

WILLIAMS COMPANIES INC

Form S-4

September 17, 2004

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As filed with the Securities and Exchange Commission on September 17, 2004

Registration No. 333-

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**UNITED STATES SECURITIES AND EXCHANGE COMMISSION**

**Washington, D.C. 20549**

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**FORM S-4**  
**REGISTRATION STATEMENT**  
**UNDER**  
**THE SECURITIES ACT OF 1933**

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**The Williams Companies, Inc.**

*(Exact Name of Registrant as Specified in Its Charter)*

**Delaware**  
*(State or Other Jurisdiction of  
Incorporation or Organization)*

**4922**  
*(Primary Standard Industrial  
Classification Code Number)*

**73-0569878**  
*(I.R.S. Employer  
Identification Number)*

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**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)*

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**James J. Bender, Esq.**  
**Senior Vice President and General Counsel**  
**One Williams Center, Suite 4900**  
**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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*With copies to:*

**Gibson, Dunn & Crutcher LLP**  
**1801 California Street, Suite 4100**  
**Denver, Colorado 80202-2641**  
**(303) 298-5700**  
**Attention: Richard M. Russo, Esq.**  
**Robert R. Stark, Jr., Esq.**

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**Davis Polk & Wardwell**  
**450 Lexington Avenue**  
**New York, New York 10017**  
**(212) 450-4000**  
**Attention: Marlene Alva, Esq.**

**Approximate date of commencement of proposed sale to the public:** As soon as practicable after this registration statement becomes effective.

If the securities being registered on this form are to be offered in connection with the formation of a holding company and there is compliance with General Instruction G, check the following box.

If this form is filed to register additional securities for an offering pursuant to Rule 462(b) 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.

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If this form is a post-effective amendment filed pursuant to Rule 462(d) 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.

### CALCULATION OF REGISTRATION FEE

Title of Each Class of Securities to be Registered	Amount to be Registered(1)	Proposed Maximum Offering Price Per Share(2)	Proposed Maximum Aggregate Offering Price(3)	Amount of Registration Fee(4)
Common Stock(5)	43,900,000	\$11.94	\$524,166,000	\$66,412

- (1) This Registration Statement registers the maximum number of shares of the registrant's common stock, par value \$1.00 per share, that may be issued in connection with the exchange offer by the registrant for up to 43,900,000 of the registrant's outstanding FELINE PACS in the form of Income PACS.
- (2) Calculated by dividing the proposed maximum offering price of \$524,166,000 by 43,900,000, which is the maximum number of shares of the registrant's common stock that may be issued in connection with the exchange offer.
- (3) Estimated solely for the purpose of calculating the registration fee pursuant to Rules 457(f)(1) and (3) and Rule 457(c) under the Securities Act of 1933 based on the difference between (a) the product of (i) \$13.41, which is the average of the high and low prices per unit of the registrant's Income PACS as reported on the New York Stock Exchange on September 15, 2004, and (ii) 43,900,000, which represents the maximum number of Income PACS sought in the exchange offer, and (b) \$64,533,000 which represents the maximum aggregate amount of cash to be paid by the registrant in the exchange offer.
- (4) Computed in accordance with Rule 457(f) under the Securities Act of 1933 to be \$66,412, which is equal to 0.00012670 multiplied by the proposed maximum aggregate offering price of \$524,166,000.
- (5) Each share of common stock registered hereunder includes an associated Series A Junior Participating Preferred Stock purchase right. Until the occurrence of certain prescribed events, none of which has occurred, the Series A Junior Participating Preferred Stock purchase rights are not exercisable, are evidenced by certificates representing the common stock, and may be transferred only with the common stock. No separate consideration is payable for the Series A Junior Participating Preferred Stock purchase rights.

**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.**

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The information in this exchange offer prospectus may change. We may not complete the exchange offer and issue these securities until the registration statement filed with the Securities and Exchange Commission is effective. This exchange offer prospectus is not an offer to sell these securities and is not soliciting an offer to buy these securities in any state where the offer or sale is not permitted.

**EXCHANGE OFFER PROSPECTUS**

# **The Williams Companies, Inc.**

## **Offer to Exchange**

### **One (1.0000) Share of Common Stock Plus \$1.47 in Cash for Each Outstanding FELINE PACS<sup>SM</sup> in the Form of an Income PACS<sup>SM</sup> Up to an Aggregate of 43,900,000 Income PACS**

We are offering to exchange one (1.0000) share of our common stock plus \$1.47 in cash for each validly tendered and accepted FELINE PACS in the form of an Income PACS, up to an aggregate of 43,900,000 Income PACS, upon the terms and subject to the conditions set forth in this exchange offer prospectus and in the related letter of transmittal. On September 13, 2004, 44,000,000 Income PACS were outstanding, and no Growth PACS were outstanding. We are conducting this exchange offer to reduce our overall indebtedness.

Income PACS validly tendered and not withdrawn will be subject to proration as described in this exchange offer prospectus (1) if we determine there is any likelihood that the New York Stock Exchange continued-listing condition described below may not be satisfied based on consultation with the New York Stock Exchange or (2) if more than 43,900,000 Income PACS are validly tendered and not withdrawn prior to the expiration date of the exchange offer.

The exchange offer will expire at 5:00 p.m., New York City time, on October 18, 2004, unless extended or earlier terminated by us. You may withdraw Income PACS that you tender at any time before the exchange offer expires. In addition, you may withdraw any tendered Income PACS after November 15, 2004, which is 40 business days from September 17, 2004, if we have not accepted them for exchange.

The exchange offer is subject to the conditions described in **The Exchange Offer** **Conditions to the Exchange Offer**, including, among other things, the effectiveness of the registration statement of which this exchange offer prospectus forms a part and the continued listing of the Income PACS on the New York Stock Exchange after the exchange offer. The New York Stock Exchange will consider de-listing the outstanding Income PACS if, following the exchange, the number of publicly-held outstanding Income PACS is less than 100,000, the number of holders of outstanding Income PACS is less than 100, the aggregate market value of the outstanding Income PACS is less than \$1 million, or for any other reason based on the suitability for the continued listing of the outstanding Income PACS in light of all pertinent facts as determined by the New York Stock Exchange. We reserve the right to terminate or extend the exchange offer if any condition of the exchange offer is not satisfied and otherwise to amend the exchange offer in any respect.

