 11,977.6	$ 24,071.1	$ 34,914.2
Net income attributable to World Fuel	$ 52.0	$ 60.0	$ 139.9	$ 164.7
Earnings per common share:				
Basic	$ 0.74	$ 0.85	$ 1.98	$ 2.33
Diluted	$ 0.74	$ 0.84	$ 1.97	$ 2.31

The financial position, results of operations and cash flows of the 2015 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 nine months ended September 30, 2015.

2014 Acquisitions

On July 29, 2014, we completed the acquisition of all of the outstanding stock of Colt International, L.L.C. (“Colt”) a leading provider of contract fuel and international trip planning services in the general aviation marketplace. Colt is headquartered in Houston, Texas and offers services at more than 3,000 locations.

On March 7, 2014, we completed the acquisition of all of the outstanding stock of Watson Petroleum Limited (now known as WFL (UK) 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.

In addition to the above acquisitions, in June 2014, we completed an acquisition in our aviation segment which was not significant.

The following presents the unaudited pro forma results for 2014 as if the 2014 acquisitions had been completed on January 1, 2013 (in millions, except per share data):

	For the Three Months ended September 30, 2014 (pro forma)	For the Nine Months ended September 30, 2014 (pro forma)
Revenue	$ 11,748.5	$ 34,289.2
Net income attributable to World Fuel	$ 56.4	$ 158.8
Earnings per common share:		
Basic	$ 0.80	$ 2.24
Diluted	$ 0.79	$ 2.23

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Significant Accounting Policies

The significant accounting policies we use for quarterly financial reporting are the same as those disclosed in Note 1 of the "Notes to the Consolidated Financial Statements" included in our 2014 10 K Report.

Goodwill

During the first nine months of 2015, we increased land segment goodwill by $1.0 million as a result of a reduction in identifiable intangible assets and an increase in property and equipment and reduced aviation segment goodwill by $3.8 million as a result of an increase in identifiable intangible assets, accrued expenses and other current liabilities, non-current income tax liabilities, net and a reduction in purchase price based on our ongoing fair value assessment of certain of our 2014 acquisitions. Additionally, we had goodwill decreases of $3.6 million, $1.9 million and $1.7 million as a result of foreign currency translation adjustments of our non-U.S. dollar functional currency subsidiaries in our land, aviation and marine segments, respectively.

Recent Accounting Pronouncements

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 will require 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 that the acquirer 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 is effective at the beginning of our 2016 fiscal year. We are currently evaluating whether the adoption of this new guidance will have a significant impact on our consolidated financial statements and disclosures.

Inventory: Simplifying the Measurement of Inventory. In July 2015, the FASB issued an ASU which simplifies the guidance on the subsequent measurement of inventory by requiring inventory within the scope of this update to be measured at the lower of cost or net realizable value rather than the lower of cost or market. This update is effective at the beginning of our 2017 fiscal year. We are currently evaluating whether the adoption of this new guidance will 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 is effective at the beginning of our 2016 fiscal year. We do not believe the adoption of this new guidance will 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 is effective at the beginning of our 2016 fiscal year. We do not believe the adoption of this new guidance will 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 from generally accepted accounting principles in the United States the concept of extraordinary items. This update is effective at the beginning of our 2016 fiscal year. We do not believe the adoption of this new guidance will 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 is effective at the beginning of our 2016 fiscal year. We do not believe the adoption of this new guidance will have a significant impact on our consolidated financial statements and disclosures.

Presentation of Financial Statements-Going Concern: Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern. In August 2014, the FASB issued an ASU which requires management of the Company to evaluate whether there is substantial doubt about the Company's ability to continue as a going concern. This update is effective at the beginning of our 2017 fiscal year. We do not believe the adoption of this new guidance will have an impact on our financial statement 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 is effective at the beginning of our 2016 fiscal year. We do not believe the adoption of this new guidance will have a significant impact on our consolidated financial statements and disclosures.

