

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, DC 20549

FORM 10-Q

(Mark One)

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

FOR THE QUARTERLY PERIOD ENDED JUNE 30, 1998

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

FOR THE TRANSITION PERIOD FROM \_\_\_\_\_ TO \_\_\_\_\_

COMMISSION FILE NUMBER 1-9533

WORLD FUEL SERVICES CORPORATION

-----  
(Exact name of registrant as specified in its charter)

FLORIDA

59-2459427

-----  
(State or other jurisdiction of  
incorporation or organization)

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

700 SOUTH ROYAL POINCIANA BLVD., SUITE 800  
MIAMI SPRINGS, FLORIDA

33166

-----  
(Address of Principal Executive Offices)

-----  
(Zip Code)

Registrant's Telephone Number, including area code: (305) 884-2001

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No .

APPLICABLE ONLY TO CORPORATE ISSUERS:

As of July 20, 1998, the registrant had a total of 12,512,193 shares of common stock, par value \$0.01 per share, issued and outstanding.

Page 1 of 13

PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

The following unaudited, condensed consolidated financial statements of World Fuel Services Corporation (the "Company") have been prepared in accordance with the instructions to Form 10-Q and, therefore, omit or condense certain footnotes and other information normally included in financial statements prepared in accordance with generally accepted accounting principles. In the opinion of management, all adjustments necessary for a fair presentation of the financial information for the interim periods reported have been made. Results of operations for the three months ended June 30, 1998, will not be necessarily indicative of the results for the entire fiscal year ending March 31, 1999.

Page 2 of 13

WORLD FUEL SERVICES CORPORATION AND SUBSIDIARIES  
CONSOLIDATED BALANCE SHEETS  
(UNAUDITED)

ASSETS	JUNE 30, 1998 -----	MARCH 31, 1998 -----
CURRENT ASSETS:		
Cash and cash equivalents	\$ 9,860,000	\$ 14,459,000
Accounts receivable, net of allowance for bad debts of \$4,661,000 and \$4,594,000 at June 30 and March 31, 1998, respectively	87,136,000	81,648,000
Inventories	5,569,000	5,504,000
Prepaid expenses and other current assets	10,439,000	5,937,000
	-----	-----
Total current assets	113,004,000	107,548,000
	-----	-----
PROPERTY, PLANT AND EQUIPMENT, at cost:		
Land	1,054,000	1,054,000
Buildings and improvements	3,098,000	3,098,000
Office equipment and furniture	5,703,000	5,286,000
Plant, machinery and equipment	17,663,000	17,458,000
Construction in progress	817,000	230,000
	-----	-----
	28,335,000	27,126,000
Less accumulated depreciation and amortization	9,615,000	9,065,000
	-----	-----
	18,720,000	18,061,000
	-----	-----
OTHER ASSETS:		
Unamortized cost in excess of net assets of acquired companies, net of accumulated amortization	15,282,000	15,402,000
Other	1,715,000	2,248,000
	-----	-----
	\$148,721,000	\$143,259,000
	=====	=====

(Continued)

WORLD FUEL SERVICES CORPORATION AND SUBSIDIARIES  
CONSOLIDATED BALANCE SHEETS  
(UNAUDITED)  
(Continued)