The Income PACS are listed on the New York Stock Exchange under the symbol **WMB PrI**, and our common stock is listed on the New York Stock Exchange under the symbol **WMB**. On September 16, 2004, the last reported sale price of the Income PACS on the New York Stock Exchange was \$13.34 per Income PACS and the last reported sale price of our common stock on the New York Stock Exchange was \$12.05 per share. The shares of our common stock to be issued in the exchange offer have been approved for listing on the New York Stock Exchange.

**We urge you to carefully read the **Risk Factors** section beginning on page 12 before you make any decision regarding the exchange offer.**

You must make your own decision whether to tender any Income PACS in the exchange offer and, if so, the number of Income PACS to tender. We do not make any recommendation as to whether or not holders of outstanding Income PACS should tender their Income PACS for exchange in the exchange offer.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of the securities being offered in this exchange offer, or determined if this exchange offer prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

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Lead Dealer Manager

**Merrill Lynch & Co.**

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Dealer Managers

**Citigroup**

**Banc of America Securities LLC**

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The date of this exchange offer prospectus is September 17, 2004.

FELINE PACS, Income PACS and Growth PACS are service marks of Merrill Lynch & Co., Inc.

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You should rely only on the information contained or incorporated by reference in this exchange offer prospectus. We have not, and the dealer managers have not, authorized any other person to provide you with different or additional information. If anyone provides you with different or inconsistent information, you should not rely on it. We are offering to exchange, and are seeking tenders of, these securities only in jurisdictions where the offers or tenders are permitted. You should assume that the information appearing in this exchange offer prospectus and the documents incorporated by reference in this exchange offer prospectus is accurate only as of the dates of this exchange offer prospectus or of

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those documents. Our business, financial condition, results of operations and prospects may have changed since those dates.

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All references in this exchange offer prospectus to Williams, the Company, we, our, ours and us are to The Williams Companies, not including its subsidiaries, unless the context requires otherwise and except that such references in the sections of this exchange offer prospectus entitled Summary Our Company, Risk Factors Risks Related to Our Business, Risks Related to Legal Proceedings and Governmental Investigations, Risks Affecting Our Strategy and Financing Needs, Risks Related to Regulation of Our Business, Risks Related to Environmental Matters, Risks Related to Accounting Standards, Risks Related to Our Industry, Other Risks, Selected Historical Consolidated Financial Data and Cautionary Statement Regarding Forward-Looking Statements are to The Williams Companies, Inc. and its subsidiaries.

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**QUESTIONS AND ANSWERS ABOUT THE EXCHANGE OFFER**

*These answers to questions that you may have as a holder of FELINE PACS, as well as the summary that follows, provide an overview of material information regarding the exchange offer that is included elsewhere or incorporated by reference in this exchange offer prospectus. To fully understand the exchange offer and the other considerations that may be important to your decision about whether to participate in the exchange offer, you should carefully read this exchange offer prospectus in its entirety, including the section entitled Risk Factors, as well as the information incorporated by reference in this exchange offer prospectus. For further information regarding The Williams Companies, Inc., see the section of this exchange offer prospectus entitled Where You Can Find More Information.*

***Who is making the exchange offer?***

We are making the exchange offer.

***Why are we making the exchange offer?***

We are making the exchange offer as part of our ongoing strategy to reduce our overall indebtedness. The exchange offer allows us to retire the notes included in the Income PACS instead of having them remain outstanding if a remarketing of the notes is successful.

***What amount of Income PACS is being sought in the exchange offer?***

We are offering to exchange up to an aggregate of 43,900,000 of our outstanding Income PACS.

***What will participating Income PACS holders receive in the exchange offer?***

For each Income PACS that you validly tender and that we accept for exchange, you will receive one (1.0000) share of our common stock plus \$1.47 in cash upon the terms and subject to the conditions set forth in this exchange offer prospectus and the related letter of transmittal. The portion of the exchange consideration represented by the one (1.0000) share to be received in the exchange offer represents the number of shares of our common stock that you would be obligated to purchase from us on February 16, 2005 for each Income PACS you hold, assuming that the applicable market value of our common stock on that date is less than or equal to \$41.25 per share.

Our common stock and the Income PACS are listed on the New York Stock Exchange under the symbols WMB and WMB PrI, respectively. The last reported sale price per share of our common stock on the New York Stock Exchange was \$12.05 on September 16, 2004. On September 16, 2004, the last reported sale price per Income PACS on the New York Stock Exchange was \$13.34.

***If I participate by tendering my Income PACS, will I receive the quarterly contract adjustment payments and interest payments that are payable on November 16, 2004 and February 16, 2005?***

No. If your Income PACS are validly tendered and accepted for exchange, you will lose your right to receive payments with respect to your Income PACS to be made after completion of the exchange offer, including any accrued interest or the accrued portion of the contract adjustment payment.

***How does the cash payment I will receive if I tender my Income PACS compare to the payments I would receive on the Income PACS if I do not tender?***

The \$1.47 cash payment for each Income PACS you validly tender and that we accept for exchange is more than the interest and quarterly contract adjustment payments you will receive for each of your Income PACS if you do not participate in the exchange offer. If you do not participate in the exchange offer, you will receive \$0.5625 for each Income PACS on each of November 16, 2004 and February 16, 2005, for a total of \$1.125. Except in the circumstances described in the following sentence, you will receive no further quarterly payments after February 16, 2005, because you will have sold your note to a third party in the remarketing or surrendered your note to us to satisfy your stock purchase

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obligation of \$25 for each Income PACS. If you create a Growth PACS or if the first remarketing of the notes fails and you subsequently elect to pay \$25 in cash to settle your stock purchase contract instead of using the proceeds of the remarketing or surrendering your note, you will be able to retain the note and receive quarterly interest payments at the reset rate until February 16, 2007 (but not the quarterly contract adjustment payments, which terminate on February 16, 2005).

