

WORLD FUEL SERVICES CORP  
Form 10-KT  
March 20, 2003  
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**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**

Washington, DC 20549

**FORM 10-K**

(Mark One)

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

FOR THE FISCAL YEAR ENDED \_\_\_\_\_

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

FOR THE TRANSITION PERIOD FROM APRIL 1, 2002 TO DECEMBER 31, 2002

COMMISSION FILE NUMBER 1-9533

**WORLD FUEL SERVICES CORPORATION**

(Exact name of registrant as specified in its charter)

Florida

(State or other jurisdiction of incorporation or  
organization)

9800 Northwest 41st Street, Suite 400  
Miami, Florida

(Address of Principal Executive Offices)

59-2459427

(I.R.S. Employer Identification No.)

33178

(Zip Code )

Registrant's Telephone Number, including area code: (305) 428-8000

Securities registered pursuant to Section 12(b) of the Act:

Title of each class:

Common Stock,  
par value \$0.01 per share

Name of each exchange  
on which registered:

New York Stock Exchange

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### **Securities registered pursuant to Section 12(g) of the Act: None**

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 x No o.

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of Registrant's knowledge, in definite proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to the Form 10-K o.

The aggregate market value of the voting stock (which consists solely of shares of common stock) held by non-affiliates of the registrant was \$203.4 million (computed by reference to the closing sale price as of March 13, 2003).

The registrant had 10.7 million shares of common stock, par value \$.01 per share, net of treasury stock, issued and outstanding as of March 13, 2003.

### **Documents incorporated by reference:**

Part III - Definitive 2003 Proxy Statement for Annual Meeting of Shareholders.

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### **PART I**

#### **Item 1. Business**

##### **General**

World Fuel Services Corporation was incorporated in Florida in July 1984 and along with its consolidated subsidiaries is referred to collectively in this Transition Report on Form 10-K as we, our and us. Our principal business is the marketing of marine and aviation fuel services. In our marine fuel services business, we market marine fuel and related services to a broad base of international shipping companies and to the United States and foreign militaries. We offer 24-hour around-the-world service, credit terms, and competitively priced fuel. In our aviation fuel services business, we extend credit and provide around-the-world single-supplier convenience, 24-hour service, and competitively priced aviation fuel and other aviation related services, including fuel management and price risk management services, to passenger, cargo and charter airlines, as well as to the United States and foreign militaries. We also offer flight plans and weather reports to our corporate customers.

In August 2002, we changed our fiscal year-end from March 31st to a calendar year-end of December 31st. We initiated this change so we could be more directly comparable to other public companies that use a calendar year for their fiscal year. This change was first effective with respect to the nine months ended December 31, 2002. The results for the nine months ended December 31, 2001, presented in this Form 10-K for comparison, are unaudited.

Our executive offices are located at 9800 Northwest 41st Street, Suite 400, Miami, Florida 33178 and our telephone number at this address is (305) 428-8000. Our marine fuel services business is conducted through thirteen subsidiaries with principal offices in the United States, United Kingdom, Denmark, Norway, Costa Rica, South Africa, South Korea, Singapore, Japan, Hong Kong, the Netherlands, and the United Arab Emirates. Our aviation fuel services business is conducted through ten subsidiaries, with principal offices in the United States, United Kingdom, Singapore, Mexico, and Costa Rica. See Item 2 - Properties for a list of principal offices by business segment and Exhibit 21 - Subsidiaries of the Registrant included in this Form 10-K for a list of our subsidiaries.

Financial information with respect to our business segments and the geographic areas of our business is provided in Note 8 to the accompanying consolidated financial statements, included in this Form 10-K.

##### **Forward-Looking Statements**

This Form 10-K and the information incorporated by reference in it includes forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. We intend the forward-looking statements to be covered by the safe harbor provisions for forward-looking statements in these sections. All statements regarding our expected financial position and operating results, our business strategy, our financing plans and forecasted demographic and economic trends relating to our industry are forward-looking statements. These statements can sometimes be identified by our use of forward-looking words such as may, will, anticipate, estimate, expect, or intend and similar expressions. These statements involve known and unknown risks, uncertainties and other factors that may cause our actual results, performance or achievements to be materially different from the results, performance or achievements expressed or implied by the forward-looking statements. We cannot promise you that our expectations in such forward-looking statements will turn out to be correct. Factors that impact such forward looking statements include, but are not limited to, quarterly fluctuations in results; the management of growth; fluctuations in world oil prices or foreign currency; changes in political, economic, regulatory or environmental conditions; the loss of key customers, suppliers or members of senior management; uninsured losses; competition; credit risk associated with accounts and notes receivable; and other risks detailed in this Form 10-K and in our other Securities and Exchange Commission filings. A more detailed description of the principal risks in our business is set forth in Risk Factors. We undertake no obligation to update or revise publicly any forward-looking statements, whether as a result of new information, future events, or otherwise.

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### **History**

In 1984, we began our operations as a used oil-recycler in the southeast United States. However, after 16 years, in February 2000, we exited this segment of our business through the sale of the stock of our International Petroleum Corporation subsidiaries, to Dallas-based EarthCare Company ( EarthCare ). For additional information regarding this transaction, refer to Note 2 to the consolidated financial statements, included herein, and Item 3 Legal Proceedings.

In 1986, we diversified our operations by entering, through an acquisition, the aviation fuel services business. This segment of our business expanded from a business primarily concentrated in Florida to an international sales company covering airports throughout most of the world. This expansion resulted from acquisitions and the establishment of new offices. In December 2000, we acquired a 50% interest in PAFCO L.L.C. ( PAFCO ) from Signature Flight Support Services Corporation. PAFCO markets aviation fuel and related services. For additional information on the PAFCO transaction, refer to Notes 1 and 7 to the consolidated financial statements included in this Form 10-K.

In 1995, we further diversified our fuel services operations and entered the marine fuel business by acquiring the Trans-Tec Services group of companies. In 1999, we expanded our marine fuel business and our share of the world's marine fuel market with the acquisition of the Bunkerfuels group of companies. Since 1999, we have continued our expansion of the marine business through the acquisitions of Norse Bunkers, based in Oslo, Norway; Marine Energy, located in Dubai, United Arab Emirates; and the Oil Shipping group of companies, with operations in Singapore, the Netherlands and Hong Kong. Since our entry into the marine fuel services business, we have opened various new offices in key strategic markets, such as South Africa, Japan, Denmark, Greece, and Seattle, Washington. For additional information regarding our acquisitions since 1999, refer to Note 1 to the consolidated financial statements, included in this Form 10-K.

### **Description of Business**

Our principal business is the marketing of marine fuel services to a broad base of international shipping companies and to the United States and foreign militaries, and of aviation fuel services to passenger, cargo and charter airlines, as well as to United States and foreign militaries. We currently employ a total of 370 people worldwide, of which 189 people are employed in our marine fuel business, 126 people are employed in our aviation fuel business, and 55 people are employed in corporate.

#### *Marine Fuel Services*

We market marine fuel and services to a broad base of customers, including international container and tanker fleets, time charter operators, as well as to United States and foreign military vessels. Marine fuel and related services are provided throughout most of the world.

Through our vast network of strategically located sales offices, we provide our customers global market intelligence and rapid access to quality and competitively priced marine fuel, 24-hours a day, every day of the year. Our marine related services include management services for the procurement of fuel, cost control through the use of hedging instruments, quality control and claims management. Our customers need cost effective and professional fuel services because the cost of fuel is a major component of a vessel's operating overhead.

As an increasing number of ship owners, time charter operators, and suppliers continue to outsource their marine fuel purchasing and/or marketing needs, our value added services have become an integral part of the oil and transportation industries' push to shed non-core functions and reduce costs. Suppliers use our global sales, marketing and financial infrastructure to sell a spot or ratable volume of product to a diverse, international purchasing community. End customers use our real time analysis of the availability, quality, and price of marine fuels in ports worldwide to maximize their competitive position.

In our marine operations, we act as a broker and as a source of market information for the end user, negotiate the transaction by arranging the fuel purchase contract between the supplier and the end user, and expedite the arrangements for the delivery of fuel. For this service, we are paid a commission from the supplier. We also act as a reseller, when we purchase the fuel from a supplier, mark it up, and resell the fuel to a customer.

We purchase our marine fuel from suppliers worldwide. Our cost of fuel is generally tied to spot pricing, market-based formulas or is governmentally controlled. We are usually extended unsecured trade credit from our suppliers for our fuel.

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purchases. However, certain suppliers require us to provide a letter of credit. We may prepay our fuel purchases to take advantage of financial discounts, or as required to transact business in certain countries.

We utilize subcontractors to provide various services to customers, including fueling of vessels in-port and at-sea, and transportation of fuel and fuel products.

During the nine months ended December 31, 2002 and the years ended March 31, 2002, 2001 and 2000, none of our marine fuel customers accounted for more than 10% of our consolidated revenue.

### *Aviation Fuel Services*

We market aviation fuel and services to passenger, cargo and charter airlines, as well as corporate customers and the United States and foreign militaries. We have developed an extensive network that enables us to provide aviation fuel and related services to customers at airports throughout most of the world. Our aviation related services include fuel management, price risk management, flight plans, weather reports, ground handling, and flight permits.

In general, the aviation industry is capital intensive and highly leveraged. Recognizing the financial risks of the airline industry, fuel suppliers generally refrain from extending unsecured lines of credit to smaller airlines and avoid doing business with smaller airlines directly. Consequently, most carriers are required to post a cash collateralized letter of credit or prepay for fuel purchases. This impacts the airlines working capital. We recognize that the extension of credit is a risk, but also a significant area of opportunity. Accordingly, we extend unsecured credit to most of our customers.

We purchase our aviation fuel from suppliers worldwide. Our cost of fuel is generally tied to market-based formulas or is governmentally controlled. We are usually extended unsecured trade credit from our suppliers for our fuel purchases. However, certain suppliers require us to provide a letter of credit. We may prepay our fuel purchases to take advantage of financial discounts, or as required to transact business in certain countries.

Outside of the United States, we do not maintain fuel inventory since we arrange to have the fuel delivered into our customers' aircraft directly from our suppliers. In the United States, fuel is delivered into our customers' aircraft or designated storage directly from our suppliers or from our fuel inventory. Inventory is held at multiple locations in the United States for competitive reasons and inventory levels are kept at an operating minimum. We have arrangements with our suppliers and other third parties for the storage and delivery of fuel, and related aviation services.

We utilize subcontractors to provide various services to customers, including into-plane fueling at airports, and transportation and storage of fuel and fuel products.

During the nine months ended December 31, 2002 and the years ended March 31, 2002, 2001 and 2000, none of our aviation fuel customers accounted for more than 10% of our consolidated revenue.

### *Risk Factors*

*Credit Losses.* Our marine and aviation fueling businesses extend unsecured credit to most of their customers. Part of our success in attracting business has been due, in part, to our willingness to extend credit on an unsecured basis to customers which exhibit a high credit risk profile and would otherwise be required to prepay or post letters of credit with their suppliers of fuel and related services. We recognize that extending credit and setting the appropriate reserves for receivables is largely a subjective decision based on knowledge of the customer and the industry. Active management of our credit risk is essential to our success. We do not insure our receivables. Diversification of credit risk is difficult since we sell primarily within the marine and aviation industries. Our sales executives and their respective staff meet regularly to evaluate credit exposure, in the aggregate and by individual credit. Credit exposure also includes the amount of estimated unbilled sales. We also have a credit committee for each of our segments. The credit committees are responsible for approving credit limits above certain amounts, setting and maintaining credit standards, and managing the overall quality of the credit portfolio. The level of credit granted to a customer is influenced by a customer's credit history with us, including claims experience and payment patterns. In our marine fuel services segment, we have extended lines of credit of at least \$5.0 million to ten non-governmental customers, and two of these customers have lines of credit ranging from \$9.0 to \$12.0 million. In our aviation fuel services segment, our largest credit line, extended to two non-governmental customers, is \$4.0 million.



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Since the sharp decline in world oil prices soon after the terrorist attacks of September 11th, world oil prices have been very volatile. Fuel costs represent a significant part of a vessel's and airline's operating expenses; accordingly, the volatility in fuel prices can adversely affect our customers' business, and consequently can increase our credit losses.

Although most of our transactions are denominated in U.S. dollars, many of our customers are foreign and may be required to purchase U.S. dollars to pay for our products and services. A rapid devaluation in currency affecting our customers could have an adverse effect on our customers' operations and their ability to convert local currency to U.S. dollars to make the required payments to us. This will in turn result in higher credit losses for us.

We may also incur credit losses due to other causes, including deteriorating conditions in the world economy, or in the shipping or aviation industries, continued conflicts and instability in the Middle East, Asia and Latin America, military actions in response to the terrorist attacks of September 11th, as well as possible future terrorist activity and military conflicts. Any credit losses, if significant, will have a material adverse effect on our financial position and results of operations.

*Senior Management.* Our ability to maintain our competitive position is dependent largely on the services of our senior management team. If we are unable to retain the existing senior management personnel, or to attract other qualified senior management personnel, our businesses will be adversely affected.

*Revolving Line of Credit.* We are a party to a credit facility agreement that imposes certain operating and financial restrictions on us, including restrictions on the payment of dividends in excess of specified amounts. Our failure to comply with obligations under the credit agreement, including meeting certain financial ratios, 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 agreement, and impair our ability to receive advances, and issue letters of credit, and may have a material adverse effect on us.