LIABILITIES AND STOCKHOLDERS' EQUITY

	JUNE 30, 1998	MARCH 31, 1998
	-----	-----
<b>CURRENT LIABILITIES:</b>		
Current maturities of long-term debt	\$ 112,000	\$ 119,000
Accounts payable and accrued expenses	43,017,000	40,560,000
Customer deposits	2,942,000	2,536,000
Accrued salaries and wages	1,249,000	1,851,000
Income taxes payable	2,110,000	2,381,000
	-----	-----
Total current liabilities	49,430,000	47,447,000
	-----	-----
<b>LONG-TERM LIABILITIES</b>	<b>3,697,000</b>	<b>3,901,000</b>
	-----	-----
<b>COMMITMENTS AND CONTINGENCIES</b>		
<b>STOCKHOLDERS' EQUITY:</b>		
Preferred stock, \$1.00 par value; 100,000 shares authorized, none issued	--	--
Common stock, \$0.01 par value; 25,000,000 shares authorized; 12,512,000 and 12,481,000 shares issued and outstanding at June 30 and March 31, 1998, respectively	125,000	125,000
Capital in excess of par value	26,707,000	26,479,000
Retained earnings	68,819,000	65,364,000
Less treasury stock, at cost	57,000	57,000
	-----	-----
	95,594,000	91,911,000
	-----	-----
	<b>\$148,721,000</b>	<b>\$143,259,000</b>
	=====	=====

The accompanying notes to the consolidated financial statements are an integral part of these consolidated balance sheets (unaudited).

WORLD FUEL SERVICES CORPORATION AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF INCOME  
(UNAUDITED)

	THREE MONTHS ENDED JUNE 30,	
	1998	1997
	-----	-----
Revenue	\$193,031,000	\$186,307,000
Cost of sales	178,175,000	175,233,000
	-----	-----
Gross profit	14,856,000	11,074,000
	-----	-----
Operating expenses:		
Salaries and wages	4,957,000	3,697,000
Provision for bad debts	1,238,000	42,000
Other	3,772,000	2,941,000
	-----	-----
	9,967,000	6,680,000
	-----	-----
Income from operations	4,889,000	4,394,000
Other income, net	253,000	719,000
	-----	-----
Income before income taxes	5,142,000	5,113,000
Provision for income taxes	1,061,000	1,310,000
	-----	-----
Net income	\$ 4,081,000	\$ 3,803,000
	=====	=====
Basic earnings per common share	\$ 0.33	\$ 0.31
	=====	=====
Weighted average shares	12,495,000	12,163,000
	=====	=====
Diluted earnings per common share	\$ 0.32	\$ 0.31
	=====	=====
Weighted average shares - diluted	12,752,000	12,373,000
	=====	=====

The accompanying notes to the consolidated financial statements are an integral part of these consolidated financial statements (unaudited).

WORLD FUEL SERVICES CORPORATION AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
(UNAUDITED)

	THREE MONTHS ENDED JUNE 30,	
	1998	1997
	-----	-----
Cash flows from operating activities:		
Net income	\$ 4,081,000	\$ 3,803,000
	-----	-----
Adjustments to reconcile net income to net cash (used in) provided by operating activities -		
Depreciation and amortization	689,000	596,000
Provision for bad debts	1,238,000	42,000
Deferred income tax provision (benefit)	66,000	(189,000)
Other non-cash operating credits	(79,000)	(61,000)
Changes in assets and liabilities:		
(Increase) decrease in -		
Accounts receivable	(9,733,000)	1,505,000
Inventories	(65,000)	1,122,000
Prepaid expenses and other current assets	(1,569,000)	607,000
Other assets	591,000	(41,000)
Increase (decrease) in -		
Accounts payable and accrued expenses	2,455,000	1,836,000
Customer deposits	406,000	(328,000)
Accrued salaries and wages	(602,000)	(1,322,000)
Income taxes payable	(271,000)	1,398,000
Deferred compensation	(252,000)	(157,000)
	-----	-----
Total adjustments	(7,126,000)	5,008,000
	-----	-----
Net cash (used in) provided by operating activities	(3,045,000)	8,811,000
	-----	-----
Cash flows from investing activities:		
Additions to property, plant and equipment	(1,218,000)	(1,366,000)
Proceeds from notes receivable	74,000	352,000
Other	--	106,000
	-----	-----
Net cash used in investing activities	\$(1,144,000)	\$ (908,000)
	-----	-----

(Continued)

WORLD FUEL SERVICES CORPORATION AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
(UNAUDITED)  
(Continued)

