WILLIAMS COMPANIES INC
Form 10-Q
May 05, 2010

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2010

or

o **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)	(I.R.S. Employer Identification No.)
ONE WILLIAMS CENTER, TULSA, OKLAHOMA	74172
(Address of principal executive offices)	(Zip Code)

Registrant s telephone number: (918) 573-2000

NO CHANGE

(Former name, former address and former fiscal year, if changed since last report.)

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 þ No o

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). þ Yes o No

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 þ	Accelerated filer o	Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company o

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

Indicate the number of shares outstanding of each of the issuer s classes of common stock as of the latest practicable date.

Class	Outstanding at April 30, 2010
Common Stock, $1 par value	584,272,911 Shares

The Williams Companies, Inc.
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Certain matters contained in this report include forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. These forward-looking statements relate to anticipated financial performance, management s plans and objectives for future operations, business prospects, outcome of regulatory proceedings, market conditions and other matters. We make these forward-looking statements in reliance on the safe harbor protections provided under the Private Securities Litigation Reform Act of 1995.

All statements, other than statements of historical facts, included in this report that address activities, events or developments that we expect, believe or anticipate will exist or may occur in the future, are forward-looking statements. Forward-looking statements can be identified by various forms of words such as anticipates, believes, seeks, could, may, should, continues, estimates, expects, forecasts, intends, might, goals, obj potential, projects, scheduled, will or other similar expressions. These forward-looking statements are based on management s beliefs and assumptions and on information currently available to management and include, among others, statements regarding:

Amounts and nature of future capital expenditures;

Expansion and growth of our business and operations;

Financial condition and liquidity;

Business strategy;

Estimates of proved gas and oil reserves;

Reserve potential;

Development drilling potential;

Cash flow from operations or results of operations;

Seasonality of certain business segments;

Natural gas and natural gas liquids prices and demand.

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Forward-looking statements are based on numerous assumptions, uncertainties and risks that could cause future events or results to be materially different from those stated or implied in this report. Many of the factors that will determine these results are beyond our ability to control or predict. Specific factors that could cause actual results to differ from results contemplated by the forward-looking statements include, among others, the following:

- Availability of supplies (including the uncertainties inherent in assessing, estimating, acquiring and developing future natural gas reserves), market demand, volatility of prices, and the availability and cost of capital;
- Inflation, interest rates, fluctuation in foreign exchange, and general economic conditions (including future disruptions and volatility in the global credit markets and the impact of these events on our customers and suppliers);
- The strength and financial resources of our competitors;
- Development of alternative energy sources;
- The impact of operational and development hazards;
- Costs of, changes in, or the results of laws, government regulations (including proposed climate change legislation), environmental liabilities, litigation, and rate proceedings;
- Our costs and funding obligations for defined benefit pension plans and other postretirement benefit plans;
- Changes in maintenance and construction costs;
- Changes in the current geopolitical situation;
- Our exposure to the credit risk of our customers;
- Risks related to strategy and financing, including restrictions stemming from our debt agreements, future changes in our credit ratings and the availability and cost of credit;
- Risks associated with future weather conditions;
- Acts of terrorism;
- Additional risks described in our filings with the Securities and Exchange Commission.

Given the uncertainties and risk factors that could cause our actual results to differ materially from those contained in any forward-looking statement, we caution investors not to unduly rely on our forward-looking statements. We disclaim any obligations to and do not intend to update the above list or to announce publicly the result of any revisions to any of the forward-looking statements to reflect future events or developments.

In addition to causing our actual results to differ, the factors listed above and referred to below may cause our intentions to change from those statements of intention set forth in this report. Such changes in our intentions may also cause our results to differ. We may change our intentions, at any time and without notice, based upon changes in such factors, our assumptions, or otherwise.

Because forward-looking statements involve risks and uncertainties, we caution that there are important factors, in addition to those listed above, that may cause actual results to differ materially from those contained in the forward-looking statements. For a detailed discussion of those factors, see Part I, Item 1A. Risk Factors in our Annual Report on Form 10-K for the year ended December 31, 2009.

