WILLIAMS COMPANIES INC
Form 10-K/A
May 01, 2012

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-K/A

Amendment No. 2

(Mark One)

x **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the fiscal year ended December 31, 2011

OR

¨ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the transition period from to

Commission file number 1-4174

The Williams Companies, Inc.

(Exact Name of Registrant as Specified in Its Charter)

Delaware	**73-0569878**
(State or Other Jurisdiction of Incorporation or Organization)	**(IRS Employer Identification No.)**

One Williams Center, Tulsa, Oklahoma	**74172**
(Address of Principal Executive Offices)	**(Zip Code)**

918-573-2000

(Registrant s Telephone Number, Including Area Code)

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

Title of Each Class	**Name of Each Exchange on Which Registered**
Common Stock, $1.00 par value	New York Stock Exchange
Preferred Stock Purchase Rights	New York Stock Exchange

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

5.50% Junior Subordinated Convertible Debentures due 2033

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes x No ¨

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ¨ No x

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No ¨

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ¨

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer x	Accelerated filer ¨
Non-accelerated filer ¨ (Do not check if a smaller reporting company)	Smaller reporting company ¨

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes ¨ No x

The aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the price at which the common equity was last sold as of the last business day of the registrant s most recently completed second quarter was approximately $17,802,985,945.

The number of shares outstanding of the registrant s common stock outstanding at February 22, 2012 was 592,181,611.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Registrant s Definitive Proxy Statement for the Registrant s 2011 Annual Meeting of Stockholders to be held on May 17, 2012, are incorporated into Part III, as specifically set forth in Part III.

Explanatory Note

This Amendment No. 2 on Form 10-K/A for the fiscal year ended December 31, 2011, is filed to restate the Selected Financial Data in Item 6 and Controls and Procedures in Item 9A, both as filed in our Form 10-K on February 27, 2012, as well as the Financial Statements and Supplementary Data in Item 8, as filed in our Amendment No. 1 on Form 10-K/A on April 11, 2012. The restatement reflects a correction to our accounting for deferred income taxes related to our investment in Williams Partners L.P. (WPZ). More specifically, this impacts our noncurrent deferred income tax liability related to financial and income tax bases differences arising from amounts previously recognized in capital in excess of par value as a result of the issuance of common units of our consolidated master limited partnership, WPZ. The impact of the correction is an increase to our noncurrent deferred income tax liability and a corresponding decrease to capital in excess of par value for all periods presented. There is no impact to our Consolidated Statement of Operations or Consolidated Statement of Cash Flows.

In accordance with Accounting Standards Codification (ASC) 810 *Consolidation* (and as previously issued as Statement of Financial Accounting Standards No. 160 *Noncontrolling Interests in Consolidated Financial Statements - An Amendment of ARB No. 51*) (ASC 810), which was effective for us beginning January 1, 2009, on a prospective basis, and previously in accordance with our policy election under the Securities and Exchange Commission Staff Accounting Bulletin No. 51 *Accounting for Sales of Stock by a Subsidiary*, we recorded gains associated with such issuances of WPZ units as a component of our stockholders equity.

We previously had not recorded deferred income taxes associated with these equity gains . However, in accordance with ASC 740 *Income Taxes*, we should recognize deferred income taxes for the future tax effects arising from the differences in our financial and income tax bases in our WPZ investment resulting from these transactions. This would only result in a current tax payable if we disposed of our investment interest in WPZ. Management has stated that it has no intent to dispose of this investment.

See additional discussion of the correction within Note 1 of Notes to Consolidated Financial Statements in Item 8 of this filing.

Item 6. ***Selected Financial Data***

The following financial data at December 31, 2011 and 2010, and for each of the three years in the period ended December 31, 2011, should be read in conjunction with the financial information included in Part II, Item 7, *Management s Discussion and Analysis of Financial Condition and Results of Operations* of our Form 10-K filed February 27, 2012, and Item 8, *Financial Statements and Supplementary Data* of this Amendment No. 2 on Form 10-K/A. All other financial data has been prepared from our accounting records. Certain amounts have been recast as a result of the December 31, 2011 spin-off of WPX. (See Note 1 of Notes to Consolidated Financial Statements.)

	2011	2010	2009	2008	2007
		(Millions, except per-share amounts)			
Revenues	$ 7,930	$ 6,638	$ 5,278	$ 6,904	$ 6,639
Income (loss) from continuing operations (1)	1,078	271	346	682	677
Amounts attributable to The Williams Companies, Inc.:					
Income (loss) from continuing operations	803	104	206	528	606
Diluted earnings (loss) per common share:					
Income (loss) from continuing operations	1.34	0.17	0.35	0.90	1.00
Total assets at December 31 (2)	16,502	24,972	25,280	26,006	25,061
Short-term notes payable and long-term debt due within one year at December 31	353	508	17	18	108
Long-term debt at December 31	8,369	8,600	8,259	7,683	7,579
Stockholders equity at December 31 (2)	1,296	6,803	7,990	7,983	6,375
Cash dividends declared per common share	0.775	0.485	0.44	0.43	0.39

(1) Income from continuing operations for 2011 includes $271 million of pre-tax early debt retirement costs and 2010 includes $648 million of pre-tax costs associated with our strategic restructuring transaction in the first quarter of 2010. See Note 4 of Notes to Consolidated Financial Statements for further discussion of asset sales, impairments, and other accruals in 2011, 2010, and 2009.

(2) Total assets and stockholders equity for 2011 decreased due to the special dividend to spin off our former exploration and production business. See Note 2 of Notes to Consolidated Financial Statements for further information regarding the spin-off and the dividend.

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

MANAGEMENT S ANNUAL REPORT ON INTERNAL CONTROL OVER

FINANCIAL REPORTING

Management is responsible for establishing and maintaining adequate internal control over financial reporting (as defined in Rules 13a 15(f) and 15d 15(f) under the Securities Exchange Act of 1934). Our internal controls over financial reporting are designed to provide reasonable assurance to our management and board of directors regarding the preparation and fair presentation of financial statements in accordance with accounting principles generally accepted in the United States. Our internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of our assets; (ii) provide reasonable assurance that transactions are recorded as to permit preparation of financial statements in accordance with generally accepted accounting principles, and that our receipts and expenditures are being made only in accordance with authorization of our management and board of directors; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of our assets that could have a material effect on our financial statements.

All internal control systems, no matter how well designed, have inherent limitations including the possibility of human error and the circumvention or overriding of controls. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation. Under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, we assessed the effectiveness of our internal control over financial reporting as of December 31, 2011, based on the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in *Internal Control Integrated Framework.* Based on our assessment, we previously concluded that, as of December 31, 2011, our internal control over financial reporting was effective. In April 2012 we identified a material weakness related to accounting for deferred income taxes related to our investment in Williams Partners L.P. (WPZ) associated with gains recorded as a part of stockholders equity on units that WPZ issued in prior years.

A material weakness is a deficiency, or combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the annual or interim financial statements will not be prevented or detected on a timely basis.

As discussed further in Note 1, we previously had not recorded deferred income taxes related to our investment in WPZ associated with gains recorded as part of stockholders equity on units that WPZ issued in prior years. However, in accordance with ASC 740 *Income Taxes*, we have now concluded that we should recognize deferred income taxes for tax effects arising from the differences in our financial and income tax bases in our WPZ investment resulting from these transactions., The correction to recognize these deferred taxes resulted in an increase to our noncurrent deferred income tax liability and a corresponding decrease to capital in excess of par value for all periods presented. Although this error had no impact on our Consolidated Statement of Operations or Consolidated Statement of Cash Flows, its magnitude was material to the Consolidated Balance Sheet and Consolidated Statement of Changes in Equity.

Based upon our current assessment, which considered the material weakness described above, our management concluded that our internal control over financial reporting was not effective at December 31, 2011.

We have corrected our method of accounting for deferred income taxes related to our investment in WPZ associated with gains recorded as part of stockholders equity on units that WPZ issues. We are also enhancing our controls for oversight of tax accounting for our financial investment in WPZ.

Ernst & Young LLP, our independent registered public accounting firm, has audited our internal control over financial reporting, as stated in their report which is included in this Amendment No. 2 on Form 10-K/A to our Annual Report.

Report of Independent Registered Public Accounting Firm

On Internal Control Over Financial Reporting

The Board of Directors and Stockholders of

The Williams Companies, Inc.

We have audited The Williams Companies, Inc. s internal control over financial reporting as of December 31, 2011, based on criteria established in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). The Williams Companies, Inc. s management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management s Annual Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Company s internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company s internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company s internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company s assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our report dated February 27, 2012, we expressed an unqualified opinion that The Williams Companies, Inc. maintained, in all material respects, effective internal control over financial reporting as of December 31, 2011 based on the COSO criteria. Management has subsequently determined that a deficiency in controls as described in the following paragraph existed as of December 31, 2011, and has further concluded that such deficiency represented a material weakness as of December 31, 2011. As a result, management has revised its assessment, as presented in Item 8 in Management s Annual Report on Internal Control Over Financial Reporting , to conclude that the Company s internal control over financial reporting was not effective as of December 31, 2011. Accordingly, our present opinion on the effectiveness of the Company s internal control over financial reporting as of December 31, 2011, as expressed herein, is different from that expressed in our previous report.

A material weakness is a deficiency, or combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the company s annual or interim financial statements will not be prevented or detected on a timely basis. The following material weakness has been identified and included in management s assessment. Management has identified a material weakness in controls with respect to the Company s accounting for deferred income taxes related to the Company s investment in Williams Partners L.P. We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheet of The Williams Companies, Inc. as of December 31, 2011 and 2010, and the related consolidated statements of operations, changes in equity, and cash flows for each of the three years in the period ended December 31, 2011, of The Williams Companies, Inc. This material weakness was considered in

determining the nature, timing and extent of audit tests applied in our audit of the financial statements and this report does not affect our report dated February 27, 2012, except as it relates to the matter discussed under Basis of Presentation Correction of error in Note 1, as to which the date is May 1, 2012, which expressed an unqualified opinion on those financial statements.

In our opinion, because of the effect of the material weakness described above on the achievement of the objectives of the control criteria, The Williams Companies, Inc. has not maintained effective internal control over financial reporting as of December 31, 2011, based on the COSO criteria.

/s/ Ernst & Young LLP

Tulsa, Oklahoma

February 27, 2012, except for the effects of the

material weakness described in the sixth paragraph,

as to which the date is

May 1, 2012

Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders of

The Williams Companies, Inc.

We have audited the accompanying consolidated balance sheet of The Williams Companies, Inc. as of December 31, 2011 and 2010, and the related consolidated statements of operations, changes in equity, and cash flows for each of the three years in the period ended December 31, 2011. Our audits also included the financial statement schedules listed in the index at Item 15(a). These financial statements and schedules are the responsibility of the Company s management. Our responsibility is to express an opinion on these financial statements and schedules based on our audits. We did not audit the financial statements of Gulfstream Natural Gas System, L.L.C. (Gulfstream) (a limited liability corporation in which the Company has a 50 percent interest). The Company s investment in Gulfstream constituted two percent of the Company s assets as of both December 31, 2011 and 2010 and the Company s equity earnings in the net income of Gulfstream constituted five and seventeen percent of the Company s income from continuing operations before income taxes for the years ended December 31, 2011 and 2010, respectively. Gulfstream s financial statements were audited by other auditors whose report has been furnished to us, and our opinion on the 2011 and 2010 consolidated financial statements, insofar as it relates to the amounts included for Gulfstream, is based solely on the report of the other auditors.

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

In our opinion, based on our audits and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of The Williams Companies, Inc. at December 31, 2011 and 2010, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2011, in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the related financial statement schedules, when considered in relation to the basic financial statements taken as a whole, present fairly in all material respects the information set forth therein.

As discussed in Note 1 to the consolidated financial statements, the consolidated balance sheet and consolidated statement of changes in equity have been restated to correct the accounting for deferred income taxes related to the Company s investment in Williams Partners L.P.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), The Williams Companies, Inc. s internal control over financial reporting as of December 31, 2011, based on criteria established in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 27, 2012, except for the effects of the material weakness described in the sixth paragraph (of that report), as to which the date is May 1, 2012, expressed an adverse opinion thereon.

/s/ Ernst & Young LLP

Tulsa, Oklahoma

February 27, 2012, except as it relates to the matter discussed

under Basis of Presentation Correction of error in Note 1,

as to which the date is

May 1, 2012

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Members of Gulfstream Natural Gas System, L.L.C.

We have audited the balance sheets of Gulfstream Natural Gas System, L.L.C., (the Company), as of December 31, 2011 and 2010, and the related statements of operations, cash flows, and members equity and comprehensive income for the years then ended. These financial statements are the responsibility of the Company s management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company s internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such financial statements present fairly, in all material respects, the financial position of Gulfstream Natural Gas System, L.L.C. as of December 31, 2011 and 2010, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

/s/ Deloitte & Touche LLP

Houston, Texas

February 23, 2012

THE WILLIAMS COMPANIES, INC.

CONSOLIDATED STATEMENT OF OPERATIONS

	Years Ended December 31,		
	2011	**2010**	**2009**
	(Millions, except per-share amounts)		
Revenues:			
Williams Partners	$ 6,729	$ 5,715	$ 4,602
Midstream Canada & Olefins	1,312	1,033	753
Other	25	24	27
Intercompany eliminations	(136)	(134)	(104)
Total revenues	7,930	6,638	5,278
Segment costs and expenses:			
Costs and operating expenses	5,550	4,712	3,712
Selling, general, and administrative expenses	325	313	330
Other (income) expense net	1	(15)	(34)
Total segment costs and expenses	5,876	5,010	4,008
General corporate expenses	187	221	164
Operating income (loss):			
Williams Partners	1,754	1,465	1,236
Midstream Canada & Olefins	300	172	37
Other		(9)	(3)
General corporate expenses	(187)	(221)	(164)
Total operating income (loss)	1,867	1,407	1,106
Interest accrued	(598)	(628)	(656)
Interest capitalized	25	36	61
Investing income net	168	188	38
Early debt retirement costs	(271)	(606)	(1)
Other income (expense) net	11	(12)	2
Income (loss) from continuing operations before income taxes	1,202	385	550
Provision (benefit) for income taxes	124	114	204
Income (loss) from continuing operations	1,078	271	346
Income (loss) from discontinued operations	(417)	(1,193)	15
Net income (loss)	661	(922)	361
Less: Net income attributable to noncontrolling interests	285	175	76
Net income (loss) attributable to The Williams Companies, Inc.	$ 376	$ (1,097)	$ 285
Amounts attributable to The Williams Companies, Inc.:			
Income (loss) from continuing operations	$ 803	$ 104	$ 206
Income (loss) from discontinued operations	(427)	(1,201)	79

Net income (loss)	$ 376	$ (1,097)	$ 285
Basic earnings (loss) per common share:			
Income (loss) from continuing operations	$ 1.36	$ .17	$ .35
Income (loss) from discontinued operations	(.72)	(2.05)	.14
Net income (loss)	$ .64	$ (1.88)	$ .49
Weighted-average shares (thousands)	588,553	584,552	581,674
Diluted earnings (loss) per common share:			
Income (loss) from continuing operations	$ 1.34	$ .17	$ .35
Income (loss) from discontinued operations	(.71)	(2.03)	.14
Net income (loss)	$ .63	$ (1.86)	$ .49
Weighted-average shares (thousands)	598,175	590,699	585,955

See accompanying notes.

THE WILLIAMS COMPANIES, INC.

CONSOLIDATED BALANCE SHEET

	December 31, 2011	December 31, 2010
	(Millions, except per-share amounts)	
	(Restated)	(Restated)
ASSETS		
Current assets:		
Cash and cash equivalents	$ 889	$ 758
Accounts and notes receivable (net of allowance of $1 at December 31, 2011 and 2010, respectively)	637	497
Inventories	169	225
Assets of discontinued operations		897
Regulatory assets	40	51
Other current assets and deferred charges	159	102
Total current assets	1,894	2,530
Investments	1,391	1,240
Property, plant, and equipment net	12,580	11,754
Assets of discontinued operations		8,828
Regulatory assets, deferred charges, and other	637	620
Total assets	$ 16,502	$ 24,972
LIABILITIES AND EQUITY		
Current liabilities:		
Accounts payable	$ 691	$ 432
Accrued liabilities	631	738
Liabilities of discontinued operations		896
Long-term debt due within one year	353	508
Total current liabilities	1,675	2,574
Long-term debt	8,369	8,600
Deferred income taxes	2,157	2,223
Liabilities of discontinued operations		2,179
Regulatory liabilities, deferred income, and other	1,715	1,262
Contingent liabilities and commitments (Note 16)		
Equity:		
Stockholders equity:		
Common stock (960 million shares authorized at $1 par value; 626 million shares issued at December 31, 2011 and 620 million shares issued at December 31, 2010)	626	620
Capital in excess of par value	7,920	7,784
Retained deficit	(5,820)	(478)
Accumulated other comprehensive income (loss)	(389)	(82)
Treasury stock, at cost (35 million shares of common stock)	(1,041)	(1,041)
Total stockholders equity	1,296	6,803
Noncontrolling interests in consolidated subsidiaries	1,290	1,331
Total equity	2,586	8,134
Total liabilities and equity	$ 16,502	$ 24,972

See accompanying notes.

THE WILLIAMS COMPANIES, INC.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	The Williams Companies, Inc., Stockholders							
	Common Stock	Capital in Excess of Par Value	Retained Earnings (Deficit)	Accumulated Other Comprehensive Loss	Treasury Stock	Total Stockholders Equity	Noncontrolling Interest	Total
	(Millions, except per-share amounts)							
Balance, December 31, 2008 (Restated)	$ 613	$ 7,617	$ 874	$ (80)	$ (1,041)	$ 7,983	$ 614	$ 8,597
Comprehensive income (loss):								
Net income (loss)			285			285	76	361
Other comprehensive income (loss):								
Net change in cash flow hedges (Note 17)				(221)		(221)		(221)
Foreign currency translation adjustments				83		83		83
Pension benefits:								
Net actuarial gain (loss)				46		46	7	53
Other postretirement benefits:								
Prior service cost				4		4		4
Total other comprehensive income (loss)						(88)	7	(81)
Total comprehensive income (loss)						197	83	280
Cash dividends common stock (Note 12)			(256)			(256)		(256)
Dividends and distributions to noncontrolling interests							(129)	(129)
Issuance of common stock from debentures conversion (Note 12)	3	25				28		28
Stock-based compensation, net of tax benefit	2	36				38		38
Other							4	4
Balance, December 31, 2009 (Restated)	618	7,678	903	(168)	(1,041)	7,990	572	8,562
Comprehensive income (loss):								
Net income (loss)			(1,097)			(1,097)	175	(922)
Other comprehensive income (loss):								
Net change in cash flow hedges (Note 17)				92		92		92
Foreign currency translation adjustments				29		29		29
Pension benefits:								
Prior service cost				1		1		1
Net actuarial gain (loss)				(25)		(25)		(25)
Other postretirement benefits:								
Prior service cost				(3)		(3)		(3)
Net actuarial gain (loss)				(8)		(8)		(8)
Total other comprehensive income (loss)						86		86
Total comprehensive income (loss)						(1,011)	175	(836)
Cash dividends common stock (Note 12)			(284)			(284)		(284)
Dividends and distributions to noncontrolling interests							(145)	(145)
Issuance of common stock from debentures conversion (Note 12)		2				2		2
Sale of limited partner units of consolidated partnership							806	806
	2	55				57		57

Stock-based compensation, net of tax benefit								
Changes in Williams Partners L.P. ownership interest, net		49				49	(77)	(28)
Balance, December 31, 2010 (Restated)	620	7,784	(478)	(82)	(1,041)	6,803	1,331	8,134
Comprehensive income (loss):								
Net income (loss)			376			376	285	661
Other comprehensive income (loss):								
Net change in cash flow hedges (Note 17)				53		53		53
Foreign currency translation adjustments				(18)		(18)		(18)
Pension benefits:								
Prior service cost				1		1		1
Net actuarial gain (loss)				(112)		(112)		(112)
Other postretirement benefits:								
Prior service cost				(2)		(2)		(2)
Net actuarial gain (loss)				(13)		(13)		(13)
Unrealized gain (loss) on equity securities				3		3		3
Total other comprehensive income (loss)						(88)		(88)
Total comprehensive income (loss)						288	285	573
Cash dividends common stock (Note 12)			(457)			(457)		(457)
Dividends and distributions to noncontrolling interests							(214)	(214)
Issuance of common stock from debentures conversion (Note 12)	1	13				14		14
Stock-based compensation, net of tax benefit	4	104				108		108
Changes in Williams Partners L.P. ownership interest, net		18				18	(30)	(12)
Distribution of WPX Energy, Inc. to shareholders (Note 2)			(5,261)	(219)		(5,480)	(81)	(5,561)
Other	1	1				2	(1)	1
Balance, December 31, 2011 (Restated)	$ 626	$ 7,920	$ (5,820)	$ (389)	$ (1,041)	$ 1,296	$ 1,290	$ 2,586

See accompanying notes.

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THE WILLIAMS COMPANIES, INC.

CONSOLIDATED STATEMENT OF CASH FLOWS

	Years Ended December 31,		
	2011	2010 (Millions)	2009
OPERATING ACTIVITIES:			
Net income (loss)	$ 661	$ (922)	$ 361
Adjustments to reconcile to net cash provided by operating activities:			
Depreciation, depletion, and amortization	1,614	1,507	1,469
Provision (benefit) for deferred income taxes	(179)	(155)	249
Provision for loss on goodwill, investments, property and other assets	882	1,735	386
Provision for doubtful accounts and notes	1	(6)	48
Amortization of stock-based awards	52	48	43
Early debt retirement costs	271	606	1
Cash provided (used) by changes in current assets and liabilities:			
Accounts and notes receivable	(197)	(36)	52
Inventories	60	(81)	33
Margin deposits and customer margin deposits payable	(18)	(1)	4
Other current assets and deferred charges	(15)	43	7
Accounts payable	250	(14)	5
Accrued liabilities	51	(29)	(170)
Changes in current and noncurrent derivative assets and liabilities	7	(42)	36
Other, including changes in noncurrent assets and liabilities	(1)	(2)	48
Net cash provided by operating activities	3,439	2,651	2,572
FINANCING ACTIVITIES:			
Proceeds from long-term debt	3,172	5,129	595
Payments of long-term debt	(2,055)	(4,305)	(33)
Proceeds from sale of limited partner units of consolidated partnership		806	
Dividends paid	(457)	(284)	(256)
Dividends and distributions paid to noncontrolling interests	(214)	(145)	(129)
Cash of WPX Energy, Inc. at spin-off	(526)		
Payments for debt issuance costs	(50)	(71)	(7)
Premiums paid on early debt retirements	(254)	(574)	
Changes in restricted cash			40
Other net	42	17	(44)
Net cash provided (used) by financing activities	(342)	573	166
INVESTING ACTIVITIES:			
Capital expenditures(1)	(2,796)	(2,788)	(2,387)
Purchases of investments/advances to affiliates	(233)	(488)	(142)
Purchase of businesses	(41)	(1,099)	
Distribution from Gulfstream Natural Gas System, L.L.C.			148
Other net	67	79	71
Net cash used by investing activities	(3,003)	(4,296)	(2,310)
Increase (decrease) in cash and cash equivalents	94	(1,072)	428
Cash and cash equivalents at beginning of year(2)	795	1,867	1,439
Cash and cash equivalents at end of year(2)	$ 889	$ 795	$ 1,867

(1) Increases to property, plant, and equipment	$ (2,953)	$ (2,755)	$ (2,314)
Changes in related accounts payable and accrued liabilities	157	(33)	(73)
Capital expenditures	$ (2,796)	$ (2,788)	$ (2,387)

(2) Except for cash and cash equivalents at end of year 2011, includes cash from our former exploration and production business (See Note 2).

See accompanying notes.

THE WILLIAMS COMPANIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1. Description of Business, Basis of Presentation, and Summary of Significant Accounting Policies

Description of Business

Our operations are located principally in the United States and are organized into the following reporting segments: Williams Partners and Midstream Canada & Olefins. All remaining business activities are included in Other.

Williams Partners consists of our consolidated master limited partnership, Williams Partners L.P. (WPZ) and includes gas pipeline and domestic midstream businesses. The gas pipeline businesses include 100 percent of Transcontinental Gas Pipe Line Company, LLC (Transco), 100 percent of Northwest Pipeline GP (Northwest Pipeline), and 49 percent of Gulfstream Natural Gas System, L.L.C. (Gulfstream). WPZ s midstream operations are composed of significant, large-scale operations in the Rocky Mountain and Gulf Coast regions, operations in Pennsylvania s Marcellus Shale region, and various equity investments in domestic natural gas gathering and processing assets and natural gas liquid (NGL) fractionation and transportation assets. WPZ s midstream assets also include substantial operations and investments in the Four Corners region, as well as an NGL fractionator and storage facilities near Conway, Kansas.

Our Midstream Canada & Olefins segment includes our oil sands off-gas processing plant near Fort McMurray, Alberta, our NGL/olefin fractionation facility and butylene/butane splitter facility at Redwater, Alberta, our NGL light-feed olefins cracker in Geismar, Louisiana, along with associated ethane and propane pipelines, and our refinery grade splitter in Louisiana.

Other includes other business activities that are not operating segments, as well as corporate operations.

Basis of Presentation

Correction of error

The accompanying Consolidated Balance Sheet and Consolidated Statement of Changes in Equity have been restated to correct an error related to our accounting for deferred income taxes associated with our investment in WPZ. In accordance with Accounting Standards Codification (ASC) 810 *Consolidation* (and as previously issued as Statement of Financial Accounting Standards No. 160 *Noncontrolling Interests in Consolidated Financial Statements - An Amendment of ARB No. 51*) (ASC 810), which was effective for us beginning January 1, 2009, on a prospective basis, and previously in accordance with our policy election under the Securities and Exchange Commission Staff Accounting Bulletin No. 51 *Accounting for Sales of Stock by a Subsidiary*, we recorded gains associated with issuances of WPZ units as a component of our stockholders equity.