Transfers and Servicing: Repurchase-to-Maturity Transactions, Repurchase Financings, and Disclosures. In June 2014, the FASB issued an ASU which changes the accounting for repurchase-to-maturity transactions and repurchase financing arrangements. It also requires additional disclosures about repurchase agreements and other similar transactions. This update became effective at the beginning of our 2015 fiscal year. The adoption of this ASU did not have a significant impact on our consolidated financial statements and disclosures.

Revenue from Contracts with Customers. In May 2014, the FASB issued an ASU which provides guidance for revenue recognition for any entity that either enters into contracts with customers to transfer goods or services or enters into contracts for the transfer of non-financial assets. The ASU will replace most existing revenue recognition guidance in generally accepted accounting principles in the United States when it becomes effective. This update is effective at the beginning of our 2018 fiscal year. We are currently evaluating whether the adoption of this new guidance will have a significant impact on our consolidated financial statements and disclosures.

Presentation of Financial Statements and Property, Plant, and Equipment: Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity. In April 2014, the FASB issued an ASU which changes the criteria for reporting discontinued operations and enhances disclosures in this area. It also addresses sources of confusion and inconsistent application related to financial reporting of discontinued operations guidance. This update became effective at the beginning of our 2015 fiscal year. The adoption of this ASU did not have a significant impact on our consolidated financial statements and disclosures.

Reclassifications

Certain amounts in prior periods have been reclassified to conform to the current period's presentation.

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2.Fair Value Measurements

The carrying amounts of cash and cash equivalents, accounts receivable, net, accounts payable and accrued expenses and other current liabilities approximate fair value based on the short-term maturities of these instruments. Fair value for our debt and notes receivable is derived using a discounted cash flow valuation methodology. The carrying values of these instruments approximate fair value since these instruments bear interest either at variable rates or fixed rates which are not significantly different than market rates. Based on the fair value hierarchy, our debt of $884.4 million and $689.9 million as of September 30, 2015 and December 31, 2014, respectively, and our notes receivable of $6.4 million and $7.0 million as of September 30, 2015 and December 31, 2014, respectively, are categorized in Level 3.

The following table presents information about our financial assets and liabilities that are measured at estimated fair value on a recurring basis (in millions):

	Level 1	Level 2	Level 3	Sub-Total	Netting and Collateral	Total
As of September 30, 2015						
Assets:						
Commodity contracts	$ 194.0	$ 249.1	$ 1.3	$ 444.4	$ (255.1)	$ 189.3
Foreign currency contracts	—	10.7	—	10.7	(6.0)	4.7
Inventories	—	1.8	—	1.8	—	1.8
Cash surrender value of life insurance	—	2.3	—	2.3	—	2.3
Total	$ 194.0	$ 263.9	$ 1.3	$ 459.2	$ (261.1)	$ 198.1
Liabilities:						
Commodity contracts	$ 311.2	$ 127.0	$ 0.1	$ 438.3	$ (389.9)	$ 48.4
Foreign currency contracts		6.8	—	6.8	(6.0)	0.8
Total	$ 311.2	$ 133.8	$ 0.1	$ 445.1	$ (395.9)	$ 49.2
As of December 31, 2014						
Assets:						
Commodity contracts	$ 173.7	$ 495.6	$ 4.2	$ 673.5	$ (368.0)	$ 305.5
Foreign currency contracts	—	21.8	—	21.8	(12.0)	9.8
Cash surrender value of life insurance	—	2.2	—	2.2	—	2.2
Total	$ 173.7	$ 519.6	$ 4.2	$ 697.5	$ (380.0)	$ 317.5
Liabilities:						
Commodity contracts	$ 306.4	$ 329.9	$ 1.3	$ 637.6	$ (595.6)	$ 42.0
Foreign currency contracts	—	12.0	—	12.0	(12.0)	—
Inventories	—	22.9	—	22.9	—	22.9
Total	$ 306.4	$ 364.8	$ 1.3	$ 672.5	$ (607.6)	$ 64.9

The cash surrender value of life insurance is in connection with the non-qualified deferred compensation plan and was included in identifiable intangible and other non-current assets in the accompanying consolidated balance sheets.