If a remarketing of the notes is successful, the proceeds of the remarketing will be used to satisfy your stock purchase obligation on February 16, 2005, and to pay the remarketing agent's fee. The excess proceeds (up to \$0.064 per Income PACS assuming a successful remarketing at 100.5% of the Treasury portfolio purchase price), if any, will be remitted to you.

Accordingly, if you do not participate in the exchange offer and hold your Income PACS through February 16, 2005, you will receive, over the period ending on that date, total cash payments of up to \$1.189 per Income PACS. If on February 16, 2005, the applicable market value of our common stock is less than or equal to \$41.25 per share, you will also receive one (1.000) share of our common stock on that date. If, however, you participate in the exchange offer and we accept your validly tendered Income PACS for exchange, you will receive, for each such Income PACS, \$1.47 in cash and one (1.000) share of our common stock upon the closing of the exchange offer.

In addition, if you validly tender your Income PACS and we accept them for exchange, you will be entitled to receive cash dividends on our common stock if, as, and when declared by our board of directors on or after the closing date of the exchange offer. If you do not participate in the exchange offer, you will be entitled to receive cash dividends only after satisfying your stock purchase obligations on February 16, 2005.

***How does the amount of common stock I will receive if I tender my Income PACS compare to the amount of common stock I will be obligated to purchase on February 16, 2005 if I do not tender?***

The one (1.0000) share of our common stock that you will receive in the exchange offer for each Income PACS validly tendered and accepted for exchange is, based on the current price of the common stock, the same number that you will be obligated to purchase on February 16, 2005, for each of your Income PACS that is not tendered and accepted.

***How will fluctuations in the trading price of our common stock and the Income PACS affect the amount I will receive if I tender my Income PACS?***

We are offering to exchange one (1.0000) share of our common stock and \$1.47 cash for each Income PACS regardless of any fluctuation in the trading price of our common stock or of the Income PACS. If the market price of our common stock declines, the value of the one (1.0000) share you will receive will decline. The trading value of our common stock could fluctuate depending upon any number of factors, including those specific to us and those that influence the trading prices of equity securities generally.

***Will we exchange all validly tendered Income PACS?***

We may not exchange all of the Income PACS that you tender in the exchange offer. If holders validly tender more than an aggregate of 43,900,000 Income PACS for exchange, we will accept an aggregate of not more than 43,900,000 Income PACS from all holders, prorated among the tendering holders. If we determine that there is any likelihood that the New York Stock Exchange continued-listing condition may not be met, we may accept a pro rata amount of the Income PACS tendered in the exchange offer to ensure that the Income PACS continue to be listed on the New York Stock Exchange after the consummation of the exchange offer. Any Income PACS tendered but not accepted because of proration will be returned to you; see the section of this exchange offer prospectus entitled "The Exchange Offer - Priority of Exchanges and Proration."



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***May I tender only a portion of the Income PACS that I hold?***

Yes. You do not have to tender all of your Income PACS to participate in the exchange offer.

***If the exchange offer is consummated and I do not participate in the exchange offer or I do not exchange all of my Income PACS in the exchange offer, how will my rights and obligations under my unexchanged Income PACS be affected?***

The terms of your Income PACS, if any, that remain outstanding after the consummation of the exchange offer will not change as a result of the exchange offer. On February 16, 2005, you will be obligated to purchase from us, for the stated amount of \$25, a fraction of a newly issued share of our common stock equal to the settlement rate. The settlement rate will be calculated based on the price of our common stock and cannot exceed one (1.0000) share, subject to adjustment as described in the section of this exchange offer prospectus entitled Description of the Purchase Contracts Anti-Dilution Adjustments.

***How will the exchange offer affect the trading market for the Income PACS that are not exchanged?***

If a sufficiently large number of Income PACS do not remain outstanding after the exchange offer, the trading market for the remaining outstanding Income PACS may be less liquid and more sporadic, and market prices may fluctuate significantly depending on the volume of trading in Income PACS.

***What do we intend to do with the Income PACS that are tendered in the exchange offer?***

Income PACS accepted for exchange by us in the exchange offer will be retired and cancelled. We intend to treat the exchange of your Income PACS for shares of our common stock plus cash pursuant to the exchange offer as a cash settlement of the purchase contract and a redemption of the note for its adjusted issue price. See the section of this exchange offer prospectus entitled Material U.S. Federal Income Tax Consequences Federal Income Tax Treatment of Participation in the Exchange.

***Are we making a recommendation regarding whether you should tender in the exchange offer?***

We are not making any recommendation regarding whether you should tender or refrain from tendering your Income PACS in the exchange offer.

Accordingly, you must make your own determination as to whether to tender your Income PACS in the exchange offer and, if so, the number of Income PACS to tender. Before making your decision, we urge you to carefully read this exchange offer prospectus in its entirety, including the information set forth in the section of this exchange offer prospectus entitled Risk Factors, and the other documents incorporated by reference in this exchange offer prospectus.

***Will the common stock to be issued in the exchange offer be listed for trading?***

Yes. The shares of our common stock to be issued in the exchange offer have been approved for listing on the New York Stock Exchange. Generally, the common stock you receive in the exchange offer will be freely tradeable, unless you are considered an affiliate of ours, as that term is defined in the Securities Act of 1933. For more information regarding the market for our common stock, see the section of this exchange offer prospectus entitled Market for Common Stock and Income PACS.