We previously had not recorded deferred income taxes associated with these transactions. However, in accordance with ASC 740 *Income Taxes*, we should recognize deferred income taxes for the future tax effects arising from the difference in our financial and income tax bases in our WPZ investment resulting from these transactions.

The accompanying Consolidated Balance Sheet and Consolidated Statement of Changes in Equity have been restated to reflect the correction. There is no impact to our Consolidated Statement of Operations or Consolidated Statement of Cash Flows. The correction resulted in an increase to our noncurrent deferred income tax liability and a corresponding decrease to capital in excess of par value for all periods presented, as detailed in the following table.

	As of December 31,			
	2011	2010	2009	2008
	(Millions)			
Deferred income taxes	$ 497	$ 485	$ 457	$ 457
Capital in excess of par value	(497)	(485)	(457)	(457)

THE WILLIAMS COMPANIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Gulfstream contribution

In May 2011, we contributed a 24.5 percent interest in Gulfstream to WPZ in exchange for aggregate consideration of $297 million of cash, 632,584 limited partner units, and an increase in the capital account of its general partner to allow us to maintain our 2 percent general partner interest. Williams Partners now holds a 49 percent interest in Gulfstream. We also own an additional 1 percent interest in Gulfstream reported in Other. Prior period segment disclosures have not been adjusted for this transaction as the impact, which was less than 2.5 percent of Williams Partners segment profit for all periods affected, was not material. Equity earnings related to this interest in Gulfstream that have not been recast for the years ended December 31, 2011, 2010, and 2009 are $12 million, $32 million, and $30 million, respectively.

Master limited partnership

At December 31, 2011, we own approximately 75 percent of the interests in WPZ, including the interests of the general partner, which are wholly owned by us, and incentive distribution rights.

WPZ is self funding and maintains separate lines of bank credit and cash management accounts. Cash distributions from WPZ to us, including any associated with our incentive distribution rights, occur through the normal partnership distributions from WPZ to all partners.

Discontinued operations

WPX separation

On December 31, 2011, we completed the tax-free spin-off of our 100 percent interest in WPX Energy, Inc. (WPX), to our shareholders. WPX was formed in April 2011 to hold our former exploration and production business. The spin-off was completed by means of a special stock dividend, which consisted of a distribution of one share of WPX common stock for every three shares of our common stock.

On December 30, 2011, we entered into a Separation and Distribution Agreement with WPX which at the time was a wholly owned subsidiary, pursuant to which WPX would be legally and structurally separated from us. In addition to, and concurrently with, this agreement, we entered into certain ancillary agreements with WPX, including, (i) an Employee Matters Agreement that sets forth agreements as to certain employment, compensation, and benefits matters, (ii) a Tax Sharing Agreement that governs rights and obligations after the spin-off with respect to matters regarding U.S. Federal, state, local, and foreign income taxes and other taxes, including tax liabilities and benefits, attributes, returns, and contests, and (iii) a Transition Services Agreement under which we or certain of our subsidiaries will provide WPX with certain services for a limited time to help ensure an orderly transition following the Distribution Date.

For periods prior to the spin-off, the accompanying consolidated financial statements and notes reflect the results of operations and financial position of our former exploration and production business as discontinued operations. At December 31, 2011, all net assets of our former exploration and production business have been removed from our consolidated balance sheet as the spin-off was complete. (See Note 2.)

Unless indicated otherwise, the information in the Notes to the consolidated Financial Statements relates to our continuing operations.

THE WILLIAMS COMPANIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Accounting standards issued but not yet adopted

In June 2011, the FASB issued Accounting Standards Update No. 2011-5, Comprehensive Income (Topic 220) Presentation of Comprehensive Income (ASU 2011-5). ASU 2011-5 requires presentation of net income and other comprehensive income either in a single continuous statement or in two separate, but consecutive, statements. ASU 2011-5 requires separate presentation in both net income and other comprehensive income of reclassification adjustments for items that are reclassified from other comprehensive income to net income. The new guidance does not change the items reported in other comprehensive income, nor affect how earnings per share is calculated and presented. We currently report net income in the Consolidated Statement of Operations and report other comprehensive income in the Consolidated Statement of Changes in Equity. In December 2011, The FASB issued Accounting Standards Update No. 2011-12, Comprehensive Income (Topic 220) Deferral of the Effective Date for Amendments to the Presentation of Reclassifications of Items Out of Accumulated Other Comprehensive Income in Accounting Standards Update No. 2011-05 (ASU 2011-12). ASU 2011-12 defers the effective date for only the presentation requirements related to reclassifications in ASU 2011-5. During this deferral period, ASU 2011-12 states that we should continue to report reclassifications out of accumulated other comprehensive income consistent with the presentation requirements in effect before ASU 2011-05. All other requirements in ASU 2011-05 are not affected by ASU 2011-12, including the requirement to report comprehensive income either in a single continuous financial statement or in two separate but consecutive financial statements. Both standards are effective beginning the first quarter of 2012, with retrospective application to prior periods. We will apply the new guidance for both standards beginning in 2012.

Summary of Significant Accounting Policies

Principles of consolidation

The consolidated financial statements include the accounts of our corporate parent and our majority-owned or controlled subsidiaries and investments. We apply the equity method of accounting for investments in unconsolidated companies in which we and our subsidiaries own 20 to 50 percent of the voting interest, otherwise exercise significant influence over operating and financial policies of the company, or where majority ownership does not provide us with control due to significant participatory rights of other owners.

Use of estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Actual results could differ from those estimates.

Significant estimates and assumptions include:

- Impairment assessments of investments and long-lived assets;
- Litigation-related contingencies;
- Environmental remediation obligations;
- Realization of deferred income tax assets;
- Asset retirement obligations;

Pension and postretirement valuation variables.

These estimates are discussed further throughout these notes.

THE WILLIAMS COMPANIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Regulatory accounting

Transco and Northwest Pipeline are regulated by the Federal Energy Regulatory Commission (FERC). Their rates established by the FERC are designed to recover the costs of providing the regulated services, and their competitive environment makes it probable that such rates can be charged and collected. Therefore, our management has determined that it is appropriate to account for and report regulatory assets and liabilities related to these operations consistent with the economic effect of the way in which their rates are established. Accounting for these businesses that are regulated can differ from the accounting requirements for nonregulated businesses. The components of our regulatory assets and liabilities relate to the effects of deferred taxes on equity funds used during construction, asset retirement obligations, fuel cost differentials, levelized incremental depreciation, negative salvage, and postretirement benefits.

Cash and cash equivalents

Cash and cash equivalents includes amounts primarily invested in funds with high-quality, short-term securities and instruments that are issued or guaranteed by the U.S. government. These have maturity dates of three months or less when acquired.

Accounts receivable

Accounts receivable are carried on a gross basis, with no discounting, less the allowance for doubtful accounts. We estimate the allowance for doubtful accounts based on existing economic conditions, the financial conditions of our customers, and the amount and age of past due accounts. We consider receivables past due if full payment is not received by the contractual due date. Interest income related to past due accounts receivable is generally recognized at the time full payment is received or collectability is assured. Past due accounts are generally written off against the allowance for doubtful accounts only after all collection attempts have been exhausted..

Inventory valuation

All *inventories* are stated at the lower of cost or market. The cost of inventories is primarily determined using the average-cost method. We determine the cost of certain natural gas inventories held by Transco using the last-in, first-out (LIFO) cost method. There was no LIFO inventory at December 31, 2011. LIFO inventory at December 31, 2010 was $9 million.

Property, plant, and equipment

Property, plant, and equipment is recorded at cost. We base the carrying value of these assets on estimates, assumptions, and judgments relative to capitalized costs, useful lives, and salvage values.

As regulated entities, Northwest Pipeline and Transco provide for depreciation using the straight-line method at FERC-prescribed rates. Depreciation for nonregulated entities is provided primarily on the straight-line method over estimated useful lives, except for certain offshore facilities that apply a declining balance method. (See Note 9.)

Gains or losses from the ordinary sale or retirement of property, plant, and equipment for regulated pipelines are credited or charged to accumulated depreciation; other gains or losses are recorded in *other (income) expense net* included in *operating income (loss)* or *other (income) expense net* below *operating income (loss)*.

Ordinary maintenance and repair costs are generally expensed as incurred. Costs of major renewals and replacements are capitalized as property, plant, and equipment.

We record an asset and a liability equal to the present value of each expected future asset retirement obligation (ARO) at the time the liability is initially incurred, typically when the asset is acquired or constructed. The ARO asset is depreciated in a manner consistent with the depreciation of the underlying physical asset. As regulated

THE WILLIAMS COMPANIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

entities, Northwest Pipeline and Transco record the ARO asset depreciation offset to a regulatory asset. We measure changes in the liability due to passage of time by applying an interest method of allocation. This amount is recognized as an increase in the carrying amount of the liability and as a corresponding accretion expense included in *costs and operating expenses*, except for regulated entities, for which the liability is offset by a regulatory asset as management expects to recover amounts in future rates. The regulatory asset is amortized commensurate with our collection of those costs in rates.

Measurements of AROs include, as a component of future expected costs, an estimate of the price that a third party would demand, and could expect to receive, for bearing the uncertainties inherent in the obligations, sometimes referred to as a market-risk premium.

Contingent liabilities

We record liabilities for estimated loss contingencies, including environmental matters, when we assess that a loss is probable and the amount of the loss can be reasonably estimated. These liabilities are calculated based upon our assumptions and estimates with respect to the likelihood or amount of loss and upon advice of legal counsel, engineers, or other third parties regarding the probable outcomes of the matters. These calculations are made without consideration of any potential recovery from third-parties. We recognize insurance recoveries or reimbursements from others when realizable. Revisions to these liabilities are generally reflected in income when new or different facts or information become known or circumstances change that affect the previous assumptions or estimates.

Cash flows from revolving credit facilities

Proceeds and payments related to borrowings under our credit facilities are reflected in the financing activities of the Consolidated Statement of Cash Flows on a gross basis.

Treasury stock

Treasury stock purchases are accounted for under the cost method whereby the entire cost of the acquired stock is recorded as treasury stock. Gains and losses on the subsequent reissuance of shares are credited or charged to *capital in excess of par value* using the average-cost method.

Derivative instruments and hedging activities

We may utilize derivatives to manage a portion of our commodity price risk. These instruments consist primarily of swap agreements and forward contracts involving short- and long-term purchases and sales of physical energy commodities. We report the fair value of derivatives, except for those for which the normal purchases and normal sales exception has been elected, in *other current assets and deferred charges; regulatory assets, deferred charges, and other; accrued liabilities;* or *regulatory liabilities, deferred income, and other*. We determine the current and noncurrent classification based on the timing of expected future cash flows of individual trades. We report these amounts on a gross basis. Additionally, we report cash collateral receivables and payables with our counterparties on a gross basis.

The accounting for the changes in fair value of a commodity derivative can be summarized as follows:

Derivative Treatment	Accounting Method
Normal purchases and normal sales exception	Accrual accounting
Designated in a qualifying hedging relationship	Hedge accounting
All other derivatives	Mark-to-market accounting

We may elect the normal purchases and normal sales exception for certain short- and long-term purchases and sales of physical energy commodities. Under accrual accounting, any change in the fair value of these derivatives is not reflected on the balance sheet after the initial election of the exception.

THE WILLIAMS COMPANIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

We have also designated a hedging relationship for certain commodity derivatives. For a derivative to qualify for designation in a hedging relationship, it must meet specific criteria and we must maintain appropriate documentation. We establish hedging relationships pursuant to our risk management policies. We evaluate the hedging relationships at the inception of the hedge and on an ongoing basis to determine whether the hedging relationship is, and is expected to remain, highly effective in achieving offsetting changes in fair value or cash flows attributable to the underlying risk being hedged. We also regularly assess whether the hedged forecasted transaction is probable of occurring. If a derivative ceases to be or is no longer expected to be highly effective, or if we believe the likelihood of occurrence of the hedged forecasted transaction is no longer probable, hedge accounting is discontinued prospectively, and future changes in the fair value of the derivative are recognized currently in *revenues* or *costs and operating expenses*.

For commodity derivatives designated as a cash flow hedge, the effective portion of the change in fair value of the derivative is reported in *accumulated other comprehensive income (loss)* (AOCI) and reclassified into earnings in the period in which the hedged item affects earnings. Any ineffective portion of the derivative s change in fair value is recognized currently in *revenues* or *costs and operating expenses*. Gains or losses deferred in AOCI associated with terminated derivatives, derivatives that cease to be highly effective hedges, derivatives for which the forecasted transaction is reasonably possible but no longer probable of occurring, and cash flow hedges that have been otherwise discontinued remain in AOCI until the hedged item affects earnings. If it becomes probable that the forecasted transaction designated as the hedged item in a cash flow hedge will not occur, any gain or loss deferred in AOCI is recognized in *revenues* or *costs and operating expenses* at that time. The change in likelihood of a forecasted transaction is a judgmental decision that includes qualitative assessments made by management.

For commodity derivatives that are not designated in a hedging relationship, and for which we have not elected the normal purchases and normal sales exception, we report changes in fair value currently in *revenues* or *costs and operating expenses.*

Certain gains and losses on derivative instruments included in the Consolidated Statement of Operations are netted together to a single net gain or loss, while other gains and losses are reported on a gross basis. Gains and losses recorded on a net basis include:

Unrealized gains and losses on all derivatives that are not designated as hedges and for which we have not elected the normal purchases and normal sales exception;

The ineffective portion of unrealized gains and losses on derivatives that are designated as cash flow hedges;

Realized gains and losses on all derivatives that settle financially other than natural gas derivatives for NGL processing activities;

Realized gains and losses on derivatives entered into as a pre-contemplated buy/sell arrangement.

Realized gains and losses on derivatives that require physical delivery, as well as natural gas derivatives for NGL processing activities and which are not held for trading purposes nor were entered into as a pre-contemplated buy/sell arrangement, are recorded on a gross basis. In reaching our conclusions on this presentation, we considered whether we act as principal in the transaction; whether we have the risks and rewards of ownership, including credit risk; and whether we have latitude in establishing prices.

Revenues

Revenues from Williams Partners gas pipeline businesses are primarily from services pursuant to long-term firm transportation and storage agreements. These agreements provide for a reservation charge based on the volume of contracted capacity and a commodity charge based on the volume of gas delivered, both at rates specified in our FERC tariffs. We recognize revenues for reservation charges ratably over the contract period regardless of the

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THE WILLIAMS COMPANIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

volume of natural gas that is transported or stored. Revenues for commodity charges, from both firm and interruptible transportation services, and storage injection and withdrawal services, are recognized when natural gas is delivered at the agreed upon delivery point or when natural gas is injected or withdrawn from the storage facility.

In the course of providing transportation services to customers, we may receive different quantities of gas from shippers than the quantities delivered on behalf of those shippers. The resulting imbalances are primarily settled through the purchase and sale of gas with our customers under terms provided for in our FERC tariffs. Revenue is recognized from the sale of gas upon settlement of the transportation and exchange imbalances.

As a result of the ratemaking process, certain revenues collected by us may be subject to refunds upon the issuance of final orders by the FERC in pending rate proceedings. We record estimates of rate refund liabilities considering our and other third-party regulatory proceedings, advice of counsel, and other risks.

Revenues from Williams Partners midstream operations include those derived from natural gas gathering and processing services and are performed under volumetric-based fee contracts, keep-whole, agreements and percent-of-liquids arrangements. Revenues under volumetric-based fee contracts are recorded when services have been performed. Under keep-whole and percent-of-liquids processing contracts, we retain the rights to all or a portion of the NGLs extracted from the producers natural gas stream and recognize revenues when the extracted NGLs are sold and delivered.

Oil gathering and transportation revenues and offshore production handling fees of Williams Partners midstream operations are recognized when the services have been performed. Certain offshore production handling contracts contain fixed payment terms that result in the deferral of revenues until such services have been performed.

Within Williams Partners, we market NGLs that we purchase from our producer customers as part of the overall service provided to producers. Revenues from marketing NGLs are recognized when the products have been sold and delivered.

Storage revenues under prepaid contracted storage capacity contracts primarily within Williams Partners are recognized evenly over the life of the contract as services are provided.

Our midstream Canada business has processing and fractionation operations where we retain certain NGLs and olefins from an upgrader s off-gas stream and we recognize revenues when the fractionated products are sold and delivered. Our domestic olefins business produces olefins from purchased feed-stock, and we recognize revenues when the olefins are sold and delivered.

Impairment of long-lived assets and investments

We evaluate our long-lived assets of identifiable business activities for impairment when events or changes in circumstances indicate, in our management s judgment, that the carrying value of such assets may not be recoverable. When an indicator of impairment has occurred, we compare our management s estimate of undiscounted future cash flows attributable to the assets to the carrying value of the assets to determine whether an impairment has occurred and we apply a probability-weighted approach to consider the likelihood of different cash flow assumptions and possible outcomes including selling in the near term or holding for the remaining estimated useful life. If an impairment of the carrying value has occurred, we determine the amount of the impairment recognized in the financial statements by estimating the fair value of the assets and recording a loss for the amount that the carrying value exceeds the estimated fair value.

For assets identified to be disposed of in the future and considered held for sale, we compare the carrying value to the estimated fair value less the cost to sell to determine if recognition of an impairment is required. Until the assets are disposed of, the estimated fair value, which includes estimated cash flows from operations until the assumed date of sale, is recalculated when related events or circumstances change.

THE WILLIAMS COMPANIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

We evaluate our investments for impairment when events or changes in circumstances indicate, in our management s judgment, that the carrying value of such investments may have experienced an other-than-temporary decline in value. When evidence of loss in value has occurred, we compare our estimate of fair value of the investment to the carrying value of the investment to determine whether an impairment has occurred. If the estimated fair value is less than the carrying value and we consider the decline in value to be other-than-temporary, the excess of the carrying value over the fair value is recognized in the consolidated financial statements as an impairment charge.

Judgments and assumptions are inherent in our management s estimate of undiscounted future cash flows and an asset s or investment s fair value. Additionally, judgment is used to determine the probability of sale with respect to assets considered for disposal.

Interest capitalized

We capitalize interest during construction on major projects with construction periods of at least three months and a total project cost in excess of $1 million. Interest is capitalized on borrowed funds and where regulation by the FERC exists, on internally generated funds. The latter is included in *other income (expense) net* below *operating income (loss)*. The rates used by regulated companies are calculated in accordance with FERC rules. Rates used by nonregulated companies are based on the average interest rate on debt.

Employee stock-based awards

Stock options are valued at the date of award, which does not precede the approval date, and compensation cost is recognized on a straight-line basis, net of estimated forfeitures, over the requisite service period. The purchase price per share for stock options may not be less than the market price of the underlying stock on the date of grant. Stock options generally become exercisable over a three-year period from the date of grant and can be subject to accelerated vesting if certain future stock prices or specific financial performance targets are achieved. Stock options generally expire ten years after the grant.

Restricted stock units are generally valued at market value on the grant date and generally vest over three years. Restricted stock unit compensation cost, net of estimated forfeitures, is generally recognized over the vesting period on a straight-line basis.

Income taxes

We include the operations of our subsidiaries in our consolidated tax return. Deferred income taxes are computed using the liability method and are provided on all temporary differences between the financial basis and the tax basis of our assets and liabilities. Our management s judgment and income tax assumptions are used to determine the levels, if any, of valuation allowances associated with deferred tax assets.

Effective with the spin-off of WPX on December 31, 2011, certain state and federal tax attributes (primarily alternative minimum tax credits) will be allocated between us and WPX pursuant to the consolidated return regulations. Although the final allocation of these tax attributes cannot be determined until the consolidated tax returns for tax year 2011 are complete, an estimate of the allocated tax attributes has been recorded in 2011.

Earnings (loss) per common share

Basic earnings (loss) per common share is based on the sum of the weighted-average number of common shares outstanding and vested restricted stock units. *Diluted earnings (loss) per common share* includes any dilutive effect of stock options, nonvested restricted stock units and, for applicable periods presented, convertible debt, unless otherwise noted.

THE WILLIAMS COMPANIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Foreign currency translation

Certain of our foreign subsidiaries use the Canadian dollar as their functional currency. Assets and liabilities of such foreign subsidiaries are translated at the spot rate in effect at the applicable reporting date, and the combined statements of operations are translated into the U.S. dollar at the average exchange rates in effect during the applicable period. The resulting cumulative translation adjustment is recorded as a separate component of *accumulated other comprehensive income (loss).*

Transactions denominated in currencies other than the functional currency are recorded based on exchange rates at the time such transactions arise. Subsequent changes in exchange rates result in transaction gains and losses which are reflected in the Consolidated Statement of Operations.

Discontinued Operations

In addition to the accounting policies previously discussed, the following policies were considered significant to our former exploration and production business.

Significant estimates and assumptions included the valuation of oil and natural gas reserves, valuation of derivatives and hedge accounting correlations and probability;

Property, plant and equipment related to oil and gas exploration and production activities were accounted for under the successful efforts method. Depreciation, depletion and amortization was provided under the units-of-production method on a field basis;

Goodwill was evaluated at least annually for impairment by first comparing our management s estimate of the fair value of a reporting unit with its carrying value, including goodwill. As a result of significant declines in forward natural gas prices during the third quarter of 2010, we performed an impairment assessment of our goodwill which resulted in a $1 billion impairment (See Note 2);

Revenues for sales of natural gas were recognized when the product was sold and delivered;

Impairments of proved properties, including developed and undeveloped, were assessed using estimated future undiscounted cash flows on a field basis. Unproved properties included lease acquisition costs and costs of acquired unproved reserves. These costs were assessed for impairment as conditions warranted.

Note 2. Discontinued Operations

On December 31, 2011, we completed the tax-free spin-off of our interest in WPX to our shareholders. The spin-off was completed by means of a special stock dividend. (See Note 1.) The dividend to our shareholders on December 31, 2011, represented approximately $10.3 billion of assets, $4.8 billion of liabilities and $5.5 billion of net equity, which includes approximately $219 million of accumulated other comprehensive income (AOCI). The carrying value of AOCI is primarily related to net unrealized gains from WPX s cash flow hedges associated with energy commodity derivatives.

The following summarized results of discontinued operations reflect the results of operations of our former exploration and production business as discontinued operations. Each period presented includes the results of intercompany transactions with our continuing business, such as sales of commodities and charges for gathering, processing and transportation services. Although we expect certain of these types of transactions to continue in the future, the expected continuing cash flows are not considered significant; thus, the operations and cash flows of our former

exploration and production business are considered to be eliminated from our ongoing operations. The summarized results of discontinued operations also include certain of our former Venezuela operations, whose facilities were expropriated by the Venezuelan government in May 2009, and settlement of various items pertaining to operations discontinued prior to periods covered by this report.

THE WILLIAMS COMPANIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The December 31, 2010 summarized assets and liabilities of discontinued operations reflects our former exploration and production business. At December 31, 2011, the net assets of this former business have been eliminated from our consolidated balance sheet as the spin-off was complete.

Summarized Results of Discontinued Operations

	Years Ended December 31,		
	2011	2010	2009
		(Millions)	
Revenues	$ 3,997	$ 4,042	$ 3,684
Income (loss) from discontinued operations before impairments,gain on deconsolidation and income taxes	$ 223	$ 350	$ 338
Impairments	(755)	(1,682)	(242)
Gain on deconsolidation			9
(Provision) benefit for income taxes	115	139	(90)
Income (loss) from discontinued operations	$ (417)	$ (1,193)	$ 15
Income (loss) from discontinued operations:			
Attributable to noncontrolling interests	$ 10	$ 8	$ (64)
Attributable to The Williams Companies, Inc.	$ (427)	$ (1,201)	$ 79

Income (loss) from discontinued operations before impairments, gain on deconsolidation and income taxes for 2011 and 2010 primarily reflect the results of operations of our discontinued exploration and production business (see Note 1), including $42 million of transaction costs related to the spin-off recognized in 2011.

Income (loss) from discontinued operations before impairments, gain on deconsolidation and income taxes for 2009 primarily reflects $420 million of income from our discontinued exploration and production business. Also reflected are $104 million of losses from our discontinued Venezuela operations and a $15 million gain related to our former coal operations.

Impairments in 2011 reflect $367 million and $180 million of impairments of capitalized costs of certain natural gas producing properties of our discontinued exploration and production business in the Powder River basin and the Barnett Shale, respectively, $29 million of write-downs to estimates of fair value less costs to sell the assets of our discontinued exploration and production business in the Arkoma basin, and a noncash impairment of $179 million in connection with the spin-off of WPX to reflect the difference between the carrying value of our investment in WPX and the estimated fair value of WPX at the time of spin-off. See further discussion below regarding the determination of the fair value of WPX. These nonrecurring fair value measurements fall within Level 3 of the fair value hierarchy.

Impairments in 2010 include a $1,003 million impairment of domestic goodwill (to an implied fair value of zero at the assessment date) and $678 million of impairments of capitalized costs of certain natural gas producing properties in the Barnett Shale and acquired unproved reserves in the Piceance basin of our discontinued exploration and production business (to their estimated fair value of $320 million at the assessment date). These nonrecurring fair value measurements fell within Level 3 of the fair value hierarchy.

For the goodwill evaluation, we used an income approach (discounted cash flow) for valuing reserves. The significant inputs into the valuation of proved and unproved reserves included estimated reserve quantities, forward natural gas prices, anticipated drilling and operating costs, anticipated production curves, income taxes, and appropriate discount rates.

