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WILLIAMS COMPANIES INC  
Form SC TO-C  
April 10, 2003

SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

SCHEDULE TO

TENDER OFFER STATEMENT UNDER SECTION 14(d) (1) OR 13(e) (1)  
OF THE SECURITIES EXCHANGE ACT OF 1934

THE WILLIAMS COMPANIES, INC.  
(Name of Subject Company (issuer) and Filing Person (offeror))

OPTIONS TO PURCHASE COMMON STOCK, PAR VALUE \$1.00 PER SHARE  
(Title of Class of Securities)

969457100  
(CUSIP Number of Class of Securities)

BRIAN K. SHORE, SECRETARY  
THE WILLIAMS COMPANIES, INC.  
ONE WILLIAMS CENTER  
TULSA, OKLAHOMA 74172  
(918) 573-2000

(Name, address and telephone number of person  
authorized to receive notices and communications  
on behalf of filing persons)

Copies to:

PAMELA BAKER, ESQ.  
STEPHEN E. FOX, ESQ.  
SONNENSCHNEIN NATH & ROSENTHAL  
8000 SEARS TOWER  
CHICAGO, ILLINOIS 60606  
(312) 876-7934

CALCULATION OF FILING FEE

TRANSACTION VALUATION	AMOUNT OF FILING FEE
Not Applicable*	Not Applicable*

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\* A filing fee is not required in connection with this filing as it relates solely to preliminary communications made before the commencement of a tender offer.

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Check the box if any part of the fee is offset as provided by Rule 0-11(a)(2) and identify the filing with which the offsetting fee was previously paid. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

Amount Previously Paid: Not applicable.

Form or Registration No.: Not applicable.

Filing Party: Not applicable.

Date Filed: Not applicable.

Check the box if the filing relates solely to preliminary communications made before the commencement of a tender offer.

Check the appropriate boxes below to designate any transactions to which the statement relates:

third-party tender offer subject to Rule 14d-1.

issuer tender offer subject to Rule 13e-4.

going-private transaction subject to Rule 13e-3.

amendment to Schedule 13D under Rule 13d-2.

Check the following box if the filing is a final amendment reporting the results of the tender offer:

GRAPEVINE - INSIDE WILLIAMS

### STOCK OPTION EXCHANGE PROGRAM

#### ADDITIONAL FREQUENTLY ASKED QUESTIONS

Q1 - WHICH EMPLOYEES ARE ELIGIBLE TO PARTICIPATE IN THE EXCHANGE PROGRAM?

A1 - As outlined in the "Employee Eligibility" section on page 26 of the proxy statement, all of Williams' employees and the employees of its affiliates will be eligible to participate in the exchange program, except that none of Williams' (i) executive officers, (ii) non-management directors, (iii) non-U.S. citizen employees working outside of the U.S. or (iv) former employees or retirees, will be eligible to participate in the exchange program.

In addition, the individual must be employed by Williams or its affiliates on the expiration date of the exchange program (currently scheduled to be on or after June 25, 2003) and each eligible employee who surrenders options in the exchange program must be continuously employed by Williams or its affiliates through the grant date of the replacement options (currently scheduled to be on or after December 27, 2003) to receive any replacement options.

Q2 - SEVERAL YEARS AGO, AT THE TIME OF THE INITIAL PUBLIC OFFERING (IPO) OF WCG

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STOCK, OUR EMPLOYEES WERE GIVEN STOCK OPTIONS TO PURCHASE 100 SHARES OF WILLIAMS COMMON STOCK. ARE THESE OPTIONS ELIGIBLE FOR THE STOCK OPTION EXCHANGE PROGRAM?

A2 - Yes. Since these options meet the requirements of eligibility for the program as described in the "Options Eligible For Exchange" section on page 26 of the proxy statement, they would qualify for the exchange program. If the program is approved, the election package that you will receive will show this 100 share grant as having a balance of 109 shares due to the adjustment made to Williams' stock options at the time that WCG was spun off.

Q3 - I WORK FOR A BUSINESS UNIT THAT WILL BE DIVESTED. AM I ELIGIBLE TO PARTICIPATE IN THE EXCHANGE PROGRAM?

A3 - You must be an active employee at the expiration date of the program (currently scheduled to be on or after June 25, 2003) in order to participate.

