SECURITIES AND EXCHANGE COMMISSION

FORM 10-Q

Quarterly report pursuant to sections 13 or 15(d)

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WILLIAMS COMPANIES INC

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SIC: **4922** Natural gas transmission

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FORM 10-Q

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

(Mark One)

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

For the quarterly period ended September 30, 1996

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 of Incorporation)	(IRS Employer Identification Number)

ONE WILLIAMS CENTER TULSA, OKLAHOMA	74172
(Address of principal executive office)	(Zip Code)

Registrant's telephone number: (918) 588-2000

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 X No ___

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 October 31, 1996
Common Stock, $1 par value	104,654,812 Shares

The Williams Companies, Inc.
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Portions of this document may constitute "forward-looking statements" as defined by federal law. Although The Williams Companies, Inc. believes any such statements are based on reasonable assumptions, there is no assurance that actual outcomes will not be materially different. Additional information about issues that could lead to material changes in performance is contained in The Williams Companies, Inc.'s annual report on Form 10-K.

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

	(Millions, except per-share amounts)			
	Three months ended September 30,		Nine months ended September 30,	
	1996	1995	1996	1995
Revenues:				
Williams Interstate Natural Gas Systems (Note 4)	$390.9	$354.3	$1,249.3	$1,029.8
Williams Field Services Group	161.0	142.4	527.7	419.5
Williams Energy Services	24.7	18.7	74.9	65.6
Williams Pipe Line	119.9	86.9	382.7	220.4
Williams Communications Group	189.0	131.9*	491.1*	394.0*
Other	12.1	3.7	37.3	13.7
Intercompany eliminations	(55.4)	(25.5)	(189.6)	(124.3)
Total revenues	842.2	712.4	2,573.4	2,018.7

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Profit-center costs and expenses:				
Costs and operating expenses	509.3	438.9	1,502.6	1,190.1
Selling, general and administrative expenses	138.0	119.0	415.4	354.0
Other income--net	(2.9)	(6.9)	(3.9)	(8.9)
Total profit-center costs and expenses	644.4	551.0	1,914.1	1,535.2
Operating profit (loss):				
Williams Interstate Natural Gas Systems (Note 4)	121.8	86.7	409.9	273.1
Williams Field Services Group	45.1	43.6	138.4	114.4
Williams Energy Services	13.5	4.4	43.1	29.7
Williams Pipe Line	14.8	20.0	58.9	50.5
Williams Communications Group	2.1	6.6*	6.0*	17.0*
Other	.5	.1	3.0	(1.2)
Total operating profit	197.8	161.4	659.3	483.5
General corporate expenses	(11.6)	(7.5)	(29.8)	(25.6)
Interest accrued	(93.5)	(67.4)	(265.6)	(204.2)
Interest capitalized	2.1	4.7	4.5	10.5
Investing income	6.6	13.3	14.7	81.2
Loss on sale of investment (Note 5)	--	--	--	(12.6)
Other income (expense)--net	2.2	.7	(4.1)	(13.3)
Income from continuing operations before income taxes	103.6	105.2	379.0	319.5
Provision for income taxes (Notes 5 and 6)	32.6	36.7	122.7	84.5
Income from continuing operations	71.0	68.5	256.3	235.0
Income from discontinued operations (Note 7)	--	--	--	1,005.7
Net income	71.0	68.5	256.3	1,240.7
Preferred stock dividends	2.6	7.1	7.8	12.6
Income applicable to common stock	$ 68.4	$ 61.4	$ 248.5	$1,228.1
Primary earnings per common and common-equivalent share:				
Income from continuing operations	$ .63	$ .58	$ 2.30	$ 2.22
Income from discontinued operations (Note 7)	--	--	--	10.02
Net income	$ .63	$ .58	$ 2.30	$ 12.24
Average shares (thousands)	108,275	105,507	108,094	100,373
Fully diluted earnings per common and common-equivalent share:				
Income from continuing operations	$ .63	$ .58	$ 2.27	$ 2.20
Income from discontinued operations (Note 7)	--	--	--	9.79
Net income	$ .63	$ .58	$ 2.27	$ 11.99
Average shares (thousands)	112,311	109,587	112,126	102,730
Cash dividends per common share	$ .34	$ .27	$ 1.02	$ .81

</TABLE>

*Reclassified as described in Note 2.