THE WILLIAMS COMPANIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For our assessment of the carrying value of our natural gas producing properties and costs of acquired unproved reserves, we utilized estimates of future cash flows, in certain cases including purchase offers received. Significant judgments and assumptions in these assessments are similar to those used in the goodwill evaluation and include estimates of natural gas reserve quantities, estimates of future natural gas prices using a forward NYMEX curve adjusted for locational basis differentials, drilling plans, expected capital costs, and an applicable discount rate commensurate with risk of the underlying cash flow estimates.

Impairments for 2009 primarily reflect a $211 million impairment of our Venezuela property, plant, and equipment that was expropriated by the Venezuelan government in 2009. We are pursuing collection of claims related to that expropriation. Also included is an impairment charge of $20 million related to natural gas producing properties and acquired unproved reserves of our discontinued exploration and production business and an $11 million impairment of a cost-based investment related to our interest in a Venezuelan corporation that owns and operates oil and gas activities.

Gain on deconsolidation reflects the gain recognized when we deconsolidated the entities that owned and operated our Venezuela gas compression facilities prior to their expropriation by the Venezuelan government in 2009.

(Provision) benefit for income taxes for 2011 includes a $26 million net tax benefit associated with the write-down of certain indebtedness related to our former power operations.

(Provision) benefit for income taxes for 2009 includes a $76 million benefit from the reversal of deferred tax balances related to our discontinued Venezuela operations.

Impairment of our investment in WPX

In conjunction with accounting for the spin-off of WPX, we evaluated whether there was an indicator of impairment of the carrying value of the investment at the date of the spin-off. Because the market capitalization of WPX as determined by its closing stock price on December 30, 2011 pursuant to the when issued trading market was less than our investment in WPX, we determined that an indicator of impairment was present and conducted an evaluation of the fair value of our investment in WPX at the date of the spin-off.

To determine the fair value at the time of spin-off, we considered several valuation approaches to derive a range of fair value estimates. These included consideration of the when issued stock price at December 30, 2011, an income approach, and a market approach. While the when issued stock price approach utilizes the most observable inputs of the three approaches, we note that the short trading duration, low trading volumes and lack of liquidity in the when issued market, among other factors, serve to limit this input in being solely determinative of the fair value of WPX. As such, we also considered the other valuation approaches in estimating the overall fair value of WPX, though giving preferential weighting to the when issued stock price approach.

Key variables and assumptions included the application of a control premium of up to 30 percent to the December 30, 2011 when issued trading value based on transactions involving energy companies. For the income approach, we estimated the fair value of WPX using a discounted cash flow analysis of their oil and natural gas reserves, primarily adjusted for long-term debt. Implicit in this approach was the use of forward market prices and discount rates that considered the risk of the respective reserves. After-tax discount rates assumed to be used by market participants were an average of 11.25 percent for proved reserves, 13.25 percent to 15.25 percent for probable reserves, and 15.25 percent to 18.25 percent for possible reserves. For the market approach, we considered multiples of cash flows derived from the value of comparable companies utilizing their respective traded stock prices, adjusted for a control premium consistent with levels noted above. Using these methodologies, we computed a range of estimated fair values from $4.5 billion to $6.7 billion. After giving preferential weighting to the when issued valuation, we computed an estimated fair value of approximately $5.5 billion.

As a result of this evaluation, we have recorded an impairment charge which is nondeductible for tax purposes. This amount served to reduce the investment basis of the net assets accounted for as a dividend upon the spin-off at December 31, 2011.

THE WILLIAMS COMPANIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Summarized Assets and Liabilities of Discontinued Operations

	December 31, 2010 (Millions)
Cash and cash equivalents	$ 37
Accounts receivable - net	362
Inventories	78
Derivative assets	400
Other current assets and deferred charges	20
Total current assets of discontinued operations	897
Investments	104
Property, plant and equipment - net	8,518
Derivative assets	173
Goodwill	8
Other assets and deferred charges	25
Total noncurrent assets of discontinued operations	8,828
Total assets	$ 9,725
Accounts payable	$ 486
Accrued liabilities	263
Derivative liabilities	147
Total current liabilities of discontinued operations	896
Deferred income taxes	1,711
Derivative liabilities	142
Other liabilities and deferred income	326
Total noncurrent liabilities of discontinued operations	2,179
Total liabilities	$ 3,075

Energy Commodity Derivatives Associated with Discontinued Operations

Our former exploration and production business produced, bought, and/or sold natural gas and crude oil at different locations throughout the United States. It also entered into forward contracts to buy and sell natural gas to maximize the economic value of transportation agreements and storage capacity agreements. To reduce exposure to a decrease in revenues or margins from fluctuations in natural gas and crude oil market prices, it entered into natural gas and crude oil futures contracts, swap agreements, and financial option contracts to mitigate the price risk on forecasted sales of natural gas and crude oil. It also entered into basis swap agreements to reduce the locational price risk associated with its producing basins.

THE WILLIAMS COMPANIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Gains and Losses

The following table presents pre-tax gains and losses for our former exploration and production business energy commodity derivatives designated as cash flow hedges. The amounts previously recognized within *revenues* or *costs and operating expenses* are now presented within discontinued operations.

	Years ended December 31, 2011	2010	Classification
	(Millions)		
Net gain (loss) recognized in other comprehensive income (loss) (effective portion)	$ 413	$ 507	AOCI
Net gain (loss) reclassified from accumulated other comprehensive income (loss) into income (effective portion)	$ 332	$ 355	Income (loss) from discontinued operations
Gain (loss) recognized in income (ineffective portion)	$	$ 9	Income (loss) from discontinued operations

The following table presents pre-tax gains and losses for energy commodity derivatives not designated as hedging instruments. The amounts previously recognized within *revenues* or *costs and operating expenses* are now presented within discontinued operations.

	Years Ended December 31, 2011	2010
	(Millions)	
Revenues	$ 30	$ 47
Costs and operating expenses		28
Net gain (loss)	$ 30	$ 19

Recurring Fair Value Measurement Disclosures Related to Assets and Liabilities of Discontinued Operations

The following table presents, by level within the fair value hierarchy, our assets and liabilities related to discontinued operations that were measured at fair value on a recurring basis.

	December 31, 2010			
	Level 1	Level 2	Level 3	Total
	(Millions)			
Energy derivative assets	$ 96	$ 475	$ 2	$ 573
Energy derivative liabilities	$ 78	$ 210	$ 1	$ 289

Energy derivatives included commodity based exchange-traded contracts and over-the-counter (OTC) contracts. Exchange-traded contracts included futures, swaps, and options. OTC contracts included forwards, swaps and options.

The instruments included in these Level 1 measurements consisted of energy derivatives that were exchange-traded. Exchange-traded contracts included New York Mercantile Exchange and Intercontinental Exchange contracts and were valued based on quoted prices in these active markets.

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The instruments included in these Level 2 measurements consisted primarily of OTC instruments. Forward, swap, and option contracts included in Level 2 were valued using an income approach including present value techniques and option pricing models. Option contracts, which hedged future sales of production from our discontinued exploration and production business, were structured as costless collars and were financially settled. They were valued using an industry standard Black-Scholes option pricing model. Significant inputs into these Level 2 valuations included commodity prices, implied volatility by location, and interest rates, and considered executed transactions or broker quotes corroborated by other market data. These broker quotes were based on observable market prices at which transactions could currently be executed. In certain instances where these inputs were not observable for all periods, relationships of observable market data and historical observations were used as a means to estimate fair value. Where observable inputs were available for substantially the full term of the asset or liability, the instrument was categorized in Level 2.

The instruments in these Level 3 measurements primarily consisted of natural gas index transactions that were used by our discontinued exploration and production business to manage physical requirements. These instruments were valued with a present value technique using inputs that may not have been readily observable or corroborated by other market data. These instruments were classified within Level 3 because these inputs had a significant impact on the measurement of fair value. As the fair value of natural gas index transactions was primarily driven by the typically nominal differential transacted and the market price, these transactions did not have a material impact on results of operations or liquidity.

The energy derivatives portfolio of our discontinued exploration and production business was largely comprised of exchange-traded products or like products. Due to the nature of the products and tenure, market pricing was consistently obtainable. All pricing was reviewed on a daily basis and was formally validated with broker quotes and documented on a monthly basis.

Reclassifications of fair value between Level 1, Level 2, and Level 3 of the fair value hierarchy, if applicable, were made at the end of each quarter. No significant transfers between Level 1, Level 2, or Level 3 occurred during the years ended December 31, 2011 or 2010. Additionally, activity associated with the derivatives classified as Level 3 in the fair value hierarchy was not significant for the years ended December 31, 2011 and 2010.

Indemnifications of WPX Matters

According to the terms of the Separation and Distribution Agreement (See Note 1), we have indemnified WPX for certain contingent matters (See Note 16).

Guarantees on behalf of WPX

Following the spin-off of WPX, certain guarantees that were issued on behalf of WPX while it was a consolidated subsidiary remain with us. These primarily include guarantees of WPX performance under a long-term transportation capacity agreement and a natural gas purchase contract, extending through 2017 and 2023, respectively. We estimate the maximum undiscounted potential future payment obligation as of December 31, 2011, under these remaining guarantees is approximately $266 million. Our recorded liability for these guarantees, which considers our estimate of the fair value of the guarantees, is insignificant. Our fair value estimate is a Level 3 measurement within the fair value hierarchy and considers probability weighted scenarios of potential performance and the likelihood of default by WPX.

THE WILLIAMS COMPANIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 3. Investing Activities

Investing Income

	Years Ended December 31,		
	2011	2010	2009
			(Millions)
Equity earnings (1)	$ 155	$ 143	$ 118
Income (loss) from investments (1)	7	43	(75)
Impairment of cost-based investments	(1)		(11)
Interest income and other	7	2	6
Total investing income	$ 168	$ 188	$ 38

(1) Items also included in segment profit (loss). (See Note 18.)

In June 2010, we sold our 50 percent interest in Accroven SRL (Accroven) to the state-owned oil company, Petróleos de Venezuela S.A. (PDVSA) for $107 million. *Income (loss) from investments* in 2011 and 2010 includes gains of $11 million and $43 million, respectively, from the sale. The $11 million received in the first quarter of 2011 represents the first of six quarterly payments, which was originally due from the buyer in October 2010. We will recognize the remaining payments as income upon future receipt.

Income (loss) from investments in 2009 reflects a $75 million impairment charge related to an other-than-temporary loss in value associated with our Venezuelan investment in Accroven. Accroven owns and operates gas processing facilities and an NGL fractionation plant for the exclusive benefit of PDVSA. The deteriorating circumstances in the first quarter of 2009 for our Venezuelan operations caused us to review our investment in Accroven. We utilized a probability-weighted discounted cash flow analysis, which included an after-tax discount rate of 20 percent to reflect the risk associated with operating in Venezuela. Accroven was not part of the operations that were expropriated by the Venezuelan government in May 2009.

Investments

	December 31,	
	2011	2010
	(Millions)	
Equity method:		
Overland Pass Pipeline Company LLC (OPPL) - 50%	$ 433	$ 429
Gulfstream - 50% (1)	362	378
Laurel Mountain Midstream, LLC (Laurel Mountain) - 51% (2)	291	170
Discovery Producer Services LLC (Discovery) - 60% (2)	182	181
Other	122	80
	1,390	1,238
Cost method	1	2
Marketable equity securities	24	
	$ 1,415	$ 1,240

(1) As of December 31, 2011, 49 percent interest is held within Williams Partners, with the remaining 1 percent held within Other.
(2) We account for these investments under the equity method due to the significant participatory rights of our partners such that we do not control the investments.

THE WILLIAMS COMPANIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Marketable equity securities are classified as available-for-sale. The carrying value is reported at fair value with net unrealized appreciation reported as a component of other comprehensive income.

The difference between the carrying value of our equity investments and the underlying equity in the net assets of the investees is $62 million at December 31, 2011, primarily related to impairments we previously recognized. These differences are amortized over the expected remaining life of the investees underlying assets.

We have recognized revenue of $23 million, $41 million, and $27 million from our equity method investees for 2011, 2010, and 2009, respectively, primarily related to OPPL and Discovery. We have recognized costs and operating expenses of $234 million, $220 million, and $158 million with our equity method investees for 2011, 2010, and 2009, respectively. We have $1 million and $2 million accounts receivable and $23 million and $20 million accounts payable with our equity method investees at December 31, 2011 and December 31, 2010, respectively.

WPZ has operating agreements with certain equity method investees. These operating agreements typically provide for reimbursement or payment to WPZ for certain direct operational payroll and employee benefit costs, materials, supplies, and other charges and also for management services. We supplied a portion of these services, primarily those related to employees since WPZ does not have any employees, to certain equity method investees. The total gross charges to equity method investees for these fees are $57 million, $38 million and $23 million for the years ended December 31, 2011, December 31, 2010, and December 31, 2009, respectively.

In September 2010, we purchased an additional 49 percent ownership interest in OPPL for $424 million. In June 2009, we purchased a 51 percent interest in Laurel Mountain for $133 million and invested $137 million and $43 million in Laurel Mountain in 2011 and 2010, respectively. We also invested $30 million in Aux Sable Liquid Products LP (Aux Sable) in 2011.

Dividends and distributions, including those presented below, received from companies accounted for by the equity method were $193 million, $175 million, and $282 million in 2011, 2010, and 2009, respectively. These transactions reduced the carrying value of our investments. These dividends and distributions primarily included:

	2011	2010	2009
		(Millions)	
Gulfstream	$ 84	$ 81	$ 223
Discovery	40	44	32
Aux Sable	35	28	15
OPPL	19		

The 2009 amount presented above includes a $148 million distribution from Gulfstream following its debt offering.

THE WILLIAMS COMPANIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Summarized Financial Position and Results of Operations of Equity Method Investments (Unaudited)

	December 31,	
	2011	2010
	(Millions)	
Current assets	$ 293	$ 236
Noncurrent assets	4,409	3,976
Current liabilities	235	157
Noncurrent liabilities	1,257	1,294

	Years Ended December 31,		
	2011	2010	2009
		(Millions)	
Gross revenue	$ 1,242	$ 1,086	$ 872
Operating income	623	587	409
Net income	460	429	317

Note 4. Asset Sales, Impairments and Other Accruals

The following table presents significant gains or losses reflected in *other (income) expense net* within *segment costs and expenses*:

	Years Ended December 31,		
	2011	2010	2009
		(Millions)	
Williams Partners			
Capitalization of project feasibility costs previously expensed	$ (10)	$	$
Involuntary conversion gains	(3)	(18)	(4)
Gains on sales of certain assets		(12)	(40)
Accrual of regulatory liability related to overcollection of certain employee expenses	9	10	
Impairments of certain gathering assets	4	9	
Midstream Canada & Olefins			
Gulf Liquids litigation contingency accrual reduction (see Note 16)	(19)		

The reversal of project feasibility costs from expense to capital in 2011 at Williams Partners is associated with a natural gas pipeline expansion project. This reversal was made upon determining that the related project was probable of development. These costs will be included in the capital costs of the project, which we believe are probable of recovery through the project rates.

In 2009, we sold our Cameron Meadows plant, which had a carrying value of $16 million and recognized a $40 million gain at Williams Partners.

Additional Items

In conjunction with the completion of a tender offer for a portion of our debt in the fourth quarter of 2011 (see Note 11), we incurred $271 million of early debt retirement costs consisting primarily of cash premiums.

THE WILLIAMS COMPANIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

We completed a strategic restructuring transaction in the first quarter of 2010 that involved significant debt issuances, retirements and amendments. During 2010, we incurred significant costs related to these transactions, as follows:

- $606 million of early debt retirement costs consisting primarily of cash premiums;
- $45 million of other transaction costs reflected in *general corporate expenses,* of which $7 million is attributable to noncontrolling interests;
- $4 million of accelerated amortization of debt costs related to the amendments of credit facilities, reflected in *other income (expense) net* below *operating income (loss)*.

We detected a leak in an underground cavern at our Eminence Storage Field in Mississippi on December 28, 2010. We recorded $15 million and $5 million of charges to *costs and operating expenses* at Williams Partners during 2011 and 2010, respectively, primarily related to assessment and monitoring costs incurred to ensure the safety of the surrounding area.

In conjunction with the Gulf Liquids litigation contingency accrual reduction noted in the table above, Midstream Canada & Olefins also reduced an accrual for the associated interest of $14 million in 2011, which is reflected in *interest accrued*. (See Note 16.)

Note 5. Provision (Benefit) for Income Taxes

The *provision (benefit) for income taxes* from continuing operations includes:

	Years Ended December 31,		
	2011	**2010**	**2009**
		(Millions)	
Current:			
Federal	$ 181	$ (21)	$ (83)
State	13	(2)	8
Foreign	(6)	29	12
	188	6	(63)
Deferred:			
Federal	(61)	144	234
State	(14)	(48)	30
Foreign	11	12	3
	(64)	108	267
Total provision (benefit)	$ 124	$ 114	$ 204

THE WILLIAMS COMPANIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Reconciliations from the *provision (benefit) for income taxes* from continuing operations at the federal statutory rate to the recorded *provision (benefit) for income taxes* are as follows:

	Years Ended December 31,		
	2011	2010	2009
		(Millions)	
Provision (benefit) at statutory rate	$ 421	$ 135	$ 192
Increases (decreases) in taxes resulting from:			
Impact of nontaxable noncontrolling interests	(96)	(58)	(49)
State income taxes (net of federal benefit)	11	(35)	24
Foreign operations net	(14)	(22)	19
Federal settlements	(109)		
International revised assessments	(38)		
Taxes on undistributed earnings of certain foreign operations	(66)	66	
Reduction of tax benefits on Medicare Part D federal subsidy		11	
Other net	15	17	18
Provision (benefit) for income taxes	$ 124	$ 114	$ 204

State income taxes (net of federal benefit) were reduced by $43 million in 2010 due to a reduction in our estimate of the effective deferred state rate, including state income tax carryovers, reflective of a change in the mix of jurisdictional attribution of taxable income.

Income (loss) from continuing operations before income taxes includes $173 million and $144 million of foreign income and $48 million of foreign loss in 2011, 2010, and 2009, respectively.

During the course of audits of our business by domestic and foreign tax authorities, we frequently face challenges regarding the amount of taxes due. These challenges include questions regarding the timing and amount of deductions and the allocation of income among various tax jurisdictions. In evaluating the liability associated with our various filing positions, we apply the two step process of recognition and measurement. In association with this liability, we record an estimate of related interest and tax exposure as a component of our tax provision. The impact of this accrual is included within *other net* in our reconciliation of the tax provision to the federal statutory rate.

THE WILLIAMS COMPANIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Significant components of *deferred tax liabilities* and *deferred tax assets* are as follows:

	December 31, 2011	December 31, 2010
	(Millions)	
Deferred tax liabilities:		
Property, plant, and equipment	$ 65	$ 115
Investments	2,560	2,463
Other	46	101
Total deferred tax liabilities	2,671	2,679
Deferred tax assets:		
Accrued liabilities	324	257
Minimum tax credits *	119	120
State loss and credit carryovers	170	201
Other	98	59
Total deferred tax assets	711	637
Less valuation allowance	145	178
Net deferred tax assets	566	459
Overall net deferred tax liabilities	$ 2,105	$ 2,220

* In conjunction with the spin-off of WPX, alternative minimum tax credits were allocated between us and WPX. A $98 million deferred tax asset for the estimated alternative minimum tax credit allocable to WPX was contributed to WPX prior to the spin-off. The final allocation of tax attributes cannot be determined until the consolidated tax returns for the tax year 2011 are complete. Any subsequent adjustments will be recorded in the tax provision for the period in which the change occurs.

The valuation allowance at December 31, 2011 and 2010 serves to reduce the recognized tax assets associated with state loss and credit carryovers to an amount that will more likely than not, be realized. These amounts are presented in the table above before any federal benefit. The decrease from prior year for both the *state loss and credit carryovers* and the *valuation allowance* is primarily due to state income tax adjustments related to reporting of the federal settlements, as discussed below.

In the fourth-quarter 2010, we provided $66 million of deferred taxes on the undistributed earnings of certain foreign operations that we no longer could assert were permanently reinvested due to alternatives being considered related to an existing structure impacted by the potential timing of our plan approved by our Board of Directors to pursue the separation of our exploration and production business through an IPO and subsequent tax-free spin-off. During the third quarter of 2011, associated with a ruling received from the Internal Revenue Service (IRS) related to this separation plan, and following a certain internal reorganization, we recognized a deferred tax benefit of $66 million as we now consider the undistributed earnings of these certain foreign operations to be permanently reinvested. As of December 31, 2011, we consider $388 million of undistributed earnings from foreign subsidiaries to be permanently reinvested and have not provided deferred income taxes on that amount.

Cash payments for income taxes (net of refunds and including discontinued operations) were $296 million, $40 million, and $14 million in 2011, 2010, and 2009, respectively.

THE WILLIAMS COMPANIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

As of December 31, 2011, we had approximately $38 million of unrecognized tax benefits. If recognized, approximately $41 million, net of federal tax expense, would be recorded as a reduction of income tax expense. A reconciliation of the beginning and ending amount of unrecognized tax benefits is as follows:

	2011	2010
	(Millions)	
Balance at beginning of period	$ 91	$ 89
Additions based on tax positions related to the current year	26	11
Additions for tax positions for prior years	4	3
Reductions for tax positions of prior years	(39)	(12)
Settlement with taxing authorities	(44)	
Balance at end of period	$ 38	$ 91

We recognize related interest and penalties as a component of income tax expense (benefit). Total interest and penalties recognized as part of income tax benefit were $56 million for 2011 and as part of income tax expense were $11 million and $17 million for 2010 and 2009, respectively. Approximately $15 million and $104 million of interest and penalties primarily relating to uncertain tax positions have been accrued as of December 31, 2011 and 2010, respectively.

During the next 12 months, we do not expect ultimate resolution of any unrecognized tax benefit associated with domestic or international matters to have a material impact on our unrecognized tax benefit position.

During the first quarter of 2011, we finalized settlements for 1997 through 2008 on certain contested matters with the IRS that resulted in a 2011 year-to-date tax benefit of approximately $109 million. In July and August 2011, we made cash payments to the IRS of $82 million and $77 million, respectively, related to these settlements. During the first and fourth quarters of 2011, we received revised assessments on an international matter that resulted in a 2011 tax benefit of approximately $38 million.

As of December 31, 2011, the IRS examination of our consolidated U.S. federal income tax returns for 2009 and 2010 tax years is in process. The statute of limitations for most states expires one year after expiration of the IRS statute. Generally, tax returns for our Venezuelan and Canadian entities are open to audit from 2005 through 2011. Certain Canadian entities are currently under examination.

With the spin-off of WPX on December 31, 2011, WPX will be included in our consolidated federal income tax returns and will be included with us and/or certain of our subsidiaries in applicable combined or unitary state, local and foreign income tax returns. In conjunction with the spin-off, WPX entered into a tax sharing agreement with us under which we generally will be liable for all U.S. federal, state, local and foreign income taxes attributable to WPX with respect to taxable periods ending on or before the distribution date. We will prepare pro forma tax returns for each tax period in which WPX or any of its subsidiaries are combined or consolidated with us for purposes of any tax return. WPX will reimburse us for any additional taxes shown on the pro forma tax returns, and we will reimburse WPX for any additional current losses or credits WPX recognizes based on the pro forma tax returns, excluding alternative minimum tax credits. We are also principally responsible for managing any income tax audits by the various tax jurisdictions for pre-spin-off periods. In the case of any tax audit adjustments, all pro forma returns and associated tax reimbursement obligations will be recomputed to give effect to such adjustments.

THE WILLIAMS COMPANIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 6. Earnings (Loss) Per Common Share from Continuing Operations

	Years Ended December 31,		
	2011	2010	2009
	(Dollars in millions, except per-share amounts; shares in thousands)		
Income (loss) from continuing operations attributable to The Williams Companies, Inc. available to common stockholders for basic and diluted earnings (loss) per common share (1)	$ 803	$ 104	$ 206
Basic weighted-average shares	588,553	584,552	581,674
Effect of dilutive securities:			
Nonvested restricted stock units	4,332	3,190	2,216
Stock options	3,374	2,957	2,065
Convertible debentures	1,916		
Diluted weighted-average shares	598,175	590,699	585,955
Earnings (loss) per common share from continuing operations:			
Basic	$ 1.36	$ .17	$ .35
Diluted	$ 1.34	$ .17	$ .35

(1) 2011 includes $.7 million of interest expense, net of tax, associated with our convertible debentures. (See Note 12.) This amount has been added back to *income (loss) from continuing operations attributable to The Williams Companies, Inc. available to common stockholders* to calculate diluted earnings per common share.

For 2010, 2.2 million weighted-average shares related to the assumed conversion of our convertible debentures, as well as the related interest, net of tax, have been excluded from the computation of diluted earnings per common share. Inclusion of these shares would have an antidilutive effect on the diluted earnings per common share. We estimate that if 2010 *income (loss) from continuing operations attributable to The Williams Companies, Inc. available to common stockholders* was $222 million of income, then these shares would become dilutive.

For 2009, 3.4 million weighted-average shares related to the assumed conversion of our convertible debentures, as well as the related interest, net of tax, have been excluded from the computation of diluted earnings per common share. Inclusion of these shares would have an antidilutive effect on the diluted earnings per common share. We estimate that if 2009 *income (loss) from continuing operations attributable to The Williams Companies, Inc. available to common stockholders* was $212 million of income, then these shares would become dilutive.

The table below includes information related to stock options for each period that were excluded from the computation of weighted-average stock options due to the option exercise price exceeding the fourth quarter weighted-average market price of our common shares.

	2011*	2010	2009
Options excluded (millions)	0.9	2.4	3.7
Weighted-average exercise price of options excluded	$ 29.68	$ 32.41	$ 30.21
Exercise price ranges of options excluded	$ 26.10 - $29.72	$ 22.68 - $40.51	$ 20.28 - $42.29
Fourth quarter weighted-average market price	$ 24.51	$ 22.47	$ 19.81

* Information related to the excluded options for 2011 has been adjusted to reflect the impact of the spin-off of WPX on December 31, 2011 (see Note 13).

