WILLIAMS COMPANIES INC
Form S-3/A
July 24, 2003

AS FILED WITH THE SECURITIES AND EXCHANGE COMMISSION ON JULY 23, 2003

FILE NO. 333-106504

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

AMENDMENT NO. 1

TO

FORM S-3
REGISTRATION STATEMENT
UNDER THE SECURITIES ACT OF 1933

THE WILLIAMS COMPANIES, INC.
(Exact name of registrant as specified in its charter)

DELAWARE
(State or other jurisdiction
of incorporation or organization)

73-0569878
(I.R.S. Employ
Identification Nu

ONE WILLIAMS CENTER
TULSA, OKLAHOMA 74172
(918) 573-2000
(Address, including zip code, and telephone
number, including area code, of registrant's principal executive offices)

JAMES BENDER, ESQ.
ONE WILLIAMS CENTER
TULSA, OKLAHOMA 74172
(918) 573-2000
(Name, address, including zip code, and telephone number,
including area code, of agent for service)

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APPROXIMATE DATE OF COMMENCEMENT OF PROPOSED SALE TO THE PUBLIC: From time to time after this Registration Statement becomes effective.

If the only securities being registered on this Form are being offered pursuant to dividend or interest reinvestment plans, please check the following box. [ ]

If any of the securities being registered on this Form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, other than securities offered only in connection with dividend or interest reinvestment plans, check the following box. [X]

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, please check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. [ ]

If this Form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. [ ]

If delivery of the prospectus is expected to be made pursuant to Rule 434, please check the following box. [ ]

CALCULATION OF REGISTRATION FEE

TITLE OF EACH CLASS OF SECURITIES TO BE REGISTERED	AMOUNT TO BE REGISTERED	PROPOSED MAXIMUM OFFERING PRICE PER UNIT(1)(2)	PROPOSE AGGREGAT PRICE
5.50% Junior Subordinated Convertible Debentures due 2033..................	$300,000,000	100%	$300,
Common Stock, $1.00 par value per share(3)...............................	27,544,200(2)	--	

(1) The registration fee of $24,270 was calculated in accordance with Rule 457(i) of the Securities Act of 1933 as follows: 0.00008090 multiplied by the maximum offering price.
(2) There are being registered hereunder 27,544,200 shares of The Williams Companies, Inc. common stock at the initial conversion price for conversion of the convertible debentures being registered hereunder, together with such indeterminate number of shares as may become issuable upon conversion by reason of adjustments in the conversion price.
(3) The Williams Companies, Inc. common stock being registered hereby includes associated rights to acquire Series A Junior Participating Preferred Stock Rights pursuant to a Rights Agreement dated as of February 6, 1996, between The Williams Companies, Inc. and First Chicago Trust Company of New York.
(4) Pursuant to Rule 457(i), no registration fee is payable with respect to The

Williams Companies, Inc. common stock underlying the convertible debentures since such common stock will be issued for no separate consideration, but will be issued only upon the conversion of the convertible debentures at the initial conversion price of approximately $10.89 per share, subject to adjustment in certain cases.

(5) Previously paid.

THE REGISTRANT HEREBY AMENDS THIS REGISTRATION STATEMENT ON SUCH DATE OR DATES AS MAY BE NECESSARY TO DELAY ITS EFFECTIVE DATE UNTIL THE REGISTRANT SHALL FILE A FURTHER AMENDMENT WHICH SPECIFICALLY STATES THAT THIS REGISTRATION STATEMENT SHALL THEREAFTER BECOME EFFECTIVE IN ACCORDANCE WITH SECTION 8(a) OF THE SECURITIES ACT OF 1933 OR UNTIL THE REGISTRATION STATEMENT SHALL BECOME EFFECTIVE ON SUCH DATE AS THE COMMISSION, ACTING PURSUANT TO SAID SECTION 8(a), MAY DETERMINE.

PROSPECTUS

$300,000,000

THE WILLIAMS COMPANIES, INC.
5.50% JUNIOR SUBORDINATED CONVERTIBLE DEBENTURES DUE 2033
AND THE COMMON SHARES ISSUABLE UPON CONVERSION
OF THE CONVERTIBLE DEBENTURES

We issued $300,000,000 aggregate principal amount of our 5.50% Junior Subordinated Convertible Debentures due 2033, which we refer to as the "convertible debentures" in May 2003. This prospectus will be used by selling securityholders named in this prospectus or a prospectus supplement to resell their convertible debentures and the common stock issuable upon conversion of their debentures.

The convertible debentures bear interest at the rate of 5.50% per annum. We will pay interest on the convertible debentures on March 1, June 1, September 1 and December 1 of each year, commencing on September 1, 2003, subject to deferral during any extension period as described in this prospectus. The convertible debentures will mature on June 1, 2033. The convertible debentures are issued in minimum denominations of $50 and integral multiples thereof.

Holders may convert their convertible debentures into shares of our common stock at a conversion rate of 4.5907 shares per $50 principal amount of the convertible debentures, subject to adjustment, at any time before the close of business on June 1, 2033 (or, in the case of convertible debentures called for redemption, before the close of business on the business day prior to the applicable redemption date). The initial conversion rate is equivalent to an initial conversion price of approximately $10.89 per share of common stock. Our common stock is traded on the New York Stock Exchange under the symbol "WMB." The last reported sales price of our common stock on July 22, 2003 was $7.27 per share.

On or after June 1, 2010, we may redeem the convertible debentures, in whole or in part, for cash, at a redemption price equal to 100% of the principal

amount to be redeemed plus accrued and unpaid interest to, but not including, the date of redemption if the closing price of our common stock on the New York Stock Exchange has exceeded 130% of the conversion price for at least 20 trading days in the preceding period of 30 consecutive trading days, including on the last day in the period.

You may require us to repurchase any or all of your convertible debentures following a change of control as described in this prospectus at a purchase price equal to 100% of the principal amount to be repurchased, plus accrued and unpaid interest to, but not including, the date of repurchase.

The payment of principal and interest on the convertible debentures will rank junior to all of our present and future senior and senior subordinated debt. In addition, payment of principal and interest on the convertible debentures will be structurally subordinated to the liabilities of our subsidiaries, including subsidiary debt. As of March 31, 2003, we had approximately $13.8 billion of senior and senior subordinated debt, including approximately $4.2 billion of subsidiary debt other than intercompany indebtedness, trade payables and other liabilities of our subsidiaries. As of March 31, 2003, we also had approximately $383 million in letters of credit outstanding.

INVESTING IN THE CONVERTIBLE DEBENTURES INVOLVES RISKS. SEE "RISK FACTORS" BEGINNING ON PAGE 4.

We will not receive any of the proceeds from the sale of the convertible debentures or the shares of common stock by any of the selling securityholders. The convertible debentures and the shares of common stock may be offered in negotiated transactions or otherwise, at market prices prevailing at the time of sale or at negotiated prices. The timing and amount of any sale are within the sole discretion of the selling securityholders. In addition, the shares of common stock may be offered from time to time through ordinary brokerage transactions on the New York Stock Exchange. See "Plan of Distribution." The selling securityholders may be deemed to be "underwriters" as defined in the Securities Act of 1933, as amended. Any profits realized by the selling securityholders may be deemed to be underwriting commissions. If the selling securityholders use any broker-dealers and, if broker-dealers purchase any convertible debentures or shares of common stock as principals, any profits received by such broker-dealers on the resale of the convertible debentures or shares of common stock may be deemed to be underwriting discounts or commissions under the Securities Act.

Neither the Securities and Exchange Commission nor any state securities regulators have approved or disapproved of these securities, or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

The date of this prospectus is July 23, 2003

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NOTICE TO INVESTORS

As used in this prospectus, the terms "Williams," "Company," "we," "our" and "us" refer to The Williams Companies, Inc., except where the context otherwise requires or as otherwise indicated.

We have not authorized any dealer, salesperson or other person to give any information or to make any representation other than those contained or incorporated by reference in this prospectus and any accompanying prospectus supplement. You must not rely upon any information or representation not contained or incorporated by reference in this prospectus or any accompanying prospectus supplement as if we had authorized it.

This prospectus and any accompanying prospectus supplement do not constitute an offer to sell or the solicitation of an offer to buy any securities other than the registered securities to which they relate, nor does this prospectus and any accompanying prospectus supplement constitute an offer to sell or the solicitation of an offer to buy any securities in any jurisdiction to any person to whom it is unlawful to make such offer or solicitation in such jurisdiction.

You should not assume that the information contained in this prospectus and any accompanying prospectus supplement is correct on any date after their respective dates, even though this prospectus or any prospectus supplement is delivered or securities are sold on a later date.

FORWARD-LOOKING STATEMENTS

Certain matters discussed in this prospectus, excluding historical information, include forward-looking statements -- statements that discuss our expected future results based on current and pending business operations. Forward-looking statements can be identified by words such as "anticipates," "believes," "could," "continues," "estimates," "expects," "forecasts," "might," "planned," "potential," "projects," "scheduled" or similar expressions. Events in 2002 significantly impacted the risk environment all businesses face and raised a level of uncertainty in the capital markets that has approached that which led to the general market collapse of 1929. Beliefs and assumptions as to what constitutes appropriate levels of capitalization and fundamental value

have changed abruptly. The deterioration of our energy industry sector in the wake of the collapse of Enron combined with the meltdown of the telecommunications industry are both new realities that have had and will likely continue to have specific impacts on all companies, including us. Although we believe these forward-looking statements are based on reasonable assumptions, statements made regarding future results are subject to a number of assumptions, uncertainties and risks that could cause future results to be materially different from the results stated or implied in this prospectus.

Additional information about issues that could lead to material changes in performance is contained in our annual report on Form 10-K for the year ended December 31, 2002 and our quarterly report on Form 10-Q for the quarter ended March 31, 2003, which are incorporated by reference in this prospectus.

WHERE YOU CAN FIND MORE INFORMATION

We file annual, quarterly and special reports, proxy statements and other information with the SEC under the Securities Exchange Act of 1934, as amended. The registration statement of which this prospectus forms a part and these reports, proxy statements and other information can be inspected and copied at the public reference room maintained by the SEC at Room 1024, Judiciary Plaza, 450 Fifth Street, N.W., Washington, D.C. 20549, and at the SEC's regional offices at 500 West Madison Street, Suite 1400, Chicago, Illinois 60661 and at 233 Broadway, New York, New York 10005. Copies of these materials may also be obtained from the SEC at prescribed rates by writing to the public reference room maintained by the SEC at Room 1024, Judiciary Plaza, 450 Fifth Street, N.W., Washington, D.C. 20549. You may obtain information on the operation of the public reference room by calling the SEC at 1-800-SEC-0330.

We have filed with the SEC a registration statement on Form S-3 under the Securities Act with respect to this offering. This prospectus, which forms a part of the registration statement, does not contain all the information included in the registration statement and the attached exhibits.

The SEC maintains a World Wide Web site on the internet at http://www.sec.gov that contains reports, proxy and information statements and other information regarding us. The reports, proxy and information statements and other information about us can be downloaded from the SEC's website and can also be inspected and copied at the offices of the New York Stock Exchange, Inc., 20 Broad Street, New York, New York 10005.

INCORPORATION OF CERTAIN DOCUMENTS BY REFERENCE

Williams is "incorporating by reference" information which it files with the SEC which means that it can disclose important information to investors by referring investors to those documents. The information incorporated by reference or deemed incorporated by reference is an important part of this prospectus and information that Williams files later with the SEC will be deemed to automatically update and supersede this incorporated information. Williams incorporates by reference the documents listed below and any future filings made with the SEC under Sections 13(a), 13(c), 14, or 15(d) of the Securities Exchange Act of 1934, as amended, prior to the completion of this offering.

- Our annual report on Form 10-K for the year ended December 31, 2002.

- Our quarterly report on Form 10-Q for the quarter ended March 31, 2003.

- Our current reports on Form 8-K filed January 2, 2003, January 9, 2003,

January 17, 2003, January 24, 2003, February 19, 2003, February 21, 2003, March 6, 2003, March 12, 2003, March 19, 2003, March 21, 2003, April 10, 2003, April 15, 2003, April 16, 2003, April 21, 2003, April 22, 2003, April 25, 2003, May 13, 2003, May 19, 2003, May 21, 2003, May 23, 2003, May 29, 2003, May 30, 2003, June 2, 2003, June 5, 2003, June 9, 2003, June 10, 2003, June 13, 2003, June 19, 2003, June 27, 2003, July 1, 2003, July 18, 2003 and July 24, 2003.

- Our definitive proxy statement on Schedule 14A filed April 7, 2003.

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Investors can get a free copy of any of the documents incorporated by reference by making an oral or written request directed to:

The Williams Companies, Inc.
One Williams Center
Tulsa, Oklahoma 74172
Attention: Corporate Secretary
Telephone: (918) 573-2000

Investors should rely only on the information contained or incorporated in this prospectus. Williams has not authorized anyone else to provide investors with different information. Investors should not rely on any other representations. Williams' affairs may change after this prospectus is distributed. Investors should not assume that the information in this prospectus is accurate as of any date other than the date on the front of this document. Investors should read all information supplementing this prospectus.

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THE WILLIAMS COMPANIES, INC.

We are an energy company originally incorporated under the laws of the state of Nevada in 1949 and reincorporated under the laws of the state of Delaware in 1987. We were founded in 1908 when two Williams brothers began a construction company in Fort Smith, Arkansas. Today, we primarily find, produce, gather, process and transport natural gas. Our operations serve the Northwest, California, Rocky Mountains, Gulf Coast and Eastern Seaboard markets.

In 2002, we faced many challenges including credit issues following the deterioration of our energy industry sector in the wake of the Enron bankruptcy in late 2001 and our assumption of payment obligations and performance on guarantees associated with our former telecommunications subsidiary, Williams Communications Group, Inc. (WCG). With the deterioration of the energy industry, the credit rating agencies' requirements for investment grade companies in this sector became more stringent. In response to those requirements, we announced plans on December 19, 2001, to strengthen our balance sheet in an effort to maintain our investment grade ratings. Those plans, as revised due to changing market conditions, included reducing capital expenditures, eliminating certain credit ratings triggers from our loan agreements, reducing costs and reducing quarterly dividends paid on our common stock, and selling assets to generate proceeds to reduce outstanding debt. Despite our balance sheet strengthening efforts, we lost our investment grade ratings in July 2002. With the loss of our investment grade ratings, our business changed significantly, especially our Energy Marketing & Trading business. Some counterparties were unwilling to extend credit and required cash, letters of credit, or other collateral. Concurrently, our credit facility banks were unwilling to extend our $2.2 billion 364-day unsecured credit facility. As a result, we faced a liquidity

crisis. We quickly worked with our banks and other parties to obtain secured credit facilities, and also sold a significant amount of assets to meet our liquidity gap. Following this short-term liquidity crisis, we continued to pursue cost reducing measures including a downsizing of our work force. We also settled substantially all issues between us and WCG through WCG's Chapter 11 reorganization.

On February 20, 2003, we outlined our planned business strategy for the next few years which we believe to be a comprehensive response to the events that impacted the energy sector and Williams during 2002. The business strategy focuses on retaining a strong, but smaller, portfolio of natural gas businesses and bolstering our liquidity through more asset sales, strategic financing at the Williams and subsidiary levels and additional reductions in our operating costs. This strategy is designed to address near-term and medium-term liquidity issues and to further reduce our leverage with the objective of returning to investment grade and to retain businesses with favorable returns and opportunities for growth in the future.

We will need to complete further cost reductions and asset sales and realize our business strategy in order to meet our liquidity needs. See the Management's Discussion and Analysis of Financial Condition and Results of Operations -- Financial Condition and Liquidity section of our annual report on Form 10-K for the fiscal year ending December 31, 2002 filed on March 19, 2003 and our quarterly report for the fiscal quarter ending March 31, 2003 filed on May 13, 2003 incorporated herein by reference for further details regarding the liquidity issues we are facing. See also the Risk Factors beginning on page 4 of this prospectus for a discussion of factors that could adversely affect our business, operating results, and financial condition, as well as adversely affect the value of an investment in our securities.

Our ongoing business segments include Gas Pipeline, Exploration & Production, Midstream Gas & Liquids, and Energy Marketing & Trading. See "Part I -- Item 1. Business -- Business Segments" in our annual report on Form 10-K for the fiscal year ending December 31, 2002 for a more detailed description of assets owned and services provided by each of our business segments.