***What are the conditions to the exchange offer?***

The exchange offer is conditioned upon:

the effectiveness of the registration statement of which this exchange offer prospectus forms a part;

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there being no likelihood that the acceptance for exchange of outstanding Income PACS pursuant to the exchange offer will cause the outstanding Income PACS to be de-listed from the New York Stock Exchange for any reason;

the accuracy of representations and warranties, and the compliance with certain covenants, contained in the dealer manager agreement, in each case, as of the expiration of the exchange offer; and

the other closing conditions described in the section of this exchange offer prospectus entitled "The Exchange Offer Conditions to the Exchange Offer."

We may waive certain condition of this exchange offer. If any of the conditions is not satisfied or waived, we will not accept and exchange any validly tendered Income PACS. For more information regarding the conditions to the exchange offer (including conditions we cannot waive), see the section of this exchange offer prospectus entitled "The Exchange Offer Conditions to the Exchange Offer."

***When does the exchange offer expire?***

The exchange offer will expire at 5:00 p.m., New York City time, on October 18, 2004, unless extended or earlier terminated by us.

***Under what circumstances can the exchange offer be extended, amended or terminated?***

We reserve the right to extend the exchange offer for any reason or no reason at all. We also expressly reserve the right, at any time or from time to time, to amend the terms of the exchange offer in any respect prior to the expiration date of the exchange offer. Further, we may be required by law to extend the exchange offer if we make a material change in the terms of the exchange offer or in the information contained in this exchange offer prospectus or waive a material condition to the exchange offer. During any extension of the exchange offer, Income PACS that were previously tendered and not validly withdrawn will remain subject to the exchange offer. We reserve the right, in our sole and absolute discretion, to terminate the exchange offer, at any time prior to the expiration date of the exchange offer, if any condition to the exchange offer is not met. If the exchange offer is terminated, no Income PACS will be accepted for exchange and any Income PACS that have been tendered will be returned to the holder. For more information regarding our right to extend, amend or terminate the exchange offer, see the section of this exchange offer prospectus entitled "The Exchange Offer Extension, Delay in Acceptance, Amendment or Termination."

***How will I be notified if the exchange offer is extended, amended or terminated?***

If the exchange offer is extended, amended or terminated, we will promptly issue a press release or another form of public announcement, with the announcement in the case of an extension to be issued no later than 9:00 a.m., New York City time, on the first business day after the previously scheduled expiration date of the exchange offer. For more information regarding notification of extensions, amendments or the termination of the exchange offer, see the section of this exchange offer prospectus entitled "The Exchange Offer Extension, Delay in Acceptance, Amendment or Termination."

***What risks should I consider in deciding whether or not to tender my Income PACS?***

In deciding whether to participate in the exchange offer, you should carefully consider the discussion of risks and uncertainties affecting our business, the Income PACS and our common stock described in the section of this exchange offer prospectus entitled "Risk Factors," and the documents incorporated by reference in this exchange offer prospectus.

***What are the federal income tax consequences of my participating in the exchange offer?***

We intend to treat the exchange of your Income PACS for shares of our common stock plus cash pursuant to the exchange offer as a cash settlement of the purchase contract and a redemption of the note

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for its adjusted issue price. For a detailed discussion, see the section of this exchange offer prospectus entitled *Material U.S. Federal Income Tax Consequences*.

***Are the financial condition and results of operations of Williams relevant to my decision to tender in the exchange offer?***

Yes. The price of both our common stock and the Income PACS are closely linked to our financial condition and results of operations. The successful completion of the exchange offer will reduce our debt service obligations and other related commitments. For information about the accounting treatment of the exchange offer, see the section of this exchange offer prospectus entitled *The Exchange Offer Accounting Treatment*.

***Will Williams receive any cash proceeds from the exchange offer?***

No. We will not receive any cash proceeds from the exchange offer.

***What amount of expenses will Williams incur to effect the exchange offer?***

If the maximum of 43,900,000 Income PACS are validly tendered and accepted, we expect to incur an aggregate of approximately \$74 million in cash expenses, including the cash payment portion of the exchange offer consideration, to effect the exchange offer. Approximately \$49 million of this amount represents aggregate cash payment in lieu of quarterly interest and contract adjustment payments that would have been payable to holders on November 16, 2004 and February 16, 2005, but that will not be paid to tendering holders because their Income PACS would no longer be outstanding.

***How do I tender my Income PACS?***

If you beneficially own Income PACS that are held in the name of a broker or other nominee and wish to tender such Income PACS, you should promptly instruct your broker or other nominee to tender on your behalf. To tender Income PACS, JPMorgan Chase Bank, the exchange agent, must receive, prior to the expiration date of the exchange offer, a timely confirmation of book-entry transfer of such Income PACS and a properly completed letter of transmittal or an agent's message through the automated tender offer program of The Depository Trust Company, which we refer to in this exchange offer prospectus as the *depository* or *DTC*, according to the procedure for book-entry transfer described in this exchange offer prospectus. For more information regarding the procedures for tendering your Income PACS, see the section of this exchange offer prospectus entitled *The Exchange Offer Procedures for Tendering Income PACS*.

***What happens if some or all of my Income PACS are not accepted for exchange?***

If we decide for any reason not to accept some or all of your Income PACS, the Income PACS not accepted by us will be returned to you, at our expense, promptly after the expiration or termination of the exchange offer. In the case of Income PACS tendered by book entry transfer into the exchange agent's account at DTC, DTC will credit any validly withdrawn or unaccepted Income PACS to your account at DTC. For more information, see the section of this exchange offer prospectus entitled *The Exchange Offer Return of Unaccepted Income PACS*.

***Until when may I withdraw previously tendered Income PACS?***

If not previously returned, you may withdraw previously tendered Income PACS at any time until the exchange offer has expired, that is, 5:00 p.m., New York City time, on October 18, 2004, unless extended or earlier terminated by us. In addition, you may withdraw any Income PACS that you tender that are not accepted for exchange by us after November 15, 2004, which is 40 business days from September 17, 2004. For more information, see the section of this exchange offer prospectus entitled *The Exchange Offer Withdrawals of Tenders*.