THE WILLIAMS COMPANIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 7. Employee Benefit Plans

We have noncontributory defined benefit pension plans in which all eligible employees participate. Currently, eligible employees earn benefits primarily based on a cash balance formula. Various other formulas, as defined in the plan documents, are utilized to calculate the retirement benefits for plan participants not covered by the cash balance formula. At the time of retirement, participants may elect, to the extent they are eligible for the various options, to receive annuity payments, a lump sum payment, or a combination of a lump sum and annuity payments. In addition to our pension plans, we currently provide subsidized retiree medical and life insurance benefits (other postretirement benefits) to certain eligible participants. Generally, employees hired after December 31, 1991, are not eligible for the subsidized retiree medical benefits, except for participants that were employees or retirees of Transco Energy Company on December 31, 1995, and other miscellaneous defined participant groups. Certain of these other postretirement benefit plans, particularly the subsidized retiree medical benefit plans, provide for retiree contributions and contain other cost-sharing features such as deductibles, co-payments, and co-insurance. The accounting for these plans anticipates future cost-sharing that is consistent with our expressed intent to increase the retiree contribution level generally in line with health care cost increases.

Benefit Obligations

The following table presents the changes in benefit obligations and plan assets for pension benefits and other postretirement benefits for the years indicated. The spin-off of WPX did not have a significant impact on our pension and other postretirement benefit plans. (See Note 2). Generally, our pension and other postretirement benefit plans have retained the benefit obligations associated with vested benefits earned by eligible employees that transferred to WPX due to the spin-off. No plan assets transferred to WPX.

	Pension Benefits		Other Postretirement Benefits	
	2011	2010	2011	2010
	(Millions)			
Change in benefit obligation:				
Benefit obligation at beginning of year	$ 1,267	$ 1,118	$ 289	$ 259
Service cost	41	35	2	2
Interest cost	64	64	15	15
Plan participants contributions			6	6
Benefits paid	(66)	(58)	(22)	(24)
Medicare Part D and Early Retiree Reinsurance Program subsidies			4	2
Plan amendment			(3)	(1)
Actuarial loss	143	108	48	30
Settlements	(8)			
Benefit obligation at end of year	1,441	1,267	339	289
Change in plan assets:				
Fair value of plan assets at beginning of year	971	860	162	148
Actual return on plan assets		108	(2)	17
Employer contributions	68	61	15	15
Plan participants contributions			6	6
Benefits paid	(66)	(58)	(22)	(24)
Settlements	(8)			
Fair value of plan assets at end of year	965	971	159	162

Funded status - underfunded	$ (476)	$ (296)	$ (180)	$ (127)
Accumulated benefit obligation	$ 1,415	$ 1,224		

THE WILLIAMS COMPANIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The underfunded status of our pension plans and other postretirement benefit plans presented in the previous table are recognized in the Consolidated Balance Sheet within the following accounts:

	December 31, 2011	2010
	(Millions)	
Underfunded pension plans:		
Current liabilities	$ 7	$ 7
Noncurrent liabilities	469	289
Underfunded other postretirement benefit plans:		
Current liabilities	8	8
Noncurrent liabilities	172	119

The plan assets within our other postretirement benefit plans are intended to be used for the payment of benefits for certain groups of participants. The *current liabilities* for the other postretirement benefit plans represent the current portion of benefits expected to be payable in the subsequent year for the groups of participants whose benefits are not expected to be paid from plan assets.

The pension plans benefit obligation *actuarial losses* of $143 million in 2011 and $108 million in 2010 are primarily due to the impact of decreases in the discount rates utilized to calculate the benefit obligation. The 2011 benefit obligation *actuarial loss* of $48 million for our other postretirement benefit plans is primarily due to the impact of decreases in the discount rate utilized to calculate the benefit obligation. The 2010 benefit obligation *actuarial loss* of $30 million for our other postretirement benefit plans is also primarily due to the impact of decreases in the discount rate utilized to calculate the benefit obligation as well as changes to medical claims experience. In 2011, the *actuarial loss* includes a curtailment gain of $4 million for our pension plans and $1 million for our other postretirement benefit plans due to the spin-off of WPX.

At December 31, 2011 and 2010, all of our pension plans had a projected benefit obligation and accumulated benefit obligation in excess of plan assets.

The determination of *net periodic benefit expense* allows for the delayed recognition of gains and losses caused by differences between actual and assumed outcomes for items such as estimated return on plan assets, or caused by changes in assumptions for items such as discount rates or estimated future compensation levels. The *net actuarial loss* presented in the following table and recorded in *accumulated other comprehensive loss* and *net regulatory assets* represents the cumulative net deferred loss from these types of differences or changes which have not yet been recognized in the Consolidated Statement of Operations. A portion of the *net actuarial loss* is amortized over the participants average remaining future years of service, which is approximately 13 years for our pension plans and approximately 10 years for our other postretirement benefit plans.

Pre-tax amounts not yet recognized in *net periodic benefit expense* at December 31 are as follows:

	Pension Benefits		Other Postretirement Benefits	
	2011	2010	2011	2010
	(Millions)			
Amounts included in *accumulated other comprehensive loss*:				
Prior service (cost) credit	$ (2)	$ (3)	$ 8	$ 10
Net actuarial loss	(835)	(657)	(40)	(20)
Amounts included in *net regulatory assets* associated with our FERC-regulated gas pipelines:				
Prior service credit	N/A	N/A	$ 14	$ 20
Net actuarial loss	N/A	N/A	(85)	(48)

THE WILLIAMS COMPANIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

In addition to the net regulatory assets included in the previous table, differences in the amount of actuarially determined *net periodic benefit expense* for our other postretirement benefit plans and the other postretirement benefit costs recovered in rates for our FERC-regulated gas pipelines are deferred as a regulatory asset or liability. We have *net regulatory liabilities* of $34 million at December 31, 2011 and $23 million at December 31, 2010 related to these deferrals. These amounts will be reflected in future rates based on the gas pipelines rate structures.

Net Periodic Benefit Expense and Items Recognized in Other Comprehensive Income (Loss)

Net periodic benefit expense and other changes in plan assets and benefit obligations recognized in *other comprehensive income (loss)* before taxes for the years ended December 31 consist of the following:

	Pension Benefits			Other Postretirement Benefits		
	2011	2010	2009	2011	2010	2009
	(Millions)					
Components of net periodic benefit expense:						
Service cost	$ 41	$ 35	$ 32	$ 2	$ 2	$ 2
Interest cost	64	64	62	15	15	16
Expected return on plan assets	(77)	(71)	(61)	(10)	(9)	(9)
Amortization of prior service cost (credit)	1	1	1	(11)	(14)	(11)
Amortization of net actuarial loss	38	35	43	3	3	3
Net actuarial loss from settlements	4					
Amortization of regulatory asset			1	1	1	5
Net periodic benefit expense	$ 71	$ 64	$ 78	$	$ (2)	$ 6

	Pension Benefits			Other Postretirement Benefits		
	2011	2010	2009	2011	2010	2009
	(Millions)					
Other changes in plan assets and benefit obligations recognized in *other comprehensive income (loss)*:						
Net actuarial (gain) loss	$ 220	$ 71	$ (44)	$ 21	$ 12	$ 1
Prior service credit				(2)		(7)
Amortization of prior service (cost) credit	(1)	(1)	(1)	4	5	4
Amortization of net actuarial loss and loss from settlements	(42)	(35)	(43)	(1)	(1)	
Other changes in plan assets and benefit obligations recognized in *other comprehensive income (loss)*	177	35	(88)	22	16	(2)
Total recognized in *net periodic benefit expense* and *other comprehensive income (loss)*	$ 248	$ 99	$ (10)	$ 22	$ 14	$ 4

Included in *net periodic benefit expense* in the previous table is expense associated with active and former employees that supported WPX s operations. This expense was directly charged to WPX and is included in *income (loss) from discontinued operations*. These amounts totaled $8 million in 2011, and $7 million in both 2010 and 2009 for our pension plans and totaled less than $1 million for each period for our other postretirement benefit plans. The spin-off of WPX is not expected to have a significant impact on *net periodic benefit expense* in future periods.

THE WILLIAMS COMPANIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Other changes in plan assets and benefit obligations for our other postretirement benefit plans associated with our FERC-regulated gas pipelines are recognized in *net regulatory assets* at December 31, 2011, and include a *net actuarial loss* of $39 million, *prior service credit* of $1 million, *amortization of prior service credit* of $7 million, and *amortization of net actuarial loss* of $2 million. At December 31, 2010, amounts recognized in *net regulatory assets* included a *net actuarial loss* of $10 million, *prior service credit* of $1 million, *amortization of prior service credit* of $9 million, and *amortization of net actuarial loss* of $2 million. At December 31, 2009, amounts recognized in *net regulatory assets* included a *net actuarial gain* of $14 million, *prior service credit* of $11 million, *amortization of prior service credit* of $7 million, and *amortization of net actuarial loss* of $3 million.

Pre-tax amounts expected to be amortized in *net periodic benefit expense* in 2012 are as follows:

	Pension Benefits	Other Postretirement Benefits
	(Millions)	
Amounts included in *accumulated other comprehensive loss:*		
Prior service cost (credit)	$ 1	$ (3)
Net actuarial loss	53	3
Amounts included in *net regulatory assets* associated with our FERC-regulated gas pipelines:		
Prior service credit	N/A	$ (4)
Net actuarial loss	N/A	7

Key Assumptions

The weighted-average assumptions utilized to determine benefit obligations as of December 31 are as follows:

	Pension Benefits		Other Postretirement Benefits	
	2011	2010	2011	2010
Discount rate	3.98%	5.20%	4.22%	5.35%
Rate of compensation increase	4.52	5.00	N/A	N/A

The weighted-average assumptions utilized to determine *net periodic benefit expense* for the years ended December 31 are as follows:

	Pension Benefits			Other Postretirement Benefits		
	2011	2010	2009	2011	2010	2009
Discount rate	5.19%	5.78%	6.08%	5.35%	5.80%	6.00%
Expected long-term rate of return on plan assets	7.50	7.50	7.75	6.54	6.51	7.00
Rate of compensation increase	5.00	5.00	5.00	N/A	N/A	N/A

The discount rates for our pension and other postretirement benefit plans were determined separately based on an approach specific to our plans. The year-end discount rates were determined considering a yield curve comprised of high-quality corporate bonds published by a large securities firm and the timing of the expected benefit cash flows of each plan. The decrease in discount rates from December 31, 2010 to December 31, 2011 is primarily due to the general market decline in yields on long-term, high-quality corporate debt securities.

THE WILLIAMS COMPANIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The expected long-term rates of return on plan assets were determined by combining a review of the historical returns realized within the portfolio, the investment strategy included in the plans Investment Policy Statement, and capital market projections for the asset classes in which the portfolio is invested and the target weightings of each asset class.

The expected return on plan assets component of *net periodic benefit expense* is calculated using the market-related value of plan assets. For assets held in our pension plans, the market-related value of plan assets is equal to the fair value of plan assets adjusted to reflect amortization of gains or losses associated with the difference between the expected return on plan assets and the actual return on plan assets over a five-year period. Additionally, the market-related value of plan assets may be no more than 110 percent or less than 90 percent of the fair value of plan assets at the beginning of the year. The market-related value of plan assets for our other postretirement benefit plans is equal to the unadjusted fair value of plan assets at the beginning of the year.

The mortality assumptions used to determine the obligations for our pension and other postretirement benefit plans are the best estimate of expected mortality rates for the participants in these plans. The selected mortality tables are among the most recent tables available and include projected mortality improvements.

The assumed health care cost trend rate for 2012 is 8.2 percent, increases slightly in 2013, and then decreases to 5.0 percent by 2021. The health care cost trend rate assumption has a significant effect on the amounts reported. A one-percentage-point change in assumed health care cost trend rates would have the following effects:

	Point increase	Point decrease
	(Millions)	
Effect on total of service and interest cost components	$ 2	$ (2)
Effect on other postretirement benefit obligation	47	(39)

Plan Assets

The investment policy for our pension and other postretirement benefit plans provides for an investment strategy in accordance with ERISA, which governs the investment of the assets in a diversified portfolio. The plans follow a policy of diversifying the investments across various asset classes and investment managers. Additionally, the investment returns on approximately 40 percent of the other postretirement benefit plan assets are subject to income tax; therefore, certain investments are managed in a tax efficient manner.

The pension plans target asset allocation range at December 31, 2011 was 54 percent to 66 percent equity securities, which includes the commingled investment funds invested in equity securities, and 36 percent to 44 percent fixed income securities, including the fixed income commingled investment fund, and cash management funds. Within equity securities, the target range for U.S. equity securities is 37 percent to 45 percent and international equity securities is 17 percent to 21 percent. The asset allocation continues to be weighted toward equity securities since the obligations of the pension and other postretirement benefit plans are long-term in nature and historically equity securities have outperformed other asset classes over long periods of time.

Equity security investments are restricted to high-quality, readily marketable securities that are actively traded on the major U.S. and foreign national exchanges. Investment in Williams securities or an entity in which Williams has a majority ownership is prohibited in the pension plans except where these securities may be owned in a commingled investment fund in which the plans trusts invest. No more than 5 percent of the total stock portfolio valued at market may be invested in the common stock of any one corporation.

The following securities and transactions are not authorized: unregistered securities, commodities or commodity contracts, short sales or margin transactions, or other leveraging strategies. Investment strategies using the direct holding of options or futures require approval and, historically, have not been used; however, these instruments may be used in commingled investment funds. Additionally, real estate equity and natural resource property investments are generally restricted.

THE WILLIAMS COMPANIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Fixed income securities are restricted to high-quality, marketable securities that may include, but are not necessarily limited to, U.S. Treasury securities, U.S. government guaranteed and nonguaranteed mortgage-backed securities, government and municipal bonds, and investment grade corporate securities. The overall rating of the fixed income security assets is generally required to be at least A, according to the Moody s or Standard & Poor s rating systems. No more than 5 percent of the total portfolio may be invested in the fixed income securities of any one issuer with the exception of bond index funds and U.S. government guaranteed and agency securities.

During 2011, nine active investment managers and one passive investment manager managed substantially all of the pension plans funds and five active investment managers managed the other postretirement benefit plans funds. Each of the managers had responsibility for managing a specific portion of these assets and each investment manager was responsible for 1 percent to 16 percent of the assets.

The pension and other postretirement benefit plans assets are held primarily in equity securities, including commingled investment funds invested in equity securities, and fixed income securities, including a commingled fund invested in fixed income securities. Within the plans investment securities, there are no significant concentrations of risk because of the diversity of the types of investments, diversity of the various industries, and the diversity of the fund managers and investment strategies. Generally, the investments held in the plans are publicly traded, therefore, minimizing liquidity risk in the portfolio.

The pension and other postretirement benefit plans participated in securities lending programs and during 2011, the plans completed their planned exit from these programs. Under the securities lending programs, securities were loaned to selected securities brokerage firms. The title of the securities was transferred to the borrower, but the plans were entitled to all distributions made by the issuer of the securities during the term of the loan and retained the right to redeem the securities on short notice. All loans required collateralization by U.S. government securities, cash, or letters of credit that equaled at least 102 percent of the fair value of the loaned securities plus accrued interest. There were limitations on the aggregate fair value of securities that could be loaned to any one broker and to all brokers as a group. The collateral was invested in repurchase agreements, asset-backed securities, bank notes, corporate floating rate notes, and certificates of deposit. At December 31, 2010, the fair values of the loaned securities were $116 million for the pension plans and $17 million for the other postretirement benefit plans and are included in the following tables. At December 31, 2010, the fair values of securities held as collateral, and the obligation to return the collateral, were $120 million for the pension plans and $17 million for the other postretirement benefit plans and are not included in the following tables. No significant losses were realized during 2011 as a result of the exit from the securities lending programs.

THE WILLIAMS COMPANIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The fair values of our pension plan assets at December 31, 2011 and 2010, by asset class are as follows:

	2011			
	Level 1	Level 2	Level 3	Total
	(Millions)			
Pension assets:				
Cash management fund (1)	$ 43	$	$	$ 43
Equity securities:				
U.S. large cap	170			170
U.S. small cap	121			121
International developed markets large cap growth	4	57		61
Emerging markets growth	3	9		12
Commingled investment funds:				
Equities - U.S. large cap (2)		147		147
Equities - Emerging markets value (3)		27		27
Equities - International developed markets large cap value (4)		69		69
Fixed income - Corporate bonds (5)		58		58
Fixed income securities (6):				
U.S. Treasury securities	16			16
Mortgage-backed securities		65		65
Corporate bonds		169		169
Insurance company investment contracts and other		7		7
Total assets at fair value at December 31, 2011	$ 357	$ 608	$	$ 965

	2010			
	Level 1	Level 2	Level 3	Total
	(Millions)			
Pension assets:				
Cash management fund (1)	$ 30	$	$	$ 30
Equity securities:				
U.S. large cap	192			192
U.S. small cap	137			137
International developed markets large cap growth	4	68		72
Emerging markets growth	4	12		16
Commingled investment funds:				
Equities - U.S. large cap (2)		168		168
Equities - Emerging markets value (3)		35		35
Equities - International developed markets large cap value (4)		80		80
Fixed income securities (6):				
U.S. Treasury securities	17	3		20
Mortgage-backed securities		64		64
Corporate bonds		150		150
Insurance company investment contracts and other		7		7
Total assets at fair value at December 31, 2010	$ 384	$ 587	$	$ 971

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The fair values of our other postretirement benefits plan assets at December 31, 2011 and 2010, by asset class are as follows:

	2011			
	Level 1	Level 2	Level 3	Total
	(Millions)			
Other postretirement benefit assets:				
Cash management funds (1)	$ 16	$	$	$ 16
Equity securities:				
U.S. large cap	42			42
U.S. small cap	20			20
International developed markets large cap growth	1	12		13
Emerging markets growth	1	1		2
Commingled investment funds:				
Equities - U.S. large cap (2)		15		15
Equities - Emerging markets value (3)		3		3
Equities - International developed markets large cap value (4)		7		7
Fixed income - Corporate bonds (5)		6		6
Fixed income securities (7):				
U.S. Treasury securities	2			2
Government and municipal bonds		10		10
Mortgage-backed securities		6		6
Corporate bonds		17		17
Total assets at fair value at December 31, 2011	$ 82	$ 77	$	$ 159

	2010			
	Level 1	Level 2	Level 3	Total
	(Millions)			
Other postretirement benefit assets:				
Cash management funds (1)	$ 15	$	$	$ 15
Equity securities:				
U.S. large cap	44			44
U.S. small cap	24			24
International developed markets large cap growth	1	14		15
Emerging markets growth	1	2		3
Commingled investment funds:				
Equities - U.S. large cap (2)		17		17
Equities - Emerging markets value (3)		3		3
Equities - International developed markets large cap value (4)		8		8
Fixed income securities (7):				
U.S. Treasury securities	2			2
Government and municipal bonds		10		10
Mortgage-backed securities		6		6
Corporate bonds		15		15
Total assets at fair value at December 31, 2010	$ 87	$ 75	$	$ 162

(1) These funds invest in high credit-quality, short-term corporate, and government money market debt securities that have remaining maturities of approximately one year or less, and are deemed to have minimal credit risk.

THE WILLIAMS COMPANIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(2) This fund invests primarily in equity securities comprising the Standard & Poor s 500 Index. The investment objective of the fund is to approximate the performance of the Standard & Poor s 500 Index. The fund manager retains the right to restrict withdrawals from the fund as not to disadvantage other investors in the fund.

(3) This fund invests in equity securities of international emerging markets for the purpose of capital appreciation. The fund invests primarily in common stocks in the financial, telecommunications, information technology, consumer goods, energy, industrial, and materials sectors. The plans trustee is required to notify the fund manager ten days prior to a withdrawal from the fund. The fund manager retains the right to restrict withdrawals from the fund as not to disadvantage other investors in the fund.

(4) This fund invests in a diversified portfolio of international equity securities for the purpose of capital appreciation. The fund invests primarily in common stocks in the consumer goods, materials, financial, energy, information technology, industrial, and health care sectors, as well as forward foreign currency exchange contracts. The plans trustee is required to notify the fund manager ten days prior to a withdrawal from the fund. The fund manager retains the right to restrict withdrawals from the fund as not to disadvantage other investors in the fund.

(5) This fund invests in U.S. Corporate bonds and U.S. Treasury securities. The fund is managed to closely match the characteristics of a long-term corporate bond index fund and seeks to maintain an average credit quality target of A- or above and a maximum 10 percent allocation to BBB rated securities. The fund s target duration is approximately 20 years. The trustee of the fund reserves the right to delay the processing of deposits or withdrawals in order to ensure that securities transactions will be carried out in an orderly manner.

(6) The weighted-average credit quality rating of the pension assets fixed income security portfolio is investment grade with a weighted-average duration of 5.6 years for 2011 and 2010.

(7) The weighted-average credit quality rating of the other postretirement benefit assets fixed income security portfolio is investment grade with a weighted-average duration of 4.8 years for 2011 and 2010.

The asset s fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement.

Shares of the cash management funds are valued at fair value based on published market prices as of the close of business on the last business day of the year, which represents the net asset values of the shares held.

The fair values of equity securities traded on U.S. exchanges are derived from quoted market prices as of the close of business on the last business day of the year. The fair values of equity securities traded on foreign exchanges are also derived from quoted market prices as of the close of business on an active foreign exchange on the last business day of the year. However, the valuation requires translation of the foreign currency to U.S. dollars and this translation is considered an observable input to the valuation.

The fair value of all commingled investment funds are estimated based on the net asset values per unit of each of the funds. The net asset values per unit represent the aggregate value of the fund s assets at fair value less liabilities, divided by the number of units outstanding.

The fair value of fixed income securities, except U.S. Treasury notes and bonds, are determined using pricing models. These pricing models incorporate observable inputs such as benchmark yields, reported trades, broker/dealer quotes, and issuer spreads for similar securities to determine fair value. The U.S. Treasury notes and bonds are valued at fair value based on closing prices on the last business day of the year reported in the active market in which the security is traded.

THE WILLIAMS COMPANIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The investment contracts with insurance companies are valued at fair value by discounting the cash flow of a bond using a yield to maturity based on an investment grade index or comparable index with a similar maturity value, maturity period, and nominal coupon rate.

There have been no significant changes in the preceding valuation methodologies used at December 31, 2011 and 2010. Additionally, there were no transfers or reclassifications of investments between Level 1, Level 2, or Level 3 from December 2010 to December 2011. If transfers between levels occur, the transfers will be recognized as of the end of the period.

Plan Benefit Payments and Employer Contributions

Following are the expected benefits to be paid by the plans and the expected federal prescription drug subsidy to be received in the next ten years. These estimates are based on the same assumptions previously discussed and reflect future service as appropriate. The actuarial assumptions are based on long-term expectations and include, but are not limited to, assumptions as to average expected retirement age and form of benefit payment. Actual benefit payments could differ significantly from expected benefit payments if near-term participant behaviors differ significantly from the actuarial assumptions.

	Pension Benefits	Other Postretirement Benefits (Millions)	Federal Prescription Drug Subsidy
2012	$ 74	$ 17	$ (2)
2013	76	17	(2)
2014	88	18	(2)
2015	92	19	(3)
2016	98	20	(3)
2017-2021	576	111	(16)

In 2012, we expect to contribute approximately $70 million to our tax-qualified pension plans and approximately $9 million to our nonqualified pension plans, for a total of approximately $79 million, and approximately $15 million to our other postretirement benefit plans.

Defined Contribution Plans

We also maintain defined contribution plans for the benefit of substantially all of our employees. Generally, plan participants may contribute a portion of their compensation on a pre-tax and after-tax basis in accordance with the plans guidelines. We match employees contributions up to certain limits. Our matching contributions charged to expense were $28 million in 2011, $26 million in 2010, and $25 million in 2009. Included in these amounts are matching contributions for employees that support WPX s operations that were directly charged to WPX and included in *income (loss) from discontinued operations* that totaled $5 million for each of the 2011, 2010, and 2009 years.

Note 8. Inventories

	December 31, 2011	December 31, 2010
	(Millions)	
Natural gas liquids and olefins	$ 97	$ 87
Natural gas in underground storage	1	62
Materials, supplies, and other	71	76
	$ 169	$ 225

THE WILLIAMS COMPANIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 9. Property, Plant, and Equipment

	Estimated Useful Life (a) (Years)	Depreciation Rates (a) (%)	December 31, 2011	December 31, 2010
			(Millions)	
Nonregulated:				
Natural gas gathering and processing facilities	5 - 40		$ 6,435	$ 6,134
Construction in progress	(b)		648	223
Other	3 - 45		816	773
Regulated:				
Natural gas transmission facilities		.01 - 6.67	9,593	9,066
Construction in progress		(b)	199	240
Other		.01 - 33.33	1,391	1,359
Total property, plant, and equipment, at cost			19,082	17,795
Accumulated depreciation and amortization			(6,502)	(6,041)
Property, plant, and equipment - net			$ 12,580	$ 11,754

(a) Estimated useful life and depreciation rates are presented as of December 31, 2011. Depreciation rates for regulated assets are prescribed by the FERC.

(b) Construction in progress balances not yet subject to depreciation.

Depreciation and amortization expense for *property, plant, and equipment net* was $658 million in 2011, $611 million in 2010, and $576 million in 2009.

Regulated *property, plant, and equipment net* includes $865 million and $906 million at December 31, 2011 and 2010, respectively, related to amounts in excess of the original cost of the regulated facilities within our gas pipeline businesses as a result of our prior acquisitions. This amount is being amortized over 40 years using the straight-line amortization method. Current FERC policy does not permit recovery through rates for amounts in excess of original cost of construction.