Nonrecurring Fair Value Measurements. In connection with the acquisition of all of the outstanding stock of Pester, we committed to a plan to sell certain assets and liabilities of Pester's fuel retail business. The fair value of the assets and liabilities held for sale were measured using a discounted cash flow valuation methodology. In accordance with the applicable accounting guidance, the long-lived assets held for sale were recorded at fair value less cost to sell at the acquisition date. The carrying amounts of the current assets and liabilities held for sale approximate fair value based on the short-term maturities of these instruments. Based on the fair value hierarchy, as of September 30, 2015, the fair value of the asset disposal group (excluding inventories) of $34.1 million and the liability disposal group of $5.7 million were categorized as Level 3, as significant unobservable inputs were used in the valuation of such assets and liabilities. The inventories of $4.3 million as of September 30, 2015 were categorized as Level 2 as they were valued based on the price to retailers in a wholesale market.

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The following table presents information regarding the balance sheet location of our commodity and foreign currency contracts net assets and liabilities (in millions):

	As of September 30, 2015	December 31, 2014
Commodity Contracts		
Assets:		
Short-term derivative assets, net	$ 175.3	$ 294.3
Identifiable intangible and other non-current assets	14.0	11.2
Total net assets	$ 189.3	$ 305.5
Liabilities:		
Accrued expenses and other current liabilities	$ 43.1	$ 41.3
Other long-term liabilities	5.3	0.7
Total net liabilities	$ 48.4	$ 42.0
Foreign Currency Contracts		
Assets:		
Short-term derivative assets, net	$ 4.2	$ 9.3
Identifiable intangible and other non-current assets	0.5	0.5
Total net assets	$ 4.7	$ 9.8
Liabilities:		
Accrued expenses and other current liabilities	$ 0.8	$ —
Total net liabilities	$ 0.8	$ —

For our derivative contracts, we may enter into master netting, collateral and offset agreements with counterparties. These agreements provide us the ability to offset a counterparty's rights and obligations, request additional collateral when necessary or liquidate the collateral in the event of counterparty default. We net fair value of cash collateral paid or received against fair value amounts recognized for net derivative positions executed with the same counterparty under the same master netting or offset agreement.

As of September 30, 2015, we had $208.1 million of cash collateral deposits held by financial counterparties, of which $154.8 million have been offset against the total amount of commodity fair value liabilities in the above table and the remaining $53.3 million is included in other current assets in the accompanying consolidated balance sheets. In addition, as of September 30, 2015, we have offset $20.0 million of cash collateral deposits received from customers against the total amount of commodity fair value assets in the above table. As of December 31, 2014, we had $301.0 million of cash collateral deposits held by financial counterparties, of which $274.3 million have been offset against the total amount of commodity fair value liabilities in the above table and the remaining $26.7 million is included in other current assets in the accompanying consolidated balance sheets. In addition, as of December 31, 2014, we have offset $46.7 million of cash collateral deposits received from customers against the total amount of commodity fair value assets in the above table.

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The following table presents information about our assets and liabilities that are measured at fair value on a recurring basis that utilized Level 3 inputs for the periods presented (in millions):