	THREE MONTHS ENDED JUNE 30,	
	1998	1997
Cash flows from financing activities:		
Dividends paid on common stock	\$ (624,000)	\$ (608,000)
Proceeds from issuance of common stock	239,000	--
Other	(25,000)	(34,000)
	-----	-----
Net cash used in financing activities	(410,000)	(642,000)
	-----	-----
Net (decrease) increase in cash and cash equivalents	(4,599,000)	7,261,000
Cash and cash equivalents, at beginning of period	14,459,000	11,035,000
	-----	-----
Cash and cash equivalents, at end of period	\$ 9,860,000	\$ 18,296,000
	=====	=====
 SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
Cash paid during the period for:		
Interest	\$ 14,000	\$ 16,000
	=====	=====
Income taxes	\$ 1,136,000	\$ 193,000
	=====	=====

SUPPLEMENTAL SCHEDULE OF NONCASH FINANCING ACTIVITIES:

Cash dividends declared, but not yet paid, totaling \$626,000 and \$607,000 are included in accounts payable and accrued expenses as of June 30, 1998 and 1997, respectively.

During the quarter ended June 30, 1998, the Company reclassified approximately \$3,007,000 from accounts receivable to notes receivable. The notes receivable are shown in the Prepaid and other current assets section of the balance sheet.

The accompanying notes to the consolidated financial statements are an integral part of these consolidated financial statements (unaudited).

WORLD FUEL SERVICES AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

(1) SIGNIFICANT ACCOUNTING POLICIES

The accounting policies followed for quarterly financial reporting are the same as those disclosed in Note 1 of the Notes to the Consolidated Financial Statements included in the Company's Annual Report on Form 10-K for the year ended March 31, 1998.

(2) NEW ACCOUNTING PRONOUNCEMENTS

In June 1998, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities" ("SFAS No. 133"). SFAS No. 133 establishes accounting and reporting standards requiring that every derivative instrument (including certain derivative instruments embedded in other contracts) be recorded in the balance sheet as either an asset or liability measured at its fair value. SFAS No. 133 is effective for fiscal years beginning after June 15, 1999. The Company believes that the implementation of SFAS No. 133 will not have a material effect on the Company's financial position or results of operations.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

THE THREE MONTHS ENDED JUNE 30, 1998 COMPARED TO THE THREE MONTHS ENDED JUNE 30, 1997

The Company's revenue for the three months ended June 30, 1998 was \$193,031,000, an increase of \$6,724,000, or 3.6%, as compared to revenue of \$186,307,000 for the corresponding period for the prior year. The Company's revenue during these periods was attributable to the following segments:

	THREE MONTHS ENDED JUNE 30,	
	1998	1997
Aviation Fueling	\$ 85,276,000	\$ 96,117,000
Marine Fueling	101,541,000	84,282,000
Oil Recycling	6,214,000	5,908,000
Total Revenue	<u>\$193,031,000</u>	<u>\$186,307,000</u>

The aviation fueling segment contributed \$85,276,000 in revenue for the three months ended June 30, 1998. This represented a decrease in revenue of \$10,841,000, or 11.3%, as compared to the same period of the prior year. The decrease in revenue was due to a decrease in the average price per gallon sold, which resulted from a decrease in the world market price of fuels. Partially offsetting was an increase in the quantity of gallons sold. The marine fueling segment contributed \$101,541,000 in revenue for the three months ended June 30, 1998, an increase of \$17,259,000, or 20.5%, over the corresponding period of the prior year. The increase in revenue was related primarily to an increase in the volume of metric tons sold and business expansion, partially offset by a decrease in the average sales price per metric ton sold. The oil recycling segment contributed \$6,214,000 in revenue for the three months ended June 30, 1998, an increase of \$306,000, or 5.2%, as compared to the same period of the prior year. The increase in revenue was due to an increase in volume of recycled oil sold, partially offset by a decrease in the average sales price per gallon of recycled oil sold.