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***How do I withdraw previously tendered Income PACS?***

To withdraw previously tendered Income PACS, you are required to deliver a written notice of withdrawal to the exchange agent, which you may deliver by facsimile, or you must comply with the appropriate procedures of DTC's automated tender offer program. For more information regarding the procedures for withdrawing tendered Income PACS, see the section of this exchange offer prospectus entitled "The Exchange Offer - Withdrawals of Tenders."

***Will I have to pay any fees or commissions if I tender my Income PACS?***

If your Income PACS are held through a broker or other nominee who tenders the Income PACS on your behalf (other than those tendered through one of the dealer managers), your broker may charge you a commission for doing so. You should consult with your broker or nominee to determine whether any charges will apply.

***Will my broker receive any fee from Williams if I tender my Income PACS?***

If you own 10,000 or fewer Income PACS and they are validly tendered and accepted, we will pay your broker a soliciting dealer fee of an amount equal to \$0.0625 per Income PACS. For more information, see the section of this exchange offer prospectus entitled "The Exchange Offer - Fees and Expenses."

***May I participate in the exchange offer by tendering Growth PACS for exchange?***

No. We are not offering to exchange any Growth PACS. There are currently no Growth PACS outstanding. If you create Growth PACS and desire to participate in the exchange offer, you may recreate Income PACS from your Growth PACS and then tender the recreated Income PACS in the exchange offer. See the section of this exchange offer prospectus entitled "Description of FELINE PACS - Recreating Income PACS" for a discussion on how to recreate Income PACS from your Growth PACS.

***With whom may I talk if I have questions about the exchange offer?***

If you have questions regarding the exchange offer, please contact the lead dealer manager, Merrill Lynch & Co. You may call Merrill Lynch & Co. toll free at 1-888-ML4-TNDR (1-888-654-8637) or (212) 449-4914 (collect). If you have questions regarding the procedures for tendering in the exchange offer, require additional exchange offer materials or require assistance in tendering your Income PACS, please contact D.F. King & Co., Inc., the information agent. You may call the information agent toll-free at 1-800-848-2998. You may also write to the information agent or the lead dealer manager at one of their respective addresses set forth on the back cover of this exchange offer prospectus.

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**SUMMARY**

This summary highlights selected information contained or incorporated by reference in this exchange offer prospectus. It likely does not contain all of the information that may be important to you or that you should consider when making a decision regarding the exchange offer. You should carefully read this entire exchange offer prospectus, including Risk Factors, and the information we have incorporated by reference into this exchange offer prospectus before making a decision to participate in the exchange offer.

**OUR COMPANY**

We are a natural gas 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. We also manage a wholesale power business. Our operations stretch across the country and serve the Northwest, California, Rocky Mountains, Gulf Coast and Eastern Seaboard markets.

The energy industry has substantially changed over the last two years. Those changes have significantly impacted our operations and will continue to impact future operations. In light of the changed environment, on February 20, 2003, we outlined our planned business strategy for the next few years. Our refocused strategy is to become a smaller integrated natural gas company focusing on key growth markets. We also focused on bolstering our liquidity through asset sales, strategic levels of financing and reductions in operating costs to develop a balance sheet capable of supporting and ultimately growing our remaining businesses.

Our business segments include Power, Gas Pipeline, Exploration & Production, Midstream and Other. See Part I Item 1. Business Business Segments in our annual report on Form 10-K for the fiscal year ending December 31, 2003, as amended, for a more detailed description of assets owned and services provided by each of our business segments.

Our principal executive offices are located at One Williams Center, Tulsa, Oklahoma 74172, and our telephone number is (918) 573-2000.



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Expiration Date	The exchange offer will expire at 5:00 p.m., New York City time, on October 18, 2004, unless extended or earlier terminated by us.
Proration of Tendered Income PACS	If more than an aggregate of 43,900,000 Income PACS are validly tendered and not withdrawn prior to the expiration date of the exchange offer, we will accept an aggregate of not more than 43,900,000 Income PACS from all holders who validly tender Income PACS, prorated among the tendering holders. If we determine that there is any likelihood that the New York Stock Exchange continued-listing condition may not be met, we may accept a pro rata amount of the Income PACS tendered in the exchange offer to ensure that the Income PACS continue to be listed on the New York Stock Exchange after the consummation of the exchange offer. Any Income PACS tendered but not accepted because of proration will be returned to you. See the section of this exchange offer prospectus entitled "The Exchange Offer - Priority of Exchanges and Proration."
Certain Consequences to Non-Tendering Holders	Income PACS not exchanged in the exchange offer will remain outstanding after the consummation of the exchange offer. If a sufficiently large number of Income PACS do not remain outstanding after the exchange offer, the trading market for the remaining outstanding Income PACS may be less liquid and more sporadic, and market prices may fluctuate significantly depending on the volume of trading in Income PACS.
Source of Cash to be Paid in the Exchange Offer	We intend to fund the cash component of the exchange consideration from our available cash.
Conditions to the Exchange Offer	The exchange offer is conditioned upon:  the effectiveness of the registration statement of which this exchange offer prospectus forms a part; there being no likelihood that the acceptance for exchange of outstanding Income PACS pursuant to the exchange offer will cause the outstanding Income PACS to be de-listed from the New York Stock Exchange for any reason; the accuracy of representations and warranties, and the compliance with certain covenants, contained in the dealer manager agreement, in each case, as of the expiration of the exchange offer; and the other closing conditions described in the section of this exchange offer prospectus entitled "The Exchange Offer - Conditions to the Exchange Offer."
No Appraisal Rights	No appraisal rights are available to holders of Income PACS in connection with the exchange offer.