*Market Risks.* We are a provider of marine fuel and related services to international container and tanker fleets, time charter operators, and the United States and foreign militaries. We also provide aviation fuel and related services primarily to secondary passenger and cargo airlines, as well as corporate customers and the United States and foreign militaries. Our fuel services are provided through relationships with the large independent oil suppliers, as well as government owned oil companies. We could be adversely affected by industry consolidation, on the customer side, because of increased merger activity in the airline and shipping industries. On the supply side, we could be adversely affected because of increased competition from the larger oil companies who may choose to directly market to smaller airlines and shipping companies or to provide less advantageous credit and price terms to us. Moreover, a rapid and sustained increase in fuel prices could affect the credit limits extended to us by our suppliers, potentially impacting our liquidity and profitability. Conversely, a rapid decline in fuel prices could adversely affect our profitability because of the inventory held by us in the United States.

*Competition.* We are subject to aggressive competition in all areas of our business. Our competitors are numerous, ranging from large multinational corporations to relatively small and specialized firms. We compete primarily on the basis of credit, price, reliability, customer service and support.

*Environmental and Other Liabilities; Uninsured Risks.* In the marine and aviation fuel segments, we utilize subcontractors to provide various services to customers, including into-plane fueling at airports, fueling of vessels in-port and at-sea, and transportation and storage of fuel and fuel products. We are subject to possible claims by customers, regulators and others who may be injured by a fuel spill or other accident. In addition, we may be held liable for damages to the environment arising out of such events. Although we generally require our subcontractors to carry liability insurance, not all subcontractors carry adequate insurance. Our marine business does not have liability insurance to cover the acts or omissions of our subcontractors. None of our liability insurance covers acts of war and terrorism. If we are held responsible for any acts of war or terrorism, accidents or other events, and our liability is not adequately covered by insurance and is of sufficient magnitude, our financial position and results of operations will be adversely affected.

We have exited several businesses which handled hazardous and non-hazardous waste. We treated and/or transported this waste to various disposal facilities. We may be held liable as a potentially responsible party for the clean-up of such disposal facilities, or be required to clean-up facilities previously operated by us, pursuant to current U.S. federal and state laws and regulations. See Regulation and Item 3 Legal Proceedings.



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We continuously review the adequacy of our insurance coverage. However, we lack coverage for various risks, including environmental claims. An uninsured claim arising out of our activities, if successful and of sufficient magnitude, will have a material adverse effect on our financial position and results of operations.

### *Regulation*

Our activities, including discontinued operations, are subject to substantial regulation by federal, state and local government agencies, both in and outside the United States, which enforce laws and regulations governing the transportation, sale, storage and disposal of fuel and the collection, transportation, processing, storage, use and disposal of hazardous substances and wastes, including waste oil and petroleum products.

The principal laws and regulations affecting our businesses are as follows:

*The Comprehensive Environmental Response, Compensation and Liability Act of 1980 ( Superfund or CERCLA )* establishes a program for federally directed response or remedial actions with respect to the uncontrolled discharge of hazardous substances, pollutants or contaminants, including waste oil, into the environment. The law authorizes the United States federal government either to seek a binding order directing responsible parties to undertake such actions or authorizes the United States federal government to undertake such actions and then to seek compensation for the cost of clean-up and other damages from potentially responsible parties. The United States Congress established a federally managed trust fund, commonly known as the Superfund, to fund response and remedial actions undertaken by the United States federal government. The trust fund is used to fund federally conducted actions when no financially able or willing responsible party has been found.

*The Superfund Amendments and Re-authorization Act of 1986 ( SARA )* adopted more detailed and stringent standards for remedial action at Superfund sites, and clarified provisions requiring damage assessments to determine the extent and monetary value of injury to the environment. SARA also provides a separate funding mechanism for the clean-up of underground storage tanks.

*The Resource Conservation and Recovery Act of 1976 ( RCRA )* established a comprehensive regulatory framework for the management of hazardous waste at active facilities. RCRA sets up a cradle-to-grave system for the management of hazardous waste, imposing upon all parties who generate, transport, treat, store or dispose of waste, above certain minimum quantities, requirements for performance, testing and record keeping. RCRA also requires permits for construction, operation and closure of facilities and requires 30 years of post-closure care and monitoring. RCRA was amended in 1984 to increase the scope of RCRA regulation of small quantity waste generators and waste oil handlers and recyclers; require corrective action at hazardous waste facilities (including remediation at certain previously closed solid waste management units); phase in restrictions on disposal of hazardous waste; and require the identification and regulation of underground storage tanks containing petroleum and certain chemicals.

*The Clean Water Act of 1972*, as amended in 1987, establishes water pollutant discharge standards applicable to many basic types of manufacturing plants and imposes standards on municipal sewage treatment plants. The act requires states to set water quality standards for significant bodies of water within their boundaries and to ensure attainment and/or maintenance of those standards. Most industrial and government facilities must apply for and obtain discharge permits, monitor pollutant discharges, and under certain conditions reduce certain discharges.

*The Safe Drinking Water Act*, as amended in 1986, regulates public water supplies by requiring the EPA to establish primary drinking water standards. These standards are likely to be further expanded under the EPA's evolving groundwater protection strategy which is intended to set levels of protection or clean-up of the nation's groundwater resources. These groundwater quality requirements will then be applied to RCRA facilities and CERCLA sites, and remedial action will be required for releases of contaminants into groundwater.

*The International Convention for the Prevention of Pollution from Ships ( MARPOL )* places strict limitations on the discharge of oil at sea and in port and requires ships to transfer oily waste to certified reception facilities. The United States Coast Guard has issued regulations effective March 10, 1986 which implement the requirements of MARPOL. Under these regulations, each terminal and port of the United States that services oceangoing tankers or cargo ships over 400 gross tons must be capable of receiving an average amount of oily waste based on the type and number of ships it serves. The reception facilities may be fixed or mobile, and may include tank trucks and tank barges.

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*The National Pollutant Discharge Elimination System ( NPDES )*, a program promulgated under the Clean Water Act, permits states to issue permits for the discharge of pollutants into the waters of the United States in lieu of federal EPA regulation. State programs must be consistent with minimum United States federal requirements, although they may be more stringent. NPDES permits are required for, among other things, certain industrial discharges of storm water.

*The Oil Pollution Act of 1990* imposes liability for oil discharges, or threats of discharge, into the navigable waters of the United States on the owner or operator of the responsible vessel or facility. Oil is defined to include oil refuse and oil mixed with wastes other than dredged spoil, but does not include oil designated as a hazardous substance under CERCLA. The act requires the responsible party to pay all removal costs, including the costs to prevent, minimize or mitigate oil pollution in any case in which there is a discharge or a substantial threat of an actual discharge of oil. In addition, the responsible party may be held liable for damages for injury to natural resources, loss of use of natural resources and loss of revenues from the use of such resources.

*State and Local Government Regulations.* Many states have been authorized by the EPA to enforce regulations promulgated under RCRA and other United States federal programs. In addition, there are numerous state and local authorities that regulate the environment, some of which impose stricter environmental standards than United States federal laws and regulations. Some states, including Florida, have enacted legislation which generally provides for registration, record keeping, permitting, inspection, and reporting requirements for transporters, collectors and recyclers of hazardous waste and waste oil. The penalties for violations of state law include injunctive relief, recovery of damages for injury to air, water or property and fines for non-compliance. In addition, some local governments have established local pollution control programs, which include environmental permitting, monitoring and surveillance, data collection and local environmental studies.

*Non U.S. Government Regulations.* Many non-U.S. governments impose laws and regulations relating to the protection of the environment and the discharge of pollutants in the environment. Such laws and regulations could impose significant liability on us for damages, clean-up costs and penalties for discharges of pollutants in the environment, as well as injunctive relief. In addition, some non-U.S. government agencies have established pollution control programs, which include environmental permitting, monitoring and surveillance, data collection and environmental impact assessments.

*U.S. Federal, State, and Non-U.S. Taxes on Fuel.* Our marine and aviation fueling operations are affected by various U.S. federal and state taxes imposed on the purchase and sale of marine and aviation fuel products. In the United States, federal law imposes a manufacturer's excise tax on sales of marine and aviation fuel. Sales to aircraft and vessels engaged in non-U.S. trade are exempt from this tax. These exemptions may be realized either through tax-free or tax-reduced sales, if the seller qualifies as a producer under applicable regulations, or, if the seller does not so qualify, through a tax-paid sale followed by a refund to the exempt user. Several states, where we sell marine and aviation fuel, impose excise and sales taxes on fuel sales; certain sales of fuel by us qualify for full or partial exemptions from these state taxes. Non-U.S. jurisdictions also impose certain taxes on fuel, such as VAT and excise taxes. We continuously review our compliance with U.S. and non-U.S. laws which impose taxes on our operations. Sales and excise taxes on fuel are generally added to the sales price and passed on to our customers. However, in certain cases, we may be responsible for these taxes, including cases where the customer fails to reimburse us, or where the customer or we do not qualify for an exemption believed to be available at the time of the sale.

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The following pages set forth our principal leased properties by segment and subsidiary as of March 20, 2003. We consider our properties and facilities to be suitable and adequate for our present needs. Refer to the accompanying consolidated financial statements for additional information.

**WORLD FUEL SERVICES CORPORATION and SUBSIDIARIES****PROPERTIES**

<u>Lessee and Location</u>	<u>Principal Use</u>	<u>Lease Term</u>
<u>Corporate</u> World Fuel Services Corporation 9800 Northwest 41st Street, Suite 400 Miami, FL 33178, United States	Executive and administrative office	March 2013
<u>Marine Fuel Services</u> Trans-Tec Services, Inc. 9800 Northwest 41st Street, Suite 400 Miami, FL 33178, United States	Executive and administrative office	March 2013
2 Greenwich Office Park Greenwich, CT 06830, United States	Administrative, operations and sales office	December 2006
60 East Sir Francis Drake Blvd., Suite 301 Larkspur, CA 94939, United States	Administrative, operations and sales office	January 2004
Trans-Tec Services (UK) Ltd. Westminster Tower 3 Albert Embankment London SE1 75P	Administrative office	March 2010
Gammelbyved 2 Karise, Denmark 4653	Sales office	Month-to-month
Bunkerfuels UK Limited Westminster Tower 3 Albert Embankment London SE1 75P	Administrative, operations and sales office	March 2010
Bunkerfuels Corporation Raritan Plaza III 101 Fieldcrest Avenue Suite 2B Edison, NJ 08837, United States	Administrative, operations and sales office	January 2010
Pacific Horizon Petroleum Services, Inc. 2025 First Ave., Suite 1110 Seattle, WA 98121, United States	Administrative, operations and sales offices	December 2005

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Trans-Tec International S.R.L.

Administrative, operations and sales office

April 2003

Casa Petro S.A.  
Oficentro Ejecutivo La Sabana Sur  
Edificio #5, Primer Piso  
San José, Costa Rica

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**Table of Contents****WORLD FUEL SERVICES CORPORATION and SUBSIDIARIES****PROPERTIES**

(Continued)

<b>Lessee and Location</b>	<b>Principal Use</b>	<b>Lease Term</b>
<b><u>Marine Fuel Services, Continued</u></b>		
Trans-Tec Asia, a division of World Fuel Services (Singapore) Pte., Ltd. 101 Thomson Road #13-03/04 United Square Singapore 307591	Administrative, operations and sales office	March 2005
Trans-Tec Korea, a branch of World Fuel Services (Singapore) Pte., Ltd. Room 403, Anglican Church Building 3-7, Chung-dong, Chung-ku Seoul 100-120 South Korea	Sales office	June 2003
Trans-Tec South Africa, a branch of World Fuel Services (Singapore) Pte., Ltd. 129 Beach Road, Mouille Point Capetown, South Africa 8001	Sales office	March 2005
Bunkerfuels International, a division of World Fuel Services (Singapore) Pte., Ltd. 101 Thomson Road #13-03/04 United Square Singapore 307591	Administrative and operations office	March 2005
Bunkerfuels Hellas, a branch of World Fuel Services (Singapore) Pte., Ltd. Poseidonos 60 Av., Third Floor Glyfada 166-75 Athens, Greece	Sales office	February 2005
Trans-Tec Services (Japan) Co. K.K. 4th floor, Tozan Building, 4-4-2. Nihonbashi Hon-Cho, Chuo-Ku Tokyo 103-0023, Japan	Sales office	Month-to-month
Norse Bunkers AS Niels Juels gate 11 B 0272 Oslo, Norway	Administrative, operations and sales office	February 2004
Marine Energy Arabia Co. LLC City Tower 1 Dubai, United Arab Emirates	Sales office	September 2003

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Oil Shipping (Bunkering) BV  
Vasteland 6  
3011 BK Rotterdam, Netherlands

Administrative, operations and sales office

Month-to-month

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**Table of Contents****WORLD FUEL SERVICES CORPORATION and SUBSIDIARIES****PROPERTIES**

(Continued)

<b>Lessee and Location</b>	<b>Principal Use</b>	<b>Lease Term</b>
<u>Marine Fuel Services, Continued</u> Oil Shipping (Hong Kong) Ltd. Unit A, 7th Floor Yam Tze Commercial Building 23 Thompson Road Wanchai, Hong Kong	Administrative, operations and sales office	March 2004
<u>Aviation Fuel Services</u> World Fuel Services of FL  World Fuel Services, Inc 9800 Northwest 41st Street, Suite 400 Miami, FL 33178	Executive, administrative, operations, and sales office	March 2013
4995 East Anderson Avenue Fresno, CA 93727	Administrative, operations and sales office	Month-to-month
World Fuel International S.R.L.  PetroServicios de Costa Rica S.A. Oficentro Ejecutivo La Sabana Sur Edificio #5, Primer Piso San José, Costa Rica	Administrative, operations and sales office	April 2003
World Fuel Services Ltd.  Baseops Europe Ltd.  AirData Limited Kingfisher House, Northwood Park, Gatwick Rd. Crawley, West Sussex, RH10 2XN United Kingdom	Administrative, operations and sales office	December 2007
World Fuel Services (Singapore) Pte., Ltd. 101 Thomson Road #13-03/04, United Square Singapore 307591	Administrative, operations and sales office	March 2005
PetroServicios de México S.A. de C.V.  Servicios Auxiliares de México S.A. de C.V. Avenida Fuerza Aérea Mexicana No. 465 Colonia Federal	Administrative, operations and sales office	Month-to-month

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15700 México, D.F.