	Beginning of Period	Realized and Unrealized Gains (Losses) Included in Earnings	Settlements	Transfers into Level 3	End of Period	Change in Unrealized Gains (Losses) Relating to Assets and Liabilities that are Held at end of Period	Location of Realized and Unrealized Gains (Losses) Included in Earnings
Three months ended September 30, 2015							
Assets:							
Commodity contracts	$ 0.5	$ (0.1)	$ 0.1	$ 1.0	$ 1.3	$ 1.0	Revenue
Liabilities:							
Commodity contracts	$ 0.4	$ 0.4	$ —	$ (0.1)	$ 0.1	$ 0.5	Cost of revenue
Three months ended September 30, 2014							
Assets:							
Commodity contracts	$ 5.8	$ 4.1	$ 6.6	$ —	$ 3.3	$ 2.0	Revenue
Liabilities:							
Commodity contracts	$ —	$ (0.1)	$ —	$ —	$ 0.1	$ (0.1)	Revenue
Nine months ended September 30, 2015							
Assets:							
Commodity contracts	$ 4.2	$ 0.7	$ 4.6	$ 1.0	$ 1.3	$ 1.4	Revenue
Liabilities:							
Commodity contracts	$ 1.3	$ 0.8	$ 0.5	$ (0.1)	$ 0.1	$ 0.9	Cost of revenue
Nine months ended September 30, 2014							
Assets:							
Commodity contracts	$ —	$ 9.9	$ 6.6	$ —	$ 3.3	$ 3.3	Revenue
Liabilities:							
Commodity contracts	$ —	$ (0.1)	$ —	$ —	$ 0.1	$ (0.1)	Revenue

The nature of inputs that are considered Level 3 are modeled inputs. Commodity contracts are categorized in Level 3due to the significance of the unobservable model inputs to their respective fair values. The unobservable model inputs, such as basis differentials, are based on the difference between the historical prices of our prior transactions and the underlying observable data as well as certain risk related to non-performance. The effect on our income before income taxes of a 10% change in the model input for non-performance risk would not be significant. There were no transfers between Level 1 and Level 2 during the periods presented. Transfers between Level 2 and Level 3 were due to the increased significance of basis adjustments which are Level 3 measurements.

3.Derivatives

We enter into financial derivative contracts in order to mitigate the risk of market price fluctuations in aviation, marine and land fuel, to offer our customers fuel pricing alternatives to meet their needs and to mitigate the risk of fluctuations in foreign currency exchange rates. We also enter into proprietary derivative transactions, primarily intended to capitalize on arbitrage opportunities in basis or time spreads related to fuel products we sell. We have applied the normal purchase and normal sales exception (“NPNS”), as provided by accounting guidance for derivative instruments and hedging activities, to certain of our physical forward sales and purchase contracts. While these contracts are considered derivative instruments under the guidance for derivative instruments and hedging activities, they are not recorded at fair value, but rather are recorded in our consolidated financial statements when physical settlement of the contracts occurs. If it is determined that a transaction designated as NPNS no longer meets the scope of the exception, the fair value of the related contract is recorded as an asset or liability on the consolidated balance sheet and the difference between the fair value and the contract amount is immediately recognized through earnings.

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The following describes our derivative classifications:

Cash Flow Hedges. Includes certain commodity contracts we enter into to mitigate the risk of price volatility in forecasted purchases and sales.

Fair Value Hedges. Includes derivatives we enter into in order to hedge price risk associated with our inventory and certain firm commitments relating to fixed price purchase and sale contracts.

Non-designated Derivatives. Includes derivatives we primarily enter into in order to mitigate the risk of market price fluctuations in aviation, marine and land fuel in the form of swaps or futures as well as certain fixed price purchase and sale contracts and proprietary trading. In addition, non-designated derivatives are entered into to hedge the risk of currency rate fluctuations.

As of September 30, 2015, our derivative instruments, at their respective fair value positions were as follows (in millions, except weighted average fixed price and weighted average mark-to-market amount):

Hedge Strategy	Settlement Period	Derivative Instrument	Notional	Unit	Weighted Average Fixed Price	Weighted Average Mark-to-Market Amount	Fair Value Amount
Fair Value Hedge	2015	Commodity contracts for inventory hedging	5.8	BBL	$ 42.959	$ (0.224)	$ (1.3)
	2016	Commodity contracts for inventory hedging	0.1	BBL	66.989	18.000	1.8
							$ 0.5
Cash Flow Hedge	2015	Commodity contracts for inventory hedging	—	BBL	64.730	—	0.5
	2016		1.5	BBL	66.772	(1.400)	(2.1)