Q4 - I WORK FOR A BUSINESS UNIT THAT WILL BE DIVESTED. HOW WILL THIS AFFECT MY DECISION TO PARTICIPATE IN THE EXCHANGE PROGRAM?

A4 - The time of the sale of your business unit will impact your decision whether or not to participate in the proposed exchange program.

If your business unit is sold sometime between the start of the program (currently scheduled to be on or after May 28, 2003) and the expiration date of the program (currently scheduled to be on or after June 25, 2003), you will not be eligible to participate. If you made an election to participate during that time, your election will be withdrawn and you will continue to hold your existing stock options. Those options will be subject to the treatment of stock options during the sale of assets.

If your business unit is sold sometime between the expiration of the program and the grant of the replacement options (currently scheduled to be on or after December 27, 2003) and you elected to participate in the exchange, you will not receive replacement options and the options you tendered for exchange will not be reinstated.

If your business unit is sold after the grant of the replacement options, those options will be subject to the treatment of stock options during the sale of assets.

Q5 - IF I AM TERMINATED AS A RESULT OF A REDUCTION IN FORCE OR JOB ELIMINATION, AM I ELIGIBLE TO PARTICIPATE IN THE EXCHANGE PROGRAM?

A5 - You must be an active employee at the expiration date of the program (currently scheduled to be on or after June 25, 2003) in order to participate.

IF STOCKHOLDERS APPROVE THE EXCHANGE PROGRAM AND IT IS COMMENCED, WE ADVISE YOU TO READ THE TENDER OFFER STATEMENT WHEN IT BECOMES AVAILABLE IN MAY 2003 BECAUSE IT CONTAINS IMPORTANT INFORMATION ABOUT THE EXCHANGE OFFER. You can get the tender offer statement and other filed documents for free at the Securities and Exchange Commission website at [www.sec.gov](http://www.sec.gov). You can also get the tender offer statement, when available, for free from Williams by e-mail at [stockoptions@williams.com](mailto:stockoptions@williams.com).

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WE ADVISE YOU TO READ THE TENDER OFFER STATEMENT WHEN IT BECOMES AVAILABLE IN MAY 2003 BECAUSE IT CONTAINS IMPORTANT INFORMATION ABOUT THE EXCHANGE OFFER. You can get the tender offer statement and other filed documents for free at the Securities and Exchange Commission website at [www.sec.gov](http://www.sec.gov). You can also get the tender offer statement, when available, for free from Williams by e-mail at [stockoptions@williams.com](mailto:stockoptions@williams.com).

### PROPOSAL 3. AMENDMENT OF THE WILLIAMS COMPANIES, INC. 2002 INCENTIVE PLAN

The Board of Directors has determined that it would be in Williams' best interests and the best interests of its stockholders to implement a stock option exchange program. In the last year, Williams has undergone considerable change in its business environment and its leadership, including appointments of a new Chief Executive Officer and General Counsel, retirement of its Chief Financial Officer and reductions in the rest of its employee base of approximately 21%. Williams believes that the proposed exchange program is critical to provide positive motivation and retention incentive for its remaining employees while also maintaining alignment of the interests of Williams' employees with the interests of its stockholders. Under this exchange program, eligible employees will be given a one-time opportunity to exchange certain outstanding options for a proportionately lesser number of options at a lower exercise price, as more fully described below.

Since The Williams Companies, Inc. 2002 Incentive Plan, under which Williams intends to issue options pursuant to the exchange program, does not currently allow Williams to implement the exchange program, Williams is asking its stockholders to approve an amendment to the 2002 Incentive Plan to allow for the exchange program on a one-time basis. Williams is also asking its stockholders to approve an amendment to the 2002 Incentive Plan to make available for grant under the 2002 Incentive Plan up to an additional 2,500,000 shares underlying outstanding options that are cancelled, terminated, or otherwise not settled in shares under any of Williams' stock plans. Such additional number will not exceed 2,500,000.