The Company's gross profit of \$14,856,000 for the three months ended June 30, 1998, increased \$3,782,000, or 34.2%, as compared to the same period of the prior year. The Company's gross margin increased from 5.9% for the three months ended June 30, 1997, to 7.7% for the three months ended June 30, 1998. The Company's aviation fueling business achieved a 9.2% gross margin for the three months ended June 30, 1998, as compared to 5.4% achieved for the same period during the prior year. This resulted principally from the decline in the average price per gallon sold, as well as from an increase in the average gross profit per gallon sold and the addition of Baseops, which the Company acquired effective January 1998. The Company's marine fueling segment achieved a 5.1% gross margin for the three months ended June 30, 1998, as compared to a 4.5% gross margin for the same period of the prior year, the result of lower world oil prices and sustained average gross profit per metric ton sold and brokered. The gross margin in the Company's oil recycling segment decreased from 35.4% for the three months ended June 30, 1997, to 29.2% for the three months ended June 30, 1998. This decrease resulted from a lower gross profit per gallon of recycled oil sold, due primarily to lower world oil prices.



Total operating expenses for the three months ended June 30, 1998 were \$9,967,000, an increase of \$3,287,000, or 49.2%, as compared to the same period of the prior year. The increase resulted primarily from higher salaries and wages relating principally to staff additions and performance bonuses, higher operating expenses in the aviation and marine segments related to business expansion, and a \$1,196,000 higher provision for bad debts over the corresponding period during the prior year.

The Company's income from operations for the three months ended June 30, 1998 was \$4,889,000, an increase of \$495,000, or 11.3%, as compared to the same period of the prior year. Income from operations during these periods was attributable to the following segments:

	THREE MONTHS ENDED JUNE 30,	
	1998	1997
	-----	-----
Aviation Fueling	\$ 3,531,000	\$ 3,174,000
Marine Fueling	1,527,000	1,023,000
Oil Recycling	1,013,000	1,367,000
Corporate Overhead	(1,182,000)	(1,170,000)
	-----	-----
Total Income from Operations	\$ 4,889,000	\$ 4,394,000
	=====	=====

The aviation fueling segment's income from operations was \$3,531,000 for the three months ended June 30, 1998, an increase of \$357,000, or 11.2%, as compared to the three months ended June 30, 1997. This resulted from an increase in the volume and average gross profit per gallon sold. Partially offsetting was an increase in operating expenses due to a higher provision for bad debts and expenses related to business expansion. The marine fueling segment earned \$1,527,000 in income from operations for the three months ended June 30, 1998, an increase of \$504,000 or 49.3% over the corresponding period of the prior year. This increase was primarily the result of higher volume, partially offset by higher operating expenses due to business expansion and a higher provision for bad debts. Income from operations of the oil recycling segment decreased by \$354,000, or 25.9%, for the three months ended June 30, 1998, as compared to the same period of the prior year. This resulted from a decrease in gross profit due to lower world oil prices.

Other income decreased \$466,000 over the first quarter a year ago, as a result of lower earnings from the Company's aviation joint venture and lower interest income. The Company's effective income tax rate for the three months ended June 30, 1998 was 20.6%, as compared to 25.6% for the same period of the prior year. The decrease is primarily the result of a true-up of U.S. income taxes for overaccruals in prior periods.

Net income for the three months ended June 30, 1998 was \$4,081,000, an increase of \$278,000, or 7.3%, as compared to net income of \$3,803,000 for the three months ended June 30, 1997. Basic earnings per share of \$0.33 for the three months ended June 30, 1998 exhibited a \$0.02, or 6.5% increase over the \$0.31 achieved during the same period of the prior year.

## LIQUIDITY AND CAPITAL RESOURCES

Cash and cash equivalents amounted to \$9,860,000 at June 30, 1998, as compared to \$14,459,000 at March 31, 1998. The principal uses of cash and cash equivalents during the first three months of fiscal year 1999 were \$3,045,000 used in operating activities, \$1,218,000 for capital expenditures and \$624,000 in dividends paid on common stock. Other components of changes in cash and cash equivalents are detailed in the Consolidated Statements of Cash Flows.