See accompanying notes.

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

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	(Millions)	
	September 30, 1996	December 31, 1995

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ASSETS		
Current assets:		
Cash and cash equivalents	$ 40.5	$ 90.4
Receivables	641.9	525.0
Transportation and exchange gas receivable	97.6	152.3
Inventories	197.3	189.0
Deferred income taxes	248.7	213.9
Other	218.7	173.2
Total current assets	1,444.7	1,343.8
Investments	169.7	307.6
Property, plant and equipment, at cost (Note 3)	11,026.6	9,478.7
Less accumulated depreciation and depletion	(1,815.8)	(1,464.0)
	9,210.8	8,014.7
Other assets and deferred charges	968.7	828.7
Total assets	$11,793.9	$10,494.8
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Notes payable (Note 10)	$ 300.3	$ -
Accounts payable	408.4	472.0
Transportation and exchange gas payable	67.3	127.8
Accrued liabilities (Note 8)	1,032.9	1,130.2
Long-term debt due within one year (Note 10)	54.1	319.9
Total current liabilities	1,863.0	2,049.9
Long-term debt (Note 10)	4,137.3	2,874.0
Deferred income taxes	1,614.6	1,568.2
Other liabilities	834.9	815.6
Contingent liabilities and commitments (Note 12)		
Stockholders' equity:		
Preferred stock, $1 par value, 30,000,000 shares authorized, 3,244,052 shares issued in 1996 and 3,739,452 shares issued in 1995	161.1	173.5
Common stock, $1 par value, 240,000,000 shares authorized, 106,536,630 shares issued in 1996 and 105,337,948 shares issued in 1995	106.5	105.3
Capital in excess of par value	1,092.1	1,051.1
Retained earnings	2,057.1	1,915.6
Unamortized deferred compensation	(2.3)	(2.3)
	3,414.5	3,243.2
Less treasury stock (at cost), 1,967,627 shares of common stock in 1996 and 1,573,203 shares of common stock in 1995, 401,600 shares of preferred stock in 1995 (Note 11)	(70.4)	(56.1)
Total stockholders' equity	3,344.1	3,187.1
Total liabilities and stockholders' equity	$11,793.9	$10,494.8

</TABLE>

See accompanying notes.

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

<TABLE>
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(Millions)

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	Nine months ended September 30,	
	1996	1995
<S>	<C>	<C>
OPERATING ACTIVITIES:		
Net income	$ 256.3	$ 1,240.7
Adjustments to reconcile to cash provided from operations:		
Discontinued operations	-	(1,005.7)
Depreciation and depletion	326.4	272.8
Provision for deferred income taxes	10.5	22.7
Loss on sale of investment	-	12.6
Changes in receivables sold	(49.3)	32.5
Changes in receivables	100.7	108.2
Changes in inventories	(14.3)	(19.9)
Changes in other current assets	(28.8)	31.5
Changes in accounts payable	(49.4)	(73.7)
Changes in accrued liabilities	(26.9)	20.8
Net change in non-current unrealized trading assets and liabilities	(45.6)	(48.5)
Other, including changes in non-current assets and liabilities	32.2	(42.2)
Net cash provided by operating activities	511.8	551.8
FINANCING ACTIVITIES:		
Proceeds from notes payable	356.8	90.4
Payments of notes payable	(56.5)	(558.2)
Proceeds from long-term debt	1,549.0	111.9
Payments of long-term debt	(1,187.1)	(823.6)
Proceeds from issuance of common stock	42.7	18.8
Purchases of treasury stock	(33.8)	(2.9)
Dividends paid	(114.8)	(88.4)
Subsidiary preferred stock redemptions	-	(193.7)
Other--net	(3.3)	5.4
Net cash provided (used) by financing activities	553.0	(1,440.3)
INVESTING ACTIVITIES:		
Property, plant and equipment:		
Capital expenditures	(528.2)	(597.6)
Proceeds from sales	24.3	27.4
Acquisition of businesses, net of cash acquired	(295.5)	(817.1)
Proceeds from sale of businesses	-	2,572.8
Income tax and other payments related to discontinued operations	(255.2)	(317.1)
Proceeds from sale of investment	-	125.1
Purchase of note receivable	-	(75.1)
Purchase of investments	(57.3)	(4.4)
Other--net	(2.8)	2.0
Net cash provided (used) by investing activities	(1,114.7)	916.0
Increase (decrease) in cash and cash equivalents	(49.9)	27.5
Cash and cash equivalents at beginning of period	90.4	36.1
Cash and cash equivalents at end of period	$ 40.5	$ 63.6

</TABLE>

See accompanying notes.