Asset Retirement Obligations

Our accrued obligations relate to underground storage caverns, offshore platforms, fractionation and compression facilities, gas gathering well connections and pipelines, and gas transmission facilities. At the end of the useful life of each respective asset, we are legally obligated to plug storage caverns and remove any related surface equipment, to restore land and remove surface equipment at gas processing, fractionation and compression facilities, to dismantle offshore platforms, to cap certain gathering pipelines at the wellhead connection and remove any related surface equipment, and to remove certain components of gas transmission facilities from the ground.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The following table presents the significant changes to our asset retirement obligations, of which $507 million and $464 million are included in *regulatory liabilities, deferred income, and other*, with the remaining current portion in *accrued liabilities* at December 31, 2011 and 2010, respectively.

	December 31,	
	2011	2010
	(Millions)	
Beginning balance	$ 499	$ 499
Liabilities settled	(46)	(16)
Additions	4	2
Accretion expense	39	36
Revisions(1)	77	(22)
Ending balance	$ 573	$ 499

(1) The revision in 2011 is primarily due to increases in the inflation rate and estimated removal costs, which are among several factors considered for revision in the annual review process. The revision in 2010 is primarily due to a decrease in the inflation rate. The 2011 and 2010 revisions also include increases of $39 million and $31 million, respectively, related to changes in the timing and method of abandonment on certain of Transco s natural gas storage caverns that were associated with a leak in 2010.

Pursuant to its 2008 rate case settlement, Transco deposits a portion of its collected rates into an external trust (ARO Trust) that is specifically designated to fund future AROs. Transco is also required to make annual deposits into the trust through 2012. (See Note 15.).

Note 10. Accrued Liabilities

	December 31,	
	2011	2010
	(Millions)	
Interest on debt	$ 143	$ 162
Employee costs	127	146
Asset retirement obligations	66	35
Income taxes	24	187
Other, including other loss contingencies	271	208
	$ 631	$ 738

THE WILLIAMS COMPANIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 11. Debt, Banking Arrangements, and Leases

Long-Term Debt

	December 31, 2011	December 31, 2010
	(Millions)	
Unsecured:		
Transco:		
7% Notes due 2011	$	$ 300
8.875% Notes due 2012	325	325
6.4% Notes due 2016	200	200
6.05% Notes due 2018	250	250
7.08% Debentures due 2026	8	8
7.25% Debentures due 2026	200	200
5.4% Notes due 2041	375	
Northwest Pipeline:		
7% Notes due 2016	175	175
5.95% Notes due 2017	185	185
6.05% Notes due 2018	250	250
7.125% Debentures due 2025	85	85
WPZ:		
7.5% Notes due 2011		150
3.8% Notes due 2015	750	750
7.25% Notes due 2017	600	600
5.25% Notes due 2020	1,500	1,500
4.125% Notes due 2020	600	600
4% Notes due 2021	500	
6.3% Notes due 2040	1,250	1,250
The Williams Companies, Inc.:		
7.875% Notes due 2021	371	571
7.5% Debentures due 2031	339	527
7.75% Notes due 2031	252	369
8.75% Notes due 2032	445	686
Various - 5.5% to 10.25% Notes and Debentures due 2011 to 2033	90	152
Other, including secured capital lease obligations	4	13
Net unamortized debt discount	(32)	(38)
Total long-term debt, including current portion	8,722	9,108
Long-term debt due within one year	(353)	(508)
Long-term debt	$ 8,369	$ 8,600

Certain of our debt agreements contain covenants that restrict or limit, among other things, our ability to create liens supporting indebtedness, sell assets, and incur additional debt. Default of these agreements could also restrict our ability to make certain distributions or repurchase equity.

Credit Facilities

In June 2011, we entered into two new separate five-year senior unsecured revolving credit facility agreements. The replacements of our previous $900 million credit facility and WPZ s $1.75 billion credit facility, as discussed further below, are considered modifications for accounting purposes.

We established a new $900 million unsecured revolving credit facility agreement which replaced our existing unsecured $900 million credit facility agreement that was scheduled to expire May 1, 2012. There were no outstanding borrowings under the existing agreement at the time it was terminated. The new credit facility may, under certain conditions, be increased up to an additional $250 million. Significant financial covenants require our ratio of debt to EBITDA (each as defined in the credit facility) to be no greater than 4.5 to 1. For the fiscal quarter and the two following fiscal quarters in which one or more acquisitions for a total aggregate purchase price equal to or greater than $50 million has been executed, we are required to maintain a ratio of debt to EBITDA of no greater than 5 to 1. At December 31, 2011, we are in compliance with these financial covenants. On November 1, 2011, the new credit facility was amended primarily to revise certain defined terms for further clarity and to accommodate our revised reorganization plan related to the spin-off of WPX.

WPZ also established a new $2 billion unsecured revolving credit facility agreement that includes Transco and Northwest Pipeline as co-borrowers that replaced an existing unsecured $1.75 billion credit facility agreement that was scheduled to expire on February 17, 2013. This credit facility is only available to named borrowers. At the closing, WPZ refinanced $300 million outstanding under the existing facility via a noncash transfer of the obligation to the new credit facility. The new credit facility may, under certain conditions, be increased up to an additional $400 million. The full amount of the credit facility is available to WPZ to the extent not otherwise utilized by Transco and Northwest Pipeline. Transco and Northwest Pipeline each have access to borrow up to $400 million under the credit facility to the extent not otherwise utilized by the other co-borrowers. Significant financial covenants include:

- WPZ s ratio of debt to EBITDA (each as defined in the credit facility) must be no greater than 5 to 1. For the fiscal quarter and the two following fiscal quarters in which one or more acquisitions for a total aggregate purchase price equal to or greater than $50 million has been executed, WPZ is required to maintain a ratio of debt to EBITDA of no greater than 5.5 to 1;

- The ratio of debt to capitalization (defined as net worth plus debt) must be no greater than 65 percent for each of Transco and Northwest Pipeline.

At December 31, 2011, WPZ is in compliance with these financial covenants.

The two new credit agreements contain the following terms and conditions:

- Each time funds are borrowed, the applicable borrower may choose from two methods of calculating interest: a fluctuating base rate equal to Citibank N.A. s alternate base rate plus an applicable margin or a periodic fixed rate equal to LIBOR plus an applicable margin. The applicable borrower is required to pay a commitment fee (currently 0.25 percent) based on the unused portion of their respective credit facility. The applicable margin and the commitment fee are determined for each borrower by reference to a pricing schedule based on such borrower s senior unsecured long-term debt ratings.

- Various covenants may limit, among other things, a borrower s and its material subsidiaries ability to grant certain liens supporting indebtedness, a borrower s ability to merge or consolidate, sell all or substantially all of its assets, enter into certain affiliate transactions, make certain distributions during an event of default, make investments, and allow any material change in the nature of its business.

THE WILLIAMS COMPANIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

If an event of default with respect to a borrower occurs under their respective credit facility agreement, the lenders will be able to terminate the commitments for the respective borrowers and accelerate the maturity of any loans of the defaulting borrower under the respective credit facility agreement and exercise other rights and remedies.

Letter of credit capacity under our $900 million and WPZ s $2 billion credit facilities is $700 million and $1.3 billion, respectively. At December 31, 2011, no letters of credit have been issued and no loans are outstanding on either facility. We have issued letters of credit totaling $21 million as of December 31, 2011, under certain bilateral bank agreements.

Issuances and Retirements

Utilizing cash on hand, WPZ retired $150 million of 7.5 percent senior unsecured notes that matured on June 15, 2011.

In August 2011, Transco issued $375 million of 5.4 percent senior unsecured notes due 2041 to investors in a private debt placement. A portion of these proceeds was used to repay Transco s $300 million 7 percent senior unsecured notes that matured on August 15, 2011. As part of the new issuance, Transco entered into a registration rights agreement with the initial purchasers of the unsecured notes. An offer to exchange these unregistered notes for substantially identical new notes that are registered under the Securities Act of 1933, as amended, was commenced in February 2012 and is expected to be completed in March 2012. If Transco fails to complete the exchange within certain time periods required by the registration rights agreement, additional interest will accrue on the affected securities. The rate of additional interest will be 0.25 percent per annum on the principal amount of the affected securities for the first 90-day period immediately following the occurrence of default, increasing by an additional 0.25 percent per annum with respect to each subsequent 90-day period thereafter. Following the cure of any registration defaults, the accrual of additional interest will cease.

In November 2011, WPZ completed a public offering of $500 million of its 4 percent senior unsecured notes due 2021. WPZ used the net proceeds primarily to repay outstanding borrowings on its senior unsecured revolving credit facility.

In November 2011, WPX completed the issuance of $1.5 billion of senior unsecured notes and subsequently distributed $981 million of the proceeds to us. As a result of the spin-off, these WPX notes are not included in our consolidated debt balance at December 31, 2011. Primarily utilizing the distribution we received related to the WPX debt issuance, we retired $746 million of debt in December 2011. In conjunction with the retirement, we paid $254 million in related premiums.

Other Debt Disclosures

As of December 31, 2011, aggregate minimum maturities of long-term debt (excluding capital leases and unamortized discount and premium) for each of the next five years are as follows:

	(Millions)
2012	$ 352
2013	$
2014	$
2015	$ 750
2016	$ 375

Cash payments for interest (net of amounts capitalized) were $599 million in 2011, $614 million in 2010 and $592 million in 2009.

THE WILLIAMS COMPANIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

We have considered the guidance in the Securities and Exchange Commission s Regulation S-X related to restricted net assets of subsidiaries. In accordance with Rule 4-08(e) of Regulation S-X, we have determined that certain net assets of our subsidiaries are considered restricted under this guidance and exceed 25 percent of our consolidated net assets. Substantially all of these restricted net assets relate to the net assets of WPZ, which are technically considered restricted under this accounting rule due to terms within WPZ s partnership agreement that govern the partnership s assets. Our interest in WPZ s net assets at December 31, 2011 was $3.9 billion.

Leases-Lessee

Future minimum annual rentals under noncancelable operating leases as of December 31, 2011 are payable as follows:

	(Millions)
2012	$ 43
2013	35
2014	33
2015	29
2016	26
Thereafter	148
Total	$ 314

Under our right-of-way agreement with the Jicarilla Apache Nation (JAN), we make annual payments of approximately $8 million and an additional annual payment which varies depending on the prior year s per-unit NGL margins and the volume of gas gathered by our Williams Partners gathering facilities subject to the agreement. Depending primarily on the per-unit NGL margins for any given year, the additional annual payments could exceed the fixed amount. This agreement expires March 31, 2029.

Total rent expense was $49 million in 2011, $45 million in 2010, and $45 million in 2009.

Note 12. Stockholders Equity

Cash dividends declared per common share were $.775, $.485 and $.44 for 2011, 2010, and 2009, respectively.

At December 31, 2011, approximately $8 million of our original $300 million, 5.5 percent junior subordinated convertible debentures, convertible into approximately one million shares of common stock, remain outstanding. In 2011, 2010 and 2009, we converted $14 million, $2 million and $28 million, respectively, of the debentures in exchange for approximately one million, less than one million and three million shares, respectively, of common stock. In conjunction with the spin-off of WPX, the conversion rate for the remaining debentures outstanding has been modified.

We maintain a Stockholder Rights Plan, as amended and restated on September 21, 2004, and further amended May 18, 2007, and October 12, 2007, under which each outstanding share of our common stock has a right (as defined in the plan) attached. Under certain conditions, each right may be exercised to purchase, at an exercise price of $50 (subject to adjustment), one two-hundredth of a share of Series A Junior Participating Preferred Stock. The rights may be exercised only if an Acquiring Person acquires (or obtains the right to acquire) 15 percent or more of our common stock or commences an offer for 15 percent or more of our common stock. The plan contains a mechanism to divest of shares of common stock if such stock in excess of 14.9 percent was acquired inadvertently or without knowledge of the terms of the rights. The rights, which until exercised do not have voting rights, expire in 2014 and may be redeemed at a price of $.01 per right prior to their expiration, or within a specified period of time after the occurrence of certain events. In the event a person becomes the owner of more than 15 percent of our common stock, each holder of a right (except an Acquiring Person) shall have the right to receive, upon exercise, our common stock having a value equal to two times the exercise

price of the right. In the event we are engaged in a merger, business combination, or 50 percent or more of our assets, cash flow or earnings power is sold or transferred, each holder of a right (except an Acquiring Person) shall have the right to receive, upon exercise, common stock of the acquiring company having a value equal to two times the exercise price of the right.

On December 31, 2011, we completed the tax-free spin-off of our interest in WPX to our shareholders. (See Note 2.)

Note 13. Stock-Based Compensation

Plan Information

On May 17, 2007, our stockholders approved a plan that provides common-stock-based awards to both employees and nonmanagement directors and reserved 19 million new shares for issuance. On May 20, 2010, our stockholders approved an amendment and restatement of the 2007 plan to increase by 11 million the number of new shares authorized for making awards under the plan, among other changes. The plan permits the granting of various types of awards including, but not limited to, restricted stock units and stock options. At December 31, 2011, 35 million shares of our common stock were reserved for issuance pursuant to existing and future stock awards, of which 20 million shares were available for future grants.

Additionally, on May 17, 2007, our stockholders approved an Employee Stock Purchase Plan (ESPP) which authorizes up to 2 million new shares of our common stock to be available for sale under the plan. The ESPP enables eligible participants to purchase our common stock through payroll deductions not exceeding an annual amount of $15,000 per participant. The ESPP provides for offering periods during which shares may be purchased and continues until the earliest of: (1) the Board of Directors terminates the ESPP, (2) the sale of all shares available under the ESPP, or (3) the tenth anniversary of the date the Plan was approved by the stockholders. The first offering under the ESPP commenced on October 1, 2007 and ended on December 31, 2007. Subsequent offering periods are from January through June and from July through December. Generally, all employees are eligible to participate in the ESPP, with the exception of executives and international employees. The number of shares eligible for an employee to purchase during each offering period is limited to 750 shares. The purchase price of the stock is 85 percent of the lower closing price of either the first or the last day of the offering period. The ESPP requires a one-year holding period before the stock can be sold. Employees purchased 239 thousand shares at an average price of $21.19 per share during 2011. Approximately 809 thousand shares were available for purchase under the ESPP at December 31, 2011.

Total stock-based compensation expense for the years ended December 31, 2011, 2010 and 2009 was $52 million, $48 million, and $43 million, respectively, of which $18 million, $14 million, and $13 million is included in *income (loss) from discontinued operations* for each respective year. Measured but unrecognized stock-based compensation expense at December 31, 2011, was $35 million, which does not include the effect of estimated forfeitures of $2 million. This amount is comprised of $3 million related to stock options and $32 million related to restricted stock units. These amounts are expected to be recognized over a weighted-average period of 1.8 years.

WPX Spin Off

As provided in the Employee Matters Agreement related to the spin-off of WPX (see Note 1), except for options awards granted prior to 2006, stock-based awards previously held by WPX employees were forfeited and replaced with WPX stock-based awards while awards held by our ongoing employees were adjusted upon the spin-off. All stock options granted previous to 2006 were converted into options to acquire both WPX common stock and our common stock. The adjusted awards maintain their original terms and conditions with regard to vesting schedules and expiration dates. These modifications to our stock-based compensation awards resulted in an insignificant amount of incremental expense. Both the shares and weighted-average prices presented below are on a post-spin basis.

THE WILLIAMS COMPANIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Stock Options

The following summary reflects stock option activity and related information for the year ended December 31, 2011.

Stock Options	Options (Millions)	Weighted-Average Exercise Price	Aggregate Intrinsic Value (Millions)
Outstanding at December 31, 2010	12.3	$ 14.18	
Granted	0.9	$ 24.21	
Exercised	(3.3)	$ 11.13	
Expired	(0.3)	$ 28.56	
Outstanding at December 31, 2011	9.6	$ 15.63	$ 111
Exercisable at December 31, 2011	7.8	$ 14.87	$ 97

The total intrinsic value of options exercised during the years ended December 31, 2011, 2010, and 2009 was $55 million, $20 million, and $2 million, respectively; and the tax benefit realized was $21 million, $7 million, and $1 million, respectively. Cash received from stock option exercises was $45 million, $7 million, and $2 million during 2011, 2010, and 2009, respectively.

The following summary provides additional information about stock options that are outstanding and exercisable at December 31, 2011.

	Stock Options Outstanding			Stock Options Exercisable		
Range of Exercise Prices	Options (Millions)	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Life (Years)	Options (Millions)	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Life (Years)
$1.85 to $9.94	3.6	$ 7.49	3.8	3.3	$ 7.33	3.4
$12.79 to $19.80	3.3	$ 16.56	4.5	2.7	$ 16.42	3.8
$22.11 to $24.21	1.8	$ 23.62	6.8	0.9	$ 23.03	4.5
$26.10 to $29.72	0.9	$ 29.68	5.4	0.9	$ 29.68	5.4
Total	9.6	$ 15.63	4.7	7.8	$ 14.87	3.9

The estimated fair value at date of grant of options for our common stock granted in each respective year, using the Black-Scholes option pricing model, is as follows:

	2011	2010	2009
Weighted-average grant date fair value of options for our common stock granted during the year, per share	$ 6.28	$ 5.71	$ 4.56

Weighted-average assumptions:			
Dividend yield	3.6%	2.6%	1.6%
Volatility	34.6%	39.0%	60.8%
Risk-free interest rate	2.8%	3.0%	2.3%
Expected life (years)	6.5	6.5	6.5

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The expected dividend yield is based on the average annual dividend yield as of the grant date. Expected volatility is based on the historical volatility of our stock and the implied volatility of our stock based on traded options. In calculating historical volatility, returns during calendar year 2002 were excluded as the extreme volatility during that time is not reasonably expected to be repeated in the future. The risk-free interest rate is based on the U.S. Treasury Constant Maturity rates as of the grant date. The expected life of the option is based on historical exercise behavior and expected future experience.

Nonvested Restricted Stock Units

The following summary reflects nonvested restricted stock unit activity and related information for the year ended December 31, 2011.

Restricted Stock Units	**Shares (Millions)**	**Weighted-Average Fair Value***
Nonvested at December 31, 2010	5.2	$ 12.91
Granted	1.4	$ 23.31
Forfeited	(0.2)	$ 15.16
Cancelled	(0.3)	$
Vested	(0.9)	$ 26.46
Nonvested at December 31, 2011	5.2	$ 14.12

* Performance-based shares are primarily valued using a valuation pricing model. However, certain of these shares were valued using the end-of-period market price until certification that the performance objectives were completed or a value of zero once it was determined that it was unlikely that performance objectives would be met. All other shares are valued at the grant-date market price, less dividends projected to be paid over the vesting period.

Other restricted stock unit information

	2011	**2010**	**2009**
Weighted-average grant date fair value of restricted stock units granted during the year, per share	$ 23.31	$ 16.37	$ 7.70
Total fair value of restricted stock units vested during the year ($ s in millions)	$ 35	$ 29	$ 28

Performance-based shares granted under the Plan represent 30 percent of nonvested restricted stock units outstanding at December 31, 2011. These grants may be earned at the end of a three-year period based on actual performance against a performance target. Based on the extent to which certain financial targets are achieved, vested shares may range from zero percent to 200 percent of the original grant amount.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 14. Fair Value Measurements

The following table presents, by level within the fair value hierarchy, our assets that are measured at fair value on a recurring basis..

	December 31, 2011				December 31, 2010			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
	(Millions)							
ARO Trust investments (see Note 15)	$ 25	$	$	$ 25	$ 40	$	$	$ 40
Available-for-sale equity securities (see Note 3)	24			24				
Energy derivatives	1			1				
Total assets	$ 50	$	$	$ 50	$ 40	$	$	$ 40

ARO Trust investments: Transco deposits a portion of its collected rates into an external trust (ARO Trust) that is specifically designated to fund future asset retirement obligations pursuant to its 2008 rate case settlement. The ARO Trust invests in a portfolio of actively traded mutual funds.

Available-for-sale marketable equity securities: At December 31, 2011 we held certain equity securities that were subsequently sold in January 2012. These securities are traded on the New York Stock Exchange.

Energy derivatives: Energy derivatives include commodity based exchange-traded contracts, which consist of swaps that are valued based on quoted prices in active markets. The tenure of our energy derivatives portfolio is relatively short with all of our derivatives expiring by March 31, 2013.

The following table presents assets measured on a nonrecurring basis within Level 3 of the fair value hierarchy as of December 31, 2010.

		Fair Value Measurement	Total Impairments
		(Millions)	
Certain gathering assets	Williams Partners	$ 3	$ 9

Note 15. Financial Instruments, Derivatives, Guarantees, and Concentration of Credit Risk

Financial Instruments

Fair-value methods

We use the following methods and assumptions in estimating our fair-value disclosures for financial instruments:

Cash and cash equivalents and restricted cash: The carrying amounts reported in the Consolidated Balance Sheet approximate fair value due to the short-term maturity of these instruments. Restricted cash is included in *other current assets and deferred charges* in the Consolidated Balance Sheet.

ARO Trust investments: Transco deposits a portion of its collected rates, pursuant to its 2008 rate case settlement, into the ARO Trust. The ARO Trust invests in a portfolio of mutual funds that are reported at fair value, based on quoted net asset values, in *regulatory assets, deferred charges, and other* in the Consolidated Balance Sheet and are classified as available-for-sale. However, both realized and unrealized gains and losses are ultimately recorded as regulatory assets or liabilities.

THE WILLIAMS COMPANIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Long-term debt: The fair value of our publicly traded long-term debt is determined using indicative period-end traded bond market prices. The fair value of our private debt is based on market rates and the prices of similar securities with similar terms and credit ratings. At December 31, 2011 and December 31, 2010, approximately 96 percent and 100 percent, respectively, of our long-term debt was publicly traded.

Guarantee: The *guarantee* represented in the following table consists of a guarantee we have provided in the event of nonpayment by our previously owned communications subsidiary, Williams Communications Group (WilTel), on a lease performance obligation. To estimate the fair value of the guarantee, the estimated default rate is determined by obtaining the average cumulative issuer-weighted corporate default rate based on the credit rating of WilTel s current owner and the term of the underlying obligation. The default rate is published by Moody s Investors Service. This guarantee is included in *accrued liabilities* in the Consolidated Balance Sheet.

Other: Includes current and noncurrent notes receivable, margin deposits, customer margin deposits payable, and cost-based investments. Other also includes available-for-sale equity securities. These securities are reported within *other current assets and deferred charges* in the Consolidated Balance Sheet and are carried at fair value based upon the publicly traded equity prices.

Energy derivatives: Energy derivatives include forwards and swaps. These are carried at fair value in the Consolidated Balance Sheet. See Note 14 for a discussion of the valuation of our energy derivatives.

Carrying amounts and fair values of our financial instruments

	December 31, 2011		December 31, 2010	
Asset (Liability)	**Carrying Amount**	**Fair Value**	**Carrying Amount**	**Fair Value**
	(Millions)			
Cash and cash equivalents	$ 889	$ 889	$ 758	$ 758
Restricted cash	$	$	$ 4	$ 4
ARO Trust investments	$ 25	$ 25	$ 40	$ 40
Long-term debt, including current portion (a)	$ (8,718)	$ (10,043)	$ (9,104)	$ (9,990)
Guarantee	$ (34)	$ (32)	$ (35)	$ (34)
Other	$ 82	$ 81 (b)	$ 2	$ (b)
Energy derivatives	$ 1	$ 1	$	$

(a) Excludes capital leases.
(b) Excludes certain cost-based investments in companies that are not publicly traded and therefore it is not practicable to estimate fair value. The carrying value of these investments was $1 million and $2 million at December 31, 2011 and December 31, 2010, respectively.

Energy Commodity Derivatives

Risk management activities

We are exposed to market risk from changes in energy commodity prices within our operations. We may utilize derivatives to manage our exposure to the variability in expected future cash flows from forecasted purchases and sales of natural gas and NGLs attributable to commodity price risk. Certain of these derivatives utilized for risk management purposes have been designated as cash flow hedges, while other derivatives have not been designated as cash flow hedges or do not qualify for hedge accounting despite hedging our future cash flows on an economic basis.

THE WILLIAMS COMPANIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

We produce and sell NGLs and olefins at different locations throughout North America. We also buy natural gas to satisfy the required fuel and shrink needed to generate NGLs and olefins. In addition, we buy NGLs as feedstock to generate olefins. To reduce exposure to a decrease in revenues from fluctuations in NGL market prices or increases in costs and operating expenses from fluctuations in natural gas and NGL market prices, we may enter into NGL or natural gas swap agreements, financial forward contracts, and financial option contracts to mitigate the price risk on forecasted sales of NGLs and purchases of natural gas and NGLs. Those designated as cash flow hedges are expected to be highly effective in offsetting cash flows attributable to the hedged risk during the term of the hedge. However, ineffectiveness may be recognized primarily as a result of locational differences between the hedging derivative and the hedged item.

Volumes

Our energy commodity derivatives are comprised of both contracts to purchase the commodity (long positions) and contracts to sell the commodity (short positions). Derivative transactions are categorized into two types:

Central hub risk: Includes physical and financial derivative exposures to Henry Hub for natural gas and Mont Belvieu for NGLs;

Basis risk: Includes physical and financial derivative exposures to the difference in value between the central hub and another specific delivery point.

The following table depicts the notional quantities of the net long (short) positions in our commodity derivatives portfolio as of December 31, 2011. NGLs are presented in barrels.