Baseops International, Inc.  
333 Cypress Run #200  
Houston, Texas 77094

Administrative, operations and sales office

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### **Item 3. Legal Proceedings**

In July 2001, we settled litigation filed in February 2000 relating to a product theft off the coast of Nigeria. The settlement resulted in a recovery of \$1.0 million. In the accompanying Consolidated Statements of Income, the product theft was included as a non-recurring charge in Other income (expense), net during the year ended March 31, 2000 and the recovery was included as a non-recurring credit in Other income (expense), net for the year ended March 31, 2002.

In July 2001, we received a Summary Judgment from the United States District Court for the Southern District of Florida which ordered Donald F. Moorehead, Jr., Chairman of EarthCare Company ( EarthCare ) to pay us compensatory damages of approximately \$5.0 million, plus interest from May 1, 2001. This judgment relates to Mr. Moorehead's default on his agreement to purchase all of the EarthCare stock owned by us for approximately \$5.0 million. We received the EarthCare stock as part payment for the sale of our oil-recycling operations in February 2000. From August 2001 to October 2001, we received principal and interest payments totaling \$700 thousand from Mr. Moorehead. We had been pursuing collection of this judgment and, in May 2002, the court appointed a receiver to take possession and control of all nonexempt assets and property interests of Mr. Moorehead. As a result of the receiver's activities, we received several offers from Mr. Moorehead to settle the outstanding balance on our judgment and received \$350 thousand of principal and interest payments from Mr. Moorehead from May 2002 to August 2002, resulting in a total principal and interest collection of approximately \$1.1 million. Lastly, in October 2002, we received \$3.0 million as a final payment to settle the remaining balance due on our judgment. Accordingly, in connection with the settlement, during the nine months ended December 31, 2002, we recorded a non-recurring charge of \$1.6 million, which includes \$346 thousand for legal and receiver fees.

In April 2001, Miami-Dade County, Florida (the County ) filed suit (the County Suit ) against 17 defendants to seek reimbursement for the cost of remediating environmental contamination at Miami International Airport (the Airport ). Page Avjet Fuel Corporation, now known as PAFCO L.L.C. ( PAFCO ), is a defendant. We acquired a 50% interest in PAFCO from Signature Flight Support Corporation ( Signature ) in December 2000. Pursuant to the PAFCO acquisition agreement, Signature agreed to indemnify us for all PAFCO liabilities arising prior to the closing date ( Closing ). Because the Airport contamination occurred prior to Closing, we believe that the County Suit is covered by Signature's indemnification obligation. We have notified Signature of the County Suit, as stipulated in the acquisition agreement. We expect Signature to defend this claim on behalf of PAFCO and at Signature's expense.

Also in April 2001, the County sent a letter to approximately 250 potentially responsible parties ( PRP's ), including World Fuel Services Corporation and one of our subsidiaries, advising them of their potential liability for the clean-up costs which are the subject of the County Suit. The County has threatened to add the PRP's as defendants in the County Suit, unless they agree to share in the cost of the environmental clean-up at the Airport. In May 2001, we advised the County that: (1) neither we nor any of our subsidiaries were responsible for any environmental contamination at the Airport, and (2) to the extent we or any of our subsidiaries were so responsible, our liability was subject to indemnification by the County pursuant to the indemnity provisions contained in our lease agreement with the County.

We intend to vigorously defend all claims asserted by the County relating to environmental contamination at the Airport. We believe our liability in these matters (if any) should be adequately covered by the indemnification obligations of Signature as to PAFCO, and the County as to World Fuel Services Corporation and our other subsidiaries.

There can be no assurance that we will prevail on the above legal proceedings and management cannot estimate the exposure if we do not prevail. A ruling against us in any of the proceedings described above may have a material adverse effect on our financial condition and results of operation.

In addition to the matters described above, we are also involved in litigation and administrative proceedings primarily arising in the normal course of our business. In the opinion of management, except as set forth above, our liability, if any, under any other pending litigation or administrative proceedings, will not materially affect our financial condition or results of operations.

### **Item 4. Submission of Matters to a Vote of Security Holders**

No matter was submitted to a vote of shareholders, through the solicitation of proxies or otherwise, during the quarter ended December 31, 2002.

**Table of Contents****PART II****Item 5. Market for Registrant's Common Equity and Related Stockholder Matters**

Our common stock is traded on the New York Stock Exchange ( NYSE ) under the symbol INT. In May 2001, our Board of Directors approved a resolution to delist our stock from the Pacific Stock Exchange. In August 2002, we completed the process to remove our stock listing from the Pacific Stock Exchange.

The following table sets forth, for each quarter within the nine months ended December 31, 2002, and the years ended March 31, 2002 and 2001, the closing sales prices of our common stock as reported by the NYSE and the quarterly cash dividends per share of common stock declared during the periods indicated.

	<u>Price</u>		<u>Cash Dividends Per Share</u>
	<u>High</u>	<u>Low</u>	
Nine Months Ended December 31, 2002			
April 2002 to June 2002	\$ 24.40	\$ 19.00	\$ 0.075
July 2002 to September 2002	23.88	18.70	0.075
October 2002 to December 2002	23.89	19.10	0.075
Year ended March 31, 2002			
April 2001 to June 2001	\$ 12.70	\$ 8.95	\$ 0.175
July 2001 to September 2001	13.60	8.71	0.075
October 2001 to December 2001	18.90	10.05	0.075
January 2002 to March 2002	19.97	16.08	0.075
Year ended March 31, 2001			
First quarter	\$ 8.88	\$ 6.56	\$ 0.050
Second quarter	9.44	7.38	0.050
Third quarter	8.13	6.19	0.050
Fourth quarter	9.70	7.38	0.050

In December 2001, we obtained a new credit facility from a different bank. Our former credit facility agreement restricted the payment of cash dividends to a maximum of 25% of net income for the preceding four quarters. Our new credit facility agreement restricts the payment of cash dividends to a maximum of 35% of net income for the preceding four quarters. The payments of the above dividends were in compliance with the former credit facility agreement from April 2001 to September 2001, and with the new credit facility from October 2001 to December 2002. For additional information, see Note 3 to the accompanying consolidated financial statements and *Liquidity and Capital Resources* in *Item 7 Management's Discussion and Analysis of Financial Condition and Results of Operations*.

As of March 13, 2003, there were 244 shareholders of record of our common stock, and the closing price of our stock on the NYSE was \$19.92. On February 26, 2003, our Board of Directors approved a quarterly cash dividend of \$0.075 per share for 2003.

*Common Stock Grants*

During the nine months ended December 31, 2002 and the years ended March 31, 2002, 2001 and 2000, we issued 3,500 shares, 3,000 shares, 2,500 shares, and 2,000 shares, respectively, of our common stock to our non-employee directors pursuant to a stock grant program whereby each non-employee director is given an annual stock grant of 500 shares of our common stock. In September 2002, two non-employee directors received an additional common stock grant of 300 shares. In January 2001, we issued an additional 1,000 shares of our common stock to one

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non-employee director. These additional common stock grants were for additional services performed by such individuals for the Board of Directors committees.

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**Table of Contents***Treasury Stock*

Our Board of Directors, from time to time, has authorized certain stock repurchase programs whereby we could repurchase our common stock, subject to certain restrictions pursuant to our credit facility. The following summarizes the status of our treasury stock repurchase programs at December 31, 2002 (in thousands, except average price per share data):

Repurchase Program	Repurchases				Remaining Authorized Stock Repurchases
	Authorized Stock Repurchases	Shares	Aggregate Cost	Average Price	
August 1998	\$ 6,000	616	\$ 6,000	\$ 9.74	\$
January 2000	10,000	1,391	10,000	7.19	
September 2000	10,000	368	3,987	10.83	6,013
		2,375	\$ 19,987		

Outside of the treasury stock repurchase programs, we acquired approximately 22 thousand shares of our common stock in 1998 with an aggregate cost of \$194 thousand.

Our Board of Directors also resolved that the repurchased shares may be reissued for any proper corporate purpose, including without limitation, future acquisitions. In March 2002, we began reissuing our repurchased shares in connection with restricted stock grants to employees, non-restricted stock grants to non-employee directors, and exercises of stock options by employee and non-employee directors. The difference between the aggregate cost of the repurchased shares and the fair value of the restricted stock grants at the date of grant or the proceeds from the employee stock option exercises is recorded in Capital in excess of par value in the accompanying Consolidated Balance Sheets. As of December 31, 2002, we have reissued 326 thousand shares of treasury stock with an aggregate cost of \$2.7 million.

*Employee and Non-Employee Directors Stock Options*

In 1986, our shareholders approved the 1986 Employee Stock Option Plan (the 1986 Plan), as amended. The 1986 Plan expired in 1996. Options granted under the 1986 Plan, but not yet exercised, survive the 1986 Plan until the options expire. Outstanding options at December 31, 2002 under the 1986 Plan expire between January 2005 and March 2005.

In 1997, our shareholders approved the 1996 Employee Stock Option Plan (the 1996 Plan), as amended. The 1996 Plan was replaced by the 2001 Omnibus Plan (the 2001 Plan). Options granted under the 1996 Plan, but not yet exercised, survive the 1996 Plan until the options expire. Outstanding options at December 31, 2002 under the 1996 Plan expire between August 2006 and October 2011.

The 2001 Plan was approved by our shareholders in August 2001 and provides a total of 500 thousand shares of our common stock for issuance to our employees. The 2001 Plan is administered by the Compensation Committee of the Board of Directors (the Compensation Committee). Additional shares of our common stock that may be granted under the 2001 Plan include any shares of our common stock that are available for future grant under any of our prior stock option plans, and any stock or options granted under the 2001 Plan or any prior plans that are forfeited, expired or canceled. Furthermore, pursuant to the 2001 Plan and upon our Board of Directors' authorization in January 2002, any shares of our common stock that are reacquired by us in the open market or in private transactions after the effective date of the 2001 Plan, were added to the limitation on the total shares of our common stock which may be issued under the 2001 Plan. As of December 31, 2002, we have repurchased approximately 259 thousand shares since the 2001 Plan's effective date, and accordingly increased the total number of shares of our common stock which may be delivered to participants in the 2001 Plan by the same number of shares. As of December 31, 2002, the aggregate limit on the total shares of our common stock which may be issued under the 2001 Plan was approximately 797 thousand shares, of which 117 thousand shares are subject to options already issued and an additional 121 thousand shares have been issued as restricted common stock grants.



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Under the provisions of the 2001 Plan, the Compensation Committee is authorized to grant common stock, which can be restricted, or stock options which can be qualified or nonqualified under the Internal Revenue Code of 1986, as amended, or stock appreciation rights, or other stock or non-stock-based awards, including but not limited to stock units, performance units, or dividend equivalent payments. The 2001 Plan is unlimited in duration and, in the event of its termination, the 2001 Plan will remain in effect as long as any of the above items granted by the Compensation Committee are outstanding; provided, however, that no awards may be granted under the 2001 Plan after August 2006. The term and vesting period of awards granted under the 2001 Plan is established by the Compensation Committee, but in no event shall stock options or stock appreciation rights remain exercisable after the five-year anniversary of the date of grant. Outstanding options at December 31, 2002 under the 2001 Plan expire between September 2006 and December 2007.

In 1994, our shareholders approved the 1993 Non-Employee Directors Stock Option Plan (the Directors Plan), as amended. The Directors Plan permits the issuance of options to purchase up to an aggregate of 150 thousand shares of our common stock. Additional options to purchase shares of our common stock may be granted under the Directors Plan for any options that are forfeited, expired or canceled without delivery of shares of our common stock or which result in the forfeiture of the shares of our common stock back to us. Under the Directors Plan, members of the Board of Directors who are not our employees receive a non-qualified option to purchase five thousand shares, on a pro-rata basis, when such person is first elected to the Board of Directors and will receive a non-qualified option to purchase five thousand shares each year that the individual is re-elected. Options granted are fully exercisable one year after the date of grant. All options under the Directors Plan expire five years after the date of grant. Outstanding options at December 31, 2002 under the Directors Plan expire between August 2003 and August 2007.

In addition to the above stock option plans, in 1995, we issued certain non-qualified options to various employees. These options expire in January 2005.

As of December 31, 2002, the following table summarizes the outstanding stock options which were issued pursuant to the plans described above, and the options issued outside the plans in 1995 (in thousands, except weighted-average exercise price):

<b>Plan name or description</b>	<b>(a) Number of securities to be issued upon exercise of outstanding options, and warrant</b>	<b>(b) Weighted-average exercise price of outstanding options, and warrant</b>	<b>(c) Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))</b>
2001 Plan	117	\$ 16.21	559
1996 Plan	923	13.11	
1986 Plan	57	6.89	
Directors Plan	80	15.33	6
1995 non-qualified options (1)	26	6.89	
	<b>1,203</b>	<b>\$ 13.13</b>	<b>565</b>

(1) These options were not approved by shareholders. All other plans shown in the table were approved by shareholders.

*Restricted Common Stock*

Under the 2001 Omnibus Plan, we granted 25 thousand restricted shares in October 2001 and 96 thousand restricted shares during the nine months ended December 31, 2002. At December 31, 2002, there were 115 thousand shares of unvested restricted stock, which will vest between October 2003 and September 2007.

*Warrant*

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In July 2000, we granted a warrant to an investment-banking firm in connection with the engagement of such firm to provide advisory services to us. The warrant entitles the holder to purchase up to 50,000 shares of our common stock at an exercise price of \$9.50 per share, for a period of three years. This warrant expires in July 2003.