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The Williams Companies, Inc.
Consolidated Statement of Operations
(Unaudited)

(Millions, except per-share amounts)	Three months ended March 31, 2010	2009*
Revenues:		
Williams Partners	$ 1,458	$ 957
Exploration & Production	1,168	976
Other	278	158
Intercompany eliminations	(308)	(169)
Total revenues	2,596	1,922
Segment costs and expenses:		
Costs and operating expenses	1,922	1,444
Selling, general, and administrative expenses	111	125
Other (income) expense net		33
Total segment costs and expenses	2,033	1,602
General corporate expenses	85	40
Operating income:		
Williams Partners	388	247
Exploration & Production	157	72
Other	18	1
General corporate expenses	(85)	(40)
Total operating income	478	280
Interest accrued	(164)	(162)
Interest capitalized	17	20
Investing income (loss)	39	(61)
Early debt retirement costs	(606)	
Other expense net	(7)	(2)
Income (loss) from continuing operations before income taxes	(243)	75
Provision (benefit) for income taxes	(95)	56
Income (loss) from continuing operations	(148)	19
Income (loss) from discontinued operations	2	(243)
Net loss	(146)	(224)

Less: Net income (loss) attributable to noncontrolling interests		47		(52)
Net loss attributable to The Williams Companies, Inc.	$	(193)	$	(172)
Amounts attributable to The Williams Companies, Inc.:				
Income (loss) from continuing operations	$	(195)	$	2
Income (loss) from discontinued operations		2		(174)
Net loss	$	(193)	$	(172)
Basic earnings (loss) per common share:				
Income (loss) from continuing operations	$	(.33)	$	
Income (loss) from discontinued operations				(.30)
Net loss	$	(.33)	$	(.30)
Weighted-average shares (thousands)		583,929		579,495
Diluted earnings (loss) per common share:				
Income (loss) from continuing operations	$	(.33)	$	
Income (loss) from discontinued operations				(.29)
Net loss	$	(.33)	$	(.29)
Weighted-average shares (thousands)		583,929		582,361
Cash dividends declared per common share	$	.11	$	.11

* Recast as discussed in Note 2.

See accompanying notes.

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The Williams Companies, Inc.
Consolidated Balance Sheet
(Unaudited)

(Dollars in millions, except per-share amounts)	March 31, 2010	December 31, 2009
ASSETS		
Current assets:		
Cash and cash equivalents	$ 1,644	$ 1,867
Accounts and notes receivable (net of allowance of $19 at March 31, 2010 and $22 at December 31, 2009)	831	829
Inventories	221	222
Derivative assets	703	650
Other current assets and deferred charges	190	225
Total current assets	3,589	3,793
Investments	888	886
Property, plant, and equipment, at cost	28,030	27,625
Accumulated depreciation, depletion, and amortization	(9,316)	(8,981)
Property, plant, and equipment net	18,714	18,644
Derivative assets	376	444
Goodwill	1,011	1,011
Other assets and deferred charges	551	502
Total assets	$ 25,129	$ 25,280
LIABILITIES AND EQUITY		
Current liabilities:		
Accounts payable	$ 907	$ 934
Accrued liabilities	760	948
Derivative liabilities	420	578
Long-term debt due within one year	10	17
Total current liabilities	2,097	2,477
Long-term debt	8,615	8,259
Deferred income taxes	3,708	3,656
Derivative liabilities	304	428
Other liabilities and deferred income	1,443	1,441
Contingent liabilities and commitments (Note 12)		
Equity:		
Stockholders equity:		
Common stock (960 million shares authorized at $1 par value; 619 million shares issued at March 31, 2010 and 618 million shares issued at December 31, 2009)	619	618
Capital in excess of par value	7,346	8,135
Retained earnings	646	903

Accumulated other comprehensive income (loss)	3	(168)
Treasury stock, at cost (35 million shares of common stock)	(1,041)	(1,041)
Total stockholders equity	7,573	8,447
Noncontrolling interests in consolidated subsidiaries	1,389	572
Total equity	8,962	9,019
Total liabilities and equity	$ 25,129	$ 25,280

See accompanying notes.

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The Williams Companies, Inc.
Consolidated Statement of Changes in Equity
(Unaudited)

	Three months ended March 31,					
	2010			2009		
(Millions)	The Williams Companies, Inc.	Noncontrolling Interests	Total	The Williams Companies, Inc.	Noncontrolling Interests	Total
Beginning balance	$ 8,447	$ 572	$ 9,019	$ 8,440	$ 614	$ 9,054
Comprehensive income (loss):						
Net income (loss)	(193)	47	(146)	(172)	(52)	(224)
Other comprehensive income, net of tax:						
Net change in cash flow hedges	147	2	149	123		123
Foreign currency translation adjustments	19		19	(13)		(13)
Pension and other postretirement benefits net	5		5	7		7
Total other comprehensive income	171	2	173	117		117
Total comprehensive income (loss)	(22)	49	27	(55)	(52)	(107)
Cash dividends common stock	(64)		(64)	(64)		(64)
Dividends and distributions to noncontrolling interests		(32)	(32)		(33)	(33)
Stock-based compensation, net of tax	12		12	5		5
Change in Williams Partners L.P. ownership interest (Note 2)	(800)	800				
Other					1	1
Ending balance	$ 7,573	$ 1,389	$ 8,962	$ 8,326	$ 530	$ 8,856

See accompanying notes.