		Commodity contracts for inventory hedging					(1.6)
Non-Designated	2015	Commodity contracts (long)	21.3	BBL	$ 51.090	$ (13.649)	$ (291.3)
	2015	Commodity contracts (short)	21.1	BBL	58.480	14.600	308.3
	2016	Commodity contracts (long)	23.2	BBL	62.660	(22.101)	(513.6)
	2016	Commodity contracts (short)	21.6	BBL	69.870	23.284	502.8
	2017	Commodity contracts (long)	0.9	BBL	26.260	(2.065)	(1.9)
	2017	Commodity contracts (short)	1.0	BBL	20.160	2.129	2.1
	2018	Commodity contracts (long)	0.1	BBL	17.500	(1.572)	(0.1)
	2018	Commodity contracts (short)	0.1	BBL	26.810	4.505	0.5
	2020	Commodity contracts (short)	0.1	BBL	18.840	3.895	0.4
	2015	Foreign currency contracts	8.9	AUD	0.732	0.034	0.3
	2015	Foreign currency contracts	81.3	CAD	1.307	0.009	0.7
	2015	Foreign currency contracts	2,841.4	CLP	677.060	0.000	0.2
	2015	Foreign currency contracts	52.5	EUR	1.118	(0.006)	(0.3)
	2015	Foreign currency contracts	116.3	GBP	1.552	0.008	0.9
	2015	Foreign currency contracts	2,126.1	MXN	16.478	(0.000)	(0.3)

2015	Foreign currency contracts	43.8	NOK	8.219	0.002	0.1
2015	Foreign currency contracts	41.0	RON	3.999	(0.002)	(0.1)
2015	Foreign currency contracts	37.4	SGD	1.392	0.011	0.4
2015	Foreign currency contracts	59.1	ZAR	13.019	0.007	0.4
2016	Foreign currency contracts	40.0	GBP	1.553	0.035	1.4
2017	Foreign currency contracts	4.8	GBP	1.569	0.042	0.2
						$ 11.1

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The following table presents information about our derivative instruments measured at fair value and their locations on the consolidated balance sheets (in millions):

	Balance Sheet Location	As of September 30, 2015	December 31, 2014
Derivative assets:			
Derivatives designated as hedging instruments			
Commodity contracts	Short-term derivative assets, net	$ 20.1	$ 18.8
Commodity contracts	Accrued expenses and other current liabilities	1.0	4.7
		21.1	23.5
Derivatives not designated as hedging instruments			
Commodity contracts	Short-term derivative assets, net	237.9	399.0
Commodity contracts	Identifiable intangible and other non-current assets	16.3	12.1
Commodity contracts	Accrued expenses and other current liabilities	157.8	234.1
Commodity contracts	Other long-term liabilities	11.3	4.8
Foreign currency contracts	Short-term derivative assets, net	9.6	21.3
Foreign currency contracts	Identifiable intangible and other non-current assets	0.5	0.5
Foreign currency contracts	Accrued expenses and other current liabilities	0.6	—
		434.0	671.8
		$ 455.1	$ 695.3
Derivative liabilities:			
Derivatives designated as hedging instruments			
Commodity contracts	Other current assets	$ 21.4	$ 1.0
Commodity contracts	Accrued expenses and other current liabilities	0.8	0.7
		22.2	1.7
Derivatives not designated as hedging instruments			
Commodity contracts	Short-term derivative assets, net	41.4	76.0
Commodity contracts	Identifiable intangible and other non-current assets	2.3	0.6
Commodity contracts	Accrued expenses and other current liabilities	346.9	530.0
Commodity contracts	Other long-term liabilities	25.5	29.3
Foreign currency contracts	Short-term derivative assets, net	5.4	12.0
Foreign currency contracts	Accrued expenses and other current liabilities	1.4	—
		422.9	647.9
		$ 445.1	$ 649.6