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**Table of Contents****Item 6. Selected Financial Data**

The following selected financial data has been summarized from our consolidated financial statements set forth in Item 8 of this Form 10-K. The selected financial data should be read in conjunction with the notes set forth at the end of these tables, the accompanying consolidated financial statements and the related notes thereto, and Item 7 - Management's Discussion and Analysis of Financial Condition and Results of Operations.

**SELECTED FINANCIAL DATA**

(In thousands, except earnings per share data)

	For the Nine Months		For the Year Ended March 31,				
	Ended December 31,		2002	2001	2000	1999	1998
<b>Consolidated Income Statement Data</b>		(unaudited)					
Revenue	\$ 1,546,897	\$ 1,013,781	\$ 1,365,065	\$ 1,529,242	\$ 1,200,297	\$ 720,561	\$ 776,617
Cost of sales	(1,483,976 )	(958,753 )	(1,288,891 )	(1,457,500 )	(1,136,052 )	(667,302 )	(733,379 )
Gross Profit	62,921	55,028	76,174	71,742	64,245	53,259	43,238
Operating Expense	(49,135 )	(40,122 )	(54,885 )	(57,590 )	(57,327 )	(38,198 )	(28,455 )
Income from operations	13,786	14,906	21,289	14,152	6,918	15,061	14,783
Other income (expense), net	(2,030 )	1,833	1,937	2,191	(5,646 )	1,539	2,260
Income from continuing operations before income taxes	11,756	16,739	23,226	16,343	1,272	16,600	17,043
Provision for income taxes	(1,884 )	(3,977 )	(5,991 )	(4,557 )	(1,444 )	(2,910 )	(3,467 )
Income (loss) from continuing operations	9,872	12,762	17,235	11,786	(172 )	13,690	13,576
Discontinued operations, net of tax				(1,152 )	9,807	1,417	2,277
Net income	\$ 9,872	\$ 12,762	\$ 17,235	\$ 10,634	\$ 9,635	\$ 15,107	\$ 15,853
Basic earnings (loss) per share:							



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Continuing operations	\$ 0.94	\$ 1.23	\$ 1.66	\$ 1.11	\$ (0.01	) \$ 1.11	\$ 1.11
Discontinued operations				(0.11	) 0.81	0.11	0.19
Net income	<u>\$ 0.94</u>	<u>\$ 1.23</u>	<u>\$ 1.66</u>	<u>\$ 1.00</u>	<u>\$ 0.80</u>	<u>\$ 1.22</u>	<u>\$ 1.30</u>
Weighted average shares - basic	<u>10,468</u>	<u>10,378</u>	<u>10,381</u>	<u>10,644</u>	<u>12,045</u>	<u>12,375</u>	<u>12,230</u>
Diluted earnings (loss) per share:							
Continuing operations	\$ 0.91	\$ 1.20	\$ 1.62	\$ 1.11	\$ (0.01	) \$ 1.10	\$ 1.09
Discontinued operations				(0.11	) 0.81	0.11	0.18
Net income	<u>\$ 0.91</u>	<u>\$ 1.20</u>	<u>\$ 1.62</u>	<u>\$ 1.00</u>	<u>\$ 0.80</u>	<u>\$ 1.21</u>	<u>\$ 1.27</u>
Weighted average shares - diluted	<u>10,900</u>	<u>10,652</u>	<u>10,646</u>	<u>10,663</u>	<u>12,045</u>	<u>12,533</u>	<u>12,528</u>

(Continued)

**Table of Contents****SELECTED FINANCIAL DATA**

(In thousands, except earnings per share data)

(Continued)

	As of	As of March 31,				
	December 31					
	2002	2002	2001	2000	1999	1998
(In thousands)						
<b>Consolidated Balance Sheet Data</b>						
Accounts and notes receivable, net	\$ 177,360	\$ 132,586	\$ 125,863	\$ 142,250	\$ 95,436	\$ 79,124
Current assets	262,580	213,139	188,225	196,409	128,012	107,755
Goodwill and identifiable intangible asset	35,475	35,751	24,598	23,040	15,148	15,402
Other assets - investment goodwill	2,857	2,857	2,904			
Total assets	312,287	257,923	222,165	227,915	164,394	141,213
Current liabilities	180,359	133,851	112,439	122,368	56,741	46,546
Long-term liabilities	4,198	7,633	5,866	5,886	6,856	2,756
Stockholders' equity	127,730	116,439	103,860	99,661	100,797	91,911

**NOTES TO SELECTED FINANCIAL DATA**

Since 1995, we have declared and paid cash dividends. See Item 5 - Market for Registrant's Common Equity and Related Stockholder Matters. In October 1997, our Board of Directors approved a 3-for-2 stock split for all shares of common stock outstanding as of November 17, 1997. The shares were distributed on December 1, 1997.

We acquired the Baseops group of companies in January 1998, the Bunkerfuels group of companies in April 1999, Norse Bunker A.S. in February 2001, TransportEdge, Inc. in March 2001, the Marine Energy group of companies in April 2001, and the Oil Shipping group of companies in January 2002. These acquisitions were accounted for as purchases. Accordingly, the results of operations of these acquisitions were included with our results since their respective dates of acquisition. In December 2000, we entered into a joint venture agreement with Signature Flight Support Corporation through the acquisition of a 50% equity interest in PAFCO. Under the equity method of accounting, we have recorded our share of the results of PAFCO since January 1, 2001.

In February 2000, we sold our oil-recycling segment. Accordingly, as of December 1999, we reported our oil-recycling segment as a discontinued operation. Our consolidated financial statements were reclassified to report separately the net assets and operating results of the discontinued operation for all periods presented. Financial results for periods prior to the dates of discontinuance have been reclassified to reflect continuing operations. In October 2000, our aviation joint venture in Ecuador ceased operations.

Pursuant to various treasury stock repurchase programs, we repurchased approximately 259 thousand shares for an aggregate cost of \$3.3 million during the year ended March 31, 2002, 598 thousand shares for an aggregate cost of \$4.4 million during the year ended March 31, 2001, 1.2 million shares for an aggregate cost of \$8.4 million during the year ended March 31, 2000, and 324 thousand shares for an aggregate cost of \$3.9 million during the year ended March 31, 1999. The treasury stock purchases for the year ended March 31, 2002 included approximately 133 thousand shares at an aggregate cost of \$1.3 million which were repurchased during the nine months ended December 31, 2001. No shares were purchased during the nine months ended December 31, 2002. Outside of the treasury stock repurchase programs, we acquired approximately 22 thousand shares of our common stock in 1998 with an aggregate cost of \$194 thousand. See Item 5 - Market for Registrant's Common Equity and Related Stockholder Matters for additional information.

(Continued)



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**NOTES TO SELECTED FINANCIAL DATA**

(Continued)

Effective April 2001, we elected to early adopt SFAS No. 142, Goodwill and Other Intangible Assets, which among other provisions, states that goodwill shall not be amortized prospectively. Accordingly, no goodwill amortization was recorded subsequent to the adoption of SFAS No. 142.

Effective April 1, 2002, we adopted the accounting provision of SFAS No. 123, Accounting for Stock-Based Compensation, as amended by SFAS No. 148, Accounting for Stock-Based Compensation - Transition and Disclosure, an amendment of FASB Statement No. 123, to account for stock options granted to our employees and non-employee directors using the prospective method. Under the fair value recognition provision, as of the grant date, we recorded the fair value of the stock option granted as Unearned deferred compensation, which is amortized over the minimum vesting period of each individual award as compensation cost. For the nine months ended December 31, 2002, we granted stock options to purchase 81 thousand shares of our common stock at an aggregate fair value of \$215 thousand and recorded amortization of \$59 thousand for employee and non-employee director compensation cost. As of December 31, 2002, the unearned deferred compensation for stock options granted to our employees and non-employee directors was \$156 thousand.

In October 2001, we granted 25 thousand shares of restricted common stock at a value of \$298 thousand and recorded compensation expense for the amortization of \$182 thousand for the year ended March 31, 2002, of which \$39 thousand was recorded for the nine months ended December 31, 2001. During the nine months ended December 31, 2002, we granted 96 thousand restricted shares of our common stock at an aggregate value of \$1.9 million and recorded amortization of \$304 thousand for employee compensation cost. As of December 31, 2002, the unearned deferred compensation for restricted common stock issued to our employees was approximately \$1.7 million.

For the nine months ended December 31, 2002, executive severance charges of \$4.5 million relating to the termination of employment of our former Chief Executive Officer, Chief Financial Officer, Chief Information Officer, and two other executives were included in Operating expenses. Also, during the nine months ended December 31, 2002, a non-recurring charge of \$1.6 million in connection with the settlement of the remaining balance due on the Moorehead judgment was included in Other income (expense), net. See Item 3 Legal Proceedings.

During the year ended March 31, 2002, an insurance settlement recovery of \$1.0 million relating to a product theft off the coast of Nigeria was included in Other income (expense), net. The product theft resulted in a non-recurring charge of \$3.1 million recorded for the year ended March 31, 2000 and was included in Other income (expense), net.

For the year ended March 31, 2001, an executive severance charge of \$3.5 million relating to the termination of the employment of our former Chief Executive Officer was included in Operating expenses.

During the year ended March 31, 2000, a non-recurring charge of \$2.5 million relating to the write-down of our investment in the aviation joint venture in Ecuador was included in Other income (expense), net.

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### **Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations**

The following discussion should be read in conjunction with Item 6 - Selected Financial Data, and with the consolidated financial statements and related notes thereto appearing elsewhere in this Form 10-K.

#### **Reportable Segments**

We have two reportable operating businesses: marine and aviation fuel services. In our marine fuel services business, we market marine fuel and related management services to a broad base of international shipping companies and to the United States and foreign militaries. Services include credit terms, 24-hour around-the-world service, fuel management services, and competitively priced fuel. In our aviation fuel services business, we extend credit and provide around-the-world single-supplier convenience, 24-hour service, fuel management services, and competitively priced aviation fuel and other aviation related services to passenger, cargo and charter airlines, as well as to United States and foreign militaries. We also offer flight plans and weather reports to our corporate customers.

Our marine fuel business accounted for approximately 66% of our total revenue for the nine months ended December 31, 2002, while our aviation fuel business accounted for the remaining 34%. For the nine months ended December 31, 2001, and the years ended March 31, 2002, 2001, and 2000, our marine fuel services business accounted for approximately 72%, 72%, 66%, and 62%, respectively, of our total revenue. For the nine months ended December 31, 2002, excluding corporate overhead, our aviation fuel services and our marine fuel services contributed 59% and 41%, respectively, of operating income. For the nine months ended December 31, 2001, and the years ended March 31, 2002, 2001, and 2000, excluding corporate overhead, our marine fuel services contributed 56%, 52%, 53% and 63%, respectively, of operating income.

#### **Critical Accounting Policies and Estimates**

Our discussion and analysis of our financial condition and results of operations are based upon the consolidated financial statements included elsewhere in this Form 10-K, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. On an on-going basis, we evaluate our estimates, including those related to bad debts, deferred tax assets and liabilities, goodwill and identifiable intangible asset, and certain accrued liabilities. We base our estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

We have identified the policies below as critical to our business operations and the understanding of our results of operations. For a detailed discussion on the application of these and other accounting policies, see Note 1 to the accompanying consolidated financial statements included in this Form 10-K.

#### *Revenue Recognition*

Revenue is generally recorded in the period when the sale is made or as the services are performed. We contract with unrelated third parties to provide the fuel and/or deliver most services. This causes delays in receiving the necessary information for invoicing to our customers. Accordingly, revenue may be recognized in a period subsequent to when the actual delivery of fuel or service was performed. This policy does not result in reported results that are materially different than if the revenue were recognized in the period of actual delivery or performance.

#### *Accounts Receivable and Allowance for Bad Debts*

Credit extension, monitoring and collection are performed by each of our business segments. Each segment has a credit committee. The credit committees are responsible for approving credit limits above certain amounts, setting and maintaining credit standards, and managing the overall quality of the credit portfolio. We perform ongoing credit evaluations of our customers and adjust credit limits based upon payment history and the customer's current credit worthiness, as determined by our review of our customer's credit information. We extend credit on an unsecured basis to many of our customers.

We continuously monitor collections and payments from our customers and maintain a provision for estimated credit losses based upon our historical experience and any specific customer collection issues that we have identified. Accounts



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receivable are reduced by an allowance for amounts that may become uncollectible in the future. Such allowances can be either specific to a particular customer or general to all customers in each of our two business segments. We had accounts and notes receivable of \$177.4 million, net of allowance for bad debts of \$11.1 million, as of December 31, 2002. At March 31, 2002 and 2001, we had accounts and notes receivable of \$132.6 million and \$125.9 million, net of allowance for bad debts of \$11.0 million and \$11.2 million, respectively. The allowance for bad debts at December 31, 2002, March 31, 2002 and 2001 included a specific allowance of \$3.0 million for one aviation customer representing the entire accounts receivable balance for that customer. Also, as of March 31, 2001, we established additional specific allowances for two other customers. Our general allowances for all other customers amounted to \$8.1 million at December 31, 2002 and March 31, 2001, and \$8.0 million at March 31, 2002.

We believe the level of our allowance for bad debts is reasonable based on our experience and our analysis of the net realizable value of our trade receivables at December 31, 2002. We cannot guarantee that we will continue to experience the same credit loss rates that we have experienced in the past since adverse changes in the marine and aviation industries, or changes in the liquidity or financial position of our customers, could have a material adverse effect on the collectability of our accounts receivable and our future operating results. If credit losses exceed established allowances, our results of operation and financial condition may be adversely affected. For additional information on the credit risks inherent in our business, see **Risk Factors** in Item 1 of this Form 10-K.