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Regulatory Approvals	We are not aware of any governmental or regulatory approvals required for completing the exchange offer other than compliance with federal securities laws, including the effectiveness of the registration statement of which this exchange offer prospectus forms a part.
Procedures For Tendering PACS	<p>To tender Income PACS, JPMorgan Chase Bank, the exchange agent, must receive, prior to the expiration date of the exchange offer, a timely confirmation of book-entry transfer of such Income PACS and a properly completed letter of transmittal or an agent's message through the automated tender offer program of DTC according to the procedure for book-entry transfer described in this exchange offer prospectus. If you tender under DTC's automated tender offer program, you will agree to be bound by the letter of transmittal that we are providing with this exchange offer prospectus as though you had signed the letter of transmittal.</p> <p>If you wish to tender Income PACS that are held in the name of a broker or other nominee, you should instruct your broker or other nominee to tender on your behalf.</p> <p>We describe the procedures for tendering Income PACS in more detail in the section of this exchange offer prospectus entitled "The Exchange Offer - Procedures for Tendering Income PACS."</p>
Withdrawal Rights	You may withdraw previously tendered Income PACS at any time before the expiration date of the exchange offer. In addition, you may withdraw any Income PACS that you tender that are not accepted by us for purchase after November 15, 2004, which is 40 business days from September 17, 2004. See the section of this exchange offer prospectus entitled "The Exchange Offer - Withdrawals of Tenders."
Risk Factors	You should consider carefully all of the information set forth in this exchange offer prospectus and, in particular, you should evaluate the specific factors set forth in the section of this exchange offer prospectus entitled "Risk Factors" before deciding whether to participate in the exchange offer.
Material U.S. Federal Income Tax Consequences For Income PACS Holders	For federal income tax purposes, we intend to treat the exchange of your Income PACS for shares of our common stock plus cash pursuant to the exchange offer as a cash settlement of the purchase contract and redemption of the note for its adjusted issue price. For a detailed discussion, see the section of this exchange offer prospectus entitled "Material U.S. Federal Income Tax Consequences."
Brokerage Commissions	You are not required to pay any brokerage commissions to the dealer managers. If your Income PACS are held through a broker or other nominee who tenders the Income PACS on your behalf (other than those tendered through one of the



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dealer managers), your broker may charge you a commission for doing so.

If you own 10,000 or fewer Income PACS and they are validly tendered and accepted, we will pay your broker a soliciting dealer fee of an amount equal to \$0.0625 per Income PACS. For more information, see the section of this exchange offer prospectus entitled "The Exchange Offer - Fees and Expenses."

Dealer Managers	Merrill Lynch, Pierce, Fenner & Smith Incorporated, Citigroup Global Markets Inc. and Banc of America Securities LLC.
Information Agent	D.F. King & Co., Inc.
Exchange Agent	JPMorgan Chase Bank
Market-Trading	The Income PACS are listed on the New York Stock Exchange under the symbol WMB PrI, and our common stock is listed on the New York Stock Exchange under the symbol WMB. On September 16, 2004, the last reported sale price of the Income PACS on the New York Stock Exchange was \$13.34 per Income PACS and the last reported sale price of our common stock on the New York Stock Exchange was \$12.05 per share. The shares of our common stock to be issued in the exchange offer have been approved for listing on the New York Stock Exchange.
Further Information	If you have questions regarding the exchange offer, please contact the lead dealer manager. If you have questions regarding the procedures for tendering in the exchange offer or require assistance in tendering your Income PACS, please contact the information agent. If you would like additional copies of this exchange offer prospectus, our annual, quarterly, and current reports, proxy statement and other information that we incorporate by reference in this exchange offer prospectus, please contact the information agent. For all other questions, please contact the lead dealer manager. The contact information is set forth on the back cover of this exchange offer prospectus.

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**RISK FACTORS**

In considering whether to participate in the exchange offer, you should carefully consider the risks described below and the other information we have included or incorporated by reference in this exchange offer prospectus.

**Risks Related to the Exchange Offer**

*The value of the common stock that you receive will decline if the market price of our common stock declines.*

We are offering to exchange a fixed number of shares of our common stock and a fixed dollar amount of cash for each Income PACS. The price of our common stock has declined considerably since the initial issuance of the Income PACS and may decline further in the future. If the market price of our common stock declines further, the value of the fixed number of shares you will receive in exchange for your Income PACS will decline. The trading value of our common stock could fluctuate depending upon any number of factors, including those specific to us and those that influence the trading prices of equity securities generally. The market price of our common stock will likely continue to fluctuate in response to factors including the following, many of which are beyond our control:

- quarterly fluctuations in our operating and financial results;
- changes in financial estimates and recommendations by financial analysts;
- changes in the ratings of our indebtedness;
- developments related to litigation or regulatory proceedings involving us;
- fluctuations in the stock price and operating results of our competitors;
- dispositions, acquisitions and financings; and
- general conditions in the industries in which we operate.

In addition, the stock markets in general, including the New York Stock Exchange, experience significant price and trading fluctuations. These fluctuations have resulted in volatility in the market prices of securities that often has been unrelated or disproportionate to changes in operating performance. These broad market fluctuations may affect adversely the market prices of our notes and our common stock.

*All of our debt obligations, including the notes associated with the Income PACS that remain outstanding after the exchange offer, will have priority over our common stock with respect to payment in the event of a liquidation, dissolution or winding up.*

In any liquidation, dissolution or winding up of Williams, our common stock would rank below all debt claims against us, including the notes that are part of the Income PACS. As a result, holders of our common stock will not be entitled to receive any payment or other distribution of assets upon the liquidation or dissolution until after our obligations to our debt holders have been satisfied. In addition, holders of shares of our preferred stock, if any, that may be issued will have priority over the holders of our common stock with respect to the distribution of our assets in the event of our liquidation or dissolution.

*By tendering your Income PACS, you will forgo the possibility of being relieved of your obligation to purchase our common stock under the terms of the purchase contract forming part of your Income PACS.*

As a holder of our common stock rather than Income PACS, in addition to surrendering the right to receive quarterly interest and contract adjustment payments, you will forgo the possibility of being relieved of your obligation to purchase common stock on February 16, 2005 with the proceeds of the remarketing or the note component of your Income PACS. Under the purchase contract, your obligation

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to purchase our common stock would terminate upon the occurrence of certain events of bankruptcy, insolvency or reorganization with respect to us; in this case, you would not be required to acquire shares of our common stock worth, based on the current market price of our common stock, significantly less than the contract price of \$25 per Income PACS. Thus, if such a termination event were to occur between completion of the exchange and February 16, 2005, you already would have purchased the common stock and would no longer hold the note. See the section of this exchange offer prospectus entitled "Description of the Purchase Contracts - Termination."