SUMMARY OF THE OFFERING

This summary contains basic information about this offering. Because it is a summary, it does not contain all of the information that you should consider before investing. You should read this entire prospectus carefully, including the section entitled "Risk Factors," and our financial statements and the notes thereto before making an investment decision.

Securities Offered...........	$300,000,000 aggregate principal amount of 5.50% Junior Subordinated Convertible Debentures due 2033.
Maturity Date................	June 1, 2033.
Minimum Denominations.........	$50 principal amount and integral multiples thereof.
Interest.....................	5.50% per annum on the principal amount, from May 28, 2003 and payable quarterly in arrears on March 1, June 1, September 1 and December 1 of each year, beginning September 1, 2003, subject to the deferral provisions described below.

Deferral of Interest.......... As long as we do not default in the payment of interest on the convertible debentures, we have the right to defer payments of interest on the convertible debentures by extending the interest payment period from time to time for periods not exceeding 20 consecutive quarterly interest periods, which we refer to as "extension periods;" provided that no extension period may extend beyond the stated maturity of the convertible debentures or end on a date other than an interest payment date.

During any period in which interest payments on the convertible debentures are deferred, interest will continue to accrue on the convertible debentures at the applicable interest rate compounded quarterly. Upon the termination of an extension period, payment of all accrued and unpaid amounts on the convertible debentures is due. If we pay all accrued and unpaid interest at the end of an extension period, we may elect to begin a new extension period. If a deferral of an interest payment occurs, the holders of the convertible debentures will continue to accrue income for U.S. federal income tax purposes in advance of the corresponding interest payment. See "Material U.S. Federal Income Tax Considerations -- Accrual of Original Issue Discount."

Subject to certain exceptions, we have agreed and have agreed to cause our subsidiaries not to declare or pay any dividend on, or redeem, purchase, acquire or make a distribution or liquidation payment with respect to our common stock or preferred stock or make any guarantee payments with respect thereto during any extension period. The foregoing does not apply to dividends on our common stock payable in our common stock.

Conversion Rights............. The convertible debentures are convertible at any time prior to the close of business on June 1, 2033, or, in the case of convertible debentures called for redemption, prior to the close of business on the business day prior to the applicable redemption date, at the option of the holder, into shares of our common stock, at the rate of 4.5907 shares of our common stock per $50 principal amount of convertible debenture, subject to adjustment in certain circumstances. This is equivalent to a conversion price of approximately

$10.89 per share of our common stock. The last reported sales price of our common stock on the

	New York Stock Exchange composite tape on July 22, 2003 was $7.27 per share. No fractional shares of our common stock will be issued as a result of a conversion. Instead, we will pay cash in lieu of fractional shares. You will not receive cash or additional shares to compensate you for any accrued but unpaid interest on the convertible debentures through the time of conversion. This accrued interest will be forfeited, except in limited circumstances.
Redemption....................	On or after June 1, 2010, we may redeem the convertible debentures for cash, at our option in whole or in part from time to time, at a redemption price equal to 100% of the principal amount to be redeemed plus any accrued and unpaid interest thereon, including compounded interest, to but not including the date of redemption, if for at least 20 trading days within the preceding period of 30 consecutive trading days, including on the last day in the 30-day period, the closing price of our common stock exceeds 130% of the conversion price.
Repurchase upon Change of Control......................	Following a change of control, as defined in this prospectus, each holder of convertible debentures will have the right to require us to purchase any or all of the convertible debentures held by that holder at a purchase price equal to 100% of the principal amount to be repurchased, plus accrued and unpaid interest thereon, including compounded interest, to, but not including, the date of purchase.
Subordination.................	The payment of principal and interest on the convertible debentures will rank junior to all of our present and future senior and senior subordinated debt. In addition, payment of principal and interest on the convertible debentures will be structurally subordinated to the liabilities of our subsidiaries, including subsidiary debt. As of March 31, 2003, Williams had approximately $13.8 billion of senior and senior subordinated debt, including approximately $4.2 billion of subsidiary debt other than intercompany indebtedness, trade payables and other liabilities of our subsidiaries. As of March 31, 2003, we also had approximately $383 million of letters of credit outstanding. The indenture under which the convertible debentures have been issued does not limit the aggregate amount of senior and senior subordinated debt that may be incurred by us and does not limit the liabilities of our subsidiaries.
Use of Proceeds..............	We will not receive any of the proceeds of the resale of the convertible debentures or the common stock issuable upon conversion by the

selling securityholders.

RISK FACTORS

In addition to the other information contained in or incorporated by reference into this prospectus, you should carefully consider the following risk factors in deciding whether to purchase the convertible debentures or the common stock into which the convertible debentures may convert.

RISKS AFFECTING OUR STRATEGY AND FINANCING NEEDS

RECENT DEVELOPMENTS AFFECTING THE WHOLESALE POWER AND ENERGY TRADING INDUSTRY SECTOR HAVE REDUCED MARKET ACTIVITY AND LIQUIDITY AND MIGHT CONTINUE TO ADVERSELY AFFECT OUR RESULTS OF OPERATIONS.

As a result of the 2000-2001 energy crisis in California, the resulting collapse in energy merchant credit, the recent volatility in natural gas prices, the Enron Corporation bankruptcy filing, and investigations by governmental authorities into energy trading activities and increased litigation related to such inquiries, companies generally in the regulated and so-called unregulated utility businesses have been adversely affected.

These market factors have led to industry-wide downturns that have resulted in some companies being forced to exit from the energy trading markets, leading to a reduction in the number of trading partners and in market liquidity and announcements by us, other energy suppliers and gas pipeline companies of plans to sell large numbers of assets in order to boost liquidity and strengthen their balance sheets. Proposed and completed sales by other energy suppliers and gas pipeline companies could increase the supply of the type of assets we are attempting to sell and potentially lead either to our failing to execute such asset sales or our obtaining lower prices on completed asset sales. If either of these developments were to occur, our ability to realize our strategy of improving our liquidity and reducing our indebtedness through asset sales could be significantly hampered.

BECAUSE WE NO LONGER MAINTAIN INVESTMENT GRADE CREDIT RATINGS, OUR COUNTERPARTIES MIGHT REQUIRE US TO PROVIDE INCREASING AMOUNTS OF CREDIT SUPPORT WHICH WOULD RAISE OUR COST OF DOING BUSINESS.

Our transactions in each of our businesses, especially in our Energy Marketing & Trading business, will require greater credit assurances, both to be given from, and received by, us to satisfy credit support requirements. Additionally, certain market disruptions or a further downgrade of our credit ratings might further increase our cost of borrowing or further impair our ability to access one or any of the capital markets. Such disruptions could include:

- economic downturns;

- deteriorating capital market conditions generally;

- market prices for electricity and natural gas;

- terrorist attacks or threatened attacks on our facilities or those of other energy companies; or

- the overall health of the energy industry, including the bankruptcy of

energy companies.

RISKS RELATED TO OUR BUSINESS

ELECTRICITY, NATURAL GAS LIQUIDS AND GAS PRICES ARE VOLATILE AND THIS VOLATILITY COULD ADVERSELY AFFECT OUR FINANCIAL RESULTS, CASH FLOWS, ACCESS TO CAPITAL AND ABILITY TO MAINTAIN EXISTING BUSINESSES.

Our revenues, operating results, profitability, future rate of growth and the carrying value of our electricity and gas businesses depend primarily upon the prices we receive for natural gas and other commodities. Prices also affect the amount of cash flow available for capital expenditures and our ability to borrow money or raise additional capital.

Historically, the markets for these commodities have been volatile and they are likely to continue to be volatile. Wide fluctuations in prices might result from relatively minor changes in the supply of and demand for these commodities, market uncertainty and other factors that are beyond our control, including:

- worldwide and domestic supplies of electricity, natural gas, petroleum and related commodities;

- weather conditions;

- the level of consumer demand;

- the price and availability of alternative fuels;

- the availability of pipeline capacity;

- the price and level of foreign imports;

- domestic and foreign governmental regulations and taxes;

- the overall economic environment; and

- the availability of credit in the markets where energy products are bought and sold.

These factors and the volatility of the energy markets make it extremely difficult to predict future electricity and gas price movements with any certainty. Further, electricity and gas prices do not necessarily move in tandem.

WE MIGHT NOT BE ABLE TO SUCCESSFULLY MANAGE THE RISKS ASSOCIATED WITH SELLING AND MARKETING PRODUCTS IN THE WHOLESALE ENERGY MARKETS.

Our trading portfolios consist of wholesale contracts to buy and sell commodities, including contracts for electricity, natural gas, natural gas liquids and other commodities that are settled by the delivery of the commodity or cash throughout the United States. If the values of these contracts change in a direction or manner that we do not anticipate or cannot manage, we could realize material losses from our trading activities. In the past, certain marketing and trading companies have experienced severe financial problems due to price volatility in the energy commodity markets. In certain instances this volatility has caused companies to be unable to deliver energy commodities that they had guaranteed under contract. In such event, we might incur additional losses to the extent of amounts, if any, already paid to, or received from, counterparties. In addition, in our businesses, we often extend credit to our

counterparties. Despite performing credit analysis prior to extending credit, we are exposed to the risk that we might not be able to collect amounts owed to us. If the counterparty to such a financing transaction fails to perform and any collateral we have secured is inadequate, we will lose money.

If we are unable to perform under our energy agreements, we could be required to pay damages. These damages generally would be based on the difference between the market price to acquire replacement energy or energy services and the relevant contract price. Depending on price volatility in the wholesale energy markets, such damages could be significant.

OUR RISK MANAGEMENT AND HEDGING ACTIVITIES MIGHT NOT PREVENT LOSSES.

Although we have risk management systems in place that use various methodologies to quantify risk, these systems might not always be followed or might not always work as planned. Further, such risk management systems only provide information, but do not in themselves manage risk. Adverse changes in energy commodity market prices, volatility, adverse correlation of commodity prices, the liquidity of markets, and changes in interest rates might still adversely affect our earnings and cash flows and our balance sheet under applicable accounting rules, even if risks have been identified.

To lower our financial exposure related to commodity price and market fluctuations, we have entered into contracts to hedge certain risks associated with our assets and operations, including our long-term tolling agreements. In these hedging activities, we have used fixed-price, forward, physical purchase and sales contracts, futures, financial swaps and option contracts traded in the over-the-counter markets or on

exchanges, as well as long-term structured transactions when feasible. Substantial declines in market liquidity, however, as well as deterioration of our credit and termination of existing positions (due for example to credit concerns) have greatly limited our ability to hedge identified risks and have caused previously hedged positions to become unhedged. To the extent we have unhedged positions, fluctuating commodity prices could cause our net revenues and net income to be volatile.

OUR OPERATING RESULTS MIGHT FLUCTUATE ON A SEASONAL AND QUARTERLY BASIS.

Revenues from our businesses, including gas transmission and the sale of electric power, can have seasonal characteristics. In many parts of the country, demand for power peaks during the hot summer months, with market prices also peaking at that time. In other areas, demand for power peaks during the winter. In addition, demand for gas and other fuels peaks during the winter. As a result, our overall operating results in the future might fluctuate substantially on a seasonal basis. The pattern of this fluctuation might change depending on the nature and location of our facilities and pipeline systems and the terms of our power sale agreements and gas transmission arrangements.

OUR INVESTMENTS AND PROJECTS LOCATED OUTSIDE OF THE UNITED STATES EXPOSE US TO RISKS RELATED TO LAWS OF OTHER COUNTRIES, TAXES, ECONOMIC CONDITIONS, FLUCTUATIONS IN CURRENCY RATES, POLITICAL CONDITIONS AND POLICIES OF FOREIGN GOVERNMENTS. THESE RISKS MIGHT DELAY OR REDUCE OUR REALIZATION OF VALUE FROM OUR INTERNATIONAL PROJECTS.

We currently own and might acquire and/or dispose of material energy-related investments and projects outside the United States. The economic and political conditions in certain countries where we have interests or in which we might explore development, acquisition or investment opportunities present risks of delays in construction and interruption of business, as well as

risks of war, expropriation, nationalization, renegotiation, trade sanctions or nullification of existing contracts and changes in law or tax policy, that are greater than in the United States. The uncertainty of the legal environment in certain foreign countries in which we develop or acquire projects or make investments could make it more difficult to obtain non-recourse project or other financing on suitable terms, could adversely affect the ability of certain customers to honor their obligations with respect to such projects or investments and could impair our ability to enforce our rights under agreements relating to such projects or investments.

Operations in foreign countries also can present currency exchange rate and convertibility, inflation and repatriation risk. In certain conditions under which we develop or acquire projects, or make investments, economic and monetary conditions and other factors could affect our ability to convert our earnings denominated in foreign currencies. In addition, risk from fluctuations in currency exchange rates can arise when our foreign subsidiaries expend or borrow funds in one type of currency but receive revenue in another. In such cases, an adverse change in exchange rates can reduce our ability to meet expenses, including debt service obligations. Foreign currency risk can also arise when the revenues received by our foreign subsidiaries are not in U.S. dollars. In such cases, a strengthening of the U.S. dollar could reduce the amount of cash and income we receive from these foreign subsidiaries. While we believe we have hedges and contracts in place to mitigate our most significant foreign currency exchange risks, our hedges might not be sufficient or we might have some exposures that are not hedged which could result in losses or volatility in our revenues.

RISKS RELATED TO LEGAL PROCEEDINGS AND GOVERNMENTAL INVESTIGATIONS

WE MIGHT BE ADVERSELY AFFECTED BY GOVERNMENTAL INVESTIGATIONS RELATED TO PRICING INFORMATION THAT WE PROVIDED TO MARKET PUBLICATIONS.

On October 25, 2002, we disclosed that inaccurate pricing information had been provided to energy industry trade publications. This disclosure came as a result of an internal review conducted in conjunction with requests for information made by the FERC and the Commodity Futures Trading Commission ("CFTC") on energy trading practices. We had separately commenced a review of our historical survey publication data after another market participant announced in September 2002 that certain of its employees had provided inaccurate pricing data to publications. Later we received a subpoena from the San Francisco

office of the U.S. Attorney relating to a federal grand jury inquiry regarding the same matters. We cannot predict the outcome of this investigation or whether this investigation will lead to additional legal proceedings against us, civil or criminal fines or penalties, or other regulatory action, including legislation, which might be materially adverse to the operation of our trading business and our trading revenues and net income or increase our operating costs in other ways.

WE MIGHT BE ADVERSELY AFFECTED BY GOVERNMENTAL INVESTIGATIONS AND ANY RELATED LEGAL PROCEEDINGS RELATED TO THE ALLEGED CONDUCTING OF "ROUNDTRIP" TRADES BY OUR ENERGY TRADING BUSINESS.

Public and regulatory scrutiny of the energy industry and of the capital markets has resulted in increased regulation being either proposed or implemented. In particular, the activities of Enron Corporation and other energy traders in allegedly using "roundtrip" trades which involve the prearrangement of simultaneously executed and offsetting buy and sell trades for the purpose of

increasing reported revenues or trading volumes, or influencing prices and which lack a legitimate business purpose, have resulted in increased public and regulatory scrutiny. To date, we have responded to requests for information from the FERC and the SEC, related to an investigation of "roundtrip" energy transactions from January 2000 through 2002. We also have received and are responding to subpoenas and supplemental requests for information regarding gas and power trading activities, which involve the same issues and time period covered by the requests from the CFTC.

Such inquiries are ongoing and continue to adversely affect the energy trading business as a whole. We might see these adverse effects continue as a result of the uncertainty of these ongoing inquiries or additional inquiries by other federal or state regulatory agencies. In addition, we cannot predict the outcome of any of these inquiries, or whether these inquiries will lead to additional legal proceedings against us, civil or criminal fines or penalties, or other regulatory action, including legislation, which might be materially adverse to the operation of our trading business and our trading revenues and net income or increase our operating costs in other ways.

WE MIGHT BE ADVERSELY AFFECTED BY OTHER LEGAL PROCEEDINGS AND GOVERNMENTAL INVESTIGATIONS RELATED TO THE ENERGY MARKETING AND TRADING BUSINESS.

Electricity and natural gas markets in California and elsewhere will continue to be subject to numerous and far-reaching federal and state proceedings and investigations because of allegations that wholesale price increases resulted from the exercise of market power and collusion of the power generators and sellers such as Energy Marketing & Trading. Discussions by governmental authorities and representatives in California and other states have ranged from threats of re-regulation to suspension of plans to move forward towards deregulation. The outcomes of these proceedings and investigations might create corporate liability for Williams, and directly or indirectly affect our creditworthiness and ability to perform our contractual obligations as well as other market participants' creditworthiness and their ability to perform their contractual obligations.