### *Goodwill, Identifiable Intangible Assets and Investment Goodwill*

Goodwill and investment goodwill represent our cost or investment in excess of net assets, including identifiable intangible assets, of the acquired companies. Investment goodwill of approximately \$2.9 million was included in Other assets in the accompanying Consolidated Balance Sheets at December 31, 2002, and March 31, 2002 and 2001. The identifiable intangible asset for customer relations existing at the date of acquisition of \$1.8 million was recorded and is being amortized over its useful life of five years. Effective April 2001, as permitted, we elected to early adopt Statement of Financial Accounting Standards ( SFAS ) No. 142, Goodwill and Other Intangible Assets. SFAS No. 142 established accounting and reporting standards for acquired goodwill and other intangible assets, and states that goodwill shall not be amortized prospectively. Accordingly, no goodwill amortization was recorded subsequent to the adoption of SFAS No. 142. We recorded goodwill amortization of \$824 thousand, including investment goodwill amortization of \$74 thousand, for the year ended March 31, 2001 and \$730 thousand for the year ended March 31, 2000. We recorded amortization of our identifiable intangible asset of \$276 thousand for the nine months ended December 31, 2002 and \$92 thousand for the year ended March 31, 2002.

In accordance with SFAS No. 142, goodwill must be reviewed annually (or more frequently under certain circumstances) for impairment. The initial step of the goodwill impairment test compares the fair value of a reporting unit with its carrying amount, including goodwill. Based on results of these comparisons, goodwill in each of our reporting units is not considered impaired. Accordingly, no impairment charges were recognized.

### *Income Taxes*

Our provision for income taxes was determined by taxable jurisdiction. We file a consolidated U.S. federal income tax return which includes all of our U.S. companies. Our non-U.S. companies file income tax returns in their respective countries of incorporation, as required. We do not provide for U.S. federal and state income taxes, and non-U.S. withholding taxes on the undistributed earnings of our non-U.S. companies. The distribution of these earnings would result in additional U.S. federal and state income taxes to the extent they are not offset by foreign tax credits and non-U.S. withholding taxes. It is our intention to reinvest undistributed earnings of our non-U.S. companies indefinitely and thereby postpone their remittance. Accordingly, no provision has been made for taxes that could result from the remittance of such earnings.

We provide for deferred income taxes on temporary differences arising from assets and liabilities whose bases are different for financial reporting and U.S. federal, state and non-U.S. income tax purposes. A valuation allowance is recorded to reduce deferred income tax assets when it is more likely than not that an income tax benefit will not be realized. No valuation allowance was recorded in the accompanying Consolidated Balance Sheets.

### **Results of Operations**

Profit from our marine fuel services business is determined primarily by the volume and commission rate of brokering business generated and by the volume and gross profit achieved on sales, as well as the overall level of operating expenses,

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which may be significantly affected to the extent that we are required to provision for potential bad debts. Profit from our aviation fuel services business is directly related to the volume and the gross profit achieved on sales, as well as the overall level of operating expenses, which may be significantly affected to the extent that we are required to provision for potential bad debts.

In April 1999, February 2001, April 2001, and January 2002, we acquired the operations of the Bunkerfuels group of companies, Norse Bunker A.S., the Marine Energy group of companies, and the Oil Shipping group of companies, respectively. These acquisitions form part of our worldwide marine fuel marketing segment and were accounted for as purchases. Accordingly, the results of operations of these acquisitions were included with our results since their respective dates of acquisition. In December 2000, we entered into a joint venture agreement with Signature Flight Support Corporation through the acquisition of a 50% equity interest in PAFCO. Under the equity method of accounting, we have recorded our share of the results of PAFCO since January 1, 2001. In February 2000, we sold our oil-recycling segment to EarthCare Company and we reported this segment as a discontinued operation as of December 31, 1999. In October 2000, our aviation joint venture in Ecuador ceased operations.

During the comparable nine-month periods ending December 31, 2002 and 2001, our profitability was favorably impacted in 2002 by increases in metric tons sold in marine and sales volume in aviation, and a lower provision for bad debts in aviation. Earnings were adversely affected by the executive severance charges, a non-recurring charge in connection with the settlement of the remaining balance due on the Moorehead judgment, decreases in gross profit per metric ton sold in marine and gross profit per gallon sold in aviation, operating expenses of our January 2002 marine acquisition, and increases in salaries and other operating expenses. Also, the results for the nine months ended December 31, 2001 included an insurance settlement recovery of \$1.0 million related to a product theft off the coast of Nigeria in 1999 and a gain on the sale of a leasehold property.

The increase in metric tons sold in marine for the nine months ended December 31, 2002 was due, in part, to our January 2002 acquisition of the Oil Shipping group of companies. The increase in aviation sales volume during the nine months ended December 31, 2002 was due to new commercial and government businesses, increases in wholesale and fuel management businesses, and a recovery from the general slowdown in aviation activity during the prior year. The increases in both the wholesale and fuel management businesses contributed to the decrease in gross profit per gallon sold. In marine, the decrease in the gross profit per metric ton sold was primarily related to increased competitive pressures.

We may experience decreases in future sales volume and margins as a result of deterioration in the world economy, or in the shipping or aviation industries, the continued conflicts and instability in the Middle East, Asia and Latin America, and military actions in response to terrorist attacks of September 11th, as well as possible future terrorist activity and military conflicts. In addition, since the sharp decline in world oil prices soon after September 11th, world oil prices have been very volatile. We expect continued volatility in world oil prices as a result of the instability in the Middle East. The volatility in world oil prices can adversely affect our customers' business, and consequently our results of operations. See Risk Factors in Item 1 of this Form 10-K.

*Nine months ended December 31, 2002 compared to Nine months ended December 31, 2001 (unaudited)*

Our revenue for the nine months ended December 31, 2002 was \$1.55 billion, an increase of \$533.1 million, or 52.6%, as compared to revenue of \$1.01 billion for the nine months ended December 31, 2001. Our revenue increase was primarily due to an increase in sales volume for marine and aviation, as well as an increase in marine fuel prices, partially offset by a decrease in aviation fuel prices. Our revenue during these periods was attributable to the following segments (in thousands):

	<b>For the Nine Months Ended December 31,</b>	
	<b>2002</b>	<b>2001</b>
		<b>(unaudited)</b>
Marine fuel services	\$ 1,026,162	\$ 727,035
Aviation fuel services	520,735	286,746
Total	\$ 1,546,897	\$ 1,013,781



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Our marine fuel services segment contributed \$1.03 billion in revenue for the nine months ended December 31, 2002, an increase of \$299.1 million, or 41.1%, over the same period of the prior year. The increase in revenue was primarily due to a 13.1% increase in the average price per metric ton sold and a 25.2% increase in the volume of metric tons sold, which was due, in

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part, to our January 2002 acquisition of the Oil Shipping group of companies. Our aviation fuel services segment contributed \$520.7 million in revenue for the nine months ended December 31, 2002, an increase of \$234.0 million, or 81.6%, over the corresponding period of the prior year. The increase in revenue was due to a 97.7% increase in the volume of gallons sold, which more than offset an 8.1% decrease in the average price per gallon sold. The increase in aviation sales volume was due to new commercial and government business, increases in wholesale and fuel management businesses, and a recovery from the general slowdown in aviation activity during the prior year.

Our gross profit of \$62.9 million for the nine months ended December 31, 2002 increased \$7.9 million, or 14.3%, as compared to the corresponding period of the prior year. Our gross margin decreased from 5.4% for the nine months ended December 31, 2001, to 4.1% for the nine months ended December 31, 2002. Our marine fuel services segment achieved a 2.7% gross margin for the nine months ended December 31, 2002, as compared to a 3.9% gross margin for the same period of the prior year. This decrease resulted primarily from a lower average gross profit per metric ton sold as well as an increase in the average sales price per metric ton sold. The decrease in the gross profit per metric ton sold was primarily related to increased competitive pressures. Our aviation fuel services business achieved a 6.7% gross margin for the nine months ended December 31, 2002, as compared to 9.4% for the same period during the prior year. The decrease in gross margin reflects increases in our wholesale and fuel management businesses, which are higher quality, lower margin businesses.

Total operating expenses for the nine months ended December 31, 2002 were \$49.1 million, as compared to \$40.1 million for the nine months ended December 31, 2001. Included in operating expenses for the nine months ended December 31, 2002 were operating expenses of our January 2002 marine acquisition and executive severance charges of \$4.5 million, of which \$3.7 million related to our former Chairman and Chief Executive Officer and the remaining amounts were for our former Chief Financial Officer, Chief Information Officer, and two other executives. The remaining increase in operating expenses were primarily increases in salaries and other operating expenses, partially offset by a lower provision for bad debts for aviation and a reimbursement of legal fees associated with prior years' insurance claims in the marine segment. The increase in other operating expenses was due, in part, to overall higher insurance costs resulting from the terrorist attacks of September 11th, and increases in travel, audit fees, telecommunication, worldwide office rent and depreciation expense. In general, increases to operating expenses relate to business growth and expansion.

Our income from operations for the nine months ended December 31, 2002 was \$13.8 million, as compared to \$14.9 million for the nine months ended December 31, 2001. Income from operations during these periods was attributable to the following segments (in thousands):

	<b>For the Nine Months Ended December 31,</b>	
	<b>2002</b>	<b>2001</b>
		<b>(unaudited)</b>
Marine fuel services	\$ 9,932	\$ 11,288
Aviation fuel services	14,103	8,950
Corporate overhead	(10,249 )	(5,332 )
	<hr/>	<hr/>
Total	\$ 13,786	\$ 14,906
	<hr/>	<hr/>

The marine fuel services segment earned \$9.9 million in income from operations for the nine months ended December 31, 2002, as compared to \$11.3 million for the corresponding period of the prior year. This decrease resulted primarily from lower gross profit due to increased competitive pressures, higher operating expenses related to the marine acquisition in January 2002, and an executive severance charge, partially offset by lower salaries and a reimbursement of legal fees associated with prior years' insurance claims. The aviation fuel services segment's income from operations was \$14.1 million for the nine months ended December 31, 2002, an increase of \$5.2 million, or 57.6%, as compared to the same period of the prior year. This improvement was due to a higher gross profit related to increases in sales volume and lower provision for bad debts, partially offset by increased salaries and other operating expenses related to business growth and expansion, and an executive severance charge. Corporate overhead costs not charged to the business segments totaled \$10.2 million for the nine months ended December 31, 2002, as compared to \$5.3 million during the same period of the prior year. The increase in corporate overhead costs was primarily due to executive severance charges of \$4.3 million and increased other operating expenses, partially offset by lower salaries.

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During the nine months ended December 31, 2002, we reported \$2.0 million in other expense, net, as compared to other income, net, of \$1.8 million for the same period of the prior year. Included in other expense, net, for the nine months ended December 31, 2002, was a \$1.6 million non-recurring charge in connection with the settlement of the remaining balance due on the Moorehead judgment. Included in other income, net, for the nine months ended December 31, 2001, were a gain on the sale

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of a leasehold property and a \$1.0 million insurance settlement recovery related to a product theft off the coast of Nigeria in 1999. The remaining variance of \$1.1 million was primarily related to lower net interest income of \$333 thousand and an unrealized foreign currency translation loss recorded during the nine months ended December 31, 2002 as compared to an unrealized foreign currency translation gain for the corresponding period of the prior year. Unrealized foreign currency translation losses and gains result from the translation of monetary assets and liabilities of our non-U.S. entities at the prevailing exchange rates at year-end. Partially offsetting were lower net realized foreign currency exchange losses on transactions for the nine months ended December 31, 2002 as compared to the same period of the prior year.

For the nine months ended December 31, 2002, our effective tax rate was 16.0%, for an income tax provision of \$1.9 million, as compared to 23.8% and an income tax provision of \$4.0 million for the nine months ended December 31, 2001. Reflected in the income tax provision for the nine months ended December 31, 2002 were additional taxes provided for our global tax restructuring and income tax benefit totaling approximately \$2.3 million for the executive severance charges and the non-recurring charge in connection with the settlement of the remaining balance due on the Moorehead judgment. In addition, the effective tax rate for the nine months ended December 31, 2001 reflects the non-taxable insurance settlement recovery.

Net income and diluted earnings per share for the nine months ended December 31, 2002 were \$9.9 million and \$0.91, respectively, as compared to \$12.8 million and \$1.20 during the same period of the prior year. Net income for the nine months ended December 31, 2002 was impacted by two non-recurring, after-tax charges totaling \$3.7 million, or \$0.34 per diluted share: the charge of \$2.8 million, or \$0.25 per diluted share, related to executive severance, and the charge of \$970 thousand, or \$0.09 per diluted share, related to the settlement of the remaining balance due on the Moorehead judgment. In addition, net income for the nine months ended December 31, 2001 included a non-recurring credit of \$1.0 million, or \$0.09 per diluted share, from the insurance settlement recovery related to a product theft off the coast of Nigeria in 1999.

*Year ended March 31, 2002 compared to Year ended March 31, 2001*

Our revenue for the year ended March 31, 2002 was \$1.37 billion, a decrease of \$164.2 million, or 10.7%, as compared to revenue of \$1.53 billion for the year ended March 31, 2001. Our revenue decrease was primarily due to a decrease in world oil prices for the year ended March 31, 2002, partially offset by increases in sales resulting from our various marine segment acquisitions. Our revenue during these periods was attributable to the following segments (in thousands):

	<b>For the Year Ended March 31,</b>	
	<b>2002</b>	<b>2001</b>
Marine fuel services	\$ 983,986	\$ 1,004,572
Aviation fuel services	381,079	524,670
Total	\$ 1,365,065	\$ 1,529,242

Our marine fuel services segment contributed \$984.0 million in revenue for the year ended March 31, 2002, a decrease of \$20.6 million, or 2.0%, over the prior year. The decrease in revenue was due to an 18.7% decline in the average price per metric ton sold, partially offset by a 20.2% increase in the volume of metric tons sold. The increase in marine sales volume was due, in part, to sales from our February and April 2001 acquisitions. Our aviation fuel services segment contributed \$381.1 million in revenue for the year ended March 31, 2002. This represented a decrease in revenue of \$143.6 million or 27.4%, as compared to the prior year. The decrease in revenue was due to a 15.7% decrease in the volume of gallons sold and a 13.8% decrease in the average price per gallon sold. The decrease in aviation sales volume reflects management's decision to reduce our credit exposure and increase margins, which began during the quarter ended December 31, 2000. Sales volume also decreased during the year ended March 31, 2002 because of a general slowdown in economic activity. During the latter part of the quarter ended March 31, 2002 and thereafter, we have begun to experience increased volumes in aviation.