The following table presents the effect and financial statement location of our derivative instruments and related hedged items in fair value hedging relationships on our consolidated statements of income and comprehensive income (in millions):

Derivative Instruments	Location	Realized and Unrealized Gain	Hedged Items	Location	Realized and Unrealized (Loss)

		2015	2014			2015	2014
Three months ended September 30,							
Commodity contracts	Cost of revenue	$ 52.8	$ 36.3	Inventories	Cost of revenue	$ (48.5)	$ (36.2)
Nine months ended September 30,							
Commodity contracts	Cost of revenue	$ 36.7	$ 34.6	Inventories	Cost of revenue	$ (29.2)	$ (44.9)

There were no gains or losses for the three and nine months ended September 30, 2015 and 2014 that were excluded from the assessment of the effectiveness of our fair value hedges.

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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 and consolidated statements of income and comprehensive income (in millions):

Derivative Instruments	Amount of Gain (Loss) Recognized in Accumulated Other Comprehensive Income (Effective Portion) 2015	2014	Location of Realized Gain (Loss) (Effective Portion)	Amount of Gain (Loss) Reclassified from Accumulated Other Comprehensive Income (Effective Portion) 2015	2014	Amount of Gain (Loss) Recognized in Income (Ineffective Portion) 2015	2014
Three months ended September 30,							
Commodity Contracts	$ 0.3	$ —	Revenue	$ —	—	$ (1.2)	$ —
Commodity Contracts	(1.4)	—	Cost of revenue	—	—	0.9	—
Total	$ (1.1)	$ —		$ —	$ —	$ (0.3)	$ —
Nine months ended September 30,							
Commodity Contracts	0.3	—	Revenue	—	—	$ (1.2)	$ —
Commodity Contracts	(1.4)	—	Cost of revenue	—	—	0.9	—
Total	$ (1.1)	$ —		$ —	$ —	$ (0.3)	$ —

In the event forecasted cash outflows are less than the hedged amounts, a portion or all of the gain or losses recorded in accumulated other comprehensive income are reclassified to the consolidated statements of income and comprehensive income. As of September 30, 2015, the maximum amount that could be reclassified to the consolidated statements of income and comprehensive income for the next twelve months is not significant.

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):

Derivatives	Location	Realized and Unrealized Gain (Loss) 2015	2014
Three months ended September 30,			
Commodity contracts	Revenue	$ 43.2	$ 19.8
Commodity contracts	Cost of revenue	(39.9)	0.7

Foreign currency contracts	Revenue	3.4	2.9
Foreign currency contracts	Other income, net	1.9	8.9
		$ 8.6	$ 32.3
Nine months ended September 30,			
Commodity contracts	Revenue	$ 89.2	$ 43.9
Commodity contracts	Cost of revenue	(68.0)	9.8
Foreign currency contracts	Revenue	2.1	1.6
Foreign currency contracts	Other income, net	6.9	5.5
		$ 30.2	$ 60.8

We enter into derivative instrument contracts which may require us to periodically post collateral. Certain of these derivative contracts contain clauses that are similar to credit-risk-related contingent features, including material adverse change, general adequate assurance and internal credit review clauses that may require additional collateral to be posted and/or settlement of the instruments in the event an aforementioned clause is triggered. The triggering events are not a quantifiable measure; rather they are based on good faith and reasonable determination by the counterparty that the triggers have occurred. As of September 30, 2015, the net liability position for such contracts is $62.2 million, the collateral posted is $43.9 million and the amount of assets required to be posted and/or to settle the positions should a credit-risk contingent feature be triggered is $30.2 million. As of December 31, 2014, the net liability position for such contracts is $111.7 million, the collateral posted is $89.4 million and the amount of assets required to be posted and/or to settle the positions should a credit-risk contingent feature be triggered is $22.3 million.

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4.Debt

Our debt consisted of the following (in millions):

	As of September 30, 2015	December 31, 2014
Credit Facility	$ 525.0	$