WE MIGHT BE ADVERSELY AFFECTED BY SECURITIES CLASS ACTION LITIGATION.

Since January 2002, numerous class action lawsuits have been filed against us. The majority of these suits allege that we and our co-defendants fraudulently disclosed or failed to disclose material facts regarding our relationship with Williams Communications and our operation of our energy marketing and trading subsidiary. In addition, some of the suits contain allegations that we and our co-defendants acted jointly and severally to inflate our stock price and, for short periods of times, the stock price of Williams Communications. See "Legal Proceedings" in our annual report on Form 10-K for the year ended December 31, 2002 and our quarterly report on Form 10-Q for the quarter ended March 31, 2003. As a result of these, and any future securities class action litigation, we may face substantial costs and our management's attention and resources may be diverted, which could harm our business.

RISKS RELATED TO THE REGULATION OF OUR BUSINESSES

OUR BUSINESSES ARE SUBJECT TO COMPLEX GOVERNMENT REGULATIONS. THE OPERATION OF OUR BUSINESSES MIGHT BE ADVERSELY AFFECTED BY CHANGES IN THESE REGULATIONS OR IN THEIR INTERPRETATION OR IMPLEMENTATION.

Existing regulations might be revised or reinterpreted, new laws and regulations might be adopted or become applicable to us or our facilities, and future changes in laws and regulations might have a detrimental effect on our

business. Certain restructured markets have recently experienced supply problems and price volatility. These supply problems and volatility have been the subject of a significant amount of press coverage, much of which has been critical of the restructuring initiatives. In some of these markets, including California, proposals have been made by governmental agencies and other interested parties to re-regulate areas of these markets which have previously been deregulated. We cannot assure you that other proposals to re-regulate will not be made or that legislative or other attention to the electric power restructuring process will not cause the deregulation process to be delayed or reversed. If the current trend towards competitive restructuring of the wholesale and retail power markets is reversed, discontinued or delayed, our business models might be inaccurate and we might face difficulty in accessing capital to refinance our debt and funding for operating and generating revenues in accordance with our current business plans.

For example, in 2000, the FERC issued Order 637, which sets forth revisions to its policies governing the regulation of interstate natural gas pipelines that it finds necessary to adjust its current regulatory model to the needs of evolving markets. The FERC, however, determined that any fundamental changes to its regulatory policy will be considered after further study and evaluation of the evolving marketplace. Order 637 revised the FERC's pricing policy to waive through September 30, 2002 the maximum price ceilings for short-term releases of capacity of less than one year and to permit pipelines to file proposals to implement seasonal rates for short-term services and term-differentiated rates. Certain parties requested rehearing of Order 637 and eventually appealed certain issues to the District of Columbia Circuit Court of Appeals. The D.C. Circuit remanded as to certain issues, and on October 31, 2002, the FERC issued its order on remand. Rehearing requests for that order are now pending with the FERC. Given the extent of the FERC's regulatory power, we cannot give any assurance regarding the likely regulations under which we will operate our natural gas transmission and storage business in the future or the effect of regulation on our financial position and results of operations.

The FERC has proposed to broaden its regulations that restrict relations between our jurisdictional natural gas companies, or "jurisdictional companies," and our marketing affiliates. In addition, the proposed rules would limit communications between each of our jurisdictional companies and all of our other companies engaged in energy activities. The rulemaking is pending at the FERC and the precise scope and effect of the rule is unclear. If adopted as proposed, the rule could adversely affect our ability to coordinate and manage our energy activities.

OUR REVENUES MIGHT DECREASE IF WE ARE UNABLE TO GAIN ADEQUATE, RELIABLE AND AFFORDABLE ACCESS TO TRANSMISSION AND DISTRIBUTION ASSETS DUE TO THE FERC AND REGIONAL REGULATION OF WHOLESALE MARKET TRANSACTIONS FOR ELECTRICITY AND GAS.

We depend on transmission and distribution facilities owned and operated by utilities and other energy companies to deliver the electricity and natural gas we buy and sell in the wholesale market. If transmission is disrupted, if capacity is inadequate, or if credit requirements or rates of such utilities or energy companies are increased, our ability to sell and deliver products might be hindered. The FERC has issued power transmission regulations that require wholesale electric transmission services to be offered on an open-access, non-discriminatory basis. Although these regulations are designed to encourage competition in wholesale market transactions for electricity, some companies have failed to provide fair and equal access to their transmission systems or have not provided sufficient transmission capacity to enable other companies to transmit electric power. We cannot predict whether and to what extent the industry will comply with these initiatives, or whether the regulations will fully accomplish the FERC's objectives.

In addition, the independent system operators who oversee the transmission

systems in regional power markets, such as California, have in the past been authorized to impose, and might continue to impose, price

limitations and other mechanisms to address volatility in the power markets. These types of price limitations and other mechanisms might adversely impact the profitability of our wholesale power marketing and trading. Given the extreme volatility and lack of meaningful long-term price history in many of these markets and the imposition of price limitations by regulators, independent system operators or other marker operators, we can offer no assurance that we will be able to operate profitably in all wholesale power markets.

THE DIFFERENT REGIONAL POWER MARKETS IN WHICH WE COMPETE OR WILL COMPETE IN THE FUTURE HAVE CHANGING REGULATORY STRUCTURES, WHICH COULD AFFECT OUR GROWTH AND PERFORMANCE IN THESE REGIONS.

Our results are likely to be affected by differences in the market and transmission regulatory structures in various regional power markets. Problems or delays that might arise in the formation and operation of new regional transmission organizations ("RTOs") might restrict our ability to sell power produced by our generating capacity to certain markets if there is insufficient transmission capacity otherwise available. The rules governing the various regional power markets might also change from time to time which could affect our costs or revenues. Because it remains unclear which companies will be participating in the various regional power markets, or how RTOs will develop or what regions they will cover, we are unable to assess fully the impact that these power markets might have on our business.

OUR GAS SALES, TRANSMISSION AND STORAGE OPERATIONS ARE SUBJECT TO GOVERNMENT REGULATIONS AND RATE PROCEEDINGS THAT COULD HAVE AN ADVERSE IMPACT ON OUR ABILITY TO RECOVER THE COSTS OF OPERATING OUR PIPELINE FACILITIES.

Our interstate gas sales, transmission and storage operations conducted through our Gas Pipeline business are subject to the FERC's rules and regulations in accordance with the Natural Gas Act of 1938 and the Natural Gas Policy Act of 1978. The FERC's regulatory authority extends to:

- transportation and sale for resale of natural gas in interstate commerce;

- rates and charges;

- construction;

- acquisition, extension or abandonment of services or facilities;

- accounts and records;

- depreciation and amortization policies; and

- operating terms and conditions of service.

The FERC has taken certain actions to strengthen market forces in the natural gas pipeline industry that has led to increased competition throughout the industry. In a number of key markets, interstate pipelines are now facing competitive pressure from other major pipeline systems, enabling local distribution companies and end users to choose a transmission provider based on economic and other considerations.

RISKS RELATED TO ENVIRONMENTAL MATTERS

WE COULD INCUR MATERIAL LOSSES IF WE ARE HELD LIABLE FOR THE ENVIRONMENTAL

CONDITION OF ANY OF OUR ASSETS.

We are generally responsible for all on-site liabilities associated with the environmental condition of our facilities and assets, which we have acquired or developed, regardless of when the liabilities arose and whether they are known or unknown. We can also be held liable for the cleanup of sites that we formerly owned or operated, as well as third party disposal sites where wastes from our current or former operations have been sent. In addition, in connection with certain acquisitions and sales of assets, we might obtain, or be required to provide, indemnification against certain environmental liabilities. If we incur a material liability, or the other party to a transaction fails to meet its indemnification obligations to us, we could suffer material losses.

ENVIRONMENTAL REGULATION AND LIABILITY RELATING TO OUR BUSINESS WILL BE SUBJECT TO ENVIRONMENTAL LEGISLATION IN ALL JURISDICTIONS IN WHICH IT OPERATES, AND ANY CHANGES IN SUCH LEGISLATION COULD NEGATIVELY AFFECT OUR RESULTS OF OPERATIONS.

Our operations are subject to extensive environmental regulation pursuant to a variety of federal, provincial, state, municipal and foreign laws and regulations. Such environmental legislation imposes, among other things, restrictions, liabilities and obligations in connection with the generation, handling, use, storage, transportation, treatment and disposal of hazardous substances and waste and in connection with spills, releases and emissions of various substances into the environment. Environmental legislation also requires that our facilities, sites and other properties associated with our operations be operated, maintained, abandoned and reclaimed to the satisfaction of applicable regulatory authorities. Existing environmental regulations could also be revised or reinterpreted, new laws and regulations could be adopted or become applicable to us or our facilities, and future changes in environmental laws and regulations could occur. The federal government and several states recently have proposed increased environmental regulation of many industrial activities, including increased regulation of air quality, water quality and solid waste management.

Compliance with environmental legislation will require significant expenditures, including expenditures for compliance with the Clean Air Act and similar legislation, for clean up costs and damages arising out of contaminated properties, and for failure to comply with environmental legislation and regulations which might result in the imposition of fines and penalties. The steps we take to bring certain of our facilities into compliance could be prohibitively expensive, and we might be required to shut down or alter the operation of those facilities, which might cause us to incur losses.

Further, our regulatory rate structure and our contracts with clients might not necessarily allow us to recover capital costs we incur to comply with new environmental regulations. Also, we might not be able to obtain or maintain from time to time all required environmental regulatory approvals for certain development projects. If there is a delay in obtaining any required environmental regulatory approvals or if we fail to obtain and comply with them, the operation of our facilities could be prevented or become subject to additional costs. Should we fail to comply with all applicable environmental laws, we might he subject to penalties and fines imposed against us by regulatory authorities. Although we do not expect that the costs of complying with current environmental legislation will have a material adverse effect on our financial condition or results of operations, no assurance can be made that the costs of complying with environmental legislation in the future will not have such an effect.

Our wholly-owned subsidiaries, Williams Energy Services, LLC, Williams Natural Gas Liquids, Inc. and Williams, GP LLC (collectively, the "Selling Parties") retained potential environmental exposure in connection with the June 17, 2003 sale of the assets of Williams Energy Services, LLC and Williams Natural Gas Liquids, Inc., the membership interests in WEG GP LLC and the partnership interests in Williams Energy Partners, L.P. to WEG Acquisitions, L.P. Furthermore, we, as the parent company of the Selling Parties, entered into an agreement in favor of WEG Acquisitions, L.P., guaranteeing payment and performance of the Selling Parties' obligations to WEG Acquisitions, L.P. Included in the terms of the transaction were various indemnities given by the Selling Parties to WEG Acquisitions, L.P. The indemnities serve to protect WEG Acquisitions, L.P. from "Losses" that it sustains or incurs from certain environmental matters included on certain schedules to the purchase agreement that governs the sale and from breaches of the Selling Parties' representations, warranties or covenants under the agreement. The term "Losses" includes any damage, judgment, fine, penalty, demand, settlement, liability, cost, tax, expense, claim or cause of action. Under the purchase agreement, WEG Acquisitions, L.P. agreed to assume costs associated with certain scheduled environmental matters and other indemnity obligations of Selling Parties to a maximum amount of approximately $22 million. The parties also agreed that the Selling Parties' indemnity obligations under the agreement would be limited, under various circumstances, to a maximum aggregate amount of $175 million, with indemnity obligations limited to a maximum aggregate amount of $125 million for certain environmental indemnity obligations related to the assets of Williams Pipe Line Company, LLC and limited to a maximum aggregate amount of $13.3 million for certain environmental obligations related to assets of Williams Natural Gas Liquids, Inc.

RISKS RELATING TO ACCOUNTING POLICY

POTENTIAL CHANGES IN ACCOUNTING STANDARDS MIGHT CAUSE US TO REVISE OUR FINANCIAL DISCLOSURE IN THE FUTURE, WHICH MIGHT CHANGE THE WAY ANALYSTS MEASURE OUR BUSINESS OR FINANCIAL PERFORMANCE.

Recently discovered accounting irregularities in various industries have forced regulators and legislators to take a renewed look at accounting practices, financial disclosures, companies' relationships with their independent auditors and retirement plan practices. Because it is still unclear what laws or regulations will develop, we cannot predict the ultimate impact of any future changes in accounting regulations or practices in general with respect to public companies or the energy industry or in our operations specifically.

In addition, the Financial Accounting Standards Board ("FASB") or the SEC could enact new accounting standards that might impact how we are required to record revenues, expenses, assets and liabilities. For instance, Statement of Financial Accounting Standards ("SFAS") No. 143, "Accounting for Asset Retirement Obligations," implemented on January 1, 2003, requires that the fair value of a liability for an asset retirement obligation be recognized in the period in which it is incurred if a reasonable estimate can be made. See Note 3 to our Consolidated Financial Statements in our quarterly report on Form 10-Q for the quarterly period ended March 31, 2003 for further details.

In October 2002, the FASB's Emerging Issues Task Force ("EITF") reached consensus on Issue No. 02-3 deliberations and rescinded Issue No. 98-10. As a result, all energy trading contracts that do not meet the definition of a derivative under SFAS No. 133, "Accounting for Derivative Instruments and

Hedging Activities," will be reported on an accrual basis.

We have applied the consensus effective January 1, 2003, and recorded a reduction to net income of $762.5 million in the first quarter of 2003 on an after-tax basis which was reported as a cumulative effect of a change in accounting principle.

The accounting for Energy Marketing & Trading's energy-related contracts, which include contracts such as transportation, storage, load serving and tolling agreements, requires us to assess whether certain of these contracts are executory service arrangements or leases pursuant to SFAS No. 13, "Accounting for Leases." In May 2003, the EITF reached a consensus on Issue No. 01-8, "Determining Whether an Arrangement Contains a Lease," that must be applied to arrangements consummated or substantively modified after the date of the consensus.

RISKS RELATING TO OUR INDUSTRY

THE LONG-TERM FINANCIAL CONDITION OF OUR U.S. AND CANADIAN NATURAL GAS TRANSMISSION AND MIDSTREAM BUSINESSES ARE DEPENDENT ON THE CONTINUED AVAILABILITY OF NATURAL GAS RESERVES.

The development of additional natural gas reserves requires significant capital expenditures for exploration and development drilling and the installation of production, gathering, storage, transportation and other facilities that permit natural gas to be produced and delivered to our pipeline systems. Low prices for natural gas, regulatory limitations, or the lack of available capital for these projects could adversely affect the development of additional reserves and production, gathering, storage and pipeline transmission and import and export of natural gas supplies. Additional natural gas reserves might not be developed in commercial quantities and in sufficient amounts to fill the capacities of our gathering and processing pipeline facilities.

OUR GATHERING, PROCESSING AND TRANSPORTING ACTIVITIES INVOLVE NUMEROUS RISKS THAT MIGHT RESULT IN ACCIDENTS AND OTHER OPERATING RISKS AND COSTS.

There are inherent in our gas gathering, processing and transporting properties a variety of hazards and operating risks, such as leaks, explosions and mechanical problems that could cause substantial financial losses. In addition, these risks could result in loss of human life, significant damage to property, environmental pollution, impairment of our operations and substantial losses to us. In accordance with customary industry practice, we maintain insurance against some, but not all, of these risks and losses. The occurrence of any of these events not fully covered by insurance could have a material adverse effect on our financial position and

results of operations. The location of pipelines near populated areas, including residential areas, commercial business centers and industrial sites, could increase the level of damages resulting from these risks.

OTHER RISKS

RECENT TERRORIST ACTIVITIES AND THE POTENTIAL FOR MILITARY AND OTHER ACTIONS COULD ADVERSELY AFFECT OUR BUSINESS.

The continued threat of terrorism and the impact of retaliatory military and other action by the United States and its allies might lead to increased political, economic and financial market instability and volatility in prices for natural gas, which could affect the market for our gas operations. In

addition, future acts of terrorism could be directed against companies operating in the United States, and it has been reported that terrorists might be targeting domestic energy facilities. While we are taking steps that we believe are appropriate to increase the security of our energy assets, there is no assurance that we can completely secure our assets or completely protect them against a terrorist attack. These developments have subjected our operations to increased risks and, depending on their ultimate magnitude, could have a material adverse effect on our business. In particular, we might experience increased capital or operating costs to implement increased security for our energy assets.