Our gross profit of \$76.2 million for the year ended March 31, 2002 increased \$4.4 million, or 6.2%, as compared to the prior year. Our gross margin also increased from 4.7% for the year ended March 31, 2001 to 5.6% for the year ended March 31, 2002. Our marine fueling segment achieved a 3.9% gross margin for the year ended March 31, 2002, as compared to a 3.7% gross margin for the prior year. This gross margin increase resulted from a drop in the average price per metric ton traded, which offset a lower gross profit per metric ton traded. The narrower

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gross profit per metric ton traded was caused by competitive pressures, and by the marine acquisitions which resulted in the addition of lower margin trading business. By integrating the acquisitions into our existing global network, we expect to gain from synergies in purchasing and value-added services, and thereby maximize the gross profit of our acquired companies. Our aviation fueling business achieved a 9.9%

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gross margin for the year ended March 31, 2002, as compared to 6.6% achieved for the prior year. This increase resulted from an overall increase in the gross profit per gallon sold and the decline in the average price per gallon sold. The improvement in gross profit resulted from a revision in our pricing strategy in the quarter ended December 31, 2001, as well as the recovery of certain business taxes previously expensed and the favorable resolution of certain outstanding items with suppliers.

For the year ended March 31, 2002, our operating expenses were \$54.9 million, a decrease of \$2.7 million or 4.7%, as compared to the prior year. This decrease resulted from a \$4.0 million reduction in the provision for bad debts, a \$3.5 million executive severance charge for the year ended March 31, 2001 related to the termination of the employment agreement with our former Chairman of the Board, and the early adoption of SFAS No. 142, Goodwill and Other Intangible Assets, which eliminated the amortization of goodwill effective April 1, 2001. Partially offsetting these improvements were operating expenses of the newly acquired companies, staff additions, and various business initiatives implemented over the past year.

Our income from operations for the year ended March 31, 2002 was \$21.3 million, an increase of \$7.1 million, or 50.4%, as compared to the prior year. Income from operations during these periods was attributable to the following segments (in thousands):

	<b>For the Year Ended March 31,</b>	
	<b>2002</b>	<b>2001</b>
Marine fuel services	\$ 14,964	\$ 13,161
Aviation fuel services	13,709	11,790
Corporate overhead	(7,384 )	(10,799 )
Total	<b>\$ 21,289</b>	<b>\$ 14,152</b>

The marine fuel segment earned \$15.0 million in income from operations for the year ended March 31, 2002, an increase of \$1.8 million, or 13.7%, as compared to the prior year. This increase resulted from a \$2.8 million lower provision for bad debts and a higher gross profit, partially offset by operating expenses of the newly acquired companies and staff additions. The aviation fuel segment's income from operations was \$13.7 million for the year ended March 31, 2002, an increase of \$1.9 million, or 16.3%, as compared to the prior year. This improvement was due to a higher gross profit and a \$1.2 million lower provision for bad debts, partially offset by increased operating expenses related to staff additions and various business initiatives, which were implemented over the past year. Corporate overhead costs not charged to the business segments totaled \$7.4 million during the year ended March 31, 2002, a decrease of \$3.4 million, or 31.6%, as compared to the prior year. The improvement in corporate overhead was due to the \$3.5 million executive severance charge in the prior year and lower consulting and telecommunications expenses, partially offset by staff additions and higher compensation.

During the year ended March 31 2002, we reported \$1.9 million in other income, net, compared to \$2.2 million for the year ended March 31, 2001. This decrease was mainly due to foreign exchange losses for the year ended March 31, 2002 as opposed to foreign exchange gains in the prior year, a \$339 thousand decrease in net interest income, and a \$365 thousand non-recurring credit recorded for the year ended March 31, 2001 related to a partial recovery of a previously written-down aviation joint venture investment. Largely offsetting these decreases were the equity in earnings of our PAFCO aviation joint venture, a gain on the sale of a leasehold property, and a \$1.0 million insurance settlement recovery related to a product theft off the coast of Nigeria in 1999.

For the year ended March 31, 2002, our effective tax rate was 25.8%, for an income tax provision of \$6.0 million, as compared to an effective tax rate of 27.9% and an income tax provision of \$4.6 million for the year ended March 31, 2001. The decrease in our effective tax rate reflects the non-taxable insurance settlement recovery of \$1.0 million during the year ended March 31, 2002 related to theft of product off the coast of Nigeria during the year ended March 31, 2000.

Net income from continuing operations for the year ended March 31, 2002 was \$17.2 million, an increase of \$5.4 million, as compared to \$11.8 million for the year ended March 31, 2001. Diluted earnings per share on income from continuing operations was \$1.62, an increase of \$0.51, or 45.9%, as compared to \$1.11 per diluted share for the year ended March 31, 2001.

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During the year ended March 31, 2001, we recorded a net loss from discontinued operations of \$1.2 million, or \$0.11 per diluted share. The net loss resulted from additional income taxes of \$496 thousand relating to the gain on the sale of our oil-recycling segment and a \$656 thousand after-tax write-off against the assets we ultimately realized in connection with the discontinuance of our used oil-recycling business. No discontinued operations activities were recorded for the year ended

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March 31, 2002. Including discontinued operations, net income for the year ended March 31, 2002 increased by \$6.6 million, or 62.1%, as compared to the prior year. Diluted earnings per share increased by \$0.62, or 62.0%, as compared to the prior year.

*Year ended March 31, 2001 compared to Year ended March 31, 2000*

Our revenue for the year ended March 31, 2001 was \$1.53 billion, an increase of \$328.9 million or 27.4%, as compared to revenue of \$1.20 billion for the year ended March 31, 2000. Our revenue increase was primarily due to a substantial increase in world oil prices. Our revenue during these periods was attributable to the following segments (in thousands):

	<b>For the Year Ended March 31,</b>	
	<b>2001</b>	<b>2000</b>
Marine fuel services	\$ 1,004,572	\$ 738,557
Aviation fuel services	524,670	461,740
Total	\$ 1,529,242	\$ 1,200,297

Our marine fuel services segment contributed \$1.0 billion in revenue for the year ended March 31, 2001, an increase of \$266.0 million, or 36.0%, over the prior year. The increase in revenue for our marine segment was related to 31.5% and 8.0% increases in the average price per metric ton sold and brokered, respectively. Also contributing to the increase in revenue for our marine segment was an increase in the volume of metric tons sold of 3.8%. Our aviation fuel services segment contributed \$524.7 million in revenue for the year ended March 31, 2001. This represented an increase in revenue of \$62.9 million, or 13.6%, as compared to the prior year. The increase in revenue results from a 36.2% increase in the average price per gallon sold, partially offset by a 16.6% decrease in the volume of gallons sold.

Our gross profit of \$71.7 million for the year ended March 31, 2001 increased \$7.5 million, or 11.7%, as compared to the prior year. Our gross margin decreased from 5.4% for the year ended March 31, 2000 to 4.7% for the year ended March 31, 2001. Our marine fuel segment achieved a 3.7% gross margin for the year ended March 31, 2001, as compared to a 3.6% gross margin for the prior year. Our marine segment increased its gross margin despite higher fuel prices, due to an increase in the average gross profit per metric ton sold and brokered, the result of better pricing and a reduction in low margin business activity. Our aviation fuel business achieved a 6.6% gross margin for the year ended March 31, 2001, as compared to 8.2% achieved for the prior year. This decrease resulted from an increase in the average price per gallon sold, partially offset by an increase in the average gross profit per gallon sold.

Total operating expenses for the year ended March 31, 2001 were \$57.6 million, an increase of \$263 thousand, or 0.5%, as compared to the year ended March 31, 2000. The increase resulted from higher compensation, professional fees, and information technology spending, and a \$3.5 million executive severance charge incurred for the year ended March 31, 2001. Largely offsetting the increase in operating expenses was an \$11.3 million decrease in the provision for bad debts.

Our income from operations for the year ended March 31, 2001 was \$14.2 million, an increase of \$7.2 million, or 104.6%, as compared to the year ended March 31, 2000. Income from operations during the year ended March 31, 2001 and 2000 were attributable to the following segments:

	<b>For the Year Ended March 31,</b>	
	<b>2001</b>	<b>2000</b>
Marine fuel services	\$ 13,161	\$ 7,516
Aviation fuel services	11,790	4,440



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Corporate overhead	(10,799	)	(5,038	)
	<u>          </u>		<u>          </u>	
Total	\$ 14,152		\$ 6,918	
	<u>          </u>		<u>          </u>	

Our marine fuel services segment earned \$13.2 million in income from operations for the year ended March 31, 2001, an increase of \$5.6 million, or 75.1%, as compared to the prior year. The increase in the marine segment resulted from an improved gross profit per metric ton on traded and brokered transactions and a volume increase in metric tons sold. Partially offsetting was a volume decrease in metric tons brokered and increases in operating expenses, including the provision for bad debts. Our aviation segment's income from operations was \$11.8 million for the year ended March 31, 2001, an increase of \$7.4 million, or 165.5%, as compared to the prior year. This increase resulted from a decrease in the provision for bad debts and an improvement in the gross profit per gallon sold; partially offset by a decrease in gallons sold and an increase in

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compensation and other operating expenses. Corporate overhead costs not charged to the business segments totaled \$10.8 million for the year ended March 31, 2001, an increase of \$5.8 million, or 114.4%, as compared to the prior year. The increase resulted from an executive severance charge, and higher compensation, professional fees, and information technology spending.

During the year ended March 31, 2001, we reported \$2.2 million in other income, net, compared to other expense, net, of \$5.7 million, for the year ended March 31, 2000. Included in the results for the year ended March 31, 2000 were a \$3.1 million non-recurring charge in the marine segment due to product theft off the coast of Nigeria, a \$953 thousand non-recurring charge in the aviation segment related to a substantial write-down of our investment in and advances to our discontinued aviation joint venture in Ecuador, and a \$1.6 million special charge to the provision for bad debts in our discontinued aviation joint venture in Ecuador related to certain customers based in Ecuador. Also contributing to the variance were foreign exchange gains for the year ended March 31, 2001, an increase in net interest income of \$1.2 million, and a partial recovery of \$365 thousand related to prior year's write-down of our discontinued aviation joint venture in Ecuador.

Income taxes for the year ended March 31, 2001 reflect the impact of the executive severance and the provision for bad debts, for which we received an income tax benefit. Income taxes for the year ended March 31, 2000 reflect the impact of the provision for bad debts and non-recurring losses in marine and aviation, for which we did not receive an income tax benefit. Thus, our effective income tax rate for the year ended March 31, 2001 decreased substantially as compared to the prior year.

Net income from continuing operations for the year ended March 31, 2001 was \$11.8 million, as compared to a net loss of \$172 thousand for the year ended March 31, 2000. Diluted income per share on income from continuing operations was \$1.11 for the year ended March 31, 2001, as compared to a loss per share of \$0.01 for the year ended March 31, 2000.

During the year ended March 31, 2001, we incurred a net loss from discontinued operations of \$1.2 million, or \$0.11 per diluted share, as compared to net income of \$9.8 million, or \$0.81 per diluted share, for the year ended March 31, 2000. Including discontinued operations, net income for the year ended March 31, 2001 was \$10.6 million, an increase of \$1.0 million or 10.4%, as compared to net income of \$9.6 million for the year ended March 31, 2000. Diluted earnings per share of \$1.00 for the year ended March 31, 2001 increased \$0.20, or 25.0%, over the \$0.80 achieved during the year ended March 31, 2000.

## **Liquidity and Capital Resources**

In our marine and aviation fuel businesses, the primary use of working capital is to finance receivables. We maintain aviation fuel inventories at certain locations in the United States, mostly for competitive reasons. Our marine and aviation fuel businesses historically have not required significant capital investment in fixed assets as we subcontract fueling services and maintain inventories at third party storage facilities. We have funded our operations primarily with cash flow generated from operations. As of December 31, 2002, we had \$57.8 million of cash and cash equivalents as compared to \$58.2 million at March 31, 2002.

We also have a revolving credit facility which permits borrowings of up to \$40.0 million, with a sublimit of \$30.0 million for the issuance of letters of credit. Our available borrowings under the credit facility are reduced by the amount of outstanding letters of credit. The credit facility imposes certain operating and financial restrictions, including restrictions on the payment of dividends in excess of specified amounts. Our failure to comply with the obligations under the credit facility, including meeting certain financial ratios, 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, or impair our ability to receive advances, and issue letters of credit, and may have a material adverse effect on us. As of December 31, 2002, we had no borrowings under the credit facility. Letters of credit of \$14.4 million were outstanding, at December 31, 2002, under the credit facility agreement.

Net cash provided by continuing operating activities totaled \$6.2 million for the nine months ended December 31, 2002, as compared to net cash provided from operating activities of \$23.4 million for the corresponding period of the prior year. The variance in cash flows from continuing operating activities of \$17.2 million was primarily a result of increases in net operating assets mainly due to increased business volume in both our marine and aviation fuel services segments. Cash provided by discontinued operations of \$1.75 million during the nine months ended December 31, 2001 was for the settlement payment from EarthCare Company on the remaining discontinued operating assets sold in February 2000.