Some key features of the exchange program, which are described more fully below, include:

- o Employees eligible to participate in the exchange program include all current employees of Williams and its affiliates. Williams' executive officers, non-management directors and non-U.S. citizen employees working outside of the U.S. are not eligible to participate;
- o Each option eligible for exchange must have an exercise price greater than or equal to \$10.00 per share and have a remaining term of at least two years from the cancellation date of each surrendered option;
- o The number of replacement options to be granted to eligible employees will be determined using an exchange ratio that is calculated such that the value of each surrendered option approximates the value of each replacement option, which Williams will compute prior to the commencement of the exchange program;

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- o Each replacement option will have a term equal to the remaining term of each surrendered option it replaces;
- o Each replacement option will vest the later of one year from the grant date of the replacement option or the original vesting date of each surrendered option, however, vesting may be accelerated in the event of death, disability and retirement;
- o Each replacement option will be granted no earlier than six months and one day after the cancellation date of each surrendered option; and
- o The exercise price of each replacement option will be the closing price of Williams' common stock on the grant date.

### BACKGROUND

Williams considers stock options to be a critical component of employee compensation. They are intended to attract, retain, reward and motivate employees to align their interests with the interests of Williams' stockholders through stock ownership. Recent adverse economic conditions, however, have had a negative impact on Williams' liquidity and financial condition. Consequently, the price of Williams' common stock has significantly declined since January 2001, eliminating the incentive and retention value of the vast majority of outstanding options held by employees. As of the filing of this proxy statement, over 73% of Williams' outstanding options had an exercise price significantly higher than the fair market price of Williams' common stock.

Williams believes that the proposed exchange program is critical to provide positive motivation and retention incentive for its remaining employees while also maintaining alignment of the interests of Williams' employees with the interests of its stockholders. Additional losses in Williams' employee base would have a detrimental effect on Williams' business and financial results. Losses may result in remaining employees seeking alternative employment with Williams' competitors or other companies, where they could secure stock options with exercise prices equal to the fair market value of the new employer's stock price on the date of grant. Williams believes that the exchange program will assist in preventing employee attrition by providing it with a fresh start to motivate and reward its employees for their role in achieving operational and financial goals and increasing stockholder value. By giving its remaining employees the opportunity to exchange their options for options with exercise prices aligned with the current fair market price of Williams' common stock, the exchange program aligns employees' financial link to its stockholders and increases the retention value of options.

Additionally, Williams seeks to manage ongoing share dilution from outstanding options and shares reserved for future grants. Under all possible exchange ratio scenarios, the exchange program would reduce the number of shares underlying outstanding options, thereby likely increasing the number of shares reserved for future grants for an additional year, which would have the effect of delaying Williams' expected need to request approval from stockholders for additional reserve shares. The actual decrease in the number of shares underlying outstanding options and increase in the number of shares reserved for future grants will depend on a variety of factors, including the level of participation in the exchange program, the final exchange ratios and any forfeitures or new grants under Williams' existing option plans.

### STRUCTURE AND IMPLEMENTATION OF THE EXCHANGE PROGRAM

Williams has structured the exchange program to be a "value-for-value"

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exchange, meaning the aggregate value of each option surrendered is expected to approximate the aggregate value of each replacement option granted in exchange for each surrendered option. Williams has further structured the exchange program as a "six-and-one" exchange, meaning the exchange program cannot commence until at least six months and one day have elapsed since Williams' last option grant to eligible employees, and each replacement option granted pursuant to the exchange program will not be granted until at least six months and one day after the cancellation date of each option surrendered pursuant to the exchange program. With such a structure, Williams will not recognize compensation charges from the exchange program. Williams is aware that accounting standards for expensing stock options may change, and it is monitoring these standards for any changes. If there are changes to these standards, Williams may decide not to commence the exchange program.

If Williams' stockholders approve the exchange program at Williams' 2003 Annual Meeting of Stockholders, Williams intends to commence the exchange offer by filing applicable documents with the Securities and Exchange Commission and distributing certain of those documents to eligible employees. However, Williams will have the authority, in its sole discretion, to determine whether and when the exchange program will commence, and to postpone the exchange program for any reason. Furthermore,

Williams will have the authority to cancel the exchange program after commencement, but before cancellation of each surrendered option, upon the occurrence of certain events. These events will be disclosed in the exchange program offering materials filed with the Securities and Exchange Commission and distributed to eligible employees. Eligible employees will have the right, but not the obligation, to accept the offer by surrendering their eligible options prior to the expiration date of the exchange program. All surrendered options will be cancelled one day after the expiration of the exchange program and replacement options will be granted at least six months and one day later.