The Williams Companies, Inc.
Notes to Consolidated Financial Statements
(Unaudited)

1. General

The accompanying interim consolidated financial statements of The Williams Companies, Inc. (Williams) do not include all notes in annual financial statements and therefore should be read in conjunction with the financial statements and notes thereto in Williams' 1995 Annual Report on Form 10-K. The accompanying unaudited financial statements have not been audited by independent auditors, but include all adjustments both normal recurring and

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others which, in the opinion of Williams' management, are necessary to present fairly its financial position at September 30, 1996, results of operations for the three months and nine months ended September 30, 1996 and 1995, and cash flows for the nine months ended September 30, 1996 and 1995.

Operating profit of operating companies may vary by quarter. Based on current rate structures and/or historical maintenance schedules, Transcontinental Gas Pipe Line and Texas Gas Transmission experience lower operating profits in the second and third quarters as compared to the first and fourth quarters.

2. Basis of presentation

Williams Communications Group is a new business entity formed by combining WilTel and WilTech Group, previously reported separately. As a result of this combination, revenues and operating profit amounts for the three months and nine months ended September 30, 1995, have been reclassified to conform to current classifications.

Revenues and operating profit amounts for the three months and nine months ended September 30, 1995, include the operating results of Transco Energy Company since its January 18, 1995, acquisition by Williams.

3. Kern River Gas Transmission acquisition

On January 16, 1996, Williams acquired the remaining interest in Kern River Gas Transmission Company (Kern River) for $206 million in cash. The acquisition is accounted for as a purchase and the acquired assets and liabilities have been recorded based on an allocation of the purchase price. Substantially all of the purchase price in excess of the carrying value from the January acquisition of Kern River has been allocated to property, plant and equipment. Revenues and operating profit amounts for the three months and nine months ended September 30, 1996, include the operating results of Kern River since the acquisition date. Prior to this acquisition, Williams accounted for its 50 percent ownership in Kern River using the equity method of accounting, with its share of equity earnings recorded in investing income.

4. Williams Interstate Natural Gas Systems

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	Three months ended September 30,			
(Millions)	Revenues		Operating Profit	
<S>	1996 <C>	1995 <C>	1996 <C>	1995 <C>
Northwest Pipeline	$ 69.1	$ 75.7	$ 36.1	$37.3
Williams Natural Gas	43.4	34.0	11.9	12.0
Transcontinental Gas Pipe Line	180.6	188.0	40.5	33.9
Texas Gas Transmission	55.0	56.6	2.7	3.5
Kern River Gas Transmission	42.8	-	30.6	-
	$390.9	$354.3	$121.8	$86.7

</TABLE>

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	Nine months ended September 30,			
(Millions)	Revenues		Operating Profit	
<S>	1996 <C>	1995 <C>	1996 <C>	1995 <C>
Northwest Pipeline	$ 205.6	$ 193.8	$103.1	$ 90.6
Williams Natural Gas	131.8	113.3	33.9	29.5
Transcontinental Gas Pipe Line	572.8	535.6	133.6	117.6
Texas Gas Transmission	220.6	187.1	55.6	35.4
Kern River Gas Transmission	118.5	-	83.7	-
	$1,249.3	$1,029.8	$409.9	$273.1

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5. Sale of investment

In the second quarter of 1995, Williams sold its 15 percent interest in Texasgulf Inc. for approximately $124 million in cash, which resulted in an after-tax gain of approximately $16 million because of previously unrecognized tax benefits included in the provision for income taxes.

6. Provision for income taxes

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

(Millions)	Three months ended September 30,		Nine months ended September 30,	
	1996	1995	1996	1995
Current:				
Federal	$28.4	$35.4	$101.3	$46.3
State	(4.0)	5.5	10.9	15.5
	24.4	40.9	112.2	61.8
Deferred:				
Federal	7.8	(6.2)	8.6	23.2
State	.4	2.0	1.9	(.5)
	8.2	(4.2)	10.5	22.7
Total provision	$32.6	$36.7	$122.7	$84.5

The effective income tax rate in 1996 is less than the federal statutory rate due primarily to income tax credits from coal-seam gas production, partially offset by the effects of state income taxes. Both 1996 periods include approximately $6 million, net of federal income tax effect, from the effects of state income tax adjustments related to 1995. In addition, the nine months ended September 30, 1996, include the second quarter recognition of favorable adjustments totaling $10 million related to research credits and previously provided deferred income taxes on certain regulated capital projects.