The insurance industry has also been disrupted by these events. As a result, the availability of insurance covering risks that we and our competitors typically insure against might decrease. In addition, the insurance that we are able to obtain might have higher deductibles, higher premiums and more restrictive policy terms.

RISKS RELATING TO THE CONVERTIBLE DEBENTURES

WE CANNOT PAY YOU UNDER THE CONVERTIBLE DEBENTURES UNLESS WE FIRST MAKE OTHER REQUIRED PAYMENTS.

Our obligations under the convertible debentures will rank junior to all of our current and future senior and senior subordinated indebtedness. This means that we cannot make any payments on the convertible debentures if we are in default on a payment of certain senior indebtedness or senior subordinated indebtedness, including upon acceleration thereof, and do not cure the default within the applicable grace period or, subject to certain time limits, if other defaults exist with respect to such senior or senior subordinated indebtedness that give rise to a right to accelerate such indebtedness or if the senior indebtedness or senior subordinated indebtedness becomes immediately due because of a default and has not yet been paid in full. As of March 31, 2003, we had approximately $13.8 billion of senior and senior subordinated debt, including approximately $4.2 billion of subsidiary debt other than intercompany indebtedness, trade payables and other liabilities of our subsidiaries. In addition, we had approximately $383 million of letters of credit outstanding.

We are a holding company and we conduct substantially all of our operations through our subsidiaries. We perform management, legal, financial, tax, consulting, administrative and other services for our subsidiaries. Our principal sources of cash are from external financings, dividends and advances from our subsidiaries, investments, payments by our subsidiaries for services rendered, and interest payments from our subsidiaries on cash advances. The amount of dividends available to us from our subsidiaries depends largely upon each subsidiary's earnings and operating capital requirements. The terms of some of our subsidiaries' borrowing arrangements limit the transfer of funds to us. In addition, the ability of our subsidiaries to make any payments to us will depend on our subsidiaries' earnings, business and tax considerations and legal restrictions. Our subsidiaries are separate and distinct legal entities and have no obligation, contingent or otherwise, to pay any amounts due pursuant to the convertible debentures or to make any funds available therefor, whether by dividends, loans or other payments.

As a result of our holding company structure, the convertible debentures will effectively rank junior to all existing and future debt, trade payables and other liabilities of our subsidiaries. Our right to receive any assets of any of our subsidiaries upon their liquidation or reorganization, and therefore the right of holders of convertible debentures to participate in those assets, will be subject to the prior claims of that subsidiary's creditors, including trade creditors, except to the extent that we ourselves may be a creditor of such subsidiary.

Upon any payment or distribution of assets to creditors upon any liquidation, dissolution, winding up, receivership, reorganization, assignment for the benefit of creditors, marshaling of assets and liabilities or in any bankruptcy, insolvency, or similar proceedings, the holders of senior and senior subordinated debt will be entitled to receive payment in full of all amounts due under all senior and senior subordinated debt before the holders of the convertible debentures will be entitled to receive any payment on the convertible debentures.

There are no terms in the convertible debentures that limit our or our subsidiaries' ability to incur additional indebtedness.

OUR OTHER DEBT AGREEMENTS IMPOSE RESTRICTIONS ON US THAT MAY ADVERSELY AFFECT OUR ABILITY TO OPERATE OUR BUSINESS.

Our other debt agreements contain covenants that restrict, among other things, our ability to:

- incur additional indebtedness and issue preferred stock;
- enter into asset sales;
- pay dividends and distributions and make certain investments;
- enter into transactions with affiliates;
- incur liens on assets to secure certain debt;
- engage in certain business activities; and
- engage in certain mergers or consolidations and transfers of assets.

In addition, our other debt agreements contain, and other debt agreements we enter into in the future may contain, financial covenants and other limitations that we will need to comply with. Our ability to comply with these covenants may be affected by many events beyond our control, and we cannot assure you that our future operating results will be sufficient to comply with the covenants, or in the event of a default under any of our debt agreements, to remedy that default.

Our failure to comply with any of our financial or other covenants in our other debt agreements could result in an event of default. Upon the occurrence of an event of default under our credit facilities, the lenders could elect to declare all amounts outstanding under the facility to be immediately due and payable and terminate all commitments to extend further credit. By reason of cross-default provisions in our other debt instruments and in the indenture for the convertible debentures, much of our other indebtedness could also become immediately due and payable at that time as well. If the lenders under any of our credit facilities or other debt agreements, including the convertible debentures, accelerate the maturity of any loans or other debt outstanding to us, we may not have sufficient assets to repay amounts outstanding under our credit facilities and our other indebtedness, including the convertible debentures.

WE MAY NOT BE ABLE TO SERVICE OUR DEBT.

Our ability to pay or to refinance our indebtedness, including the convertible debentures, will depend upon our future operating performance, which will be affected by general economic, financial, competitive, legislative,

regulatory, business and other factors beyond our control.

We anticipate that our operating cash flow, together with money we anticipate being available to us to borrow under our credit facility and through other sources including further issuances, if needed, in the capital markets and from asset sales, will be sufficient to meet anticipated future operating expenses, to fund capital expenditures and to service our debt as it becomes due. However, we cannot assure you that our business will generate sufficient cash flow from operations, or that we will be able to borrow additional funds or generate proceeds from asset sales in amounts sufficient to enable us to pay our indebtedness, including the convertible debentures, or to fund our other liquidity needs.

WE MAY BE UNABLE TO REPURCHASE THE CONVERTIBLE DEBENTURES UPON A CHANGE OF CONTROL.

Upon a change of control, (as described under "Description of the Convertible Debentures -- Repurchase at Option of the Holder upon Change of Control", you may require us to repurchase all or a portion of your convertible debentures. If a change of control were to occur, the terms of our debt agreements would currently limit our ability to repurchase your convertible debentures. Our future debt agreements may contain similar restrictions and provisions. The convertible debentures require that, upon the occurrence of a change of control, we must offer to repurchase all of the outstanding convertible debentures after first obtaining necessary waivers or causing the relevant borrowers to obtain waivers or prepaying our debt agreements and other debt of Williams or such borrower that might otherwise prohibit such repurchase. Accordingly, we may not be able to satisfy our obligations to repurchase your convertible debentures unless we are able to refinance, or waivers are obtained under, all of our debt agreements with similar restrictions. Any failure to obtain these necessary waivers and make this offer to repurchase, or to repay holders tendering convertible debentures, upon a change of control will result in an event of default under the convertible debentures. In addition, if a change of control would constitute an event of default under our senior and senior subordinated indebtedness, the subordination provisions of the indenture would restrict our ability to make payments on the convertible debentures. We cannot assure you that we will have the financial resources to repurchase your convertible debentures, particularly if that change of control event triggers a similar repurchase requirement for other indebtedness, or results in the acceleration of other indebtedness through a cross-default or similar clause. The term "change of control" is limited to certain specified transactions and may not include other events that might adversely affect our financial condition. Our obligation to offer to repurchase the convertible debentures upon a change of control would not necessarily afford you protection in the event of a highly leveraged transaction, reorganization, merger or similar transaction. See "Description of the Convertible Debentures -- Repurchase at Option of the Holder upon Change of Control."

OPTION TO EXTEND INTEREST PAYMENT PERIOD.

So long as we are not in default in the payment of interest on the convertible debentures, we have the right under the indenture to defer payments of interest on the convertible debentures by extending the interest payment period from time to time on the convertible debentures for an extension period not exceeding 20 consecutive quarterly interest periods, which we refer to as an extension period, during which no interest shall be due and payable.

Prior to the termination of any extension period, we may further extend that extension period; provided that such extension period together with all such previous and further extensions thereof may not exceed 20 consecutive quarterly interest periods. Upon the termination of any extension period and the payment of all amounts then due, we may commence a new extension period, subject to the above requirements. Consequently, there could be multiple extension periods of varying lengths throughout the term of the convertible debentures.

DEFERRAL OF INTEREST MAY ADVERSELY AFFECT THE TRADING PRICE OF THE CONVERTIBLE DEBENTURES.

If we elect to extend the interest payment period for the convertible debentures, you will not receive accrued interest on the convertible debentures if you sell the convertible debentures before the end of any extension period. If we exercise our right to extend any interest payment period, the convertible debentures may trade at a price that does not fully reflect the value of accrued but unpaid interest. If you sell the convertible debentures during an extension period, you may not receive the same return on investment as someone else who continues to hold the convertible debentures. In addition, the existence of our right to defer payments of interest on the convertible debentures may mean that the market price for the convertible debentures may be more volatile than other securities that do not have these rights.

DEFERRAL OF INTEREST WOULD HAVE ADVERSE TAX CONSEQUENCES FOR YOU.

Because we have the right to extend the interest payment period for an extension period of up to 20 consecutive quarterly interest periods, the convertible debentures will be treated as issued with "original issue

discount" for U.S. federal income tax purposes. As a result, holders of convertible debentures will be required to include original issue discount in gross income as it accrues for U.S. federal income tax purposes in advance of the receipt of cash. Generally, all of the interest income of a holder of convertible debentures with respect to the convertible debentures will be accounted for as "original issue discount" and actual payments of stated interest will not be separately reported as taxable income. See "Material U.S. Federal Income Tax Considerations -- Accrual of Original Issue Discount."

THE CONVERTIBLE DEBENTURES IMPOSE ONLY LIMITED RESTRICTIVE COVENANTS.

The covenants in the governing documents relating to the convertible debentures are extremely limited. In particular, the convertible debentures do not contain covenants that limit our ability to incur additional senior indebtedness or senior subordinated indebtedness or repurchase our capital stock. The indenture does generally prohibit us and our subsidiaries from paying dividends or making certain other distributions or payments with respect to our capital stock during any extension period or if an event of default or a potential event of default as defined in this prospectus has occurred and is continuing with respect to the convertible debentures. See "Description of Convertible Debentures -- Restrictions on Certain Payments."

THE CONVERTIBLE DEBENTURES MAY BE REDEEMABLE FOR CASH, AT OUR OPTION, ON OR AFTER JUNE 1, 2010 IF, FOR A CERTAIN PERIOD OF TIME, THE CLOSING PRICE OF OUR COMMON STOCK EXCEEDS 130% OF THE CONVERSION PRICE.

The convertible debentures may be redeemed, in whole or in part from time to time, on or after June 1, 2010 at a redemption price equal to 100% of the principal amount of the convertible debentures to be redeemed plus any accrued and unpaid interest to but not including the redemption date if for 20 trading

days within the preceding period of 30 consecutive trading days (including the last day of the period), the closing price of our common stock exceeds 130% of the conversion price. You should assume that this redemption option will be exercised if we are able to refinance at a lower interest rate or it is otherwise in our interest to redeem the convertible debentures. You may exercise your conversion right at any time until the close of business on the business day prior to the redemption date.

THERE CAN BE NO ASSURANCE AS TO THE MARKET PRICE FOR THE CONVERTIBLE DEBENTURES; THEREFORE, YOU MAY SUFFER A LOSS.

We cannot give you any assurance as to the market price for the convertible debentures. If you resell your convertible debentures, the price you receive will depend on many other factors that may vary over time, including:

- the number of potential buyers;

- the level of liquidity of the convertible debentures;

- ratings published by major credit ratings agencies;

- our financial performance;

- the amount of indebtedness we have outstanding;

- the level, direction and volatility of market interest rates generally;

- the market for similar securities;

- the redemption and repayment features of the convertible debentures to be sold; and

- the time remaining to the maturity of your convertible debentures.

As a result of these factors, you may only be able to sell your convertible debentures at prices below those you believe to be appropriate, including prices below the price you paid for them.

THERE MAY BE ADVERSE TAX CONSEQUENCES TO YOU IF YOU DISPOSE OF YOUR CONVERTIBLE DEBENTURES BETWEEN A RECORD DATE AND THE RELATED INTEREST PAYMENT DATE.

The convertible debentures may trade at a price that does not fully reflect the value of accrued but unpaid interest. A holder who disposes of his convertible debentures between a record date and the related interest payment date will be required to include accrued original issue discount on the convertible debentures through the date of disposition, and to add such amount to his adjusted tax basis in the convertible debentures disposed of. Accordingly, such a holder will recognize a capital loss to the extent the selling price, which may not fully reflect the value of accrued original issue discount, is less than the holder's adjusted tax basis, which will include accrued original issue discount. Subject to certain limited exceptions, capital losses cannot be applied to offset ordinary income for U.S. federal income tax purposes. See "Material U.S. Federal Income Tax Considerations -- Disposition of the Convertible Debentures."

THERE IS NO EXISTING MARKET FOR THE CONVERTIBLE DEBENTURES AND THERE MAY BE RESTRICTIONS ON RESALE OF THE CONVERTIBLE DEBENTURES.

The convertible debentures are a new issue of securities with no established trading market. Lehman Brother has advised us that it intends to make a market in the convertible debentures, but it is not obligated to do so and may discontinue its market making at any time without notice. Accordingly, we cannot assure you that a market for the convertible debentures will develop.

THE POSSIBLE VOLATILITY OF OUR COMMON STOCK PRICE COULD ADVERSELY AFFECT YOUR ABILITY TO RESELL THE CONVERTIBLE DEBENTURES OR COMMON STOCK ISSUABLE UPON CONVERSION OF THE CONVERTIBLE DEBENTURES.

Securities markets worldwide have in the recent past experienced significant price and volume fluctuations. This market volatility, as well as general economic, market or political conditions, could reduce the market price of our common stock in spite of our operating performance. In addition, our operating results could be below the expectations of public market analysts and investors, and in response, the market price of our common stock could decrease significantly. Investors may be unable to resell their shares of our common stock received upon conversion of the convertible debentures at or above the offering price.

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USE OF PROCEEDS

We will not receive any proceeds from the sale by any selling securityholder of the convertible debentures or the underlying shares of our common stock.

RATIO OF EARNINGS TO FIXED CHARGES

The following table presents our consolidated ratio of earnings to fixed charges for the periods shown. Some of the amounts within the calculation of the ratio of earnings to fixed charges have been reclassified due to certain of our activities which are now reported as discontinued operations as described in Note 1 of Notes to Consolidated Financial Statements included in Item 8 of our Annual Report on Form 10-K for the year ended December 31, 2002 incorporated herein by reference. However, the figures in this table are not adjusted to reflect the operations of Williams Energy Partners L.P., Texas Gas Transmission Corporation, Alaskan operations and Gulf Liquids New River Project LLC as discontinued operations as described in our reports on Form 8-K filed on April 22, 2003 and May 22, 2003.

THREE MONTHS ENDED MARCH 31,	YEARS ENDED DECEMBER 31,				
2003	2002	2001	2000	1999	1998
(a)	(b)	2.76	2.88	1.66	1.45

(a) Earnings were inadequate to cover fixed charges by $83.5 million for the three months ended March 31, 2003.

(b) Earnings were inadequate to cover fixed charges by $622.7 million for the year ended December 31, 2002.

For purposes of computing these ratios, earnings means income (loss) from continuing operations before:

- income taxes;
- extraordinary gain (loss);
- minority interest in income (loss) and preferred returns of consolidated subsidiaries;
- interest expense, net of interest capitalized;
- interest expense of 50%-owned companies;
- that portion of rental expense that we believe to represent an interest factor;
- adjustment to equity earnings to exclude equity investments with losses; and
- adjustment to equity earnings to reflect actual distributions from equity investments.

Fixed charges means the sum of the following:

- interest expense;
- that portion of rental expense that we believe to represent an interest factor;
- pretax effect of preferred returns of consolidated subsidiaries; and
- interest expense of 50%-owned companies.

PRICE RANGE OF COMMON STOCK AND DIVIDENDS

Our common stock, $1.00 par value, is listed and traded on the New York Stock Exchange under the ticker symbol "WMB". The following table sets forth the high and low sales prices for transactions involving our common stock for each calendar quarter, as reported on the New York Stock Exchange Composite Tape, and related cash dividends paid per common share during such periods.

	HIGH	LOW	CASH DIVIDENDS
2003:			
Third Quarter (through July 22)	$ 7.82	$ 6.78	$.01
Second Quarter	8.77	4.87	.01
First Quarter	4.74	2.60	.01
2002:			
Fourth Quarter	$ 3.06	$ 1.35	$.01
Third Quarter	6.32	.88	.01
Second Quarter	24.17	5.47	.20
First Quarter	25.97	14.53	.20

2001:			
Fourth Quarter	$30.43	$22.10	$.15
Third Quarter	33.97	24.99	.18
Second Quarter	43.45	32.40	.15(1)
First Quarter	42.14	31.73	.15

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(1) On April 23, 2001, Williams distributed 398.5 million shares of common stock of Williams Communications Group, Inc. to Williams' shareholders, or 0.822399 of a share of Williams Communications common stock for each share of Williams' common stock, to complete the tax-free spin-off of Williams' communications business.