The table below sets forth the earliest relevant dates with respect to the exchange program based upon the "six-and-one" exchange structure. Williams can give no assurance that these dates will be the actual dates of the exchange program or that it will commence the exchange program at all. If the exchange program has not commenced by September 1, 2003, it will not be implemented.

DATE	EVENT
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May 28, 2003.....	Earliest commencement date of the exchange program
June 25, 2003.....	Earliest expiration date of the exchange program
June 26, 2003.....	Earliest cancellation date of the surrendered options
December 27, 2003.....	Earliest grant date of the replacement options

### TERMS OF THE EXCHANGE PROGRAM

#### Employee Eligibility

All of Williams' employees and the employees of its affiliates will be eligible to participate in the exchange program, except that none of Williams' (i) executive officers, (ii) non-management directors, (iii) non-U.S. citizen employees working outside of the U.S. or (iv) former employees or retirees, will be eligible to participate in the exchange program. As of the filing of this

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proxy statement, Williams had approximately 5,165 employees eligible to participate in the exchange program.

Furthermore, the individual must be employed by Williams or its affiliates on the expiration date of the exchange program and each eligible employee who surrenders options in the exchange program must be continuously employed by Williams or its affiliates through the grant date of the replacement options to receive any replacement options.

### Options Eligible For Exchange

Options eligible for exchange must meet the following criteria:

- o Each option must have been granted to an eligible employee prior to November 27, 2002 under any of (i) The Williams Companies, Inc. 1990 Stock Plan, (ii) The Williams Companies, Inc. Stock Plan for Non-Officer Employees, (iii) The Williams Companies, Inc. 1996 Stock Plan, (iv) The Williams Companies, Inc. International Stock Plan, (v) The Williams Companies, Inc. 2001 Stock Plan and (vi) The Williams Companies, Inc. 2002 Incentive Plan, and be outstanding as of the expiration date of the exchange program;
- o Each option must have an exercise price greater than or equal to \$10.00 per share; and
- o Each option must have a remaining term of at least two years from the cancellation date.

As of the filing of this proxy statement, there were outstanding options to purchase approximately 37,968,502 shares of Williams' common stock, of which options to purchase 14,796,746 meet these criteria.

### Exchange Ratios

The exchange ratios for the exchange program, which determine how many options an eligible employee must surrender in order to receive one replacement option, are based on the Black-Scholes option valuation model, a recognized and accepted method of determining the value of an option.

The exchange ratios will vary depending on the average of the closing stock price for the 20 business days ending on a date prior to the commencement of the exchange offer ("Offer Commencement Date Price"), which date will be determined by Williams. Because the Offer Commencement Date Price cannot be determined until such date, Williams can only calculate the exchange ratios at this time using estimated stock prices. The table below illustrates the exchange ratios that will apply at different Offer Commencement Date Prices.

#### EXCHANGE RATIOS FOR OFFER COMMENCEMENT DATE PRICES

ORIGINAL GRANT DATE	\$3.00/SHARE	\$4.00/SHARE	\$5.00/SHARE	\$6.00/SHARE	\$7.00/SHARE
1995	12:1	6:1	3.75:1	2.5:1	2:1
1996	12.5:1	7:1	4.75:1	3.5:1	2.5:1

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1997-2000	13:1	8:1	5.75:1	4.5:1	3.75:1
2001	7:1	5:1	3.75:1	3.25:1	2.75:1
2002	2.5:1	2:1	1.75:1	1.5:1	1.5:1

If the Offer Commencement Date Price is something other than the stock prices shown in the above table, including if the Offer Commencement Date Price is below \$3.00 per share or above \$7.00 per share, the exchange ratios will be adjusted appropriately using the same valuation methodology used to determine the ratios shown above. The exchange program will not commence if the Offer Commencement Date Price exceeds \$10.00.

Each of these ratios is set based on creating a "value-for-value" exchange. In addition to Williams' internal resources, Williams has relied on Mercer Human Resource Consulting, a nationally recognized independent compensation-consulting firm, in determining the appropriate exchange ratios.