The effective income tax rate in 1995 is less than the federal statutory rate due primarily to income tax credits from coal-seam gas production, partially offset by the effects of state income taxes and minority interest. In addition, the nine months ended September 30, 1995, include the previously unrecognized tax benefits related to the sale of Texasgulf Inc. (see Note 5) and recognition of an $8 million income tax benefit resulting from settlements with taxing authorities, both recorded in the second quarter.

Cash payments for income taxes for continuing and discontinued operations for the nine months ended September 30, 1996 and 1995, are $352 million and $343 million, respectively.

7. Discontinued operations

On January 5, 1995, Williams sold its network services operations to LDDS Communications, Inc. (LDDS) for $2.5 billion in cash. The sale yielded a gain of $1 billion (net of income taxes of approximately $732 million) which is reported as income from discontinued operations. Under the terms of the agreement, Williams retained Williams Telecommunications Systems, Inc. (WilTel), a national telecommunications equipment supplier and service company, and Vyvx, Inc. (included in WilTech Group), which operates a national video network specializing in broadcast television applications and satellite transmission. Both companies are included in Williams Communications Group (see Note 2).

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8. Accrued liabilities

(Millions)	September 30, 1996	December 31, 1995
Rate refunds	$ 269.4	$ 180.6
Employee costs	162.3	135.9
Income taxes payable	130.5	371.6
Taxes other than income taxes	80.7	51.2
Interest	73.8	72.9
Other	316.2	318.0
	$1,032.9	$1,130.2

9. Adoption of accounting standard

Effective January 1, 1996, Williams adopted Statement of Financial Accounting Standards No. 121, "Accounting for Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of." Adoption of the standard had no effect on Williams' financial position or results of operations.

10. Long-term debt

Long-term debt consists of the following amounts:

(Millions)	Weighted average interest rate*	September 30, 1996	December 31, 1995
The Williams Companies, Inc.			
Revolving credit loans	-	$ -	$ 50.0
Debentures, 8.875% - 10.25%, payable 2012, 2020, 2021 and 2025	9.6	587.5	587.7
Notes, 7.5% - 9.625%, payable through 2001	8.8	818.4	842.4
Northwest Pipeline			
Debentures, 7.125% - 10.65%, payable through 2025	9.0	360.0	369.2
Adjustable rate notes, payable through 2002	9.0	10.0	11.7
Williams Natural Gas			
Variable rate notes, payable 1999	5.9	130.0	130.0
Transcontinental Gas Pipe Line			
Debentures, 7.08% and 9.125%, payable 1998 through 2026	8.0	351.6	153.0
Notes, 8.125% - 9%, payable 1996, 1997 and 2002	8.7	378.2	381.1
Adjustable rate notes, payable 2000	-	-	125.1
Texas Gas Transmission			
Notes, 9.625% and 8.625%, payable 1997 and 2004	9.0	254.1	255.9
Kern River Gas Transmission			
Notes, 6.42% and 6.72%, payable through 2001	6.6	617.7	-
Williams Holdings of Delaware			
Revolving credit loans	5.9	303.0	150.0
Debentures, 6.25%, due 2006	6.3	248.8	-
Williams Pipe Line			
Notes, 8.95% and 9.78%, payable through 2001	9.4	100.0	110.0
Williams Energy Ventures			
Adjustable rate notes, payable through 2002	8.1	25.6	21.0
Other, payable through 1999	7.7	6.5	6.8

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	4,191.4	3,193.9
Current portion of long-term debt	(54.1)	(319.9)
	$4,137.3	$2,874.0

</TABLE>

*At September 30, 1996.

In January 1996, Williams entered into a $205 million short-term borrowing agreement to finance the purchase of the

remaining interest in Kern River Gas Transmission Company (See Note 3).