As of July 21, 2003, there were 517,928,951 shares of our common stock outstanding held by approximately 14,505 shareholders of record. On July 22, 2003 the last reported sale price of our common stock on the New York Stock Exchange was $7.27 per share.

DESCRIPTION OF CONVERTIBLE DEBENTURES

We have issued the 5.50% junior subordinated convertible debentures due June 1, 2033 under an indenture as of May 28, 2003 between Williams, as issuer, and JPMorgan Chase Bank, as trustee. The convertible debentures and the shares of our common stock issuable upon conversion of the convertible debentures are covered by a registration rights agreement. This prospectus and registration statement have been filed to meet our obligations under the registration rights agreement. You may request a copy of the indenture and the registration rights agreement at our address shown under the caption "Where You Can Find More Information."

The following description is a summary of the material provisions of the convertible debentures, the indenture and the registration rights agreement. It does not purport to be complete. This summary is subject to and is qualified by reference to all the provisions of the indenture, including the definitions of certain terms used in the indenture, and to all provisions of the registration rights agreement. Wherever particular provisions or defined terms of the indenture or form of convertible debenture are referred to, these provisions or defined terms are incorporated in this prospectus by reference. We urge you to read the indenture because it, and not this description, defines your rights as a holder of the convertible debentures.

Unless otherwise specified, when we refer to "Williams," "we," "us" or "ours" in the following description, we mean only The Williams Companies, Inc. and not its subsidiaries.

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GENERAL

The convertible debentures will be general unsecured obligations of Williams. Our payment obligations under the convertible debentures are subordinated to all of our current and future senior and senior subordinated indebtedness to the extent and in the manner set forth in the indenture and effectively subordinated to all debts and other liabilities of our subsidiaries as described under "-- Subordination of Convertible Debentures." The convertible debentures will be convertible into our common stock as described under

"-- Conversion Rights."

The convertible debentures will be limited to $300,000,000 in aggregate principal amount. The convertible debentures will be issued in minimum denominations of $50 and integral multiples of $50. The convertible debentures will mature on June 1, 2033 unless converted, redeemed or repurchased earlier and are not subject to any sinking fund.

The convertible debentures bear interest at a rate of 5.50% per annum. Interest will accrue from May 28, 2003, or from the most recent date to which interest has been paid or duly provided for, and the amount of interest payable for any period will be computed on the basis of a 360-day year of twelve 30-day months.

We will pay interest on March 1, June 1, September 1 and December 1 of each year, beginning September 1, 2003, to record holders at the close of business on the preceding February 15, May 15, August 15 or November 15, as the case may be. Interest payable upon redemption or repurchase will be paid to the person to whom principal is payable.

Interest payments payable on any convertible debentures that are not punctually paid on any interest payment date will cease to be payable to the person in whose name such convertible debentures are registered on the original record date, and such defaulted payment will instead be made to the person in whose name such convertible debentures are registered on the special record date or other specified date determined in accordance with the indenture. Interest on the convertible debentures not paid on the scheduled payment date will accrue and compound quarterly, to the extent permitted by law, at the applicable interest rate.

If any interest payment date is not a business day, then such interest payment will be made on the next day which is a business day, and without any interest or other payment accruing as a result of such delay, except that if such business day falls in the next calendar year, such interest payment will be made on the immediately preceding business day, in each case with the same force and effect as if made on the date such interest payment was originally payable.

We will maintain an office in the Borough of Manhattan, The City of New York, where we will pay the principal and premium, if any, on the convertible debentures and you may present the convertible debentures for conversion, registration of transfer or exchange for other denominations, which shall initially be an office or agency of the trustee. We may pay interest by check mailed to your address as it appears in the convertible debenture register, provided that if you are a holder with an aggregate principal amount in excess of $2.0 million, you shall be paid, at your written election, by wire transfer in immediately available funds. However, payments to The Depository Trust Company, New York, New York, which we refer to as DTC, will be made by wire transfer of immediately available funds to the account of DTC or its nominee.

Registration of transfers or exchanges of convertible debentures will be effected without charge, but payment of a sum sufficient to cover any tax or any other governmental charges that may be imposed in connection with any transfer or exchange may be required.

OPTION TO EXTEND INTEREST PAYMENT PERIOD

So long as we are not in default in the payment of interest on the convertible debentures, we will have the right under the indenture to defer payments of interest on the convertible debentures by extending the interest payment period at any time, and from time to time, on the convertible debentures. During any such extension period, interest on the convertible debentures will continue to accrue at the then-applicable annual interest rate,

compounded quarterly, to the extent permitted by law.

We may not extend any interest payment period for the convertible debentures to more than 20 consecutive quarters, and no extension may extend beyond the stated maturity of the convertible debentures or end on a date other than an interest payment date. If we exercise our right to defer payments of interest, then under the terms of the convertible debentures we may not, and may not permit any subsidiary to, make any of the payments described under "-- Restrictions on Certain Payments."

Prior to the termination of any extension period, we may further defer payments of interest by extending the interest payment period, subject to the limitations described above. Upon the termination of any extension period and the payment of all amounts then due, we may commence a new extension period, subject to the above requirements. We have no current intention of exercising our right to defer payments of interest on the convertible debentures.

We will be required to give, or to cause the trustee to give, the holders of convertible debentures notice of our election of such extension period at least five business days before the earlier of (1) the record date for the scheduled interest payment date for the first quarter of such extension period or (2) the date upon which we are required to give notice of the record or payment date for such related interest payment for the first quarter to any national stock exchange or other organization on which the convertible debentures are listed or quoted, if any, or to holders of the convertible debentures.

As used in this prospectus, a "business day" means any day, other than a Saturday or Sunday, that is not a day on which banking institutions in The City of New York, New York are authorized or obligated by law or executive order to remain closed or on which the principal corporate trust office of the trustee under the indenture is closed for business.

CONVERSION RIGHTS

GENERAL

You may convert any of your convertible debentures, in whole or in part, into shares of our common stock at any time prior to the close of business on the final maturity date of the convertible debentures or, in the case of convertible debentures called for redemption, prior to the close of business on the business day prior to the redemption date, subject to prior redemption or repurchase of the convertible debentures.

The number of shares of common stock you will receive upon conversion of the convertible debentures will be determined by multiplying the number of $50 principal amount of convertible debentures you convert by the conversion rate on the date of conversion. The initial conversion rate for the convertible debentures is 4.5907 shares of common stock per $50 principal amount of convertible debentures, subject to adjustment as described below, which represents an initial conversion price of approximately $10.89 per share. If we call convertible debentures for redemption, you may convert the convertible debentures only until the close of business on the business day prior to the redemption date unless we fail to pay the redemption price. If you have submitted your convertible debentures for repurchase upon a change of control, you may not convert your convertible debentures unless you withdraw your repurchase election as described under "-- Repurchase at Option of the Holder upon Change of Control." You may convert your convertible debentures in part so long as the principal amount of such part is $50 or an integral multiple of $50.

Upon conversion, a holder will not be entitled to receive any accrued and unpaid interest, whether or not in arrears, on the convertible debentures and no interest will be payable on convertible debentures with respect to any interest payment date occurring subsequent to the date of conversion, except in the limited circumstance described below. However, if convertible debentures are surrendered for conversion after 5:00 p.m., New York City time, on any record date but on or prior to the next succeeding interest payment date, holders of such convertible debentures at the close of business on the record date will receive the interest payable on the corresponding interest payment date notwithstanding the conversion. Therefore, such convertible debentures, upon surrender for conversion, must be accompanied by payment in next day funds equal to the amount of interest that the registered holder of such convertible debentures on such record date is entitled to receive. Notwithstanding the foregoing, no such payment need be made (1) if we have specified a redemption date that is after a record date and on or prior to the next interest payment date, (2) if we have

specified a repurchase date following a change of control that is during such period or (3) to the extent of any overdue interest, if overdue interest exists at the time of conversion with respect to such convertible debenture.

We will not issue fractional common shares upon conversion of convertible debentures. Instead, we will pay cash in lieu of fractional shares based on the last reported sale price of the common stock on the conversion date. As used in this prospectus, a "trading day" means any day on which the New York Stock Exchange is open for business.

Our delivery to the holder of the full number of shares of our common stock into which a convertible debenture is convertible, together with any cash payment for such holder's fractional shares, will be deemed to satisfy our obligation to pay:

- the principal amount of the convertible debenture; and

- accrued but unpaid interest attributable to the period from the most recent interest payment date to the conversion date, subject to the fourth preceding sentence above.

As a result, accrued but unpaid interest to the conversion date is deemed to be paid in full rather than cancelled, extinguished or forfeited. For a discussion of your tax treatment upon receipt of our common stock upon conversion, see "Material U.S. Federal Income Tax Considerations -- Conversion of Convertible Debentures to Williams Common Stock."

Williams has authorized and will reserve for issuance the maximum number of shares of its common stock that it may be required to issue upon the conversion of convertible debentures. Shares of Williams common stock issued upon conversion will be validly issued, fully paid and nonassessable.

CONVERSION PROCEDURES

To convert your convertible debenture into common stock you must do the following:

- complete and manually sign the irrevocable conversion notice on the back of the convertible debenture or facsimile of the conversion notice and deliver this notice to the conversion agent;

- surrender the convertible debenture to the conversion agent;

- if required, furnish appropriate endorsements and transfer documents;

- if required, pay all transfer or similar taxes; and

- if required, pay funds equal to interest payable on the next interest payment date.

The date you comply with these requirements is the conversion date under the indenture. If your interest is a beneficial interest in a global debenture, to convert you must comply with the last three requirements listed above and comply with the DTC's procedures for converting a beneficial interest in a global debenture.

CONVERSION RATE ADJUSTMENTS

We will adjust the conversion rate if any of the following events occurs:

- we issue common stock as a dividend or distribution on our common stock;

- we issue to all holders of our common stock certain rights or warrants to purchase our common stock at less than the then current market value;

- we subdivide or combine our common stock;

- we distribute to all holders of our common stock, shares of our capital stock, evidences of indebtedness or assets, including securities but excluding:

- rights or warrants specified above;

- any dividends or distributions in connection with the liquidation or winding up of Williams;

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- dividends or distributions specified above; and

- cash distributions.

If we distribute capital stock of, or similar equity interests in, a subsidiary or other business unit of ours, then the conversion rate will be adjusted based on the market value of the securities so distributed relative to the market value of our common stock, in each case based on the average closing sale prices of those securities (where such closing sale prices are available) for the 10 trading days commencing on and including the fifth trading day after the date on which "ex-dividend trading" commences for such distribution on the New York Stock Exchange or such other national or regional exchange or market on which the securities are then listed or quoted;

- we distribute cash, excluding any dividend or distribution in connection with our liquidation, dissolution or winding up or any quarterly cash dividend on our common stock to the extent that the aggregate cash dividend per share of common stock in any quarter does not exceed the greater of:

- the amount per share of common stock of the next preceding quarterly cash dividend on the common stock to the extent that the preceding quarterly dividend did not require an adjustment of the conversion rate pursuant to this clause, as adjusted to reflect subdivisions or combinations of the

common stock; and

- 10% of the average of the last reported sale price of the common stock during the ten trading days immediately prior to the declaration date of the dividend, calculated at the time of each distribution.

If an adjustment is required to be made under this clause as a result of a distribution that is a quarterly dividend, the adjustment would be based upon the amount by which the distribution exceeds the amount of the quarterly cash dividend permitted to be excluded pursuant to this clause. If an adjustment is required to be made under this clause as a result of a distribution that is not a quarterly dividend, the adjustment would be based upon the full amount of the distribution;

- we or one of our subsidiaries makes a payment in respect of a tender offer or exchange offer for our common stock to the extent that the cash and value of any other consideration included in the payment per share of common stock exceeds the closing sale price per share of common stock on the trading day next succeeding the last date on which tenders or exchanges may be made pursuant to such tender or exchange offer; and

- someone other than us or one of our subsidiaries makes a payment in respect of a tender offer or exchange offer in which, as of the closing date of the offer, our board of directors is not recommending rejection of the offer. The adjustment referred to in this clause will only be made if:

- the tender offer or exchange offer is for an amount that increases the offeror's ownership of common stock to more than 25% of the total shares of common stock outstanding; and

- the cash and value of any other consideration included in the payment per share of common stock exceeds the closing sale price per share of common stock on the business day next succeeding the last date on which tenders or exchanges may be made pursuant to the tender or exchange offer.

However, the adjustment referred to in this clause will generally not be made if as of the closing of the offer, the offering documents disclose a plan or an intention to cause us to engage in a consolidation or merger or a sale of all or substantially all of our assets.

If the rights provided for in our rights agreement dated February 6, 1996 or in any future stockholder rights plan adopted by us have separated from our common stock in accordance with the provisions of the applicable stockholder rights agreement so that the holders of the debentures would not be entitled to receive any rights in respect of the common stock issuable upon conversion of the debentures, the conversion rate will be adjusted as if we distributed to all holders of our common stock, evidences of indebtedness or assets as described under the fourth bullet point above, subject to readjustment in the event of the expiration, termination or redemption of the rights. In lieu of any such adjustment, we may amend such applicable stockholder rights agreement to provide that upon conversion of the debentures the holders will receive, in

addition to the common stock issuable upon such conversion, the rights which would have attached to such shares of common stock if the rights had not become separated from the common stock under such applicable stockholder rights agreement. See "Description of Capital Stock -- Preferred Stock Purchase Rights."

In the event of:

- any reclassification of our common stock;

- a consolidation, merger or combination involving us; or

- a sale or conveyance to another person or entity of all or substantially all of our property and assets;

in which holders of our common stock would be entitled to receive stock, other securities, other property, assets or cash for their common stock, upon conversion of your convertible debentures you will be entitled to receive the same type of consideration which you would have been entitled to receive if you had converted the convertible debentures into our common stock immediately prior to any of these events. If the transaction also constitutes a change of control, you can require us to repurchase all or a portion of your convertible debentures as described under "-- Repurchase at Option of the Holder upon Change of Control."

You may in certain situations be deemed to have received a distribution subject to U.S. federal income tax as a dividend in the event of any taxable distribution to holders of our common stock or in certain other situations requiring a conversion rate adjustment. See "Material U.S. Federal Income Tax Considerations -- Adjustment of Conversion Price."

We may from time to time, to the extent permitted by law, increase the conversion rate by any amount for any period of at least 20 days. In that case, we will give at least 15 days' notice of such increase. In addition, we may make such increases in the conversion rate as we deem advisable to avoid or diminish any income tax to holders of our common stock resulting from any dividend or distribution of stock, or rights to acquire stock, or from any event treated as such for income tax purposes.

We will not be required to make an adjustment in the conversion rate unless the adjustment would require a change of at least 1% in the conversion rate. However, we will carry forward any adjustments that are less than 1% of the conversion rate. Except as described above in this section, we will not adjust the conversion rate for any issuance of our common stock or convertible or exchangeable securities or rights to purchase our common stock or convertible or exchangeable securities.

The "closing sale price" of our common stock on any date means the closing per share sale price, or if no closing sale price is reported, the average of the bid and ask prices or, if more than one in either case, the average of the average closing bid and the average closing ask prices, on such date as reported in composite transactions for the principal United States securities exchange on which our common stock is traded or, if our common stock is not listed on a United States national or regional securities exchange, as reported by the Nasdaq System or by the National Quotation Bureau Incorporated. In the absence of such a quotation, we will determine the closing sale price on the basis we consider appropriate.

OPTIONAL REDEMPTION BY WILLIAMS

We may redeem the convertible debentures prior to maturity, in whole or in part, at any time on or after June 1, 2010 if the closing sale price of our common stock for at least 20 trading days in the period of 30 consecutive trading days ending on the trading day prior to the mailing of the notice of redemption, including the last day in such period, exceeds 130% of the then-prevailing conversion price. The redemption price will be equal to 100% of the principal amount to be redeemed, plus accrued and unpaid interest, including deferred interest, and other amounts to but excluding the date of redemption, payable in cash.