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The Williams Companies, Inc.

Consolidated Statement of Cash Flows
(Unaudited)

(Millions)	Three months ended March 31, 2010	2009
OPERATING ACTIVITIES:		
Net loss	$ (146)	$ (224)
Adjustments to reconcile to net cash provided by operating activities:		
Depreciation, depletion, and amortization	361	367
Provision (benefit) for deferred income taxes	29	(38)
Provision for loss on investments, property and other assets	4	339
Provision for doubtful accounts and notes	1	50
Early debt retirement costs	606	
Cash provided (used) by changes in current assets and liabilities:		
Accounts and notes receivable	(3)	245
Inventories		13
Margin deposits and customer margin deposits payable	11	(2)
Other current assets and deferred charges	26	(13)
Accounts payable	(13)	(60)
Accrued liabilities	(280)	(216)
Changes in current and noncurrent derivative assets and liabilities	(8)	37
Other, including changes in noncurrent assets and liabilities	29	14
Net cash provided by operating activities	617	512
FINANCING ACTIVITIES:		
Proceeds from long-term debt	3,749	595
Payments of long-term debt	(3,407)	(31)
Dividends paid	(64)	(64)
Dividends and distributions paid to noncontrolling interests	(32)	(33)
Payments for debt issuance costs	(65)	
Premiums paid on early debt retirements	(574)	
Changes in restricted cash		36
Changes in cash overdrafts	(3)	(41)
Other net	(9)	(6)
Net cash provided (used) by financing activities	(405)	456
INVESTING ACTIVITIES:		
Capital expenditures*	(428)	(612)
Other net	(7)	(9)
Net cash used by investing activities	(435)	(621)

Increase (decrease) in cash and cash equivalents		(223)		347
Cash and cash equivalents at beginning of period		1,867		1,439
Cash and cash equivalents at end of period	$	1,644	$	1,786

* Increases to property, plant, and equipment	$	(410)	$	(484)
Changes in related accounts payable and accrued liabilities		(18)		(128)
Capital expenditures	$	(428)	$	(612)

See accompanying notes.

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The Williams Companies, Inc.

Notes to Consolidated Financial Statements
(Unaudited)

Note 1. General

Our accompanying interim consolidated financial statements do not include all the notes in our annual financial statements and, therefore, should be read in conjunction with the consolidated financial statements and notes thereto in our Annual Report on Form 10-K. The accompanying unaudited financial statements include all normal recurring adjustments that, in the opinion of our management, are necessary to present fairly our financial position at March 31, 2010, and results of operations, changes in equity, and cash flows for the three months ended March 31, 2010 and 2009.

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.

On February 17, 2010, we completed a strategic restructuring that involved contributing certain of our wholly and partially owned subsidiaries to Williams Partners L.P. (WPZ), our consolidated master limited partnership, and restructuring our debt (see Note 9). As discussed further in Note 2, we have revised our segment presentation as a result of this strategic restructuring. The restructure disclosures in this filing should be read in conjunction with our 2009 Form 10-K.

Goodwill

We perform interim assessments of goodwill if impairment triggering events or circumstances are present. One such triggering event is a significant decline in forward natural gas prices. While nearer-term forward natural gas prices as of March 31, 2010, have declined compared to those used in our prior year-end analysis, we do not consider the impact across all future production periods to be significant enough to be indicative of a triggering event. It is reasonably possible that we may be required to conduct an interim goodwill impairment evaluation during 2010, which could result in a material impairment of goodwill.