### ***By tendering your Income PACS, you will lose your right to receive certain cash payments.***

Holders of Income PACS are entitled to quarterly contract adjustment payments, quarterly interest payments, or both. If your Income PACS are validly tendered and accepted for exchange you will lose the right to receive any contract adjustment or quarterly interest payments to be made after completion of the exchange offer, including any accrued interest or the accrued portion of the contract adjustment payment.

### ***The U.S. federal income tax consequences of exchanging the Income PACS are unclear.***

No statutory, judicial or administrative authority directly addresses the U.S. federal income tax treatment to you of exchanging the Income PACS pursuant to the exchange offer. As a result, the U.S. federal income tax consequences to you of exchanging Income PACS pursuant to the exchange offer are unclear. We urge you to carefully review the section of this exchange offer prospectus entitled "Material U.S. Federal Income Tax Consequences."

## **Risks Related to Holding Income PACS After the Exchange Offer**

### ***Income PACS that you continue to hold after the exchange offer are expected to become less liquid following the exchange offer.***

If a sufficiently large number of Income PACS do not remain outstanding after the exchange offer, the trading market for the remaining outstanding Income PACS may be less liquid and market prices may fluctuate significantly depending on the volume of trading in Income PACS. Furthermore, a security with a smaller "float" may command a lower price and trade with greater volatility or much less frequently than would a comparable security with a greater float. This decreased liquidity may also make it more difficult for holders of Income PACS that do not tender to sell their Income PACS.

### ***If you do not participate in the exchange offer, you will have no rights as a common stockholder.***

Until you acquire shares of our common stock upon settlement of your purchase contract associated with the Income PACS, you will not be entitled to any rights with respect to our common stock, including voting rights and rights to receive any dividends or other distributions on our common stock, but you will be subject to all changes affecting the common stock. If you do not tender your Income PACS for exchange, you will only be entitled to rights with respect to our common stock if and when we deliver shares of common stock upon settlement of the Income PACS on February 16, 2005, or as a result of early settlement upon the occurrence of a corporate transaction, as the case may be, and if the applicable record date, if any, for the exercise of rights or the receipt of dividends or other distributions occurs after that date. For example, in the event that an amendment is proposed to our certificate of incorporation or bylaws in connection with a recapitalization of Williams and the record date for determining the stockholders of record entitled to vote on the amendment occurs prior to delivery of our common stock, you will not be entitled to vote on the amendment, although you will nevertheless be subject to any changes in the powers, preferences or special rights of our common stock.

### ***If you do not participate in the exchange offer, your pledged securities will remain encumbered.***

Although you are the beneficial owner of the note or Treasury securities or Treasury portfolio, as applicable, underlying your Income PACS, those securities will remain pledged after the exchange offer to

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secure your obligations under the related purchase contract pursuant to a pledge agreement. Thus, your rights to the pledged securities will remain subject to our security interest. Additionally, even if the purchase contracts are terminated in the event that we become the subject of a case under the U.S. Bankruptcy Code, the delivery of the pledged securities to you may be delayed, as provided in the pledge agreement, because of the commencement of a bankruptcy case and the protections given to debtors in such circumstances.

***The purchase contract agreement that is associated with the Income PACS is not qualified under the Trust Indenture Act of 1939; the obligations of the purchase contract agent are limited.***

The purchase contract agreement between the purchase contract agent and us is not qualified as an indenture under the Trust Indenture Act of 1939, and the purchase contract agent is not required to qualify as a trustee under the Trust Indenture Act. The note constituting a part of each Income PACS was issued pursuant to an indenture that has been qualified under the Trust Indenture Act. Accordingly, if you hold Income PACS after the exchange offer, you will not have the benefit of the protections of the Trust Indenture Act other than to the extent applicable to a note included in an Income PACS. The protections generally afforded the holder of a security issued under an indenture that has been qualified under the Trust Indenture Act include:

disqualification of the indenture trustee for conflicting interests, as defined under the Trust Indenture Act;

provisions preventing a trustee that is also a creditor of the issuer from improving its own credit position at the expense of the security holders immediately prior to or after a default under such indenture; and

the requirement that the indenture trustee deliver reports at least annually with respect to certain matters concerning the indenture trustee and the securities.

***We may redeem notes that are a part of the Income PACS upon the occurrence of a tax event.***

We have the option to redeem the notes, on not less than 30 days nor more than 60 days prior written notice, in whole but not in part, at any time before February 16, 2007 if a tax event occurs and continues under the circumstances described in this exchange offer prospectus. If we exercise this option, we will redeem the notes at the redemption price plus accrued and unpaid interest, if any. If we redeem the notes, we will pay the redemption price in cash to the holders of the notes. If the tax event redemption occurs before November 16, 2004, or before February 16, 2005 if the notes are not successfully remarketed on November 10, 2004 (the third business day immediately preceding November 16, 2004), the redemption price payable to you as a holder of the Income PACS will be distributed to the collateral agent, who in turn will apply an amount equal to the redemption price to purchase the Treasury portfolio on your behalf, and will remit the remainder of the redemption price to you, and the Treasury portfolio will be substituted for the notes as collateral to secure your obligations under the purchase contracts related to the Income PACS. If your notes are not components of Income PACS, you will receive redemption payments directly. The market price for the Income PACS may decline if we substitute the Treasury portfolio of treasury securities as collateral in place of any notes so redeemed. A tax event redemption will be a taxable event to the holders of Income PACS and of the notes held separately.