Derivative Notional Volumes	Unit of Measure	Central Hub Risk	Basis Risk
Not Designated as Hedging Instruments			
Williams Partners	Barrels	45,000	240,000
Midstream Canada & Olefins	Barrels	(25,000)	

Fair values and gains (losses)

At December 31, 2011, the fair value of our energy commodity derivatives was an asset of $1 million. These derivative contracts were not designated as hedging instruments. Our derivatives are included in *other current assets and deferred charges* in our Consolidated Balance Sheet. Derivatives are classified as current or noncurrent based on the contractual timing of expected future net cash flows of individual contracts. The expected future net cash flows for derivatives classified as current are expected to occur within the next 12 months. The fair value amount is on a gross basis and does not reflect the netting of asset and liability positions permitted under the terms of our master netting arrangements. Further, the amount does not include cash held on deposit in margin accounts that we have received or remitted to collateralize certain derivative positions.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The following table presents pre-tax gains and losses for our energy commodity derivatives designated as cash flow hedges, as recognized in AOCI, *revenues,* or *costs and operating expenses*.

	Years ended December 31, 2011	2010	Classification
	(Millions)		
Net gain (loss) recognized in other comprehensive income (loss) (effective portion)	$ (18)	$ (12)	AOCI
Net gain (loss) reclassified from accumulated other comprehensive income (loss) into income (effective portion)	$ (18)	$ (13)	Revenues or Costs and Operating Expenses
Gain (loss) recognized in income (ineffective portion)	$	$	Revenues or Costs and Operating Expenses

There were no gains or losses recognized in income as a result of excluding amounts from the assessment of hedge effectiveness or as a result of reclassifications to earnings following the discontinuance of any cash flow hedges.

We recognized losses of $2 million and $1 million in *revenues* for the years ended December 31, 2011 and 2010, respectively, on our energy commodity derivatives not designated as hedging instruments.

The cash flow impact of our derivative activities is presented in the Consolidated Statement of Cash Flows as *changes in current and noncurrent derivative assets and liabilities*.

Credit-risk-related features

Certain of our derivative contracts contain credit-risk-related provisions that would require us, in certain circumstances, to post additional collateral in support of our net derivative liability positions. These credit-risk-related provisions require us to post collateral in the form of cash or letters of credit when our net liability positions exceed an established credit threshold. The credit thresholds are typically based on our senior unsecured debt ratings from Standard and Poor s and/or Moody s Investors Service. Under these contracts, a credit ratings decline would lower our credit thresholds, thus requiring us to post additional collateral. We also have contracts that contain adequate assurance provisions giving the counterparty the right to request collateral in an amount that corresponds to the outstanding net liability.

As of December 31, 2011 and December 31, 2010, we did not have any collateral posted, either in the form of cash or letters of credit, to derivative counterparties since we had respective net derivative asset positions with all of our counterparties.

Cash flow hedges

Changes in the fair value of our cash flow hedges, to the extent effective, are deferred in AOCI and reclassified into earnings in the same period or periods in which the hedged forecasted purchases or sales affect earnings, or when it is probable that the hedged forecasted transaction will not occur by the end of the originally specified time period. As of December 31, 2011, we have realized all of our hedged portions of future cash flows associated with anticipated energy commodity purchases. Based on recorded values at December 31, 2011, no net gains or losses will be reclassified into earnings within the next year.

THE WILLIAMS COMPANIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Guarantees

In addition to the guarantees and payment obligations discussed in Note 2 and Note 16, we have issued guarantees and other similar arrangements as discussed below.

We are required by our revolving credit agreements to indemnify lenders for any taxes required to be withheld from payments due to the lenders and for any tax payments made by the lenders. The maximum potential amount of future payments under these indemnifications is based on the related borrowings and such future payments cannot currently be determined. These indemnifications generally continue indefinitely unless limited by the underlying tax regulations and have no carrying value. We have never been called upon to perform under these indemnifications and have no current expectation of a future claim.

We have provided a guarantee in the event of nonpayment by our previously owned communications subsidiary, WilTel, on a certain lease performance obligation that extends through 2042. The maximum potential exposure is approximately $38 million at December 31, 2011 and $39 million at December 31, 2010. Our exposure declines systematically throughout the remaining term of WilTel s obligation. The carrying value of the guarantee included in *accrued liabilities* on the Consolidated Balance Sheet is $34 million at December 31, 2011 and $35 million at December 31, 2010.

At December 31, 2011, we do not expect these guarantees to have a material impact on our future liquidity or financial position. However, if we are required to perform on these guarantees in the future, it may have an adverse effect on our results of operations.

Concentration of Credit Risk

Cash equivalents

Our cash equivalents are primarily invested in funds with high-quality, short-term securities and instruments that are issued or guaranteed by the U.S. government.

Accounts and notes receivable

The following table summarizes concentration of receivables, net of allowances, by product or service at December 31, 2011 and 2010:

	December 31,	
	2011	**2010**
	(Millions)	
Receivables by product or service:		
Sale of NGLs and related products and services	$ 446	$ 345
Transportation of natural gas and related products	164	149
Other, including certain amounts due from WPX	27	3
Total	$ 637	$ 497

Natural gas and NGL customers include pipelines, distribution companies, producers, gas marketers and industrial users primarily located in the central, eastern and northwestern United States, Rocky Mountains, Gulf Coast, and Canada. As a general policy, collateral is not required for receivables, but customers financial condition and credit worthiness are evaluated regularly.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Revenues

In 2011 and 2010, we had one customer that accounted for 17 percent and 15 percent of our consolidated revenues, respectively. There were no customers for which our sales exceeded 10 percent of our consolidated revenues in 2009.

Note 16. Contingent Liabilities and Commitments

Indemnification of WPX Matters

We have agreed to indemnify our former affiliate, WPX and its subsidiaries, related to the following matters. In connection with this indemnification, we have retained applicable accrued asset and liability balances associated with these matters, and as a result, have an indirect exposure to future developments in these matters.

Issues Resulting from California Energy Crisis

WPX s former power business was engaged in power marketing in various geographic areas, including California. Prices charged for power by WPX and other traders and generators in California and other western states in 2000 and 2001 were challenged in various proceedings, including those before the Federal Energy Regulatory Commission (FERC). WPX has entered into settlements with the State of California (State Settlement), major California utilities (Utilities Settlement), and others that substantially resolved each of these issues with these parties.

Although the State Settlement and Utilities Settlement resolved a significant portion of the refund issues among the settling parties, WPX continues to have potential refund exposure to nonsettling parties, including various California end users that did not participate in the Utilities Settlement. WPX is currently in settlement negotiations with certain California utilities aimed at eliminating or substantially reducing this exposure. If successful, and subject to a final true-up mechanism, the settlement agreement would also resolve WPX s collection of accrued interest from counterparties as well as their payment of accrued interest on refund amounts. Thus, as currently contemplated by the parties, the settlement agreement would resolve most, if not all, of WPX s legal issues arising from the 2000-2001 California Energy Crisis. We currently have a net receivable from WPX related to these matters.

Certain other issues also remain open at the FERC and for other nonsettling parties.

Reporting of Natural Gas-Related Information to Trade Publications

Civil suits based on allegations of manipulating published gas price indices have been brought against WPX and others, in each case seeking an unspecified amount of damages. WPX is currently a defendant in class action litigation and other litigation originally filed in state court in Colorado, Kansas, Missouri and Wisconsin brought on behalf of direct and indirect purchasers of natural gas in those states. These cases were transferred to the federal court in Nevada. In 2008, the court granted summary judgment in the Colorado case in favor of WPX and most of the other defendants based on plaintiffs lack of standing. In 2009, the court denied the plaintiffs request for reconsideration of the Colorado dismissal and entered judgment in WPX s favor. The court s order became final on July 18, 2011, and the Colorado plaintiffs might appeal the order.

In the other cases, on July 18, 2011, the Nevada district court granted WPX s joint motions for summary judgment to preclude the plaintiffs state law claims because the federal Natural Gas Act gives the FERC exclusive jurisdiction to resolve those issues. The court also denied the plaintiffs class certification motion as moot. On July 22, 2011, the plaintiffs appealed the court s ruling to the Ninth Circuit Court of Appeals, and the parties are briefing the issues. Because of the uncertainty around these current pending unresolved issues, including an insufficient description of the purported classes and other related matters, we cannot reasonably estimate a range of potential exposures at this time. However, it is reasonably possible that the ultimate resolution of these items and our related indemnification obligation could result in future charges that may be material to our results of operations.

THE WILLIAMS COMPANIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Environmental Matters

We are a participant in certain environmental activities in various stages including assessment studies, cleanup operations and remedial processes at certain sites, some of which we currently do not own. We are monitoring these sites in a coordinated effort with other potentially responsible parties, the EPA, and other governmental authorities. We are jointly and severally liable along with unrelated third parties in some of these activities and solely responsible in others. Certain of our subsidiaries have been identified as potentially responsible parties at various Superfund and state waste disposal sites. In addition, these subsidiaries have incurred, or are alleged to have incurred, various other hazardous materials removal or remediation obligations under environmental laws. As of December 31, 2011, we have accrued liabilities totaling $47 million for these matters, as discussed below. Our accrual reflects the most likely costs of cleanup, which are generally based on completed assessment studies, preliminary results of studies or our experience with other similar cleanup operations. Certain assessment studies are still in process for which the ultimate outcome may yield significantly different estimates of most likely costs. Any incremental amount in excess of amounts currently accrued cannot be reasonably estimated at this time due to uncertainty about the actual number of contaminated sites ultimately identified, the actual amount and extent of contamination discovered and the final cleanup standards mandated by the EPA and other governmental authorities.

The EPA and various state regulatory agencies routinely promulgate and propose new rules, and issue updated guidance to existing rules. These new rules and rulemakings include, but are not limited to, rules for reciprocating internal combustion engine maximum achievable control technology, new air quality standards for ground level ozone, and one hour nitrogen dioxide emission limits. We are unable to estimate the costs of asset additions or modifications necessary to comply with these new regulations due to uncertainty created by the various legal challenges to these regulations and the need for further specific regulatory guidance.

Continuing operations

Our interstate gas pipelines are involved in remediation activities related to certain facilities and locations for polychlorinated biphenyl, mercury contamination, and other hazardous substances. These activities have involved the EPA, various state environmental authorities and identification as a potentially responsible party at various Superfund waste disposal sites. At December 31, 2011, we have accrued liabilities of $10 million for these costs. We expect that these costs will be recoverable through rates.

We also accrue environmental remediation costs for natural gas underground storage facilities, primarily related to soil and groundwater contamination. At December 31, 2011, we have accrued liabilities totaling $8 million for these costs.

Former operations, including operations classified as discontinued

We have potential obligations in connection with assets and businesses we no longer operate. These potential obligations include the indemnification of the purchasers of certain of these assets and businesses for environmental and other liabilities existing at the time the sale was consummated. Our responsibilities relate to the operations of the assets and businesses described below.

- Former agricultural fertilizer and chemical operations and former retail petroleum and refining operations;
- Former petroleum products and natural gas pipelines;
- Former petroleum refining facilities;

THE WILLIAMS COMPANIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Former exploration and production and mining operations;

Former electricity and natural gas marketing and trading operations.

At December 31, 2011, we have accrued environmental liabilities of $29 million related to these matters.

Other Legal Matters

Gulf Liquids litigation

Gulf Liquids contracted with Gulsby Engineering Inc. (Gulsby) and Gulsby-Bay (a joint venture between Gulsby and Bay Ltd.) for the construction of certain gas processing plants in Louisiana. National American Insurance Company (NAICO) and American Home Assurance Company provided payment and performance bonds for the projects. In 2001, the contractors and sureties filed multiple cases in Louisiana and Texas against Gulf Liquids and us.

In 2006, at the conclusion of the consolidated trial of the asserted contract and tort claims, the jury returned its actual and punitive damages verdict against us and Gulf Liquids. Based on our interpretation of the jury verdicts, we recorded a charge based on our estimated exposure for actual damages of approximately $68 million plus potential interest of approximately $20 million. In addition, we concluded that it was reasonably possible that any ultimate judgment might have included additional amounts of approximately $199 million in excess of our accrual, which primarily represented our estimate of potential punitive damage exposure under Texas law.

From May through October 2007, the court entered seven post-trial orders in the case (interlocutory orders) which, among other things, overruled the verdict award of tort and punitive damages as well as any damages against us. The court also denied the plaintiffs claims for attorneys fees. On January 28, 2008, the court issued its judgment awarding damages against Gulf Liquids of approximately $11 million in favor of Gulsby and approximately $4 million in favor of Gulsby-Bay. Gulf Liquids, Gulsby, Gulsby-Bay, Bay Ltd., and NAICO appealed the judgment. In February 2009, we settled with certain of these parties and reduced our accrued liability as of December 31, 2008, by $43 million, including $11 million of interest. On February 17, 2011, the Texas Court of Appeals upheld the dismissals of the tort and punitive damages claims and reversed and remanded the contract claim and attorney fee claims for further proceedings. None of the parties filed a petition for review in the Texas Supreme Court. As a result, we reduced our accrued liability as of December 31, 2011 by $33 million, including $14 million of interest. We are awaiting the Texas Court of Appeals to issue a mandate remanding the case to the trial court.

James West v. Williams Alaska Petroleum, Inc., et al

In January 2010, the plaintiff originally filed a class action lawsuit in state court in Fairbanks, Alaska on behalf of individual property owners whose water contained sulfolane contamination allegedly emanating from the Flint Hills Oil Refinery in North Pole, Alaska. The suit named our subsidiary Williams Alaska Petroleum Inc. (WAPI) and Flint Hills Resources Alaska, LLC (FHRA) as defendants. We owned and operated the refinery until 2004 when we sold it to FHRA. We and FHRA have made claims under the pollution liability insurance policy issued in connection with the sale of the North Pole refinery to FHRA. We and FHRA also filed claims against each other seeking, among other things, contractual indemnification alleging that the other party caused the sulfolane contamination.

In August 2010, the court denied the plaintiff s request for class certification. On May 5, 2011, we and FHRA settled the James West claim, leaving FHRA and WAPI claims. On November 17, 2011, we filed motions for summary judgment on FHRA s claims against us, but the motions are unlikely to resolve all the outstanding claims. Similarly, FHRA has filed motions for summary judgment that would resolve some, but not all, of our claims against it. We await the court s ruling on those motions and the new scheduling order.

THE WILLIAMS COMPANIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

While significant uncertainty still exists due to, among other things, ongoing proceedings and expert evaluations, we currently estimate that our reasonably possible loss exposure in this matter could range from an insignificant amount up to $32 million. We might have the ability to recover any such losses under the pollution liability policy if FHRA has not exhausted the policy limits.

Other

In 2003, we entered into an agreement to sublease certain underground storage facilities to Liberty Gas Storage (Liberty). We have asserted claims against Liberty for prematurely terminating the sublease and for damage caused to the facilities. In February 2011, Liberty asserted a counterclaim for costs in excess of $200 million associated with its use of the facilities. Due to the lack of information currently available, we are unable to evaluate the merits of the counterclaim and determine the amount of any possible liability.

Other Divestiture Indemnifications

Pursuant to various purchase and sale agreements relating to divested businesses and assets, we have indemnified certain purchasers against liabilities that they may incur with respect to the businesses and assets acquired from us. The indemnities provided to the purchasers are customary in sale transactions and are contingent upon the purchasers incurring liabilities that are not otherwise recoverable from third parties. The indemnities generally relate to breach of warranties, tax, historic litigation, personal injury, property damage, environmental matters, right of way and other representations that we have provided.

At December 31, 2011, other than as previously disclosed, we are not aware of any material claims involving the indemnities; thus, we do not expect any of the indemnities provided pursuant to the sales agreements to have a material impact on our future financial position. Any claim for indemnity brought against us in the future may have a material adverse effect on our results of operations in the period in which the claim is made.

In addition to the foregoing, various other proceedings are pending against us which are incidental to our operations.

Summary

We estimate that for all matters for which we are able to reasonably estimate a range of loss, including those noted above and others that are not individually significant, our aggregate reasonably possible losses beyond amounts accrued for all of our contingent liabilities are immaterial to our expected future annual results of operations, liquidity and financial position. These calculations have been made without consideration of any potential recovery from third-parties. We have disclosed all significant matters for which we are unable to reasonably estimate a range of possible loss.

Commitments

Commitments for construction and acquisition of property, plant and equipment are approximately $830 million at December 31, 2011.

THE WILLIAMS COMPANIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 17. Accumulated Other Comprehensive Income (Loss)

The table below presents changes in the components of *accumulated other comprehensive income (loss)*.

	Income (Loss)							
			Pension Benefits		Other Postretirement Benefits			
	Cash Flow Hedges	Foreign Currency Translation	Prior Service Cost	Net Actuarial Gain (Loss)	Prior Service Cost	Net Actuarial Gain (Loss)	Other	Total
	(Millions)							
Balance at December 31, 2008	$ 296	$ 53	$ (3)	$ (434)	$ 6	$ 2	$	$ (80)
2009 Change:								
Pre-income tax amount	262	83		44	7	(1)		395
Income tax (provision) benefit	(99)			(17)		1		(115)
Net reclassification into earnings of derivative instrument gains (net of a $234 million income tax provision)	(384)							(384)
Amortization included in net periodic benefit expense			1	42	(4)			39
Income tax (provision) benefit on amortization			(1)	(16)	1			(16)
	(221)	83		53	4			(81)
Allocation of other comprehensive income (loss) to noncontrolling interests				(7)				(7)
Balance at December 31, 2009	75	136	(3)	(388)	10	2		(168)
2010 Change:								
Pre-income tax amount	488	29		(71)		(12)		434
Income tax (provision) benefit	(185)			24		3		(158)
Net reclassification into earnings of derivative instrument gains (net of a $131 million income tax provision)	(211)							(211)
Amortization included in net periodic benefit expense			1	35	(5)	1		32
Income tax (provision) benefit on amortization				(13)	2			(11)
	92	29	1	(25)	(3)	(8)		86
Allocation of other comprehensive income to noncontrolling interests								
Balance at December 31, 2010	167	165	(2)	(413)	7	(6)		(82)
2011 Change:								

Pre-income tax amount	395	(18)		(220)	2	(21)		138
Income tax (provision) benefit	(152)			82	(1)	7		(64)
Net reclassification into earnings of derivative instrument gains (net of a $124 million income tax provision)	(190)							(190)
Amortization included in net periodic benefit expense			1	42	(4)	1		40
Income tax (provision) benefit on amortization				(16)	1			(15)
Unrealized gain(loss) on equity securities							3	3
Distribution of WPX Energy, Inc. to shareholders	(220)			1				(219)
	(167)	(18)	1	(111)	(2)	(13)	3	(307)
Allocation of other comprehensive income to noncontrolling interests								
Balance at December 31, 2011	$	$ 147	$ (1)	$ (524)	$ 5	$ (19)	$ 3	$ (389)

THE WILLIAMS COMPANIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 18. Segment Disclosures

Our reporting segments are Williams Partners and Midstream Canada & Olefins. All remaining business activities are included in Other. (See Note 1.)

Our segment presentation of Williams Partners is reflective of the parent-level focus by our chief operating decision-maker, considering the resource allocation and governance provisions associated with this master limited partnership structure. WPZ maintains a capital and cash management structure that is separate from ours. WPZ is self-funding and maintains its own lines of bank credit and cash management accounts. These factors, coupled with a different cost of capital from our other businesses, serve to differentiate the management of this entity as a whole.

Performance Measurement

We currently evaluate performance based upon *segment profit (loss)* from operations, which includes *segment revenues* from external and internal customers, *segment costs and expenses*, *equity earnings (losses)* and *income (loss) from investments*. The accounting policies of the segments are the same as those described in Note 1. Intersegment sales are generally accounted for at current market prices as if the sales were to unaffiliated third parties.

The primary types of costs and operating expenses by segment can be generally summarized as follows:

Williams Partners commodity purchases (primarily for NGL and crude marketing, shrink and fuel), depreciation and operation and maintenance expenses;

Midstream Canada & Olefins commodity purchases (primarily for shrink, feedstock and NGL and olefin marketing activities), depreciation and operation and maintenance expenses.

The following geographic area data includes *revenues from external customers* based on product shipment origin and *long-lived assets* based upon physical location.

	United States	Other (Millions)	Total
Revenues from external customers:			
2011	$ 7,728	$ 202	$ 7,930
2010	6,470	168	6,638
2009	5,163	115	5,278
Long-lived assets:			
2011	$ 12,041	$ 583	$ 12,624
2010	11,384	408	11,792
2009	11,064	310	11,374

Our foreign operations are primarily located in Canada. *Long-lived assets* are comprised of property, plant, and equipment, and other intangible assets.

As discussed in Notes 1 and 2, our former exploration and production business was spun-off on December 31, 2011 and has been reported as discontinued operations in all periods presented. Revenues derived from intercompany sales to our former exploration and production business, previously reported as internal, have been recast and are now shown as external. These sales were $310 million, $264 million, and $164 million for the years ended 2011, 2010, and 2009, respectively. In addition, costs attributable to activities with our former exploration and production business, previously reported as internal, have been recast and are now shown as external. Such costs were $845 million, $797 million, and $541 million for the years ended 2011, 2010, and 2009, respectively.

THE WILLIAMS COMPANIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The following table reflects the reconciliation of *segment revenues* and *segment profit (loss)* to *revenues* and *operating income (loss)* as reported in the Consolidated Statement of Operations and *other financial information* related to *long-lived assets*.

	Williams Partners	Midstream Canada & Olefins	Other (Millions)	Eliminations	Total
2011					
Segment revenues:					
External	$ 6,614	$ 1,302	$ 14	$	$ 7,930
Internal	115	10	11	(136)	
Total revenues	$ 6,729	$ 1,312	$ 25	$ (136)	$ 7,930
Segment profit (loss)	$ 1,896	$ 296	$ 24	$	$ 2,216
Less:					
Equity earnings (losses)	142		13		155
Income (loss) from investments		(4)	11		7
Segment operating income (loss)	$ 1,754	$ 300	$	$	2,054
General corporate expenses					(187)
Total operating income (loss)					$ 1,867
Other financial information:					
Additions to long-lived assets	$ 1,242	$ 242	$ 46	$	$ 1,530
Depreciation and amortization	$ 611	$ 26	$ 25	$	$ 662
2010					
Segment revenues:					
External	$ 5,609	$ 1,017	$ 12	$	$ 6,638
Internal	106	16	12	(134)	
Total revenues	$ 5,715	$ 1,033	$ 24	$ (134)	$ 6,638
Segment profit (loss)	$ 1,574	$ 172	$ 68	$	$ 1,814
Less:					
Equity earnings (losses)	109		34		143
Income (loss) from investments			43		43
Segment operating income (loss)	$ 1,465	$ 172	$ (9)	$	1,628
General corporate expenses					(221)
Total operating income (loss)					$ 1,407
Other financial information:					
Additions to long-lived assets(1)	$ 904	$ 104	$ 25	$	$ 1,033

Depreciation and amortization	$ 568	$ 23	$ 21	$	$ 612
2009					
Segment revenues:					
External	$ 4,524	$ 737	$ 17	$	$ 5,278
Internal	78	16	10	(104)	
Total revenues	$ 4,602	$ 753	$ 27	$ (104)	$ 5,278
Segment profit (loss)	$ 1,317	$ 37	$ (41)	$	$ 1,313
Less:					
Equity earnings (losses)	81		37		118
Income (loss) from investments			(75)		(75)
Segment operating income (loss)	$ 1,236	$ 37	$ (3)	$	1,270
General corporate expenses					(164)
Total operating income (loss)					$ 1,106
Other financial information:					
Additions to long-lived assets	$ 1,023	$ 42	$ 27	$	$ 1,092
Depreciation and amortization	$ 553	$ 21	$ 19	$	$ 593

(1) Does not include WPZ s purchase of a business represented by certain gathering and processing assets in Colorado s Piceance basin from our former Exploration & Production segment now included in discontinued operations.

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THE WILLIAMS COMPANIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The following table reflects *total assets* and *equity method investments* by reporting segment, including discontinued operations.

	Total Assets		Equity Method Investments		
	December 31, 2011	December 31, 2010	December 31, 2011	December 31, 2010	December 31, 2009
			(Millions)		
Williams Partners	$ 14,380	$ 13,404	$ 1,383	$ 1,045	$ 593
Midstream Canada & Olefins	1,138	922			
Other (a)	1,275	3,553	7	193	196
Eliminations (a)	(291)	(2,632)			
Discontinued operations (see Note 2)		9,725		104	95
Total	$ 16,502	$ 24,972	$ 1,390	$ 1,342	$ 884

(a) The decrease in the total assets of Other and Eliminations as compared to the prior year-end is substantially due to the forgiveness of an intercompany long-term receivable in the second-quarter of 2011.

Note 19. Subsequent Events

In January 2012, WPZ completed an equity issuance of 7 million common units representing limited partner interests at a price of $62.81 per unit. In February 2012, the underwriters exercised their option to purchase an additional 1.05 million common units for $62.81 per unit.

Laser Acquisition

On February 17, 2012, Williams Partners completed the acquisition of 100 percent of the ownership interests in certain entities from Delphi Midstream Partners, LLC in exchange for $325 million in cash, net of cash acquired in the transaction and subject to certain closing adjustments, and approximately 7.5 million in WPZ common units valued at $465 million. Our valuation of the assets acquired and liabilities assumed has not been completed because the acquisition is very recent. We expect the significant components of the valuation to include property, plant and equipment, intangible contract assets and goodwill. The goodwill relates primarily to enhancing our strategic platform for expansion in the area. Revenues and earnings for the acquired companies are insignificant for the periods presented primarily because the Laser Gathering System began operations in October 2011.

Information Subsequent to Initial Date of Independent Registered Public Accounting Firm Report (Unaudited)

The acquired entities described above primarily own the Laser Gathering System, which is comprised of 33 miles of 16-inch natural gas pipeline and associated gathering facilities in the Marcellus Shale in Susquehanna County, Pennsylvania, as well as 10 miles of gathering lines in southern New York. The acquisition is being accounted for as a business combination which, among other things, requires assets acquired and liabilities assumed to be measured at their acquisition date fair values. The excess of cost over those fair values is being allocated to goodwill.