Note 2. Basis of Presentation

Strategic Restructuring

Our strategic restructuring completed during the first quarter of 2010 resulted in contributing businesses that were in our previously reported Gas Pipeline and Midstream Gas & Liquids (Midstream) segments into our consolidated master limited partnership, WPZ. The contributed Gas Pipeline businesses included 100 percent of Transcontinental Gas Pipe Line Company, LLC (Transco), 65 percent of Northwest Pipeline GP (Northwest Pipeline), and 24.5 percent of Gulfstream Natural Gas System, L.L.C. (Gulfstream). We also contributed our general and limited partner interests in Williams Pipeline Partners L.P. (WMZ), which owns the remaining 35 percent of Northwest Pipeline. The contributed Midstream businesses include significant, large-scale operations in the Rocky Mountain and Gulf Coast regions, as well as a business in Pennsylvania s Marcellus Shale region, and various equity investments in domestic processing and fractionation assets. Our remaining 25.5 percent ownership interest in Gulfstream and our Canadian, Venezuelan, and olefins operations were excluded from the transaction. Additionally, our Exploration & Production segment was not included in this transaction.

As a result of the restructuring, we have changed our segment reporting structure to align with the new parent-level focus employed by our chief operating decision-maker considering the resource allocation and governance associated with managing WPZ as a distinctly separate entity. Beginning this quarter, our reportable segments are Williams Partners, Exploration & Production, and Other.

William Partners consists of our consolidated master limited partnership WPZ, including the gas pipeline and midstream businesses that were contributed as part of our previously described strategic restructuring. WPZ also includes other significant midstream operations and investments in the Four Corners and Gulf Coast regions, as well as an NGL fractionator and storage facilities near Conway, Kansas.

Exploration & Production includes natural gas development, production and gas management activities primarily in the Rocky Mountain and Mid-Continent regions of the United States, development activities in the Eastern portion of the United States and oil and natural gas interests in South America. The gas management activities include procuring fuel and shrink gas for our midstream businesses and providing marketing to third parties, such as producers. Additionally, gas management activities include the managing of various natural gas related contracts such as transportation, storage, related hedges and proprietary trading positions not utilized for our own production.

Other includes our Canadian midstream and domestic olefins operations, a 25.5 percent interest in Gulfstream, as well as corporate operations.

Prior periods have been recast to reflect this revised segment presentation.

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Notes (Continued)

Master Limited Partnerships

Upon completing our strategic restructuring, we now own approximately 84 percent of the interests in WPZ, including the interests of the general partner, which is wholly owned by us, and incentive distribution rights. Prior to the restructuring, we owned approximately 23.6 percent of WPZ and consolidated it due to our control of the general partner. The change in WPZ ownership between us and the noncontrolling interests has been accounted for as an equity transaction, resulting in a $800 million decrease to *capital in excess of par value* and a corresponding increase to *noncontrolling interests in consolidated subsidiaries*.

WPZ is expected to be 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, are expected to occur through the normal partnership distributions from WPZ to all partners.

As of March 31, 2010, WPZ owns approximately 47.7 percent of the interests in WMZ, including the interests of the general partner, which is wholly owned by WPZ, and incentive distribution rights. WPZ consolidates WMZ due to its control through the general partner.

Discontinued Operations

The accompanying consolidated financial statements and notes reflect the results of operations and financial position of certain of our Venezuela operations and other former businesses as discontinued operations. (See Note 3.)

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

Note 3. Discontinued Operations

Summarized Results of Discontinued Operations

	Three months ended March 31,	
	2010	**2009**
	(Millions)	
Income (loss) from discontinued operations before impairments and income taxes	$ 5	$ (102)
Impairments		(211)
(Provision) benefit for income taxes	(3)	70
Income (loss) from discontinued operations	$ 2	$ (243)
Income (loss) from discontinued operations:		
Attributable to noncontrolling interests	$	$ (69)
Attributable to The Williams Companies, Inc.	$ 2	$ (174)

Income (loss) from discontinued operations before impairments and income taxes for the three months ended March 31, 2009, primarily includes losses related to our discontinued Venezuela operations, including $48 million of bad debt expense and a $30 million net charge related to the write-off of certain deferred charges and credits.

Impairments for the three months ended March 31, 2009, reflects a $211 million impairment of our Venezuela property, plant, and equipment.

(Provision) benefit for income taxes for the three months ended March 31, 2009, includes a $76 million benefit from the reversal of deferred tax balances related to our discontinued Venezuela operations.

Note 4. Asset Sales, Impairments and Other Accruals

Other (income) expense net within *segment costs and expenses* in 2009 includes Exploration & Production s $34 million of penalties from the early release of drilling rigs.

Notes (Continued)

Additional Items

We completed a strategic restructuring transaction in the first quarter of 2010 that involved significant debt issuances, retirements and amendments (see Note 9). We incurred significant costs related to these transactions, as follows:

$606 million of early