Working capital as of June 30, 1998 was \$63,574,000, exhibiting a \$3,473,000 increase from working capital as of March 31, 1998. As of June 30, 1998, the Company's accounts receivable, excluding the allowance for bad debts, amounted to \$91,797,000, an increase of \$5,555,000, as compared to the March 31, 1998 balance. In the aggregate, accounts payable, accrued expenses and customer deposits increased \$2,863,000. The net increase in trade credit of \$2,692,000, was primarily attributable to the marine segment. The allowance for bad debts as of June 30, 1998 amounted to \$4,661,000, an increase of \$67,000 compared to the March 31, 1998 balance. During the first three months of fiscal year 1999, the Company charged \$1,238,000 to the provision for bad debts and had charge-offs in excess of recoveries of \$1,171,000.

Prepaid and other current assets as of June 30, 1998, were \$10,439,000, exhibiting an increase of \$4,502,000 from the March 31, 1998 balance. The increase was largely related to the reclassification of accounts receivable to notes receivable. Accrued salaries and wages decreased \$602,000 during the first quarter of the 1999 fiscal year, resulting from the payment of sales and management performance bonuses accrued for the 1998 fiscal year.

Capital expenditures for the first three months of fiscal year 1999 consisted primarily of \$522,000 for the implementation of a new financial and sales system and \$362,000 in plant, machinery and equipment related to the recycled oil segment. During the balance of fiscal year 1999, the Company anticipates spending an additional \$1,500,000 for the implementation of the financial and sales system and approximately \$2,000,000 to upgrade plant, machinery and equipment. The Company also anticipates spending an estimated \$1,000,000 over the next several years to clean up contamination which was present at one of the Company's sites when it was acquired by the Company. The clean up costs will be capitalized as part of the cost of the site, up to the fair market value of the site.

Stockholders' equity amounted to \$95,594,000, or \$7.64 per share at June 30, 1998, compared to \$91,911,000, or \$7.36 per share at March 31, 1998. This increase of \$3,683,000 was due to \$4,081,000 in first quarter earnings and \$239,000 due to the issuance of common stock pursuant to the exercise of stock options, partially offset by the declaration of first quarter cash dividends of \$626,000.

The Company's working capital requirements are not expected to vary substantially for the balance of fiscal year 1999. The Company expects to meet its cash requirements for the balance of fiscal year 1999 from existing cash, operations and additional borrowings, as necessary, under its existing credit facility. The Company's business has not been significantly affected by inflation during the periods discussed in this report.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

None

ITEM 2. CHANGES IN SECURITIES AND USE OF PROCEEDS

None

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

None

ITEM 5. OTHER INFORMATION

None

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

- (a) During the three months ended June 30, 1998, the Company did not file any reports on Form 8-K.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

DATE: July 29, 1998

WORLD FUEL SERVICES CORPORATION

/s/ JERROLD BLAIR  
-----

JERROLD BLAIR  
PRESIDENT

/s/ Carlos A. Abaunza  
-----

CARLOS A. ABAUNZA  
CHIEF FINANCIAL OFFICER  
(Principal Financial and Accounting  
Officer)

THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM THE COMPANY'S JUNE 30, 1998 UNAUDITED FINANCIAL STATEMENTS FILED ON FORM 10-Q AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.

3-MOS		
	MAR-31-1999	
	APR-01-1998	
	JUN-30-1998	
		9,860,000
		0
		91,797,000
		4,661,000
		5,569,000
	113,004,000	
		28,335,000
		9,615,000
		148,721,000
49,430,000		0
	0	0
		125,000
		95,469,000
148,721,000		
		193,031,000
	193,031,000	
		178,175,000
	178,175,000	
		0
	1,238,000	
	38,000	
	5,142,000	
		1,061,000
4,081,000		0
		0
		0
		0
		4,081,000
		0.33
		0.32