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During the nine months ended December 31, 2002, net cash used in investing activities was \$2.7 million, a decrease of \$1.0 million as compared to the same period of the prior year. Included in net cash used for the nine months ended December 31, 2001 were payment for acquisition of a business of \$3.1 million and proceeds of \$296 thousand from the sale of a leasehold property. Partially offsetting was an increase in capital expenditures of \$1.8 million, primarily related to the move of our corporate offices.

For the nine months ended December 31, 2002, net cash used by financing activities was \$3.9 million, a decrease of \$280 thousand as compared to the same period a year ago. The decrease was attributable to purchases of treasury stock of \$1.3 million during the nine months ended December 31, 2001 and a decrease in dividends paid on common stock of \$770 thousand. The decrease in dividends was primarily related to the July 2001 payment of the special cash dividend declared in May 2001. Largely offsetting these decreases in usage of net cash was an increase in the repayment of debt of \$2.9 million. In addition, an increase in the proceeds from exercise of stock options contributed to lower net cash used by financing activities during the nine months ended December 31, 2002.

Working capital at December 31, 2002 was \$82.2 million, representing an increase of \$2.3 million from working capital at March 31, 2002. Our accounts and notes receivable, at December 31, 2002, excluding the allowance for bad debts, amounted to \$188.5 million, an increase of \$44.9 million, as compared to the balance at March 31, 2002. This increase was mostly related to increased sales volume for both our marine and aviation segments. At December 31, 2002, the allowance for bad debts of \$11.1 million increased by \$100 thousand from the balance at March 31, 2002. During the nine months ended December 31, 2002, we charged \$2.2 million to the provision for bad debts, as compared to \$3.2 million for the same period of the prior year. We had charge-offs in excess of recoveries of \$2.1 million for the nine months ended December 31, 2002, as compared to \$3.4 million for the corresponding period of the prior year. The decreases in our provision for bad debts and charge-offs primarily reflect the refinement in our credit practices that resulted in an overall improvement in Days Sales Outstanding (DSO) to 30 days for the nine months ended December 31, 2002 versus 34 days for the same period a year ago.

As of December 31, 2002, prepaid expenses and other current assets of \$22.3 million increased \$2.1 million from March 31, 2002. This increase was due to increases in prepaid fuel, prepaid insurance, and the fair market value of our outstanding derivatives. The increase was partially offset by a reduction in the amount due from PAFCO, a decrease in deferred income tax assets, and the receipt of the final payment to settle the remaining balance due on the Moorehead judgment.

At December 31, 2002, in the aggregate, net goodwill, identifiable intangible asset, and investment goodwill decreased \$276 thousand, to \$38.3 million, due to the amortization of the identifiable intangible asset. Other asset, excluding investment goodwill, increased \$3.9 million, to \$4.5 million, due to reclassification of a portion of the current deferred income tax assets to non-current.

Our current liabilities, excluding short-term debt, increased \$49.7 million primarily due to increased business activity in both our marine and aviation segments. Long-term debt and short-term debt, in the aggregate, decreased by \$6.6 million due to repayment of our debt and deferred compensation payments.

Stockholders' equity amounted to \$127.7 million at December 31, 2002, as compared to \$116.4 million at March 31, 2002. The increase in stockholders' equity was primarily due to \$9.9 million in earnings, \$3.4 million from the exercise of stock options, and \$363 thousand in amortization of unearned deferred compensation. The increase was partially offset by the declaration of dividends of \$2.4 million during the nine months ended December 31, 2002.

We believe that available funds from existing cash and cash equivalents, our credit facility, and cash flows generated by operations will be sufficient to fund our working capital and capital expenditure requirements for the next twelve months. Our opinions concerning liquidity and our ability to obtain financing 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 financing, include our performance (as measured by various factors including cash provided from operating activities), the state of worldwide credit markets, and our levels of outstanding debt. In addition, we may decide to raise additional funds to respond to competitive pressures or to acquire complementary businesses. Accordingly, we cannot guarantee that financing will be available when needed or desired on terms favorable to us.

**Table of Contents****Contractual Obligations, Commercial Commitments and Off-Balance Sheet Arrangements**

Our significant contractual obligations, commercial commitments, and off-balance sheet arrangements are set forth below. For additional information on any of the following and other contractual obligations, commitments, and off-balance sheet arrangements, see Notes 3, 6 and 7 in the Notes to the Consolidated Financial Statements in Item 15 of this Form 10-K.

*Letters of Credit*

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 December 31, 2002, we had outstanding letters of credit of \$14.4 million. The letters of credit were issued under our revolving credit facility, and count against the \$40.0 million limit on total borrowings under this facility. For additional information on our revolving credit facility and letters of credit, see the discussion thereof in Liquidity and Capital Resources, above.

*Lease Commitments*

As of December 31, 2002, our future minimum lease payments under non-cancelable operating leases for rental properties were as follows (in thousands):

**For the Year Ending December 31,**

2003	\$ 1,382
2004	1,318
2005	1,132
2006	981
2007	855
Thereafter	3,308
	\$ 8,976

In the normal course of business, we may enter into non-cancelable operating leases for office and computer equipment, and service contracts with minimum service fee commitments for telecommunication, and computer data and document storage. As of December 31, 2002, there were no material non-cancelable operating leases for office and computer equipment or service contracts with minimum service fee commitments.

*Surety Bonds*

In the normal course of business, we are required to post bid, performance and garnishment bonds. The majority of the surety bonds posted relate to our aviation fuel services business. As of December 31, 2002, we had approximately \$9.8 million in outstanding bonds.

*Purchase and Sale Commitments and Derivatives*

See Item 7A Quantitative and Qualitative Disclosures About Market Risk, included in this Form 10-K, for a discussion of our purchase and sale commitments and derivatives.

*Employment Agreements*

In July 2002, our Board of Directors elected a new Chairman of the Board of Directors ( Chairman ) and Chief Executive Officer ( CEO ) and appointed a new President and Chief Operating Officer ( COO ). In connection with the executives' promotion to their respective positions, they received increases in their base salary, grants of restricted common stock, an extension of their employment period to July 2007, and modifications to their termination severance benefits. In February 2003, the compensation payable under the new employment agreements was further amended. Under their new employment agreements, our CEO and COO each receive an annual base salary of \$525 thousand. Each of

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them also received a grant of 25 thousand shares of restricted common stock. The restricted common stock grants for both our CEO and COO shall vest in three equal installments in July 2005, 2006, and 2007. Effective April 1, 2002, our CEO and COO are eligible to receive an annual bonus upon achievement of performance targets, which targets are based on diluted earnings per share growth and certain yearly objectives, agreed upon between the executives and the Compensation Committee. The

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bonus payout may range from 15% of base salary if at least 5% diluted earnings per share growth is achieved, to 200% of base salary if diluted earnings per share growth equals or exceeds 15%. For the nine months ended December 31, 2002, the CEO and COO received a prorated bonus.

In addition, the payment of any portion of the bonus causing the compensation of any of the above two executives to exceed \$1.0 million during any fiscal year will be deferred and accrue interest at the U.S. Prime rate, until a fiscal year during the employment term in which the executive earns less than \$1.0 million; provided, however, that in the event of the executive's death, the termination of the executive for any reason, or the expiration of the employment agreement, the deferred portion of any bonus, including any interest earned thereon, shall be paid to the executive within ten days of such death, termination or expiration. As of December 31, 2002, \$219 thousand in bonuses was deferred under the employment agreements of our Chairman and President. As of March 31, 2002 and 2001, \$1.6 million and \$1.3 million, respectively, in bonuses was deferred under the employment agreements of our Chairman, President, and former Chairman. Such deferred compensation was included in Long-term liabilities in the accompanying Consolidated Balance Sheets. The compensation deferred for our former Chairman was paid to him in August 2002 in accordance with his employment agreement.

Pursuant to their employment agreements, our CEO and COO each is entitled to receive a cash severance payment if: (a) we terminate the executive for any reason other than death, disability or cause; (b) the executive resigns for good reason (generally a reduction in his responsibilities or compensation, or a breach by us), or resigns for any reason following a change of control; or (c) we elect not to renew the executive's employment agreement upon expiration, for any reason other than cause. The severance payment is equal to two times the executive's average salary and bonus during the three-year period preceding termination; provided, if (i) the termination occurs within three years after a change of control the multiple set forth above will be three instead of two, and (ii) in the case of a non-renewal, as described in item (c) above, the multiple will be one and the severance will be paid in 26 equal installments over a one year period. Upon any such termination, we will continue to provide coverage to the executive under our group insurance plans for up to three years, and all of the executive's stock options and stock grants will immediately vest.

The current employment agreements for our Chairman and CEO, and President and COO are included as Exhibits 10.1 and 10.2 as part of this Form 10-K.

In addition to the above executives, we have also entered into employment agreements with certain of our executive officers and employees. These agreements provide for minimum salary levels, and for certain executive officers and employees, bonus formulas which are payable if specified performance goals are attained.

As of December 31, 2002, the future minimum commitments under employment agreements, excluding discretionary and performance bonuses, are as follows (in thousands):

**For the Year Ending December 31,**

2003	\$ 8,717
2004	7,296
2005	5,722
2006	4,032
2007	1,689
	\$ 27,456

*Aviation Joint Venture*

In December 2000, we entered into a joint venture with Signature through the acquisition of a 50% equity interest in PAFCO from Signature. In accordance with the venture's operating agreement, we are entitled to 80% of the income from PAFCO's operations. The higher allocation percentage versus the ownership percentage is in consideration of the risks assumed by us with respect to credit losses on PAFCO's accounts receivable. We are required to purchase, without recourse, PAFCO's accounts receivable that are 120 days past due, subject to certain requirements. We also have the right to approve all credit sales by PAFCO. Net losses, including infrequent or unusual losses, and interest expense incurred by PAFCO, and any gain resulting from the liquidation of the venture, will be shared equally between Signature and us. During

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the nine months ended December 31, 2002, we purchased \$38 thousand of PAFCO s accounts receivable, which was subsequently written-off. For the years ended March 31, 2002 and 2001, we did not purchase any of PAFCO s accounts receivable.

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### **Recent Accounting Pronouncements**

In April 2002, we adopted SFAS No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets. SFAS No. 144 addresses financial accounting and reporting for the impairment or disposal of long-lived assets, excluding goodwill. The adoption of SFAS No. 144 did not have a material effect on our consolidated financial statements.

In November 2002, the FASB issued Interpretation No. 45 ( FIN No. 45 ), Guarantor s Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others. FIN No. 45 clarifies and expands on the existing disclosure requirements for guarantees. FIN No. 45 also requires recognition of a liability at fair value of a company s obligations under certain guarantee contracts. The disclosure requirements are effective for financial statements of interim or annual periods ending after December 15, 2002. We believe that our consolidated financial statements as of and for the nine months ended December 31, 2002 are in compliance with the disclosure requirements of FIN No. 45. The initial recognition and measurement provisions of FIN No. 45 are applied only on a prospective basis to guarantees issued after December 31, 2002, irrespective of the guarantor s fiscal year-end. We are currently evaluating the impact of FIN No. 45, if any, on our financial position and results of operations.

In January 2003, the FASB issued Interpretation No. 46 ( FIN No. 46 ), Consolidation of Variable Interest Entities. FIN No. 46 expands upon and strengthens existing accounting guidance that addresses when a company should include in its financial statements the assets, liabilities and activities of another entity. A variable interest entity is a corporation, partnership, trust, or any other legal structure used for business purposes that either (a) does not have equity investors with voting rights or (b) has equity investors that do not provide sufficient financial resources for the entity to support its activities. FIN No. 46 requires a variable interest entity to be consolidated by a company if that company is subject to a majority of the risk of loss from the variable interest entity s activities or is entitled to receive a majority of the entity s residual returns or both. The consolidation requirements of FIN No. 46 apply immediately to variable interest entities created after January 31, 2003. The consolidation requirements apply to older entities in the first fiscal year or interim period beginning after June 15, 2003. Disclosure requirements apply to any financial statements issued after January 31, 2003. Since currently we do not have variable interest entities, we do not believe that the implementation of FIN No. 46 will have a material effect on our consolidated financial statements and related disclosures.



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### **Item 7A. Quantitative and Qualitative Disclosures About Market Risk**

To take advantage of favorable market conditions or for competitive reasons, we enter into short-term cancelable fuel purchase commitments for the physical delivery of product. We simultaneously may hedge the physical delivery of fuel through a commodity based derivative instrument, to minimize the effects of commodity price fluctuations.

As part of our price risk management services, we offer to our marine and aviation customers fixed fuel prices on future sales with, or without, physical delivery of fuel. Typically, we simultaneously enter into a commodity based derivative instrument with a counterparty to hedge our variable fuel price on related future purchases with, or without, physical delivery of fuel. The counterparties are major oil companies and derivative trading firms. Accordingly, we do not anticipate non-performance by such counterparties. Pursuant to these transactions, we are not affected by market price fluctuations since the contracts have the same terms and conditions except for the fee or spread earned by us. Performance risk under these contracts is considered a credit risk. This risk is minimized by dealing with customers meeting stricter credit criteria.

As of December 31, 2002, we had 108 outstanding swaps contracts totaling approximately 209 thousand metric tons of marine fuel, expiring through December 2005, and 33 outstanding swaps contracts totaling 22.0 million gallons of aviation fuel, expiring through June 2003. As of December 31, 2002, we have recorded our derivatives, which consisted of swaps contracts to hedge fixed fuel prices on future sales to our customers with, or without, physical delivery of fuel at their fair market value of \$9.5 million. In the accompanying Consolidated Balance Sheets, such amount was included as Prepaid expenses and other current assets with an offsetting amount in Accrued expenses. For additional information, see Derivatives in Note 1 to the consolidated financial statements included herein.