We will mail any notice of redemption at least 30 and no more than 60 days before the redemption date to each holder of convertible debentures to be redeemed at its registered address. Unless we default in payment of the redemption price, on the redemption date interest shall cease to accrue on the convertible debentures called for redemption.

Subject to applicable law, we or our affiliates may at any time and from time to time purchase outstanding convertible debentures by tender, in the open market or by private agreement.

If less than all of the outstanding convertible debentures are to be redeemed, the trustee will select the convertible debentures to be redeemed in principal amounts of $50 or multiples of $50 by lot, pro rata or by another method the trustee considers fair and appropriate. If a portion of your convertible debentures is selected for partial redemption and you convert a portion of your convertible debentures, the converted portion will be deemed to be of the portion selected for redemption.

We may redeem the convertible debentures only in whole, and not in part, if we have failed to pay any interest on the convertible debentures when due and such failure to pay is continuing, including during an extension period. We will notify the holders if we redeem the convertible debentures.

REPURCHASE AT OPTION OF THE HOLDER UPON CHANGE OF CONTROL

If a change of control, as defined below, occurs at any time prior to the maturity of the convertible debentures, you may require us to repurchase your convertible debentures, in whole or in part, on the repurchase date specified as described below. The convertible debentures may be repurchased in principal amounts of $50 or integral multiples of $50.

We will repurchase the convertible debentures at a price equal to 100% of the principal amount to be repurchased, plus accrued and unpaid interest, including deferred interest, to, but excluding, the repurchase date.

Within 30 days after the occurrence of a change of control, we must give notice of the change of control and the applicable repurchase date to registered holders of convertible debentures at their addresses shown in the register of the registrar. We will also give notice to beneficial owners as required by applicable law. This notice will state, among other things, the repurchase date, which must be no less than 20 and no more than 45 days after the date of our change of control notice, the repurchase price and the procedures that holders must follow to require us to repurchase their convertible debentures.

If you elect to require us to repurchase your convertible debentures, you must deliver to us or our designated agent, on or before the repurchase date specified in our change of control notice, your repurchase notice and any convertible debentures to be repurchased by book-entry transfer or delivery of the convertible debenture, duly endorsed for transfer, to the paying agent at its corporate trust office in the Borough of Manhattan, The City of New York, or any other office of the paying agent. We will promptly pay the repurchase price for convertible debentures surrendered for repurchase following the later of the repurchase date and the time of book-entry transfer or delivery of the convertible debenture.

You may withdraw your repurchase notice by delivering a written notice of withdrawal to the paying agent at any time prior to the close of business on the business day preceding the repurchase date. If a repurchase notice is given and

withdrawn prior to the close of business on such day, we will not be obligated to repurchase the convertible debentures listed in the notice. The withdrawal notice must state:

- the principal amount of the withdrawn convertible debentures;

- if certificated debentures have been issued, the certificate numbers of the withdrawn convertible debentures, or, if your convertible debentures are not certificated, your withdrawal notice must comply with appropriate DTC procedures; and

- the principal amount, if any, which remains subject to the repurchase notice.

If the paying agent holds money sufficient to pay the repurchase price of your convertible debentures on the business day following the repurchase date, then, on and after such date:

- those convertible debentures will cease to be outstanding;

- interest will cease to accrue; and

- all your other rights as a holder will terminate, other than the right to receive the repurchase price upon delivery of the convertible debentures.

This will be the case whether or not book-entry transfer of the convertible debentures has been made or the convertible debentures have been delivered to the paying agent.

Williams will comply with the requirements of the Exchange Act and any other securities laws and regulations thereunder to the extent such laws and regulations are applicable in connection with the repurchase of the convertible debentures as a result of a change of control.

A "change of control" will be deemed to have occurred when any of the following has occurred:

- the acquisition by any person of beneficial ownership, directly or indirectly, through a purchase, merger, other acquisition transaction or a series of such transactions, of shares of Williams' capital stock entitling that person to exercise 50% or more of the total voting power of all shares of Williams' capital stock entitled to vote generally in elections of directors, other than any acquisition by Williams, any of Williams' subsidiaries or future subsidiaries or any of Williams' employee benefit plans;

- the first day on which a majority of the members of the board of directors of Williams are not "continuing directors," which means, as of any date of determination, any member of the board of directors of Williams who:

- was a member of the board of directors throughout the 24 consecutive months preceding the date of determination; or

- was nominated for election or elected to the board of directors with the approval of a majority of the continuing directors who were members of the board at the time of such director's nomination or election; or

- the consolidation, combination or merger of Williams with or into any

other person, any merger of another person into Williams, or any conveyance, transfer, sale, lease or other disposition of all or substantially all of Williams' properties and assets to another person, other than:

- any transaction:

  (a) that does not result in any reclassification, conversion, exchange or cancellation of outstanding shares of Williams' capital stock; and

  (b) pursuant to which holders of Williams' capital stock immediately prior to such transaction are entitled to exercise, directly or indirectly, 50% or more of the total voting power of all shares of Williams' capital stock entitled to vote generally in elections of directors of the continuing or surviving person immediately after giving effect to such transaction; or

- any merger solely for the purpose of changing Williams' jurisdiction of incorporation and resulting in a reclassification, conversion or exchange of outstanding shares of common stock solely into shares of common stock of the surviving entity.

Beneficial ownership will be determined in accordance with Rule 13d-3 promulgated by the SEC under the Securities Exchange Act of 1934 referred to herein as the "Exchange Act". The term "person" includes any syndicate or group which would be deemed to be a "person" under Section 13(d)(3) of the Exchange Act.

However, a change of control will not be deemed to have occurred if:

- the closing sale price per share of Williams common stock for any five full trading days, not including extended hours trading, within the period of ten consecutive trading days ending immediately after the later of the change of control or the public announcement of the change of control, in the case of a change of control under the first bullet point above, or the period of ten consecutive full trading days, not including extended hours trading, ending immediately before the change of control, in the case of a

change of control under the third bullet point above, equals or exceeds 110% of the conversion price per share of Williams common stock in effect on each of those trading days, as adjusted; or

- at least 90% of the consideration in the transaction or transactions constituting a change of control consists of shares of common stock traded or to be traded immediately following such change of control on a national securities exchange or the Nasdaq National Market and, as a result of such transaction or transactions, the convertible debentures become convertible into such common stock and any rights attached thereto.

Except as described above with respect to a change of control and below under "-- Merger and Sale of Assets by Williams," neither the convertible debentures nor the indenture will contain provisions that permit holders of convertible debentures to require that we repurchase the convertible debentures in the event of, or otherwise prohibit us from undertaking, a merger, takeover, recapitalization or similar business combination or restructuring transaction. The term "change of control" is limited to specified transactions and may not include other events that might adversely affect our financial condition or

business operations. We may enter into certain transactions, including acquisitions, refinancings or other recapitalizations, that could affect our capital structure or the value of our common stock, but that would not constitute a change of control. Our obligation to offer to redeem the convertible debentures upon a change of control would not necessarily afford you protection in the event of a highly leveraged transaction, reorganization, merger or similar transaction involving us.

Our ability to repurchase convertible debentures upon the occurrence of a change of control is subject to important limitations. The occurrence of a change of control could cause an event of default under, or be prohibited or limited by, the terms of our senior or senior subordinated debt. As a result, any repurchase of the convertible debentures would, absent a waiver, be prohibited under the indentures governing such senior or senior subordinated debt until the debt is paid in full. Further, there can be no assurance that we would have the financial resources, or would be able to arrange financing, to pay the repurchase price for all the convertible debentures that might be delivered by holders of convertible debentures seeking to exercise their repurchase right. Any failure by us to repurchase the convertible debentures when required following a change of control would result in an event of default under the indenture, whether or not such repurchase is permitted by the indentures governing our senior or senior subordinated debt. Any such default may, in turn, cause a default under our other indebtedness.

SUBORDINATION OF CONVERTIBLE DEBENTURES

The payment of pri5 eliminates a restriction
on the passive derivative instruments that a qualifying special-purpose entity may hold under SFA

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2. Debt

We have an unsecured syndicated revolving credit facility (Credit Facility) which permits borrowings of up to $220.0 million with a sublimit of $100.0 million for the issuance of letters of credit and provides us with the right to request increases in available borrowings up to an additional $30.0 million, subject to the approval of the administrative agent. Our available borrowings under the Credit Facility are reduced by the amount of outstanding letters of credit. As of both March 31, 2007 and December 31, 2006, outstanding borrowings under our Credit Facility totaled $20.0 million. Our issued letters of credit totaled $44.3 million and $51.4 million at March 31, 2007 and December 31, 2006, respectively. The Credit Facility expires on December 19, 2010.

Our Credit Facility contains certain operating and financial covenants with which we are required to comply. Our failure to comply with the operating and financial covenants contained in our Credit Facility 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, trigger cross-defaults under other agreements to which we are a party, and impair our ability to obtain working capital advances and letters of credit, which could have a material adverse effect on our business, financial condition and results of operations.

On April 16, 2007, we amended and restated our Credit Facility. The principal changes to the Credit Facility were as follows: i) two wholly-owned subsidiaries of World Fuel, World Fuel Services Europe Ltd. (World Fuel Europe) and World Fuel Services (Singapore) Pte. Ltd. (World Fuel Singapore), were added as borrowers under the Credit Facility; ii) the obligations of World Fuel Europe and World Fuel Singapore under the Credit Facility will be guaranteed by World Fuel s foreign subsidiaries; iii) the covenant which required World Fuel to maintain a specified minimum consolidated net worth was amended to increase the minimum by approximately $65.0 million; and iv) the covenant governing loans that may be made by World Fuel was amended to permit inter-company loans.

We also have a separate $25.0 million unsecured credit line for the issuance of letters of credit and bank guarantees from one of the banks participating in our Credit Facility. Letters of credit and bank guarantees issued under this credit line are subject to fees at market rates payable semiannually and at maturity in arrears. This credit line is renewable on an annual basis each April. As of March 31, 2007 and December 31, 2006, we had outstanding letters of credit and bank guarantees aggregating to $4.1 million and $15.4 million, respectively, under this credit line.

Substantially all of the letters of credit and bank guarantees issued under our Credit Facility and the credit line were provided to certain suppliers in the normal course of business, and expire within one year from their issuance. Expiring letters of credit are renewed as needed.

3. Income Taxes

Effective January 1, 2007, we adopted FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes an interpretation of FASB Statement No. 109 (FIN 48). FIN 48 clarifies the accounting for uncertainty in tax positions by prescribing a minimum recognition threshold required for recognition in the financial statements. FIN 48 also provides guidance on derecognition, measurement classification, interest and penalties, accounting in interim periods, disclosure and transition.

We performed a comprehensive review of our portfolio of uncertain tax positions in accordance with the recognition standards established by FIN 48. Based on our review and in connection with the adoption of FIN 48, the cumulative effects of applying this interpretation have been recorded as a decrease of $12.0 million to retained earnings, an increase of $2.0 million to deferred income tax assets and an increase of $14.0 million to liabilities for unrecognized tax benefits, interest and penalties (FIN 48 liabilities). After the cumulative effect adjustment, our gross amount of FIN 48 liabilities was $22.0 million consisting of $16.4 million in unrecognized tax benefits, $2.3 million in interest (net after tax deduction) and $3.3 million in penalties. The FIN 48 liabilities are classified as long-term liabilities in the accompanying consolidated balance sheets. In addition, we recorded $2.9 million of assets related to uncertain tax positions (FIN 48 assets), which are included in other assets in the accompanying consolidated balance sheets. We recognize accrued interest and penalties related to uncertain tax positions in federal and foreign income tax expense. If our positions are sustained by the taxing authorities in our favor, approximately $14.3 million would reduce our effective tax rate in the period the matter is considered settled in accordance with FIN 48.

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Any prospective adjustments to our FIN 48 liabilities will be recorded as an increase or decrease to the provision for income taxes and would impact our effective tax rate. During the three months ended March 31, 2007, we recorded an increase in our FIN 48 liabilities of $0.5 million related to unrecognized tax benefits. In addition, we recorded a $0.2 million increase to FIN 48 liabilities related to a foreign currency translation expense included in other expense, net in the accompanying consolidated statements of income. As of March 31, 2007, our gross amounts of FIN 48 liabilities and FIN 48 assets were $23.2 million and $3.3 million, respectively.

In many cases our uncertain tax positions are related to tax years that remain subject to examination by the relevant taxable authorities. The following table summarizes these open tax years by jurisdiction with major uncertain tax positions:

	Open Tax Year	
	Examination	Examination
Jurisdiction	**in progress**	**not yet initiated**
United States	None	2003 - 2006
Chile	None	2001 - 2006
Colombia	None	2001 - 2006
Ecuador	None	2001 - 2006
Puerto Rico	None	2001 - 2006

Our income tax provision recorded for the three months ended March 31, 2007 and 2006 and their respective effective tax rates for such periods are as follows (in thousands, except for tax rates):

	For the Three Months ended March 31,	
	2007	**2006**
Income tax provision	$ 2,839	$ 5,116
Effective income tax rate	16.0%	25.7%

Our provision for income taxes for each of the three-month periods ended March 31, 2007 and 2006 was calculated based on the results of operations for each respective period. The effective tax rate for the three months ended March 31, 2007 is not necessarily indicative of what the full fiscal year 2007 effective tax rate will be. This is due to the fact that we cannot consistently predict our future operating income in the jurisdictions in which we operate.

The lower effective tax rates for the three months ended March 31, 2007 as compared to the three months ended March 31, 2006 resulted primarily from fluctuations in the actual results achieved by our subsidiaries in tax jurisdictions with different tax rates partially offset by an increase due to the effect from applying the new accounting guidance of FIN 48 during three months ended March 31, 2007.

4. Commitments and Contingencies

Legal Matters

Miami Airport Litigation

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). One of our subsidiaries, Page Avjet Fuel Corporation, now known as Page Avjet Fuel Co., LLC (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 of our potential liability for the clean-up costs of the contamination that is 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. We have 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 that 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.

The claims asserted by the County relating to environmental contamination at the Airport remain pending; however, neither we, nor any of our subsidiaries, have been added as defendants in the County Suit. No significant developments occurred with respect to the County s claims against us during the three months ended March 31, 2007. We intend to vigorously defend these claims, and 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 subsidiaries.

Panama Litigation

In July 2005, Atlantic Service Supply, S.A. (Atlantic), a Panamanian fuel barge operator, filed suit against Tramp Oil & Marine Limited (TOM), one of our subsidiaries, alleging that TOM is jointly and severally liable for barging fees of approximately $1.0 million owed to Atlantic by Isthmian Petroleum Supply & Services, S.A. (Isthmian). TOM and Isthmian were parties to an agreement pursuant to which Isthmian provided storage, delivery and other fuel related services to TOM in Panama. In its suit, Atlantic alleges (1) that Isthmian breached a barge charter agreement entered into between the two parties, (2) that Isthmian entered into the agreement as an agent on behalf of TOM, and (3) that TOM is liable, as a principal, for Isthmian s breach of the agreement. Although TOM utilized the services of Isthmian for storage and delivery of fuel, at no time did TOM request or authorize Isthmian to enter into any agreement with Atlantic, nor did TOM request that Isthmian utilize Atlantic to provide services on its behalf. We do not believe that Isthmian acted as TOM s agent in its dealings with Atlantic, and we do not believe TOM is responsible for any liabilities of Isthmian. No significant developments occurred with respect to this suit during the three months ended March 31, 2007. We believe this suit is completely without merit and we intend to vigorously defend the action.

In August 2005, TOM filed a lawsuit against Isthmian seeking damages of approximately $3.1 million for breach of contract and wrongful conversion of fuel owned by TOM. In September 2005, Isthmian filed a counterclaim against TOM alleging that TOM is in breach of contract and seeking $5.0 million in damages. These actions are pending in a Panamanian maritime court. No significant developments occurred with respect to this suit during the three months ended March 31, 2007. We believe Isthmian s suit against TOM is completely without merit and we intend to vigorously defend the action.

Southeast Airlines Litigation

In November 2004, World Fuel Services, Inc. (WFSI), one of our subsidiaries, filed suit against Southeast Airlines (Southeast), to recover approximately $1.3 million for jet fuel sold by WFSI to Southeast. The receivable related to the sale of jet fuel to Southeast was written off in 2005. In December 2004, the court granted World Fuel s motion to obtain a pre-judgment writ of attachment directing the seizure of several aircraft owned by Southeast. In January 2005, the court granted our motion to file an amended complaint and to add additional parties having an interest in Southeast s assets, including Joda LLC (Joda).