As of March 31, 2012, we have completed our preliminary allocation of the purchase price to the major classes of the assets and liabilities acquired, which are presented in the Williams Partners segment. The amounts are preliminary because our valuation work has not been completed. We are awaiting further information for valuing the property, plant and equipment, intangible assets, assets held for sale, environmental and contingent liabilities and asset retirement obligations. In addition, we are still in the process of identifying all the assets acquired and liabilities assumed.

THE WILLIAMS COMPANIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

	March 31, 2012
Assets held for sale	$ 20
Other current assets	3
Property, plant and equipment	158
Intangible assets	329
Goodwill	297
Other current liabilities	(17)
Total	$ 790

Intangible assets recognized in the acquisition are primarily related to gas gathering agreements with customers. Those intangible assets are being amortized on a straight-line basis over a 30-year period during which the customer contracts are expected to contribute to our cash flows. Goodwill recognized in the acquisition relates primarily to enhancing our strategic platform for expansion in the area. We are currently evaluating the appropriate reporting unit for the allocation of the goodwill within the Williams Partners segment. The goodwill is not subject to amortization but will be evaluated at least annually for impairment or more frequently if impairment indicators are present. Our evaluation will include a qualitative assessment of events or circumstances to determine whether it is more likely than not that the fair value of the reporting unit is less than its carrying amount. If so, we will further compare our estimate of the fair value of the reporting unit with its carrying value, including goodwill. If the carrying value of the reporting unit exceeds its fair value, a computation of the implied fair value of the goodwill is compared with its related carrying value. If the carrying value of the reporting unit goodwill exceeds the implied fair value of that goodwill, an impairment loss will be recognized in the amount of the excess. All of the goodwill is expected to be deductible for tax purposes.

Venezuela Settlement

In March 2012, we completed the sale of certain former assets in Venezuela to PDVSA Gas, S.A. These assets were expropriated by the Venezuelan government in 2009. Upon closing we received approximately $84 million in cash related to our interests in these assets which had no net book value at December 31, 2011. We also have the right to receive quarterly cash installments of $15 million through the first quarter of 2016 plus interest. We also received approximately $63 million for all outstanding balances due from PDVSA related to the 2010 sale of our equity interest in Accroven SRL which had no net book value at December 31, 2011.

Caiman Acquisition

In April 2012, WPZ completed the acquisition of 100 percent of the ownership interest in Caiman Eastern Midstream, LLC, from Caiman Energy, LLC (the Caiman Acquisition), for approximately $1.72 billion in cash, net of purchase price adjustments, and 11,779,296 WPZ common units, valued in the transaction at approximately $720 million. The acquired entity operates a gathering and processing business in northern West Virginia, southwestern Pennsylvania, and eastern Ohio. In conjunction with the closing of the Caiman Acquisition, we purchased approximately 16.4 million additional WPZ common units for approximately $1 billion, utilizing cash on hand. Our valuation of the assets acquired and liabilities assumed has not been completed because the acquisition is very recent. We expect the significant components of the valuation to include property, plant and equipment, intangible contract assets and goodwill. We believe the acquisition will provide Williams Partners with a significant footprint and growth potential in the natural gas liquids-rich portion of the Marcellus Shale. Revenues and earnings for the acquired entity for the periods presented are not material.

Financing Transactions

In April 2012, we completed an equity issuance of 29.9 million shares of common stock at a price of $30.59 per share.

In April 2012, WPZ completed an equity issuance of 10 million common units representing limited partner interests at a price of $54.56 per unit. Subsequently, the underwriters exercised their option to purchase approximately 1 million additional common units for $54.56 per unit.

THE WILLIAMS COMPANIES, INC.

QUARTERLY FINANCIAL DATA

(Unaudited)

Summarized quarterly financial data are as follows:

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
	(Millions, except per-share amounts)			
2011				
Revenues	$ 1,871	$ 1,984	$ 1,972	$ 2,103
Costs and operating expenses	1,309	1,394	1,389	1,458
Income (loss) from continuing operations	360	239	321	158
Net income (loss)	384	297	342	(362)
Amounts attributable to The Williams Companies, Inc.:				
Income (loss) from continuing operations	300	171	253	79
Net income (loss)	321	227	272	(444)
Basic earnings (loss) per common share:				
Income (loss) from continuing operations	0.51	0.29	0.43	0.14
Diluted earnings (loss) per common share:				
Income (loss) from continuing operations	0.50	0.29	0.43	0.13
2010				
Revenues	$ 1,724	$ 1,630	$ 1,543	$ 1,741
Costs and operating expenses	1,241	1,175	1,087	1,209
Income (loss) from continuing operations	(245)	177	179	160
Net income (loss)	(146)	222	(1,226)	228
Amounts attributable to The Williams Companies, Inc.:				
Income (loss) from continuing operations	(291)	143	144	108
Net income (loss)	(193)	185	(1,263)	174
Basic earnings (loss) per common share:				
Income (loss) from continuing operations	(0.50)	0.25	0.25	0.19
Diluted earnings (loss) per common share:				
Income (loss) from continuing operations	(0.50)	0.24	0.25	0.18

The sum of earnings per share for the four quarters may not equal the total earnings per share for the year due to changes in the average number of common shares outstanding and rounding.

THE WILLIAMS COMPANIES, INC.

QUARTERLY FINANCIAL DATA (Continued)

(Unaudited)

On December 31, 2011, we completed the spin-off of our former exploration and production business. (See Note 1 of Notes to Consolidated Financial Statements.) Summarized quarterly financial data has been retrospectively adjusted to reflect the historical results of the exploration and production business as discontinued operations. The increases (decreases) to amounts previously reported were as follows:

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
	(Millions, except per-share amounts)			
2011				
Revenues	$ (704)	$ (685)	$ (731)	$ N/A
Costs and operating expenses	(599)	(544)	(636)	N/A
Income (loss) from continuing operations	(32)	(61)	(26)	N/A
Net income (loss)				N/A
Amounts attributable to The Williams Companies, Inc.:				
Income (loss) from continuing operations	(29)	(59)	(24)	N/A
Net income (loss)				N/A
Basic earnings (loss) per common share:				
Income (loss) from continuing operations	(0.05)	(0.10)	(0.04)	N/A
Diluted earnings (loss) per common share:				
Income (loss) from continuing operations	(0.05)	(0.09)	(0.04)	N/A
2010				
Revenues	$ (867)	$ (659)	$ (757)	$ (679)
Costs and operating expenses	(676)	(542)	(661)	(573)
Income (loss) from continuing operations	(97)	(48)	1,400	(72)
Net income (loss)				
Amounts attributable to The Williams Companies, Inc.:				
Income (loss) from continuing operations	(96)	(45)	1,402	(70)
Net income (loss)				
Basic earnings (loss) per common share:				
Income (loss) from continuing operations	(0.17)	(0.07)	2.40	(0.12)
Diluted earnings (loss) per common share:				
Income (loss) from continuing operations	(0.17)	(0.07)	2.40	(0.12)

Net loss for fourth-quarter 2011 includes the following pre-tax items:

$271 million of early debt retirement costs consisting primarily of cash premiums of $254 million (see Note 4 of Notes to Consolidated Financial Statements);

$560 million of impairment charges primarily related to impairments of certain properties of our discontinued exploration and production business in the Powder River basin and Barnett Shale (see summarized results of discontinued operations at Note 2);

$179 million of impairment charges associated with our investment in WPX (see summarized results of discontinued operations at Note 2);

$33 million of income including associated interest related to the reduction of the Gulf Liquids litigation contingency accrual at Midstream Canada & Olefins (See Notes 4 and 16);

$30 million of transaction costs related to the spin-off of our exploration and production former business (see summarized results of discontinued operations at Note 2).

THE WILLIAMS COMPANIES, INC.

QUARTERLY FINANCIAL DATA (Continued)

(Unaudited)

Net loss for fourth-quarter 2011 also includes a $26 million net tax benefit associated with the write-down of certain indebtedness related to our former power operations (see summarized results of discontinued operations at Note 2).

Net income for third-quarter 2011 includes a $66 million tax benefit to reverse taxes on undistributed earnings of certain foreign operations that are now considered to be permanently reinvested (see Note 5).

Net income for first-quarter 2011 includes the following pre-tax items:

- $11 million gain related to the sale of our 50 percent interest in Accroven at Other (see Note 3);

- $10 million related to the reversal of project feasibility costs from expense to capital at Williams Partners (see Note 4).

Net income for first-quarter 2011 also includes a $124 million tax benefit related to finalized settlements and a revised assessment on an international matter (see Note 5).

Net income for fourth-quarter 2010 includes the following tax adjustments:

- $66 million provision to reflect taxes on undistributed earnings of certain foreign operations that were no longer consider permanently reinvested (see Note 5). These taxes were reversed in the third quarter of 2011;

- $65 million benefit to decrease state income taxes (net of federal benefit) due to a reduction in our estimate of the effective deferred state rate, including state income tax carryovers (see Note 5).

Net loss for third-quarter 2010 includes the following pre-tax items:

- $1,003 million impairment of goodwill related to our former exploration and production business (see summarized results of discontinued operations at Note 2);

- $678 million of impairments of certain producing properties and acquired unproved reserves related to our former exploration and production business (see summarized results of discontinued operations at Note 2);

- $30 million gain related to the sale of our 50 percent interest in Accroven at Other (see Note 3);

- $12 million gain on the sale of certain assets at Williams Partners (see Note 4).

Net income for second-quarter 2010 includes the following pre-tax items:

- $13 million gain related to the sale of our 50 percent interest in Accroven at Other (see Note 3);

- $11 million of involuntary conversion gains due to insurance recoveries that are in excess of the carrying value of assets at Williams Partners (see Note 4).

Net loss for first-quarter 2010 includes the following pre-tax items:

- $606 million of early debt retirement costs consisting primarily of cash premiums of $574 million (see Note 4);

- $39 million of other transaction costs associated with our strategic restructuring transaction, of which $4 million are attributable to noncontrolling interests (see Note 4);

- $4 million of accelerated amortization of debt costs related to amendments of credit facilities (see Note 4).

THE WILLIAMS COMPANIES, INC.

SCHEDULE I - CONDENSED FINANCIAL INFORMATION OF REGISTRANT

STATEMENT OF OPERATIONS (PARENT)

	Years Ended December 31,		
	2011	2010	2009
		(Millions)	
Equity in earnings of consolidated subsidiaries	$ 1,962	$ 1,457	$ 948
Interest accrued - external	(186)	(235)	(448)
Interest accrued - affiliate	(622)	(460)	(367)
Interest income - affiliate	84	76	285
Early debt retirement costs	(271)	(606)	(1)
Other income (expense) - net	(45)	(41)	(11)
Income from continuing operations before income taxes	922	191	406
Provision for income taxes	119	87	200
Income (loss) from continuing operations	803	104	206
Income (loss) from discontinued operations	(427)	(1,201)	79
Net income (loss)	$ 376	$ (1,097)	$ 285
Basic earnings (loss) per common share:			
Income (loss) from continuing operations	$ 1.36	$ 0.17	$ .35
Income (loss) from discontinued operations	(.72)	(2.05)	.14
Net income (loss)	$ .64	$ (1.88)	$ .49
Weighted-average shares (thousands)	588,553	584,552	581,674
Diluted earnings (loss) per share common share:			
Income (loss) from continuing operations	$ 1.34	$ .17	$ .35
Income (loss) from discontinued operations	(.71)	(2.03)	.14
Net income (loss)	$ .63	$ (1.86)	$ .49
Weighted-average shares (thousands)	598,175	590,699	585,955

See accompanying notes.

THE WILLIAMS COMPANIES, INC.

SCHEDULE I - CONDENSED FINANCIAL INFORMATION OF REGISTRANT - (Continued)

BALANCE SHEET (PARENT)

	December 31, 2011	December 31, 2010
	(Millions)	
	(Restated)	(Restated)
ASSETS		
Current assets:		
Cash and cash equivalents	$ 292	$ 102
Other current assets	128	18
Total current assets	420	120
Investments in and advances to consolidated subsidiaries	13,602	20,815
Property, plant, and equipment - net	61	62
Other noncurrent assets	142	58
Total assets	$ 14,225	$ 21,055
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Accounts payable and accrued liabilities	$ 143	$ 292
Long-term debt due within one year	28	49
Other current liabilities	58	40
Total current liabilities	229	381
Long-term debt	1,456	2,235
Notes payable - affiliates	8,418	9,008
Pension, other post-retirement and other liabilities	732	460
Deferred income taxes	2,094	2,168
Contingent liabilities and commitments		
Equity:		
Common stock	626	620
Other stockholders equity	670	6,183
Total stockholders equity	1,296	6,803
Total liabilities and stockholders equity	$ 14,225	$ 21,055

See accompanying notes.

THE WILLIAMS COMPANIES, INC.

SCHEDULE I - CONDENSED FINANCIAL INFORMATION OF REGISTRANT - (Continued)

STATEMENT OF CASH FLOWS (PARENT)

	Years Ended December 31,		
	2011	2010	2009
		(Millions)	
NET CASH FLOWS PROVIDED (USED) BY OPERATING ACTIVITIES	$ (286)	$ 3,371	$ (159)
FINANCING ACTIVITIES:			
Proceeds from long-term debt	75	100	595
Payments of long-term debt	(871)	(3,102)	(15)
Changes in notes payable to affiliate	(590)	1,422	227
Tax benefit of stock-based awards	22	7	1
Premiums paid on early debt retirement	(254)	(574)	
Proceeds from issuance of common stock	49	12	6
Dividends paid	(457)	(284)	(256)
Other net	(5)	(12)	(1)
Net cash provided (used) by financing activities	(2,031)	(2,431)	557
INVESTING ACTIVITIES:			
Capital expenditures	(28)	(15)	(14)
Changes in investments in and advances to consolidated subsidiaries	2,553	(2,054)	(1)
Other net	(18)		1
Net cash provided (used) by investing activities	2,507	(2,069)	(14)
Increase (decrease) in cash and cash equivalents	190	(1,129)	384
Cash and cash equivalents at beginning of period	102	1,231	847
Cash and cash equivalents at end of period	$ 292	$ 102	$ 1,231

See accompanying notes.

THE WILLIAMS COMPANIES, INC.

SCHEDULE I CONDENSED FINANCIAL INFORMATION OR REGISTRANT

NOTES TO FINANCIAL INFORMATION (PARENT)

Note 1. Guarantees

In addition to the guarantees disclosed in the accompanying consolidated financial statements in Item 8, we have financially guaranteed the performance of certain consolidated subsidiaries. The duration of these guarantees varies and we estimate the maximum undiscounted potential future payment obligation related to these guarantees as of December 31, 2011, is approximately $233 million. We estimate that the fair value of these guarantees is not material.

Note 2. Cash Dividends Received

We receive dividends and distributions either directly from our subsidiaries or indirectly through dividends received by subsidiaries and subsequent transfers of cash to us through our corporate cash management system. The total of such receipts ultimately related to dividends and distributions for the years ended December 31, 2011, 2010 and 2009 was approximately $1.2 billion, $5.0 billion, and $635 million, respectively.

THE WILLIAMS COMPANIES, INC.

SCHEDULE II - VALUATION AND QUALIFYING ACCOUNTS

		Additions			
	Beginning Balance	Charged (Credited) To Costs and Expenses	Other	Deductions	Ending Balance
			(Millions)		
2011					
Allowance for doubtful accounts - accounts and notes receivable (b)	$ 15	$ 1	$	$ 15 (g)	$ 1
Deferred tax asset valuation allowance (a)	249	(33)		71 (g)	145
2010					
Allowance for doubtful accounts - accounts and notes receivable (b)	22	(6)		1 (f)	15
Deferred tax asset valuation allowance (a)	289	(40)			249
Price-risk management credit reserves - liabilities (c)	(3)	3(d)			
2009					
Allowance for doubtful accounts - accounts and notes receivable (b)	29	4		11 (f)	22
Deferred tax asset valuation allowance (a)	224	65			289
Price-risk management credit reserves - assets (b)	6	(3)(d)	(3)(e)		
Price-risk management credit reserves - liabilities (c)	(15)	12 (d)			(3)

(a) Deducted primarily from related assets, with a portion included in assets of discontinued operations.
(b) Deducted from related assets, primarily included in assets of discontinued operations.
(c) Deducted from related liabilities, included in liabilities of discontinued operations.
(d) Included in *income (loss) from discontinued operations*.
(e) Included in *accumulated other comprehensive income (loss)*.
(f) Represents balances written off, reclassifications, and recoveries.
(g) Includes balance deductions due to the spin-off of our exploration and production business on December 31, 2011.

Item 9A. ***Controls and Procedures***

Disclosure Controls and Procedures

Our management, including our Chief Executive Officer and Chief Financial Officer, does not expect that our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act) (Disclosure Controls) will prevent all errors and all fraud. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within the company have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty, and that breakdowns can occur because of simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the control. The design of any system of controls also is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Because of the inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and not be detected. We monitor our Disclosure Controls and make modifications as necessary; our intent in this regard is that the Disclosure Controls will be modified as systems change and conditions warrant.

An evaluation of the effectiveness of the design and operation of our Disclosure Controls was performed as of the end of the period covered by this report. This evaluation was performed under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer. Previously, based upon that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that these Disclosure Controls are effective at a reasonable assurance level. Based upon our current evaluation, which considered the material weakness described in Item 8. in Management s Annual Report on Internal Control Over Financial Reporting, our Chief Executive Officer and Chief Financial Officer concluded that these Disclosure Controls were not effective at a reasonable assurance level as of December 31, 2011.

As discussed in Management s Annual Report on Internal Control Over Financial Reporting and Note 1 of the Notes to Consolidated Financial Statements, in April 2012, we identified a material weakness related to accounting for deferred income taxes related to our investment in Williams Partners L.P. (WPZ) associated with gains recorded as part of stockholders equity on units that WPZ issued in prior years. We have corrected our method of accounting for deferred income taxes related to our investment in WPZ associated with gains recorded as part of stockholders equity on units that WPZ issues. We are also enhancing our controls for oversight of tax accounting for our financial investment in WPZ.

Management s Annual Report on Internal Control over Financial Reporting

See report set forth above in Item 8, Financial Statements and Supplementary Data.

Report of Independent Registered Public Accounting Firm on Internal Control Over Financial Reporting

See report set forth above in Item 8, Financial Statements and Supplementary Data.

Changes in Internal Controls Over Financial Reporting

There have been no changes during the fourth quarter of 2011 that have materially affected, or are reasonably likely to materially affect, our Internal Controls over financial reporting. However, in the second quarter of 2012, we began enhancing our controls for oversight of tax accounting for our financial investment in WPZ.

PART IV

Item 15. ***Exhibits and Financial Statement Schedules***

(a) 1 and 2.

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Covered by report of independent auditors:	
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All other schedules have been omitted since the required information is not present or is not present in amounts sufficient to require submission of the schedule, or because the information required is included in the financial statements and notes thereto.

(a) 3 and (b). The exhibits listed below are filed as part of this annual report.

Exhibit No.	Description
3.1	Amended and Restated Certificate of Incorporation, as supplemented (filed on May 26, 2010 as Exhibit 3.1 to the Company s Form 8-K) and incorporated herein by reference.
3.2	By-Laws (filed on May 26, 2010 as Exhibit 3.2 to the Company s Current Report on Form 8-K) and incorporated herein by reference.
4.1	Form of Senior Debt Indenture between Williams and Bank One Trust company, N.A. (formerly The First National Bank of Chicago), as Trustee (filed on September 8, 1997 as Exhibit 4.1 to The Williams Companies, Inc. s Form S-3) and incorporated herein by reference.
4.2	Fifth Supplemental Indenture between Williams and Bank One Trust Company, N.A., as Trustee, dated as of January 17, 2001 (filed on March 12, 2001 as Exhibit 4(k) to The Williams Companies, Inc. s Form 10-K) and incorporated herein by reference.
4.3	Seventh Supplemental Indenture dated March 19, 2002, between The Williams Companies, Inc. as Issuer and Bank One Trust Company, National Association, as Trustee (filed on May 9, 2002 as Exhibit 4.1 to The Williams Companies, Inc. s Form 10-Q) and incorporated herein by reference.
4.4	Senior Indenture dated February 25, 1997, between MAPCO Inc. and Bank One Trust Company, N.A. (formerly The First National Bank of Chicago), as Trustee (filed February 25, 1997 as Exhibit 4.4.1 to MAPCO Inc. s Amendment No. 1 to Form S-3) and incorporated herein by reference.

Exhibit No.	Description
4.5	Supplemental Indenture No. 1 dated March 5, 1997, between MAPCO Inc. and Bank One Trust Company, N.A. (formerly The First National Bank of Chicago), as Trustee (filed as Exhibit 4(o) to MAPCO Inc. s Form 10-K for the fiscal year ended December 31, 1997) and incorporated herein by reference.
4.6	Supplemental Indenture No. 2 dated March 5, 1997, between MAPCO Inc. and Bank One Trust Company, N.A. (formerly The First National Bank of Chicago), as Trustee (filed as Exhibit 4(p) to MAPCO Inc. s Form 10-K for the fiscal year ended December 31, 1997) and incorporated herein by reference.
4.7	Supplemental Indenture No. 3 dated March 31, 1998, among MAPCO Inc., Williams Holdings of Delaware, Inc. and Bank One Trust Company, N.A. (formerly The First National Bank of Chicago), as Trustee (filed as Exhibit 4(j) to Williams Holdings of Delaware, Inc. s Form 10-K for the fiscal year ended December 31, 1998) and incorporated herein by reference.
4.8	Supplemental Indenture No. 4 dated as of July 31, 1999, among Williams Holdings of Delaware, Inc., Williams and Bank One Trust Company, N.A. (formerly The First National Bank of Chicago), as Trustee (filed on March 28, 2000 as Exhibit 4(q) to The Williams Companies, Inc. s Form 10-K) and incorporated herein by reference.
4.9	Indenture dated as of May 28, 2003, by and between The Williams Companies, Inc. and JPMorgan Chase Bank, as Trustee for the issuance of the 5.50% Junior Subordinated Convertible Debentures due 2033 (filed on August 12, 2003 as Exhibit 4.2 to The Williams Companies, Inc. s Form 10-Q) and incorporated herein by reference.
4.10	Indenture dated as of March 5, 2009, among The Williams Companies, Inc. and The Bank of New York Mellon Trust Company, N.A., as Trustee (filed on March 11, 2009 as Exhibit 4.1 to The Williams Companies, Inc. s Form 8-K) and incorporated herein by reference.
4.11	Eleventh Supplemental Indenture dated as of February 1, 2010 between The Williams Companies, Inc. and The Bank of New York Mellon Trust Company, N.A. (filed on February 2, 2010 as Exhibit 4.1 to The Williams Companies, Inc. s Form 8-K) and incorporated herein by reference.
4.12	First Supplemental Indenture dated as of February 1, 2010 between The Williams Companies, Inc. and The Bank of New York Mellon Trust Company, N.A. (filed on February 2, 2010 as Exhibit 4.2 to The Williams Companies, Inc. s Form 8-K) and incorporated herein by reference.
4.13	Fifth Supplemental Indenture dated as of February 1, 2010 between The Williams Companies, Inc. and The Bank of New York Mellon Trust Company, N.A. (filed on February 2, 2010 as Exhibit 4.3 to The Williams Companies, Inc. s Form 8-K) and incorporated herein by reference.
4.14	Amended and Restated Rights Agreement dated September 21, 2004 by and between The Williams Companies, Inc. and EquiServe Trust Company, N.A., as Rights Agent (filed on September 24, 2004 as Exhibit 4.1 to The Williams Companies, Inc. s Form 8-K) and incorporated herein by reference.
4.15	Amendment No. 1 dated May 18, 2007 to the Amended and Restated Rights Agreement dated September 21, 2004 (filed on May 22, 2007 as Exhibit 4.1 to The Williams Companies, Inc. s Form 8-K) and incorporated herein by reference.

Exhibit No.	Description
4.16	Amendment No. 2 dated October 12, 2007 to the Amended and Restated Rights Agreement dated September 21, 2004 (filed on October 15, 2007 as Exhibit 4.1 to The Williams Companies, Inc. s Form 8-K) and incorporated herein by reference.
4.17	Senior Indenture, dated as of November 30, 1995, between Northwest Pipeline Corporation and Chemical Bank, Trustee with regard to Northwest Pipeline s 7.125% Debentures, due 2025 (filed September 14, 1995 as Exhibit 4.1 to Northwest Pipeline s Form S-3) and incorporated herein by reference.
4.18	Indenture dated as of June 22, 2006, between Northwest Pipeline Corporation and JPMorgan Chase Bank, N.A., as Trustee, with regard to Northwest Pipeline s $175 million aggregate principal amount of 7.00% Senior Notes due 2016 (filed on June 23, 2006 as Exhibit 4.1 to Northwest Pipeline s Form 8-K) and incorporated herein by reference.
4.19	Indenture, dated as of April 5, 2007, between Northwest Pipeline Corporation and The Bank of New York (filed on April 5, 2007 as Exhibit 4.1 to Northwest Pipeline Corporation s Form 8-K) (Commission File number 001-07414) and incorporated herein by reference.
4.20	Indenture dated May 22, 2008, between Northwest Pipeline GP and The Bank of New York Trust Company, N.A., as Trustee (filed on May 23, 2008 as Exhibit 4.1 to Northwest Pipeline GP s Form 8-K) and incorporated herein by reference.
4.21	Senior Indenture dated as of July 15, 1996 between Transcontinental Gas Pipe Line Corporation and Citibank, N.A., as Trustee (filed on April 2, 1996 as Exhibit 4.1 to Transcontinental Gas Pipe Line Corporation s Form S-3) and incorporated herein by reference.
4.22	Indenture dated as of August 27, 2001 between Transcontinental Gas Pipe Line Corporation and Citibank, N.A., as Trustee (filed on November 8, 2001 as Exhibit 4.1 to Transcontinental Gas Pipe Line Corporation s Form S-4) and incorporated herein by reference.
4.23	Indenture dated as of July 3, 2002 between Transcontinental Gas Pipe Line Corporation and Citibank, N.A., as Trustee (filed August 14, 2002 as Exhibit 4.1 to The Williams Companies Inc. s Form 10-Q) and incorporated herein by reference.
4.24	Indenture dated as of April 11, 2006, between Transcontinental Gas Pipe Line Corporation and JPMorgan Chase Bank, N.A., as Trustee with regard to Transcontinental Gas Pipe Line s $200 million aggregate principal amount of 6.4% Senior Note due 2016 (filed on April 11, 2006 as Exhibit 4.1 to Transcontinental Gas Pipe Line Corporation s Form 8-K) and incorporated herein by reference.
4.25	Indenture dated May 22, 2008, between Transcontinental Gas Pipe Line Corporation and The Bank of New York Trust Company, N.A., as Trustee (filed on May 23, 2008 as Exhibit 4.1 to Transcontinental Gas Pipe Line Corporation s Form 8-K) and incorporated herein by reference.
4.26	Indenture, dated as of August 12, 2011, between Transcontinental Gas Pipe Line Company, LLC and The Bank of New York Mellon Trust Company, N.A., as trustee (filed on August 12, 2011 as Exhibit 4.1 to Transcontinental Gas Pipe Line Company, LLC s Form 8-K (File No. 001-07584)) and incorporated herein by reference.
4.27	Indenture dated December 13, 2006, by and among Williams Partners L.P., Williams Partners Finance Corporation and The Bank of New York (filed on December 19, 2006 as Exhibit 4.1 to Williams Partners L.P. Form 8-K) and incorporated herein by reference.