### Exercise Price of Replacement Options

Each replacement option granted under the exchange program will have an exercise price equal to the closing price of Williams' common stock on the grant date, as reported by the New York Stock Exchange.

### Term of Replacement Options

Each replacement option will have a term equal to the remaining term of each surrendered option it replaces, determined as of the cancellation date of each surrendered option.

### Vesting of Replacement Options

Each replacement option will vest the later of one year from the grant date of the replacement option or the original vesting date of the surrendered option, however, vesting may be accelerated in the event of death, disability and retirement.

### Other Terms and Conditions

All of the other terms and conditions of the replacement options will be determined by the Compensation Committee and governed by the 2002 Incentive Plan.

### U.S. Federal Income Tax Consequences

Williams expects the exchange of surrendered options for replacement options will be treated as a non-taxable exchange and no income for U.S. federal income tax purposes should be recognized by its employees upon the grant of the replacement options.

### Effect on Stockholders

Because the decision whether to participate in the exchange program is completely voluntary, Williams is unable to predict how many eligible employees will participate in or how many options will be surrendered pursuant to the exchange program. Consequently, Williams is unable to predict the impact the



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exchange program will have on its stockholders. Because each replacement option will have a lower exercise price, it will be more likely that option holders will exercise their options. As additional shares of Williams' common stock are issued upon such option exercises, existing stockholders will be proportionately diluted.

The following table indicates the maximum number of surrendered options that would be cancelled and the maximum number of replacement options that would be granted based on the estimated Offer Commencement Date Prices used to determine the exchange ratios, assuming all eligible employees elect to participate in the exchange program. The actual number of replacement options to be granted will depend upon the actual Offer Commencement Date Price.

	MAXIMUM NUMBER OF CANCELLED OPTIONS	MAXIMUM NUMBER OF SHARES UNDERLYING REPLACEMENT		
		\$3.00	\$4.00	\$5.00
All eligible employees as a group .....	14,796,746	2,168,560	3,084,131	3,978,159

### AMENDMENT TO 2002 INCENTIVE PLAN

Williams' 2002 Incentive Plan does not currently permit Williams to implement the exchange program. Consequently, Williams is seeking stockholder approval to amend the 2002 Incentive Plan to allow for the exchange program for the reasons previously described. Williams is also seeking stockholder approval to amend the 2002 Incentive Plan to make available for grant under the 2002 Incentive Plan up to an additional 2,500,000 shares underlying outstanding options that are cancelled, terminated, or otherwise not settled in shares under any of Williams' stock plans. Such additional number will not exceed 2,500,000. The proposed amendments to the 2002 Incentive Plan are set forth as Exhibit B to this proxy.

### VOTE REQUIRED

A majority of the votes cast on the proposal by stockholders is required to approve the proposal to amend The Williams Companies, Inc. 2002 Incentive Plan to allow for a stock option exchange program on a one-time basis and to make available up to an additional 2,500,000 shares underlying outstanding options that are cancelled, terminated, or otherwise not settled in shares under any of Williams' stock plans. Such additional number will not exceed 2,500,000.

THE BOARD OF DIRECTORS UNANIMOUSLY RECOMMENDS A VOTE "FOR" THE AMENDMENTS TO THE WILLIAMS COMPANIES, INC. 2002 INCENTIVE PLAN TO ALLOW FOR A STOCK OPTION EXCHANGE PROGRAM ON A ONE-TIME BASIS AND TO MAKE AVAILABLE UP TO AN ADDITIONAL 2,500,000 SHARES UNDERLYING OUTSTANDING OPTIONS THAT ARE CANCELLED, TERMINATED, OR OTHERWISE NOT SETTLED IN SHARES UNDER ANY OF WILLIAMS' STOCK PLANS.

WE ADVISE YOU TO READ THE TENDER OFFER STATEMENT WHEN IT BECOMES AVAILABLE IN MAY 2003 BECAUSE IT CONTAINS IMPORTANT INFORMATION ABOUT THE EXCHANGE OFFER. You can get the tender offer statement and other filed documents for free at the

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Securities and Exchange Commission website at [www.sec.gov](http://www.sec.gov). You can also get the tender offer statement, when available, for free from Williams by e-mail at [stockoptions@williams.com](mailto:stockoptions@williams.com).