In February 2005, Joda filed a counterclaim against World Fuel and a crossclaim to foreclose an aircraft security agreement between Joda and Southeast, for damages and for replevin of certain aircraft and engines, alleging that its interest is superior to our interest in the Southeast aircraft and engines. We are defending this action and believe that Joda s claims are barred because any interest that Joda may have in the collateral which is in our possession is subordinate to our claims and/or interest. The case is pending in the Circuit Court of the 11th Judicial Circuit in and for Miami-Dade County, Florida.

In November 2006, three of Southeast s creditors, including World Fuel, filed involuntary bankruptcy petitions against Southeast and its principal (the Debtors) in the U.S. Bankruptcy Court, Tampa Division. World Fuel has served petitions on the Debtors and a Trustee has been appointed for the Debtors. The Trustee will handle the Debtors estates and will have authority to sell the assets of the Debtors. The bankruptcy filing has effectively stayed Joda s counterclaim against World Fuel. No significant developments occurred with respect to this suit during the three months ended March 31, 2007. We intend to vigorously defend the priority of our claim against the other creditors in the bankruptcy proceedings.

We may not prevail in the legal proceedings described above and we cannot estimate our ultimate exposure if we do not prevail. A ruling against us in any of the proceedings described above could have a material adverse effect on our financial condition and results of operations.

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, even if determined adversely, would not materially affect our financial condition or results of operations.

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5. Shareholders Equity
Dividends

We declared cash dividends of $0.0375 per share for the three months ended March 31, 2007 and 2006. Our revolving credit facility agreement restricts the payment of cash dividends to a maximum of 35% of our net income for the four quarters preceding the date of the dividend. The payments of the above dividends were in compliance with the credit facility agreement.

6. Business Segments

We have three reportable operating segments as of March 31, 2007: marine, aviation and land. Corporate expenses are allocated to the segments based on usage, where possible, or on other factors according to the nature of the activity. We evaluate and manage our business segments using the performance measurement of income from operations. The accounting policies of the reportable operating segments are the same as those described in the Summary of Significant Accounting Policies (see Note 1).

Information concerning our revenue and income from operations by segment is as follows (in thousands):

	For the Three Months ended March 31,	
	2007	2006
Revenue:		
Marine segment	$ 1,486,455	$ 1,344,559
Aviation segment	1,100,671	1,119,608
Land segment	115,083	69,839
	$ 2,702,209	$ 2,534,006
Income from Operations:		
Marine segment	$ 14,951	$ 11,000
Aviation segment	7,712	12,469
Land segment	440	192
	23,103	23,661
Corporate overhead	(6,152)	(3,708)
	$ 16,951	$ 19,953

Information concerning our business accounts receivable, goodwill and total assets by segment is as follows (in thousands):

	As of	
	March 31, 2007	December 31, 2006
Accounts receivable, net:		
Marine segment, net of allowance for bad debts of $6,691 and $6,496 at March 31, 2007 and December 31, 2006, respectively	$ 622,804	$ 591,587
Aviation segment, net of allowance for bad debts of $5,152 and $6,331 at March 31, 2007 and December 31, 2006, respectively	218,842	231,537
Land segment, net of allowance for bad debts of $1,403 and $1,456 at March 31, 2007 and December 31, 2006, respectively	44,614	36,960
	$ 886,260	$ 860,084

Goodwill:		
Marine segment	$ 36,112	$ 36,112
Aviation segment	8,054	8,054
Land segment	155	155
	$ 44,321	$ 44,321
Total assets:		
Marine segment	$ 759,420	$ 756,848
Aviation segment	378,327	372,373
Land segment	47,062	39,074
Corporate	137,017	109,105
	$ 1,321,826	$ 1,277,400

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Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations

The following discussion should be read together with our 2006 10-K Report and the consolidated financial statements and related notes in Item 1 Financial Statements appearing elsewhere in this 10-Q Report. The following discussion contains forward-looking statements as described in the Forward-Looking Statements below. Our actual results may differ significantly from the results suggested by these forward-looking statements. Various factors that may cause our results to differ materially from the results and events anticipated or implied by such forward-looking statements are described in Part II Other Information, Item 1A Risk Factors.

Forward-Looking Statements

Certain statements made in this report and the information incorporated by reference in it, or made by us in other reports, filings with the Securities and Exchange Commission (SEC), press releases, teleconferences, industry conferences or otherwise, are forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. The forward-looking statements include, without limitation, any statement that may predict, forecast, indicate or imply future results, performance or achievements, and may contain the words believe, anticipate, expect, estimate, project, will be, will continue, will likely result, plan, or words or phrases of similar meaning.

Forward-looking statements are estimates and projections reflecting our best judgment and involve risks, uncertainties or other factors which may cause actual results to differ materially from the future results, performance or achievements expressed or implied by the forward-looking statements. These statements are based on our management s beliefs and assumptions, which in turn are based on currently available information.

Examples of forward-looking statements in this report include, but are not limited to, our expectations regarding our business strategy, business prospects, operating results, working capital, liquidity, capital expenditure requirements and future acquisitions. Important assumptions relating to the forward-looking statements include, among others, assumptions regarding demand for our products, the cost, terms and availability of fuel from suppliers, pricing levels, the timing and cost of capital expenditures, outcomes of pending litigation, competitive conditions, general economic conditions and synergies relating to acquisitions, joint ventures and alliances. These assumptions could prove inaccurate. Although we believe that the estimates and projections reflected in the forward-looking statements are reasonable, our expectations may prove to be incorrect.

Important factors that could cause actual results to differ materially from the results and events anticipated or implied by such forward-looking statements include, but are not limited to:

our ability to collect accounts receivable;

changes in the political, economic or regulatory conditions in the markets in which we operate;

currency exchange fluctuations;

non-performance of third party service providers;

the fuel we sell failing to meet specifications;

our failure to effectively hedge certain financial risks associated with our business and our price risk management services;

non-performance by counterparties to derivatives contracts;

material disruptions in the availability or supply of fuel;

changes in the market price of fuel;

adverse conditions in the business segments in which our customers operate;

uninsured losses;

the impact of natural disasters;

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- our failure to comply with restrictions and covenants in our unsecured syndicated revolving credit facility (Credit Facility);
- increases in interest rates;
- our ability to retain and attract senior management and other key employees;
- our ability to manage growth;
- our ability to integrate acquired businesses;
- changes in United States or foreign tax laws;
- increased levels of competition;
- changes in credit terms extended to us from our suppliers;
- our ability to successfully implement our enterprise integration project;
- compliance or lack of compliance with various environmental and other applicable laws and regulations; and
- other risks, including those described in Risk factors of our 2006 10-K Report and those described from time to time in our filings with the SEC.

We operate in a very competitive and rapidly changing environment. New risks emerge from time to time. It is not possible for us to predict all of those risks, nor can we assess the impact of all of those risks on our business or the extent to which any factor may cause actual results to differ materially from those contained in any forward-looking statement. We believe these forward-looking statements are reasonable. However, you should not place undue reliance on any forward-looking statements, which are based on current expectations. Further, forward-looking statements speak only as of the date they are made, and unless required by law, we expressly disclaim any obligation or undertaking to update publicly any of them in light of new information or future events.

For these statements, we claim the protection of the safe harbor for forward-looking statements contained in Section 27A of the Securities Exchange Act of 1933 and Section 21E of the Securities Exchange Act of 1934.

Overview

We are engaged in the marketing and sale of marine, aviation and land fuel products and related services on a worldwide basis. In our marine segment, we offer fuel and related services to a broad base of maritime customers, including international container and tanker fleets and time-charter operators, as well as to the United States and foreign governments. In our aviation segment, we offer fuel and related services to major commercial airlines, second and third-tier airlines, cargo carriers, regional and low cost carriers, corporate fleets, fractional operators, private aircraft, military fleets and to the United States and foreign governments. In our land segment, we offer fuel and related services to petroleum distributors operating in the land transportation market. We compete by providing our customers value-added benefits including single-supplier convenience, competitive pricing, the availability of trade credit, price risk management, logistical support, fuel quality control and fuel procurement outsourcing.

Our revenue and cost of sales are significantly impacted by world oil prices as evidenced in part by our revenue and cost of sales increases year over year. However, our gross profit is not necessarily impacted by the change in world oil prices as our profitability is driven by gross profit per unit which is not directly correlated to the price of fuel. Therefore, in a period of increasing or decreasing oil prices, our revenue and cost of sales would increase or decrease proportionately but our gross profit may not be negatively or positively impacted by such price changes.

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In our marine segment, we primarily purchase and resell fuel, and act as brokers for others. Profit from our marine segment is determined primarily by the volume and gross profit achieved on fuel resales and by the volume and commission rate of brokering business. In our aviation and land segments, we primarily purchase and resell fuel, and we do not act as brokers. Profit from our aviation and land segments is primarily determined by the volume and the gross profit achieved on fuel resales. Our profitability in our segments also depends on our operating expenses, which may be significantly affected to the extent that we are required to provide for potential bad debts.

We may experience decreases in future sales volume and margins as a result of deterioration in the world economy, transportation industry, natural disasters and continued conflicts and instability in the Middle East, Asia and Latin America, as well as potential future terrorist activities and possible military retaliation. In addition, because fuel costs represent a significant part of our customers operating expenses, volatile and/or high fuel prices can adversely affect our customers businesses, and consequently the demand for our services and our results of operations. See Part II Other Information, Item 1A Risk Factors of this Form 10-Q.

Reportable Segments

We have three reportable operating segments: marine, aviation and land. Corporate expenses are allocated to the segments based on usage, where possible, or on other factors according to the nature of the activity. We evaluate and manage our business segments using the performance measurement of income from operations.

Results of Operations

Three Months Ended March 31, 2007 Compared to Three Months Ended March 31, 2006

Revenue. Our revenue for the first quarter of 2007 was $2.7 billion, an increase of $168.2 million, or 6.6%, as compared to the first quarter of 2006. Our revenue during these periods was attributable to the following segments (in thousands):

	For the Three Months ended March 31,		
	2007	**2006**	**$ Change**
Marine segment	$ 1,486,455	$ 1,344,559	$ 141,896
Aviation segment	1,100,671	1,119,608	(18,937)
Land segment	115,083	69,839	45,244
	$ 2,702,209	$ 2,534,006	$ 168,203

Our marine segment contributed $1.5 billion in revenue for the first quarter of 2007, an increase of $141.9 million, or 10.6%, as compared to the first quarter of 2006. Of the total increase in marine segment revenue, $274.7 million was due to increased sales volume, primarily due to additional sales to new and existing customers. Partially offsetting this increase was a decline of $132.8 million due to an 8.3% decrease in the average price per metric ton sold.

Our aviation segment contributed $1.1 billion in revenue for the first quarter of 2007, a decrease of $18.9 million, or 1.7%, as compared to the first quarter of 2006. Of the total decrease in aviation segment revenue, $13.9 million was due to a 1.3% decrease in the average price per gallon sold and $5.0 million was due to decreased sales volume.

Our land segment contributed $115.1 million in revenue for the first quarter of 2007, an increase of $45.2 million, or 64.8%, as compared to the first quarter of 2006. Of the total increase in land segment revenue, approximately $40.4 million was due to increased sales volume to new and existing customers and $4.8 million was due to a 4.4 % increase in the average price per gallon sold.

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Gross Profit. Our gross profit for the first quarter of 2007 was $51.2 million, an increase of $1.4 million, or 2.9%, as compared to the first quarter of 2006. Our gross profit during these periods was attributable to the following segments (in thousands):

	For the Three Months ended March 31,		
	2007	2006	$ Change
Marine segment	$ 29,587	$ 24,499	$ 5,088
Aviation segment	19,758	24,166	(4,408)
Land segment	1,823	1,080	743
	$ 51,168	$ 49,745	$ 1,423

Our marine segment gross profit for the first quarter of 2007 was $29.6 million, an increase of $5.1 million, or 20.8%, as compared to the first quarter of 2006. Contributing to the total increase in marine segment gross profit was approximately $4.5 million in increased sales volume and $0.6 million in higher gross profit per metric ton sold.

Our aviation segment gross profit for the first quarter of 2007 was $19.8 million, a decrease of approximately $4.4 million, or 18.2%, as compared to the first quarter of 2006. The decrease in aviation segment gross profit was due to $4.3 million in lower gross profit per gallon sold and $0.1 million was due to decreased sales volume. The lower gross profit per gallon sold was primarily a result of a rapid decline in jet fuel prices in the early part of the first quarter.

Our land segment gross profit for the first quarter of 2007 was approximately $1.8 million, an increase of approximately $0.7 million, or 68.8%, as compared to the first quarter of 2006. The increase in land segment gross profit resulted from $0.6 million in increased sales volume and $0.1 million in higher gross profit per gallon sold.

Operating Expenses. Total operating expenses for the first quarter of 2007 were $34.2 million, an increase of $4.4 million, or 14.9%, as compared to the first quarter of 2006. The following table sets forth our expense categories (in thousands):

	For the Three Months ended March 31,		
	2007	2006	$ Change
Compensation and employee benefits	$ 22,875	$ 18,744	$ 4,131
Provision for bad debts	(387)	508	(895)
General and administrative	11,729	10,540	1,189
	$ 34,217	$ 29,792	$ 4,425

Of the total increase in operating expenses, $4.1 million was related to compensation and employee benefits and $1.2 million was related to general and administrative expenses. Partially offsetting was a positive change of $0.9 million in provision for bad debts. The increase in compensation and employee benefits was primarily due to higher compensation costs and new hires to support our global business. The increase in general and administrative expenses was mainly due to the following expenses: professional and consulting fees, systems development, and depreciation and amortization. The positive change in bad debt provision was primarily due to an overall improved quality of our receivable portfolio during the first quarter of 2007 as compared to 2006, primarily in the aviation segment, resulting in a reduction of our allowance for bad debt from December 31, 2006.

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Income from Operations. Our income from operations for the first quarter of 2007 was $17.0 million, a decrease of $3.0 million, or 15.0%, as compared to the first quarter of 2006. Income from operations during these periods was attributable to the following segments (in thousands):

	For the Three Months ended March 31,		
	2007	2006	$ Change
Marine segment	$ 14,951	$ 11,000	$ 3,951
Aviation segment	7,712	12,469	(4,757)
Land segment	440	192	248
	23,103	23,661	(558)
Corporate overhead	(6,152)	(3,708)	(2,444)
	$ 16,951	$ 19,953	$ (3,002)

The marine segment earned $15.0 million in income from operations for the first quarter of 2007, an increase of $4.0 million, or 35.9%, as compared to the first quarter of 2006. This increase resulted from $5.1 million in higher gross profit, partially offset by increased operating expenses of $1.1 million. The increase in marine segment operating expenses was attributable to increased compensation and employee benefits, provision for bad debts and general and administrative expenses.

The aviation segment income from operations was $7.7 million for the first quarter of 2007, a decrease of $4.8 million, or 38.2%, as compared to the first quarter of 2006. This decrease was primarily due to a $4.4 million reduction in gross profit as well as an increase in operating expenses of approximately $0.4 million. The increase in aviation segment operating expenses was attributable to increased compensation and employee benefits and general and administrative expenses, partially offset by a net positive impact from the change in provision for bad debts.

The land segment income from operations was $0.4 million for the first quarter of 2007, an increase of approximately $0.2 million as compared to the first quarter of 2006. This was a result of a $0.7 million increase in gross profit, partially offset by a $0.5 million increase in operating expenses. The increase in land segment operating expenses was attributable to increased compensation and employee benefits and general and administrative expenses, partially offset by a net positive impact from the change in provision for bad debts.

Corporate overhead costs not charged to the business segments was approximately $6.2 million for the first quarter of 2007, an increase of $2.4 million, or 65.9%, as compared to the first quarter of 2006. The increase in corporate overhead costs was attributable to increased compensation and employee benefits and general and administrative expenses.

Other Income and Expense, net. For the first quarter of 2007, we had other income, net of $0.8 million. The positive change of $0.8 million was primarily due to higher foreign currency losses reported in the first quarter of 2006 as compared to the first quarter of 2007.

Taxes. For the first quarter of 2007, our effective tax rate was 16.0%, for an income tax provision of $2.8 million, as compared to 25.7% and an income tax provision of $5.1 million for the first quarter of 2006. The lower effective tax rate for the first quarter of 2007 resulted primarily from fluctuations in the actual results achieved by our subsidiaries in tax jurisdictions with different tax rates partially offset by an increase due to the effect from applying the new accounting guidance of FASB Interpretation No. 48 in the first quarter of 2007.