***The trading prices for the Income PACS that remain outstanding after the exchange offer will be directly affected by the trading prices of our common stock.***

The trading prices of the Income PACS in the secondary market are directly affected by the trading prices of our common stock, the general level of interest rates and our credit quality. It is impossible to predict whether the price of our common stock or interest rates will rise or fall. Trading prices of our common stock will be influenced by the factors described in the section of this exchange offer prospectus entitled "Risk Factors - Risks Related to the Exchange Offer." The value of the common stock that you receive will decline if the market price of our common stock declines. Fluctuations in

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interest rates may give rise to arbitrage opportunities based upon changes in the relative value of the common stock underlying the purchase contracts and of the other components of the Income PACS. Any such arbitrage could, in turn, affect the trading prices of the Income PACS that remain outstanding after the exchange offer, the notes and our common stock.

### **Risks Related to Our Business**

#### ***Our risk measurement and hedging activities might not prevent losses.***

The risk management systems that we have in place might not always be followed or might not always work as planned. Further, such risk measurement systems do not in themselves manage risk, and 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 manage our financial exposure related to commodity price 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 risks identified 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.

Some of the hedges of our tolling contracts are more effective than others in managing economic risk and creating future cash flow certainty. For example, we may resell our rights under a tolling contract through a forward contract, which has terms that match those of the tolling contract. This type of forward contract would be very effective at hedging not only the commodity price risk but also the volatility risk inherent in the tolling contract. However, this forward contract would not hedge the tolling contract's counterparty credit or performance risk. A default by the tolling contract counterparty could result in a future loss of economic value and a change in future cash flows. Other economic hedges of the tolling contract, including full requirements contracts, forward physical commodity contracts and financial swaps and futures, could also effectively hedge the commodity price risk of a tolling contract. However, these types of contracts would be less effective or ineffective in hedging the volatility risk associated with the tolling contract because they do not possess the same optionality characteristics as the tolling contract. These other contracts would also be ineffective in hedging counterparty credit or performance risk.

The impact of changes in market prices for natural gas on the gas prices received by us may be reduced based on the level of our hedging strategies. These hedging arrangements may limit our potential gains if the market prices for natural gas were to rise substantially over the price established by the hedge. In addition, our hedging arrangements expose us to the risk of financial loss in certain circumstances, including instances in which:

production is less than expected;

a change in the difference between published price indexes established by pipelines in which our hedged production is delivered and the reference price established in the hedging arrangements is such that we are required to make payments to our counterparties; or

the counterparties to our hedging arrangements fail to honor their financial commitments.

#### ***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 value of our power and gas businesses depend primarily upon the prices we receive for natural gas and other commodities. Prices

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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 and related commodities;

turmoil in the Middle East and other producing regions;

weather conditions;

the level of consumer demand;

the price and availability of alternative fuels;

the availability of pipeline capacity;

domestic and foreign governmental regulations and taxes;

increased volatility in the natural gas markets in light of continuing uncertainty surrounding regulatory proceedings and proposed regulations;

the overall economic environment; and

the credit of participants in the markets where 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 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 marketing. 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 that secures our counterparty's obligation 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 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



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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. The hedges and contracts that we have in place to manage foreign currency exchange risks might not be sufficient or we might have some exposures that are not hedged which could result in losses or volatility in our revenues.

***Our debt agreements and other related transaction documents impose restrictions on us that may adversely affect our ability to operate our business.***

Our debt agreements and other related transaction documents contain covenants that restrict, among other things, our ability to:

- incur or guarantee additional indebtedness;
- create liens;
- pay dividends or make other equity distributions;
- enter into agreements restricting our subsidiaries' ability to pay dividends;
- purchase or redeem capital stock;
- make investments;
- sell assets or consolidate or merge with or into other companies; and
- engage in transactions with affiliates.

In addition, our debt agreements and other related transaction documents contain, and other debt agreements and other related transaction documents that we enter into in the future will contain, financial covenants and other limitations with which we will need to comply. 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 and other related transaction documents, to remedy that default.





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

### **Risks Related to Legal Proceedings and Governmental Investigations**

#### ***We might be adversely affected by governmental investigations and any related legal proceedings related to our power business.***

Public and regulatory scrutiny of the energy industry and of the capital markets has resulted in increased regulation being either proposed or implemented. Such scrutiny has also resulted in various inquiries, investigations and court proceedings.

Such inquiries, investigations and court proceedings are ongoing and continue to adversely affect our business as well as 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 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 business and our revenues and net income or increase our operating costs in other ways.

#### ***We might be adversely affected by securities class action litigation.***

In 2002, several class action lawsuits were filed in the U.S. District Court for the Northern District of Oklahoma, alleging violations of various provisions of the Securities Act of 1933 and/or the Securities Exchange Act of 1934 against us and certain of our present and former officers and directors. The majority of the suits allege that we and co-defendants, WilTel Communications, a previously owned subsidiary known as Williams Communications Group, and certain corporate officers, acted jointly and separately to inflate the stock price of both companies. Other suits allege similar causes of action related to the public offering of the FELINE PACS in January 2002. These suits were filed against us, certain corporate officers, members of our board of directors and all of the underwriters, including the dealer managers for this exchange offer. The court ordered consolidation of these cases, and a Consolidated Amended Complaint was filed on behalf of various purchasers of our securities during the period July 24, 2000 through July 22, 2002. That pleading makes several claims against us relating to our former subsidiary Williams Communications Group, our power subsidiary, and various other alleged misrepresentations and omissions. Discovery in the now-consolidated actions is ongoing. See *Legal Proceedings* in our annual report for the year ended December 31, 2003 and our quarterly reports on Form 10-Q for the quarters ended March 31, 2004 and June 30, 2004, in each case as amended, if applicable. Our management has had to expend time addressing the demand of these cases, and we expect that management attention and resources may continue to be diverted in the future, all of which could harm our business.

### **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

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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.

*Because we no longer maintain investment grade credit ratings, our counterparties have required us to provide higher amounts of credit support which raises our cost of doing business.*

Our transactions in each o