### EXHIBIT B

#### SPECIAL AMENDMENT TO THE WILLIAMS COMPANIES, INC. 2002 INCENTIVE PLAN

#### I.

A new Section 1.4 is added to the Plan, subject to approval by the Company's stockholders, to read as follows:

1.4 2003 Exchange Program. Notwithstanding any contrary provision in the Plan, the Board shall have the authority to authorize a one-time option exchange program ("Exchange Program") to be implemented by the Board or its delegate, pursuant to which employees of the Company or an Affiliate who hold certain options to purchase common stock (the "Eligible Options") shall be offered the opportunity to elect to cancel such Eligible Options, whether or not the Eligible Options were granted under the Plan, in exchange for the grant by the Compensation Committee of replacement options under the Plan ("Replacement Options") to purchase the number of shares of common stock determined in accordance with the exchange ratio tables below (the "Exchange Ratio Tables"). Eligible Options shall be those with an exercise price equal to or in excess of \$10.00 per share and a remaining term of at least two years on the date of cancellation of such Eligible Options under the Exchange Program.

The exchange ratios set forth in the Exchange Ratio Table will vary depending on the average of the closing price of the common stock for the 20 business days ending ("Offer Commencement Date Price") on a date prior to the commencement of the Exchange Program, which date shall be determined by the Company. Because the Offer Commencement Date Price cannot be determined until such date, the Company can only calculate the exchange ratios prior to such date using estimated stock prices. The table below illustrates the exchange ratios that will apply at different Offer Commencement Date Prices.

#### EXCHANGE RATIOS FOR OFFER COMMENCEMENT DATE PRICES

ORIGINAL GRANT DATE	\$3.00/SHARE	\$4.00/SHARE	\$5.00/SHARE	\$6.00/SHARE	\$7.00/SHARE
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2001	7:1	5:1	3.75:1	3.25:1	2.75:1
2002	2.5:1	2:1	1.75:1	1.5:1	1.5:1

If the Offer Commencement Date Price is something other than the current

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stock prices shown in the above table, including if the Offer Commencement Date Price is below \$3.00 per share or above \$7.00 per share, the exchange ratios will be adjusted appropriately using the same valuation methodology used to determine the ratios shown above. The Exchange Program will be cancelled if the Offer Commencement Date Price exceeds \$10.00.

Replacement Options shall be granted no less than six months and one day following the cancellation of the Eligible Options, at a price equal to the Fair Market Value of the common stock on the date of grant of the Replacement Options. Each Replacement Option shall have a term equal to the remaining term of the corresponding cancelled Eligible Option, determined on the date of cancellation of such Eligible Option pursuant to the Exchange Program.

Each Replacement Option will vest the later of one year from the date of grant of the Replacement Option or the date the Eligible Option it replaces would have vested if not tendered for exchange; provided, however, that the Award Agreement for the Replacement Option may provide for accelerated vesting in the event the Grantee's employment is terminated by death, Disability, or retirement (as defined in the Company's pension plan).

To participate in the Exchange Offer Program, an employee must surrender all of the Eligible Options granted to him or her prior to November 27, 2002 (other than those which have already been exercised). The following individuals shall not participate in the Exchange Program: executive officers of the Company, members of the Board, former employees or retirees, and non-U.S. citizens employed outside the United States. Furthermore, persons who participated in the Exchange Program but are not, at the time the Replacement Options are granted, employed by the Company or an Affiliate, shall not receive any Replacement Options.

All other terms and conditions of the Exchange Offer shall be determined in the sole discretion of the Board or the Compensation Committee.

### II.

Section 4.1 is amended subject to approval by the Company's stockholders, by adding the following immediately following the first sentence thereof:

In addition, (a) the number of Returned Shares under any of The Williams Companies, Inc. stock plans shall be reserved for delivery under the Plan, and (b) the number of shares underlying options cancelled pursuant to the Exchange Program described in Section 1.4, whether or not such options were granted under the Plan, shall be reserved for delivery under the Plan; provided that the additional number of shares so reserved shall not exceed two million five hundred thousand (2,500,000).

### III.

EXCEPT AS AMENDED HEREIN, THE PLAN SHALL REMAIN IN FULL FORCE AND EFFECT.