Exhibit No.	Description
4.28	Indenture dated as of February 9, 2010, between Williams Partners L.P. and The Bank of New York Mellon Trust Company, N.A. (filed on February 10, 2010 as Exhibit 4.1 to The Williams Companies, Inc. s Form 8-K) and incorporated herein by reference.
4.29	Indenture, dated as of November 9, 2010, between Williams Partners L.P. and The Bank of New York Mellon Trust Company, N.A., as trustee (filed on November 12, 2010 as Exhibit 4.1 to Williams Partners L.P. s current report on Form 8-K (File No. 001-32599)) and incorporated herein by reference.
4.30	First Supplemental Indenture, dated as of November 9, 2010, between Williams Partners L.P. and The Bank of New York Mellon Trust Company, N.A., as trustee (filed on November 12, 2010 as Exhibit 4.1 to Williams Partners L.P. s current report on Form 8-K (File No. 001-32599)) and incorporated herein by reference.
4.31	Second Supplemental Indenture, dated as of November 17, 2011, between Williams Partners L.P. and The Bank of New York Mellon Trust Company, N.A., as trustee (filed November 18, 2011 as Exhibit 4.1 to Williams Partners L.P. s current report on Form 8-K (File No. 001-32599)) and incorporated herein by reference.
10.1§	The Williams Companies Amended and Restated Retirement Restoration Plan effective January 1, 2008 (filed on February 25, 2009 as Exhibit 10.1 to The Williams Companies, Inc. s Form 10-K) and incorporated herein by reference.
10.2§	Form of Director and Officer Indemnification Agreement (filed on September 24, 2008 as Exhibit 10.1 to The Williams Companies, Inc. s Form 8-K) and incorporated herein by reference.
10.3§	Form of 2011 Restricted Stock Unit Agreement among Williams and certain employees and officers (filed on February 24, 2011 as Exhibit 10.6 to The Williams Companies, Inc. s Form 10-K) and incorporated herein by reference.
10.4§#	Form of 2012 Performance-Based Restricted Stock Unit Agreement among Williams and certain employees and officers.
10.5§#	Form of 2012 Restricted Stock Unit Agreement among Williams and certain employees and officers.
10.6§#	Form of 2012 Nonqualified Stock Option Agreement among Williams and certain employees and officers.
10.7#	Form of 2011 Restricted Stock Unit Agreement among Williams and nonmanagement directors.
10.8	The Williams Companies, Inc. 1996 Stock Plan for Nonemployee Directors (filed on March 27, 1996 as Exhibit B to The Williams Companies, Inc. s Proxy Statement) and incorporated herein by reference.
10.9§	The Williams Companies, Inc. 2002 Incentive Plan as amended and restated effective as of January 23, 2004 (filed on August 5, 2004 as Exhibit 10.1 to The Williams Companies, Inc. s Form 10-Q) and incorporated herein by reference.
10.10§	Amendment No. 1 to The Williams Companies, Inc. 2002 Incentive Plan (filed on February 25, 2009 as Exhibit 10.11 to The Williams Companies, Inc. s Form 10-K) and incorporated herein by reference.

Exhibit No.	Description
10.11§	Amendment No. 2 to The Williams Companies, Inc. 2002 Incentive Plan (filed on February 25, 2009 as Exhibit 10.12 to The Williams Companies, Inc. s Form 10-K) and incorporated herein by reference.
10.12§*	The Williams Companies, Inc. 2007 Incentive Plan as amended and restated effective January 19, 2012.
10.13§	Amended and Restated Change-in-Control Severance Agreement between the Company and certain executive officers (Tier I Executives) (filed on February 25, 2009 as Exhibit 10.18 to The Williams Companies, Inc. s Form 10-K) and incorporated herein by reference.
10.14§#	Amended and Restated Change-in-Control Severance Agreement between the Company and certain executive officers (Tier II Executives).
10.15	Contribution Agreement, dated as of January 15, 2010, by and among Williams Energy Services, LLC, Williams Gas Pipeline Company, LLC, WGP Gulfstream Pipeline Company, L.L.C., Williams Partners GP LLC, Williams Partners L.P., Williams Partners Operating LLC and, for a limited purpose, The Williams Companies, Inc, including exhibits thereto (filed on January 19, 2010 as Exhibit 10.1 to The Williams Companies Inc. s Form 8-K) and incorporated herein by reference.
10.16	Credit Agreement, dated as of June 3, 2011, by and among The Williams Companies, Inc., the lenders named therein, and Citibank, N.A., as Administrative Agent (filed on August 4, 2011 as Exhibit 10.1 to The Williams Companies, Inc. s Form 10-Q) and incorporated herein by reference.
10.17	First Amendment to The Williams Companies, Inc. June 3, 2011 Credit Agreement, dated as of November 1, 2011, by and among The Williams Companies, Inc., the lenders named therein, and Citibank, N.A. as Administrative Agent (filed on November 1, 2011 as Exhibit 10.1 to The Williams Companies, Inc. s Form 8-K) and incorporated herein by reference
10.18	Credit Agreement, dated as of June 3, 2011, by and among Williams Partners L.P., Northwest Pipeline GP, Transcontinental Gas Pipe Line Company, LLC, as co-borrowers, the lenders named therein, and Citibank N.A., as Administrative Agent (filed on August 4, 2011 as Exhibit 10.2 to The Williams Companies, Inc. s Form 8-K) and incorporated herein by reference.
10.19#	Separation and Distribution Agreement, dated as of December 30, 2011, between The Williams Companies, Inc. and WPX Energy, Inc.
10.20	Employee Matters Agreement, dated as of December 30, 2011, between The Williams Companies, Inc. and WPX Energy, Inc. (filed on January 6, 2012 as Exhibit 10.2 to The Williams Companies, Inc. s Form 8-K) and incorporated herein by reference.
10.21	Tax Sharing Agreement, dated as of December 30, 2011, between The Williams Companies, Inc. and WPX Energy, Inc. (filed on January 6, 2012 as Exhibit 10.3 to The Williams Companies, Inc. s Form 8-K) and incorporated herein by reference.
12#	Computation of Ratio of Earnings to Combined Fixed Charges and Preferred Stock Dividend Requirements.
14	Code of Ethics for Senior Officers (filed on March 15, 2004 as Exhibit 14 to The Williams Companies, Inc. s Form 10-K) and incorporated herein by reference.
21#	Subsidiaries of the registrant.

Exhibit No.	Description
23.1*	Consent of Independent Registered Public Accounting Firm, Ernst & Young LLP.
23.2*	Consent of Independent Registered Public Accounting Firm, Deloitte & Touche LLP.
24#	Power of Attorney.
31.1*	Certification of the Chief Executive Officer pursuant to Rules 13a-14(a) and 15d-14(a) promulgated under the Securities Exchange Act of 1934, as amended, and Item 601(b)(31) of Regulation S-K, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2*	Certification of the Chief Financial Officer pursuant to Rules 13a-14(a) and 15d-14(a) promulgated under the Securities Exchange Act of 1934, as amended, and Item 601(b)(31) of Regulation S-K, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32**	Certification of the Chief Executive Officer and the Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS*	XBRL Instance Document
101.SCH*	XBRL Taxonomy Extension Schema
101.CAL*	XBRL Taxonomy Extension Calculation Linkbase
101.DEF*	XBRL Taxonomy Extension Definition Linkbase
101.LAB*	XBRL Taxonomy Extension Label Linkbase
101.PRE*	XBRL Taxonomy Extension Presentation Linkbase

* Filed herewith
** Furnished herewith
§ Management contract or compensation plan or arrangement
# Filed on February 27, 2012 as Exhibit to The Williams Companies, Inc. s annual report on Form 10-K (File No. 001-04174) and incorporated herein by reference

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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.

THE WILLIAMS COMPANIES, INC.
(Registrant)

By: /s/ TED T. TIMMERMANS
Ted T. Timmermans

Vice President, Controller and

Chief Accounting Officer

Date: May 1 , 2012

INDEX TO EXHIBITS

Exhibit No.	Description
3.1	Amended and Restated Certificate of Incorporation, as supplemented (filed on May 26, 2010 as Exhibit 3.1 to the Company s Form 8-K) and incorporated herein by reference.
3.2	By-Laws (filed on May 26, 2010 as Exhibit 3.2 to the Company s Current Report on Form 8-K) and incorporated herein by reference.
4.1	Form of Senior Debt Indenture between Williams and Bank One Trust company, N.A. (formerly The First National Bank of Chicago), as Trustee (filed on September 8, 1997 as Exhibit 4.1 to The Williams Companies, Inc. s Form S-3) and incorporated herein by reference.
4.2	Fifth Supplemental Indenture between Williams and Bank One Trust Company, N.A., as Trustee, dated as of January 17, 2001 (filed on March 12, 2001 as Exhibit 4(k) to The Williams Companies, Inc. s Form 10-K) and incorporated herein by reference.
4.3	Seventh Supplemental Indenture dated March 19, 2002, between The Williams Companies, Inc. as Issuer and Bank One Trust Company, National Association, as Trustee (filed on May 9, 2002 as Exhibit 4.1 to The Williams Companies, Inc. s Form 10-Q) and incorporated herein by reference.
4.4	Senior Indenture dated February 25, 1997, between MAPCO Inc. and Bank One Trust Company, N.A. (formerly The First National Bank of Chicago), as Trustee (filed February 25, 1997 as Exhibit 4.4.1 to MAPCO Inc. s Amendment No. 1 to Form S-3) and incorporated herein by reference.
4.5	Supplemental Indenture No. 1 dated March 5, 1997, between MAPCO Inc. and Bank One Trust Company, N.A. (formerly The First National Bank of Chicago), as Trustee (filed as Exhibit 4(o) to MAPCO Inc. s Form 10-K for the fiscal year ended December 31, 1997) and incorporated herein by reference.
4.6	Supplemental Indenture No. 2 dated March 5, 1997, between MAPCO Inc. and Bank One Trust Company, N.A. (formerly The First National Bank of Chicago), as Trustee (filed as Exhibit 4(p) to MAPCO Inc. s Form 10-K for the fiscal year ended December 31, 1997) and incorporated herein by reference.
4.7	Supplemental Indenture No. 3 dated March 31, 1998, among MAPCO Inc., Williams Holdings of Delaware, Inc. and Bank One Trust Company, N.A. (formerly The First National Bank of Chicago), as Trustee (filed as Exhibit 4(j) to Williams Holdings of Delaware, Inc. s Form 10-K for the fiscal year ended December 31, 1998) and incorporated herein by reference.
4.8	Supplemental Indenture No. 4 dated as of July 31, 1999, among Williams Holdings of Delaware, Inc., Williams and Bank One Trust Company, N.A. (formerly The First National Bank of Chicago), as Trustee (filed on March 28, 2000 as Exhibit 4(q) to The Williams Companies, Inc. s Form 10-K) and incorporated herein by reference.

Exhibit No.	Description
4.9	Indenture dated as of May 28, 2003, by and between The Williams Companies, Inc. and JPMorgan Chase Bank, as Trustee for the issuance of the 5.50% Junior Subordinated Convertible Debentures due 2033 (filed on August 12, 2003 as Exhibit 4.2 to The Williams Companies, Inc. s Form 10-Q) and incorporated herein by reference.
4.10	Indenture dated as of March 5, 2009, among The Williams Companies, Inc. and The Bank of New York Mellon Trust Company, N.A., as Trustee (filed on March 11, 2009 as Exhibit 4.1 to The Williams Companies, Inc. s Form 8-K) and incorporated herein by reference.
4.11	Eleventh Supplemental Indenture dated as of February 1, 2010 between The Williams Companies, Inc. and The Bank of New York Mellon Trust Company, N.A. (filed on February 2, 2010 as Exhibit 4.1 to The Williams Companies, Inc. s Form 8-K) and incorporated herein by reference.
4.12	First Supplemental Indenture dated as of February 1, 2010 between The Williams Companies, Inc. and The Bank of New York Mellon Trust Company, N.A. (filed on February 2, 2010 as Exhibit 4.2 to The Williams Companies, Inc. s Form 8-K) and incorporated herein by reference.
4.13	Fifth Supplemental Indenture dated as of February 1, 2010 between The Williams Companies, Inc. and The Bank of New York Mellon Trust Company, N.A. (filed on February 2, 2010 as Exhibit 4.3 to The Williams Companies, Inc. s Form 8-K) and incorporated herein by reference.
4.14	Amended and Restated Rights Agreement dated September 21, 2004 by and between The Williams Companies, Inc. and EquiServe Trust Company, N.A., as Rights Agent (filed on September 24, 2004 as Exhibit 4.1 to The Williams Companies, Inc. s Form 8-K) and incorporated herein by reference.
4.15	Amendment No. 1 dated May 18, 2007 to the Amended and Restated Rights Agreement dated September 21, 2004 (filed on May 22, 2007 as Exhibit 4.1 to The Williams Companies, Inc. s Form 8-K) and incorporated herein by reference.
4.16	Amendment No. 2 dated October 12, 2007 to the Amended and Restated Rights Agreement dated September 21, 2004 (filed on October 15, 2007 as Exhibit 4.1 to The Williams Companies, Inc. s Form 8-K) and incorporated herein by reference.
4.17	Senior Indenture, dated as of November 30, 1995, between Northwest Pipeline Corporation and Chemical Bank, Trustee with regard to Northwest Pipeline s 7.125% Debentures, due 2025 (filed September 14, 1995 as Exhibit 4.1 to Northwest Pipeline s Form S-3) and incorporated herein by reference.
4.18	Indenture dated as of June 22, 2006, between Northwest Pipeline Corporation and JPMorgan Chase Bank, N.A., as Trustee, with regard to Northwest Pipeline s $175 million aggregate principal amount of 7.00% Senior Notes due 2016 (filed on June 23, 2006 as Exhibit 4.1 to Northwest Pipeline s Form 8-K) and incorporated herein by reference.
4.19	Indenture, dated as of April 5, 2007, between Northwest Pipeline Corporation and The Bank of New York (filed on April 5, 2007 as Exhibit 4.1 to Northwest Pipeline Corporation s Form 8-K) (Commission File number 001-07414) and incorporated herein by reference.
4.20	Indenture dated May 22, 2008, between Northwest Pipeline GP and The Bank of New York Trust Company, N.A., as Trustee (filed on May 23, 2008 as Exhibit 4.1 to Northwest Pipeline GP s Form 8-K) and incorporated herein by reference.
4.21	Senior Indenture dated as of July 15, 1996 between Transcontinental Gas Pipe Line Corporation and Citibank, N.A., as Trustee (filed on April 2, 1996 as Exhibit 4.1 to Transcontinental Gas Pipe Line Corporation s Form S-3) and incorporated herein by reference.

Exhibit No.	Description
4.22	Indenture dated as of August 27, 2001 between Transcontinental Gas Pipe Line Corporation and Citibank, N.A., as Trustee (filed on November 8, 2001 as Exhibit 4.1 to Transcontinental Gas Pipe Line Corporation s Form S-4) and incorporated herein by reference.
4.23	Indenture dated as of July 3, 2002 between Transcontinental Gas Pipe Line Corporation and Citibank, N.A., as Trustee (filed August 14, 2002 as Exhibit 4.1 to The Williams Companies Inc. s Form 10-Q) and incorporated herein by reference.
4.24	Indenture dated as of April 11, 2006, between Transcontinental Gas Pipe Line Corporation and JPMorgan Chase Bank, N.A., as Trustee with regard to Transcontinental Gas Pipe Line s $200 million aggregate principal amount of 6.4% Senior Note due 2016 (filed on April 11, 2006 as Exhibit 4.1 to Transcontinental Gas Pipe Line Corporation s Form 8-K) and incorporated herein by reference.
4.25	Indenture dated May 22, 2008, between Transcontinental Gas Pipe Line Corporation and The Bank of New York Trust Company, N.A., as Trustee (filed on May 23, 2008 as Exhibit 4.1 to Transcontinental Gas Pipe Line Corporation s Form 8-K) and incorporated herein by reference.
4.26	Indenture, dated as of August 12, 2011, between Transcontinental Gas Pipe Line Company, LLC and The Bank of New York Mellon Trust Company, N.A., as trustee (filed on August 12, 2011 as Exhibit 4.1 to Transcontinental Gas Pipe Line Company, LLC s Form 8-K (File No. 001-07584)) and incorporated herein by reference.
4.27	Indenture dated December 13, 2006, by and among Williams Partners L.P., Williams Partners Finance Corporation and The Bank of New York (filed on December 19, 2006 as Exhibit 4.1 to Williams Partners L.P. Form 8-K) and incorporated herein by reference.
4.28	Indenture dated as of February 9, 2010, between Williams Partners L.P. and The Bank of New York Mellon Trust Company, N.A. (filed on February 10, 2010 as Exhibit 4.1 to The Williams Companies, Inc. s Form 8-K) and incorporated herein by reference.
4.29	Indenture, dated as of November 9, 2010, between Williams Partners L.P. and The Bank of New York Mellon Trust Company, N.A., as trustee (filed on November 12, 2010 as Exhibit 4.1 to Williams Partners L.P. s current report on Form 8-K (File No. 001-32599)) and incorporated herein by reference.
4.30	First Supplemental Indenture, dated as of November 9, 2010, between Williams Partners L.P. and The Bank of New York Mellon Trust Company, N.A., as trustee (filed on November 12, 2010 as Exhibit 4.1 to Williams Partners L.P. s current report on Form 8-K (File No. 001-32599)) and incorporated herein by reference.
4.31	Second Supplemental Indenture, dated as of November 17, 2011, between Williams Partners L.P. and The Bank of New York Mellon Trust Company, N.A., as trustee (filed November 18, 2011 as Exhibit 4.1 to Williams Partners L.P. s current report on Form 8-K (File No. 001-32599)) and incorporated herein by reference.
10.1§	The Williams Companies Amended and Restated Retirement Restoration Plan effective January 1, 2008 (filed on February 25, 2009 as Exhibit 10.1 to The Williams Companies, Inc. s Form 10-K) and incorporated herein by reference.
10.2§	Form of Director and Officer Indemnification Agreement (filed on September 24, 2008 as Exhibit 10.1 to The Williams Companies, Inc. s Form 8-K) and incorporated herein by reference.

Exhibit No.	Description
10.3§	Form of 2011 Restricted Stock Unit Agreement among Williams and certain employees and officers (filed on February 24, 2011 as Exhibit 10.6 to The Williams Companies, Inc. s Form 10-K) and incorporated herein by reference.
10.4§#	Form of 2012 Performance-Based Restricted Stock Unit Agreement among Williams and certain employees and officers.
10.5§#	Form of 2012 Restricted Stock Unit Agreement among Williams and certain employees and officers.
10.6§#	Form of 2012 Nonqualified Stock Option Agreement among Williams and certain employees and officers.
10.7#	Form of 2011 Restricted Stock Unit Agreement among Williams and nonmanagement directors.
10.8	The Williams Companies, Inc. 1996 Stock Plan for Nonemployee Directors (filed on March 27, 1996 as Exhibit B to The Williams Companies, Inc. s Proxy Statement) and incorporated herein by reference.
10.9§	The Williams Companies, Inc. 2002 Incentive Plan as amended and restated effective as of January 23, 2004 (filed on August 5, 2004 as Exhibit 10.1 to The Williams Companies, Inc. s Form 10-Q) and incorporated herein by reference.
10.10§	Amendment No. 1 to The Williams Companies, Inc. 2002 Incentive Plan (filed on February 25, 2009 as Exhibit 10.11 to The Williams Companies, Inc. s Form 10-K) and incorporated herein by reference.
10.11§	Amendment No. 2 to The Williams Companies, Inc. 2002 Incentive Plan (filed on February 25, 2009 as Exhibit 10.12 to The Williams Companies, Inc. s Form 10-K) and incorporated herein by reference.
10.12§*	The Williams Companies, Inc. 2007 Incentive Plan as amended and restated effective January 19, 2012.
10.13§	Amended and Restated Change-in-Control Severance Agreement between the Company and certain executive officers (Tier I Executives) (filed on February 25, 2009 as Exhibit 10.18 to The Williams Companies, Inc. s Form 10-K) and incorporated herein by reference.
10.14§#	Amended and Restated Change-in-Control Severance Agreement between the Company and certain executive officers (Tier II Executives).
10.15	Contribution Agreement, dated as of January 15, 2010, by and among Williams Energy Services, LLC, Williams Gas Pipeline Company, LLC, WGP Gulfstream Pipeline Company, L.L.C., Williams Partners GP LLC, Williams Partners L.P., Williams Partners Operating LLC and, for a limited purpose, The Williams Companies, Inc, including exhibits thereto (filed on January 19, 2010 as Exhibit 10.1 to The Williams Companies Inc. s Form 8-K) and incorporated herein by reference.
10.16	Credit Agreement, dated as of June 3, 2011, by and among The Williams Companies, Inc., the lenders named therein, and Citibank, N.A., as Administrative Agent (filed on August 4, 2011 as Exhibit 10.1 to The Williams Companies, Inc. s Form 10-Q) and incorporated herein by reference.
10.17	First Amendment to The Williams Companies, Inc. June 3, 2011 Credit Agreement, dated as of November 1, 2011, by and among The Williams Companies, Inc., the lenders named therein, and Citibank, N.A. as Administrative Agent (filed on November 1, 2011 as Exhibit 10.1 to The Williams Companies, Inc. s Form 8-K) and incorporated herein by reference

Exhibit No.	Description
10.18	Credit Agreement, dated as of June 3, 2011, by and among Williams Partners L.P., Northwest Pipeline GP, Transcontinental Gas Pipe Line Company, LLC, as co-borrowers, the lenders named therein, and Citibank N.A., as Administrative Agent (filed on August 4, 2011 as Exhibit 10.2 to The Williams Companies, Inc. s Form 8-K) and incorporated herein by reference.
10.19#	Separation and Distribution Agreement, dated as of December 30, 2011, between The Williams Companies, Inc. and WPX Energy, Inc.
10.20	Employee Matters Agreement, dated as of December 30, 2011, between The Williams Companies, Inc. and WPX Energy, Inc. (filed on January 6, 2012 as Exhibit 10.2 to The Williams Companies, Inc. s Form 8-K) and incorporated herein by reference.
10.21	Tax Sharing Agreement, dated as of December 30, 2011, between The Williams Companies, Inc. and WPX Energy, Inc. (filed on January 6, 2012 as Exhibit 10.3 to The Williams Companies, Inc. s Form 8-K) and incorporated herein by reference.
12#	Computation of Ratio of Earnings to Combined Fixed Charges and Preferred Stock Dividend Requirements.
14	Code of Ethics for Senior Officers (filed on March 15, 2004 as Exhibit 14 to The Williams Companies, Inc. s Form 10-K) and incorporated herein by reference.
21#	Subsidiaries of the registrant.
23.1*	Consent of Independent Registered Public Accounting Firm, Ernst & Young LLP.
23.2*	Consent of Independent Registered Public Accounting Firm, Deloitte & Touche LLP.
24#	Power of Attorney.
31.1*	Certification of the Chief Executive Officer pursuant to Rules 13a-14(a) and 15d-14(a) promulgated under the Securities Exchange Act of 1934, as amended, and Item 601(b)(31) of Regulation S-K, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2*	Certification of the Chief Financial Officer pursuant to Rules 13a-14(a) and 15d-14(a) promulgated under the Securities Exchange Act of 1934, as amended, and Item 601(b)(31) of Regulation S-K, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32**	Certification of the Chief Executive Officer and the Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS*	XBRL Instance Document
101.SCH*	XBRL Taxonomy Extension Schema
101.CAL*	XBRL Taxonomy Extension Calculation Linkbase
101.DEF*	XBRL Taxonomy Extension Definition Linkbase
101.LAB*	XBRL Taxonomy Extension Label Linkbase
101.PRE*	XBRL Taxonomy Extension Presentation Linkbase

* Filed herewith
** Furnished herewith
§ Management contract or compensation plan or arrangement
\# Filed on February 27, 2012 as Exhibit to The Williams Companies, Inc. s annual report on Form 10-K (File No. 001-04174) and incorporated herein by reference