Net Income and Diluted Earnings per Share. Net income for the first quarter of 2007 was $14.8 million, a decrease of $0.1 million, or 1.0%, as compared to the first quarter of 2006. Diluted earnings per share for the first quarter of 2007 was $0.51 per share, a decrease of $0.01 per share, or 1.9%, as compared to the first quarter of 2006.

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Liquidity and Capital Resources

We had cash and cash equivalents of $164.5 million as of March 31, 2007 as compared to $176.5 million as of December 31, 2006. Additionally, we had short-term investments of $27.5 million at March 31, 2007 as compared to $12.5 million as of December 31, 2006. Our primary use of cash, cash equivalents and short term investments is to fund the purchase of inventories and increased receivables to support business growth relating to sales of fuel to our customers. 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. Our ability to fund fuel purchases, obtain trade credit from our suppliers, and provide letters of credit is critical to our business. Increases in oil prices negatively affect liquidity by increasing the amount of cash needed to fund fuel purchases as well as reducing the amount of fuel which we can purchase on an unsecured credit basis from our suppliers. Historically, we have not required significant capital investment in fixed assets for our businesses as we subcontract fueling services and maintain inventory at third party storage facilities. However, we are currently undertaking the implementation of an enterprise integration project, which consists of a company-wide financial and commercial information system upgrade. With respect to the implementation of the project, we currently believe we will incur $24.8 million in capitalized expenditures and $11.3 million in costs which are expensed as incurred for a total project expenditure of $36.1 million. As of March 31, 2007, we have capitalized $16.6 million of project expenditures, of which $2.5 million was incurred during the first quarter of 2007. Also, as of March 31, 2007, we have expensed $5.0 million in Project expenses, of which approximately $1.0 million was incurred during the first quarter of 2007. The balance of these expenditures is expected to be incurred through the first quarter of 2008.

Our business is funded through cash generated from operations and borrowings under our Credit Facility. Outstanding borrowings under our Credit Facility, our cash and cash equivalents and short-term investments fluctuate primarily based on operating cash flow, most significantly, the timing of receipts from our customers and payments to our suppliers. Our Credit Facility permits borrowings of up to $220.0 million with a sublimit of $100.0 million for the issuance of letters of credit and provides us the right to request increases in available borrowings up to an additional $30.0 million, subject to the approval of the administrative agent. Our available borrowings under the Credit Facility are reduced by the amount of outstanding letters of credit. As of March 31, 2007, outstanding borrowings under our Credit Facility totaled $20.0 million and our issued letters of credit totaled $44.3 million.

Our Credit Facility contains certain operating and financial covenants with which we are required to comply. Our failure to comply with the operating and financial covenants contained in our Credit Facility 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, trigger cross-defaults under other agreements to which we are a party, and impair our ability to obtain working capital advances and letters of credit, which could have a material adverse effect on our business, financial condition and results of operations.

On April 16, 2007, we amended and restated our Credit Facility. The principal changes to the Credit Facility were as follows: i) two wholly-owned subsidiaries of World Fuel, World Fuel Services Europe Ltd. (World Fuel Europe) and World Fuel Services (Singapore) Pte. Ltd. (World Fuel Singapore), were added as borrowers under the Credit Facility; ii) the obligations of World Fuel Europe and World Fuel Singapore under the Credit Facility will be guaranteed by World Fuel s foreign subsidiaries; iii) the covenant which required World Fuel to maintain a specified minimum consolidated net worth was amended to increase the minimum by approximately $65.0 million; and iv) the covenant governing loans that may be made by World Fuel was amended to permit inter-company loans.

We also have a separate $25.0 million unsecured credit line for the issuance of letters of credit and bank guarantees from one of the banks participating in our Credit Facility. As of March 31, 2007, we had outstanding letters of credit and bank guarantees aggregating to $4.1 million under this credit line.

Higher interest rates can have a negative effect on our liquidity due to higher costs of borrowing under our Credit Facility. To mitigate this risk, in part, we entered into two interest rate swaps in March 2005 in the amount of $20.0 million, which reduces our exposure to increases in interest rates. As of March 31, 2007, our weighted average interest rate on borrowings under the Credit Facility, adjusted for the interest rate swaps, was 5.2% per annum.

Net cash provided by operating activities totaled $6.6 million for the first quarter of 2007 as compared $22.9 million for the first quarter of 2006. This decrease of approximately $16.4 million in cash provided by operating activities was primarily due to changes in operating assets and liabilities.

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During the first quarter of 2007, net cash used in investing activities was $17.6 million compared to $4.7 million for the first quarter of 2006. This $12.9 million increase in cash used in investing activities was due to a $15.0 million net increase in short-term investments and a $0.5 million increase in capital expenditures. Partially offsetting was a $2.6 million decrease in cash usage related to the acquisition of the minority ownership interest of Tramp Oil (Brasil) Limitada in 2006.

Net cash used in financing activities was $0.9 million for the first quarter of 2007 as compared to net cash used in financing activities of $1.9 million for the first quarter of 2006. This $1.0 million change was primarily due to payment of minority interest and repayment of a promissory note during the first quarter of 2006.

Working capital at March 31, 2007 was $390.8 million, representing an increase of $21.5 million from working capital at December 31, 2006. Our accounts receivable amounted to $886.3 million at March 31, 2007 as compared to $860.1 million at December 31, 2006. This increase in net accounts receivable of approximately $26.2 million was primarily attributable to increased business activities. At March 31, 2007, the allowance for bad debts of $13.2 million decreased by $1.0 million as compared to December 31, 2006.

Inventories of $65.8 million, at March 31, 2007, decreased $8.7 million from December 31, 2006 due to lower inventory levels. The increase in receivables related to derivative contracts of $10.0 million was primarily due to increased derivative activities. The increase in prepaid expenses and other current assets of $8.0 million from December 31, 2006 was primarily due to higher prepaid fuel, partially offset by a decrease in receivables related to transaction taxes.

Our current liabilities increased $17.1 million from December 31, 2006 primarily due to increases in payables related to derivative contracts, customer deposits, accounts payable, and accrued expenses. Partially offsetting were decreases in accrued compensation, income tax payable and payables related to transaction taxes. Short-term and long-term debt amounted to $20.0 million at March 31, 2007 and December 31, 2006.

Our long-term liabilities increased $23.6 million from December 31, 2006 primarily due to liabilities for unrecognized tax benefits, interest and penalties (FIN 48 liabilities) recorded in the first quarter of 2007 in accordance with our implementation of new accounting guidance.

Shareholders equity amounted to $429.7 million at March 31, 2007, as compared to $426.0 million at December 31, 2006. The increase in shareholders equity of approximately $3.7 million was mainly due to $14.8 million in earnings, $0.4 million from the exercise of stock options and $1.8 million in the recognition of compensation expenses related to share-based payments. Partially offsetting these increases was the cumulative effect adjustment of $12.0 million to retained earnings related to applying the new accounting guidance of FASB Interpretation No. 48, the declaration of $1.1 million in dividends and $0.4 million for the purchase of stock from employees to satisfy the required withholdings taxes related to share-based awards.

We believe that available funds from existing cash and cash equivalents and our Credit Facility, together with cash flows generated by operations will be sufficient to fund our working capital and capital expenditure requirements for at least 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 changes in market conditions, to fund future growth, or to acquire businesses. Financing may not be available when needed or desired on terms favorable to us.

Contractual Obligations and Off-Balance Sheet Arrangements

Except for changes in our derivatives, FIN 48 liabilities and letters of credit and bank guarantees, as described below, our contractual obligations and off-balance sheet arrangements did not change materially from December 31, 2006 to March 31, 2007. For a discussion of these matters, refer to Contractual Obligations and Off-Balance Sheet Arrangements in Item 7 of our 2006 10-K Report.

Contractual Obligations

Derivatives. See Item 3 Quantitative and Qualitative Disclosures About Market Risk, included in this 10-Q Report, for a discussion of our derivatives.

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FIN 48 Liabilities. As of March 31, 2007, our FIN 48 liabilities were $23.2 million. The periods in which the FIN 48 liabilities will be paid cannot be reliably estimated and are, therefore, excluded from our contractual obligations.

Off-Balance Sheet Arrangements

Letters of Credit and Bank Guarantees. Substantially all of these letters of credit and bank guarantees were provided to certain suppliers in the normal course of business, and expire within one year from their issuance. Expiring letters of credit and bank guarantees are renewed as needed. We had outstanding letters of credit and bank guarantees of approximately $48.4 million at March 31, 2007 as compared to $66.8 million at December 31, 2006. For additional information on our Credit Facility and letters of credit, see further discussion in Liquidity and Capital Resources, above.

Recent Accounting Pronouncements

Offsetting Fair Value Amounts. In April 2007, the Financial Accounting Standards Board (FASB) issued FASB Staff Position (FSP) No. FIN 39-1, Amendment of FASB Interpretation No. 39 which amends FIN 39, Offsetting of Amounts Related to Certain Contracts. FSP No. FIN 39-1 addresses offsetting fair value amounts recognized for the right to reclaim or obligation to return cash collateral arising from derivative instruments that have been offset pursuant to a master netting arrangement. FSP No. FIN 39-1 requires disclosure of the accounting policy related to offsetting fair value amounts as well as disclosure of amounts recognized for the right to reclaim or obligation to return cash collateral. FSP No. FIN 39-1 is effective for fiscal years beginning after November 15, 2007, with early application permitted, and is applied retrospectively as a change in accounting principle for all financial statements presented. We are currently evaluating the requirements of FSP FIN No. 39-1, and have not yet determined the impact of the adoption of this guidance on our consolidated financial statements.

Fair Value Option. In February 2007, the FASB issued Statement of Financial Accounting Standards (SFAS) No. 159, The Fair Value Option for Financial Assets and Financial Liabilities which permits all entities to choose to measure eligible items at fair value at specified election dates. Unrealized gains and losses on items for which the fair value option has been elected will be reported in earnings at each subsequent reporting date. The fair value option may be applied financial instrument by financial instrument (with limited exceptions), is generally irrevocable, and must be applied to the entire financial instrument. SFAS No. 159 is effective for fiscal years that begin after November 15, 2007. We are currently evaluating the requirements of SFAS No. 159, and have not yet determined the impact of adoption of this standard on our consolidated financial statements.

Fair Value Measurements. In September 2006, FASB issued SFAS No. 157, Fair Value Measurements. SFAS No. 157 provides guidance for using fair value to measure assets and liabilities. SFAS No. 157 defines fair value, establishes guidelines for measuring fair value and expands disclosures regarding fair value measurements. SFAS No. 157 does not require any new fair value measurements but rather eliminates inconsistencies in guidance found in various prior accounting pronouncements. SFAS No. 157 also requires expanded disclosure of the effect on earnings for items measured using unobservable data. SFAS No. 157 is effective for fiscal years beginning after November 15, 2007. Earlier adoption is permitted, provided the company has not yet issued financial statements, including for interim periods for that fiscal year. In certain cases, we expect the implementation of SFAS No. 157 will accelerate the recognition of revenue and gross profit in connection with certain of our derivative transactions.

Accounting for Certain Hybrid Financial Instruments. Effective January 1, 2007, we adopted SFAS No. 155, Accounting for Certain Hybrid Financial Instruments, which amends SFAS No. 133 and SFAS No. 140, Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities. SFAS No. 155 provides guidance to simplify the accounting for certain hybrid instruments by permitting fair value remeasurement for any hybrid financial instrument that contains an embedded derivative, and clarifies that beneficial interests in securitized financial assets are subject to SFAS No. 133. In addition, SFAS No. 155 eliminates a restriction on the passive derivative instruments that a qualifying special-purpose entity may hold under SFAS No. 140. The adoption of SFAS No. 155 did not have a significant impact on our financial position, results of operations or cash flows.

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Item 3. Quantitative and Qualitative Disclosures About Market Risk

Except for the outstanding derivative instruments shown below, there were no material changes from information provided in Item 7A Quantitative and Qualitative Disclosures About Market Risk of our 2006 10-K Report.

As of March 31, 2007, we had the following commodity related derivative instruments (in thousands, except average prices):

Settlement Period	Hedge Strategy	Derivative Instrument	Notional Amount (metric tons)	Notional Amount (gallons)	Average Prices	Mark to Market Gains (Losses)
2007	Fair Value	Hedged Item	31		44.68	1,380
		Swaps	31		41.56	(1,283)
	Non-Designated	Purchase Commitments	471		6.35	(2,992)
		Sales Commitments	227		29.16	(6,616)
		Swaps (Purchases)	768		22.39	17,209
		Swaps (Sales)	1,053		7.02	(7,397)
2008	Non-Designated	Swaps (Purchases)	3		25.74	69
		Swaps (Sales)	3		25.74	(69)
2009	Non-Designated	Swaps (Purchases)	11		10.41	112
		Swaps (Sales)	11		10.41	(112)
2007	Fair Value	Futures		17,094	0.09	(1,543)
		Hedged Item		17,094	0.06	1,085
	Non-Designated	Collars (Purchases)		25,973	0.06	1,467
		Collars (Sales)		25,973	0.06	(1,467)
		Sales Commitments		112,147	0.23	(25,578)
		Swaps (Purchases)		143,505	0.18	25,851
		Swaps (Sales)		28,256	0.02	(453)
2008	Non-Designated	Sales Commitments		6,799	0.03	(197)
		Swaps (Purchases)		7,175	0.04	316
		Swaps (Sales)		376	0.32	(119)
						$ (337)

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC s rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required financial disclosure.

As of the end of the period covered by this report, we evaluated, under the supervision and with the participation of our Chief Executive Officer and Chief Financial Officer, the effectiveness of the design and operation of our disclosure controls and procedures pursuant to Exchange Act Rule 13a-15(e). Based upon this evaluation, the Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective as of March 31, 2007.

Changes in Internal Control over Financial Reporting

There were no changes in the Company s internal control over financial reporting that materially affected, or are reasonably likely to materially affect, the Company s internal control over financial reporting during the quarter ended March 31, 2007.

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Part II Other Information

Item 1. Legal Proceedings

As described in Item 3 Legal Proceedings of our 2006 10-K Report, we are involved in certain legal proceedings, some of which may be material. There were no material developments in those proceedings during the first quarter of 2007.

In addition to the matters described in our 2006 10-K report, 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 in our 2006 10-K Report, our liability, if any, under any other pending litigation or administrative proceedings, even if determined adversely, would not materially affect our financial condition or results of operations.

Item 1A. Risk Factors

Our risk factors are contained in Item 1A Risk Factors of our 2006 10-K Report. There were no material changes to such risk factors during the first quarter of 2007.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

Repurchases

The following table presents information with respect to repurchases of common stock made by us during the quarterly period ended March 31, 2007 (in thousands, except average price per share):

Period	Total Number of Shares Purchased	Average Price Per Share Paid	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Total Cost of Shares Purchased as Part of Publicly Announced Plans or Programs	Remaining Authorized Stock Repurchases under Publicly Announced Plans or Programs
1/1/07-1/31/07	4	$ 44.46		$	$ 6,013
2/1/07-2/28/07					6,013
3/1/07-3/31/07	4	46.17			6,013
Total	8	$ 45.30		$	

The above shares relate to the purchase of stock tendered by employees to satisfy the required withholding taxes related to share-based awards.

Item 3. Defaults Upon Senior Securities

None.

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

None.

Item 5. Other Information

None.

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Item 6. Exhibits

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

Exhibit No.	Description
31.1	Certification of the Chief Executive Officer pursuant to Rule 13a-14(a) or Rule 15d 14(a).
31.2	Certification of the Chief Operating Officer pursuant to Rule 13a-14(a) or Rule 15d 14(a).
31.3	Certification of the Chief Financial Officer pursuant to Rule 13a-14(a) or Rule 15d 14(a).
31.4	Certification of the Chief Risk and Administrative Officer pursuant to Rule 13a-14(a) or Rule 15d 14(a).
32.1	Statement of Chief Executive Officer, Chief Operating Officer, Chief Financial Officer and Chief Risk and Administrative Officer under Section 906 of the Sarbanes-Oxley Act of 2002.

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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: May 10, 2007

World Fuel Services Corporation

/s/ Michael J. Kasbar
Michael J. Kasbar

President and Chief Operating Officer

/s/ Ira M. Birns
Ira M. Birns

Executive Vice-President and Chief Financial Officer
(Principal Financial Officer)