We conduct the vast majority of our business transactions in U.S. dollars. However, in certain markets, primarily in Mexico, payments to our aviation fuel supplier are denominated in local currency. In addition, in Mexico, payments from some of our customers are also denominated in local currency. This subjects us to foreign currency exchange risk, which may adversely affect our results of operations and financial condition. We seek to minimize the risks from currency exchange rate fluctuations through our regular operating and financing activities.

Our policy is to not use derivative financial instruments for speculative purposes.

### **Item 8. Financial Statements and Supplementary Data**

The financial statements, together with the report thereon of PricewaterhouseCoopers LLP dated February 21, 2003, and the Selected Quarterly Financial Data (Unaudited), are set forth in Item 15 of this Form 10-K.

### **Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure**

In March 2002, we changed our certifying accountants from Arthur Andersen LLP to PricewaterhouseCoopers LLP. There were no disagreements with Arthur Andersen LLP on any matter of accounting principles, accounting practices, or financial statement disclosure which have been reported on a Form 8-K within the 24 months prior to March 2002, or subsequently with PricewaterhouseCoopers LLP to the date of the most recent financial statement.

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### **PART III**

#### **Item 10. Directors and Executive Officers of the Registrant**

The information concerning our directors and executive officers set forth under the captions Election of Directors and Information Concerning Executive Officers, respectively, appearing in our definitive 2003 Proxy Statement for the Annual Meeting of Shareholders (the 2003 Proxy Statement ), is incorporated herein by reference.

#### **Item 11. Executive Compensation**

The information set forth in the 2003 Proxy Statement under the caption Compensation of Officers and Board of Directors - Compensation of Directors is incorporated herein by reference.

#### **Item 12. Security Ownership of Certain Beneficial Owners and Management**

The information set forth under the caption Principal Shareholders and Security Ownership of Management in the 2003 Proxy Statement is incorporated herein by reference.

#### **Item 13. Certain Relationships and Related Transactions**

The information set forth under the caption Transactions with Management and Others in the 2003 Proxy Statement is incorporated herein by reference.

#### **Item 14. Controls and Procedures**

##### **Evaluation of Disclosure Controls and Procedures**

Disclosure controls and procedures are designed to ensure that information required to be disclosed by us in the reports that we file or submit, is recorded, processed, summarized and reported, within the time periods specified in the Securities and Exchange Commission's rules and forms.

We have evaluated our disclosure controls and procedures during the last 90 days. Based on such evaluation, our CEO, COO and Chief Financial Officer ( CFO ) believe that such controls and procedures are effective to achieve the above objectives.

##### **Changes in Internal Controls**

Our CEO, COO and CFO have determined, based upon our most recent evaluation, that there have been no significant changes in our internal controls that could significantly affect our internal controls and procedures subsequent to that evaluation.

##### **Limitations on the Effectiveness of Controls**

Our management, including our CEO, COO and CFO, does not expect that our disclosure controls or our internal controls will prevent all error and all fraud. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within the company have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty, and that breakdowns can occur because of simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the control. The design of any system of controls is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Over time, control may become inadequate because of changes in conditions, or the degree of compliance with the policies or procedures may deteriorate. Because of the inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and not be detected.



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**PART IV**

**Item 15. Exhibits, Financial Statement Schedules and Reports on Form 8-K**

(a)(1) The following consolidated financial statements are filed as a part of this Form 10-K:

(i) Reports of Independent Certified Public Accountants.	33
(ii) Consolidated Balance Sheets as of December 31, 2002, March 31, 2002 and March 31, 2001.	35
(iii) Consolidated Statements of Income for the Nine Months ended December 31, 2002 and 2001 (unaudited), and the Years Ended March 31, 2002, 2001, and 2000.	36
(iv) Consolidated Statements of Stockholders' Equity for the Nine Months Ended December 31, 2002 and the Years Ended March 31, 2002, 2001 and 2000.	37
(v) Consolidated Statements of Cash Flows for the Nine Months ended December 31, 2002 and 2001 (unaudited), and the Years Ended March 31, 2002, 2001, and 2000.	38
(vi) Notes to the Consolidated Financial Statements.	41

(a)(2) Consolidated financial statement schedules not set forth herein have been omitted either because the required information is set forth in the consolidated financial statements or notes thereto, or the information called for is not required.

(a)(3) The exhibits set forth in the following index of exhibits are filed or incorporated by reference as a part of this Form 10-K:

**Exhibit**

<b><u>Number</u></b>	<b><u>Description</u></b>
(3)	Articles of Incorporation and By-laws: <ul style="list-style-type: none"> <li>(.1) Articles of Incorporation are incorporated by reference to our Registration Statement on Form S-18 filed February 3, 1986.</li> <li>(.2) By-laws, amended and restated By-laws as of February 19, 2003.</li> </ul>
(4)	Instruments defining rights of security holders: <ul style="list-style-type: none"> <li>(.1) 1986 Employee Stock Option Plan is incorporated by reference to our Registration Statement on Form S-18 filed February 3, 1986.</li> <li>(.2) 1993 Non-Employee Directors Stock Option Plan is incorporated by reference to our Schedule 14A filed June 28, 1994.</li> <li>(.3) 1996 Employee Stock Option Plan is incorporated by reference to our Schedule 14A filed July 18, 1997.</li> <li>(.4) 2001 Omnibus Plan is incorporated by reference to our Schedule 14A filed July 17, 2001.</li> </ul>

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- (10) Material contracts:
- (.1) Amended and Restated Employment Agreement with Mr. Paul Stebbins, Chairman to the Board of Directors and Chief Executive Officer, dated July 26, 2003.
  - (.2) Amended and Restated Employment Agreement with Mr. Michael Kasbar, President and Chief Operating Officer, dated July 26, 2003.
  - (.3) Credit Agreement, excluding schedules and exhibits as listed in the agreement, dated as of December 7, 2001, between World Fuel Services Corporation and LaSalle Bank National Association is incorporated by reference to our Form 10-Q filed February 8, 2002.
  - (.4) First Amendment to Credit Agreement, dated as of May 15, 2002, between World Fuel Services Corporation and LaSalle Bank National Association is incorporated by reference to our Form 10-K filed June 18, 2002.
  - (.5) Second Amendment to Credit Agreement, dated as of December 11, 2002, between World Fuel Services Corporation and LaSalle Bank National Association.
  - (.6) Third Amendment to Credit Agreement, dated as of February 24, 2003, between World Fuel Services Corporation and LaSalle Bank National Association.
- (21) Subsidiaries of the Registrant.
- (23) Consent of Independent Certified Public Accountants.
- (99) Certifications
- (.1) Chief Executive Officer pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002.
  - (.2) Chief Operating Officer pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002.
  - (.3) Chief Financial Officer pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002.
- (b) No reports on Form 8-K were filed during the quarter ended December 31, 2002.

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**REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS**

To the Stockholders and Board of Directors  
of World Fuel Services Corporation:

In our opinion, the consolidated financial statements listed in the accompanying index appearing under item 15(a)(1) on page 31 present fairly, in all material respects, the financial position of World Fuel Services Corporation and subsidiaries (the Company) at December 31, 2002 and March 31, 2002, and the results of their operations and their cash flows for the nine months ended December 31, 2002 and for the year ended March 31, 2002, in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America, which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note 1 to the consolidated financial statements, pursuant to the adoption of Statement of Financial Accounting Standards (SFAS) No.142, Goodwill and other Intangible Assets, the Company changed its method of accounting for goodwill effective April 1, 2001. In addition, as discussed in Note 5, pursuant to the adoption of the accounting provision of SFAS No. 123, Accounting for Stock-Based Compensation, as amended by SFAS No. 148, Accounting for Stock-Based Compensation - Transition and Disclosure, an amendment of FASB Statement No. 123, effective April 1, 2002, the Company changed its accounting for the fair value of prospectively granted options.

/s/ PRICEWATERHOUSECOOPERS LLP

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Miami, Florida  
February 21, 2003

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**REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS**

To World Fuel Services Corporation:

We have audited the accompanying consolidated balance sheets of World Fuel Services Corporation (a Florida corporation) and subsidiaries as of March 31, 2001 and 2000, and the related consolidated statements of income, stockholders' equity and cash flows for each of the three years in the period ended March 31, 2001. These consolidated financial statements and the schedule referred to below are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements and the schedule based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of World Fuel Services Corporation and subsidiaries as of March 31, 2001 and 2000, and the results of their operations and their cash flows for each of the three years in the period ended March 31, 2001 in conformity with accounting principles generally accepted in the United States.

Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. Schedule II is presented for purposes of complying with the Securities and Exchange Commission's rules and is not a required part of the basic financial statements. This schedule has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, fairly states in all material respects the financial data required to be set forth therein in relation to the basic financial statements taken as a whole.

/s/ ARTHUR ANDERSEN LLP

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Miami, Florida,  
May 30, 2001.

This Report of Independent Certified Public Accountants is a copy of a previously issued Arthur Andersen LLP (Andersen) report and has not been reissued by Andersen. The inclusion of this previously issued Andersen report is pursuant to the Temporary Final Rule and Final Rule: Requirements for Arthur Andersen LLP Auditing Clients, issued by the U.S. Securities and Exchange Commission in March 2002. Note that this previously issued Andersen report includes references to certain years, which are not required to be presented in the accompanying consolidated financial statements as of and for the nine months ended December 31, 2002. In addition, this previously issued Andersen report includes reference to Schedule II, which was omitted in this report since the required information is set forth in Note 1 to the accompanying consolidated financial statements.

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**WORLD FUEL SERVICES CORPORATION AND SUBSIDIARIES**  
**CONSOLIDATED BALANCE SHEETS**  
**(IN THOUSANDS, EXCEPT PER SHARE DATA)**

	<u>As of</u>		
	<u>December 31,</u> <u>2002</u>	<u>March 31,</u> <u>2002</u>	<u>March 31,</u> <u>2001</u>
<b>Assets</b>			
Current assets:			
Cash and cash equivalents	\$ 57,776	\$ 58,172	\$ 38,977
Accounts and notes receivable, net of allowance for bad debts of \$11,112 at December 31, 2002, \$11,012 at March 31, 2002, and \$11,167 at March 31, 2001	177,360	132,586	125,863
Inventories	5,144	2,219	5,009
Prepaid expenses and other current assets	22,300	20,162	18,376
	<u>262,580</u>	<u>213,139</u>	<u>188,225</u>
Property and equipment:			
Leasehold and improvements	462	302	357
Office equipment, furniture, computer equipment and software	12,492	11,754	10,904
Construction in progress - corporate office	1,946		
	<u>14,900</u>	<u>12,056</u>	<u>11,261</u>
Less accumulated depreciation and amortization	8,026	6,438	5,130
	<u>6,874</u>	<u>5,618</u>	<u>6,131</u>
Other:			
Goodwill, net of amortization of \$3,490	34,003	34,003	24,598
Identifiable intangible asset, net of amortization of \$368 at December 31, 2002 and \$92 at March 31, 2002	1,472	1,748	
Other assets	7,358	3,415	3,211
	<u>\$ 312,287</u>	<u>\$ 257,923</u>	<u>\$ 222,165</u>
<b>Liabilities</b>			
Current liabilities:			
Short-term debt	\$ 2,527	\$ 5,710	\$ 2,321
Accounts payable	97,560	82,904	69,147
Accrued expenses	66,012	30,806	28,465
Customer deposits	5,264	3,819	5,781
Accrued salaries and wages	5,634	6,461	5,144
Income taxes payable	3,362	4,151	1,581
	<u>180,359</u>	<u>133,851</u>	<u>112,439</u>
Total current liabilities			
Long-term liabilities	4,198	7,633	5,866



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	184,557	141,484	118,305
	<u>          </u>	<u>          </u>	<u>          </u>
Commitments and contingencies			
<b>Stockholders Equity</b>			
Preferred stock, \$1.00 par value; shares of 100 authorized, none issued			
Common stock, \$0.01 par value; shares of 25,000 authorized, issued and outstanding shares of 12,765 at December 31, 2002 and March 31, 2002, and 12,541 at March 31, 2001	128	128	125
Capital in excess of par value	32,595	29,691	26,889
Retained earnings	114,334	106,841	93,770
Unearned deferred compensation	(1,886	) (116	) )
Treasury stock, at cost; shares of 2,071 at December 31, 2002, 2,388 at March 31, 2002, and 2,138 at March 31, 2001	(17,441	) (20,105	) (16,924
	<u>          </u>	<u>          </u>	<u>          </u>
	127,730	116,439	103,860
	<u>          </u>	<u>          </u>	<u>          </u>
	\$ 312,287	\$ 257,923	\$ 222,165
	<u>          </u>	<u>          </u>	<u>          </u>

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

**Table of Contents****WORLD FUEL SERVICES CORPORATION AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF INCOME****(IN THOUSANDS, EXCEPT PER SHARE DATA)**

	<b>For the Nine Months</b>		<b>For the Year Ended March 31,</b>		
	<b>Ended December 31,</b>		<b>2002</b>	<b>2001</b>	<b>2000</b>
	<b>2002</b>	<b>2001</b>	<b>2002</b>	<b>2001</b>	<b>2000</b>
		<b>(Unaudited)</b>			
Revenue	\$ 1,546,897	\$ 1,013,781	\$ 1,365,065	\$ 1,529,242	\$ 1,200,297
Cost of sales	(1,483,976 )	(958,753 )	(1,288,891 )	(1,457,500 )	(1,136,052 )
Gross profit	62,921	55,028	76,174	71,742	64,245
Operating expenses:					
Salaries and wages	(23,484 )	(22,445 )	(30,515 )	(26,299 )	(21,587 )
Executive severance charges	(4,492 )			(3,505 )	
Provision for bad debts	(2,182 )	(3,244 )	(3,928 )	(7,909 )	(19,250 )
Other	(18,977 )	(14,433 )	(20,442 )	(19,877 )	(16,490 )
	(49,135 )	(40,122 )	(54,885 )	(57,590 )	(57,327 )
Income from operations	13,786				