Under Williams' $800 million credit agreement, Northwest Pipeline, Transcontinental Gas Pipe Line, Texas Gas Transmission, Williams Pipe Line and Williams Holdings of Delaware, Inc. (Williams Holdings) have access to varying amounts of the facility while Williams (parent) has access to all unborrowed amounts. Interest rates vary with current market conditions.

For financial statement reporting purposes, $351 million in current debt obligations have been classified as non-current obligations based on Williams' intent and ability to refinance on a long-term basis. At September 30, 1996, the amount available on the $800 million credit agreement of $497 million is sufficient to complete these refinancings.

During March 1996, the Kern River floating-rate bank loan was refinanced through the issuance of 6.42 percent and 6.72 percent fixed-rate notes. Interest-rate swap agreements entered into by Kern River in prior years which effectively converted floating-rate debt to a fixed 9.1 percent remain outstanding. Concurrent with the refinancing, Kern River entered into additional interest-rate swap agreements which effectively offset the original interest-rate swaps and adjust the new fixed-rate notes to an effective interest rate of 8.5 percent.

In April 1996, Williams Holdings entered into an interest-rate swap agreement which effectively converted its 6.25 percent fixed rate debentures to floating-rate debt (4.66 percent at September 30, 1996).

Cash payments for interest (net of amounts capitalized) for the nine months ended September 30, 1996 and 1995, are $279 million and $197 million, respectively.

11. Treasury stock

In the third quarter of 1996, the Williams' board of directors authorized the open-market purchase of up to $800 million of Williams common stock. At September 30, 1996, 638,500 shares had been repurchased at a total cost of $31.2 million.

12. Contingent liabilities and commitments

Rate and regulatory matters and related litigation

Williams' interstate pipeline subsidiaries, including Williams Pipe Line, have various regulatory proceedings pending. As a result of rulings in certain of these proceedings, a portion of the revenues of these subsidiaries has been collected subject to refund. As to Williams Pipe Line, revenues collected subject to refund were $231 million at September 30, 1996; it is not expected that the amount of any refunds ordered would be significant. Accordingly, no portion of these revenues has been reserved for refund. As to the other pipelines, see Note 8 for the amount of revenues reserved for potential refund as of September 30, 1996.

In 1992, the Federal Energy Regulatory Commission (FERC) issued Order 636, Order 636-A and Order 636-B. These orders, which were challenged in various respects by various parties in proceedings recently ruled on by the U.S. Court of Appeals for the D.C. Circuit, require interstate gas pipeline companies to change the manner in which they provide services. Kern River Gas Transmission implemented its restructuring on August 1, 1993, Williams Natural Gas

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implemented its restructuring on October 1, 1993, and Northwest Pipeline, Texas Gas and Transcontinental Gas Pipe Line implemented their restructurings on November 1, 1993. Certain aspects of each pipeline company's restructuring have been under appeal.

On July 16, 1996, the U.S. Court of Appeals for the D.C. Circuit issued an order which in part affirmed and in part remanded Order No. 636. However, the court stated that Order No. 636 would remain in effect until FERC issued a final order on remand after considering the remanded issues. With the issuance of this decision, the stay on the appeals of individual pipeline's restructuring cases will be lifted. The only appeal challenging Northwest Pipeline's restructuring has been dismissed.

Contract reformations and gas purchase deficiencies

Each of the natural gas pipeline subsidiaries has undertaken the reformation or termination of its respective gas supply contracts. None of the pipelines has any significant pending supplier take-or-pay, ratable take or minimum take claims.

In 1994, Williams Natural Gas and a producer executed a number of agreements to resolve outstanding issues. Portions of the settlement were subject to regulatory approvals, including the regulatory abandonment of a certain Williams Natural Gas gathering system on terms acceptable to Williams Natural Gas. In May 1995, the FERC issued orders granting the requisite approvals. One party requested rehearing of the decision regarding abandonment of the gathering system and in April 1996, the FERC affirmed its May 1995 decision, and on July 23, 1996, FERC issued an order denying rehearing.

Current FERC policy associated with Orders 436 and 500 requires interstate gas pipelines to absorb some of the cost of reforming gas supply contracts before allowing any recovery through direct bill or surcharges to transportation as well as sales commodity rates. Under Orders 636, 636-A and 636-B, costs incurred to comply with these rules are permitted to be recovered in full, although 10 percent of such costs must be allocated to interruptible transportation service.

The previously mentioned July 16, 1996, D.C. Circuit Court of Appeals decision concerning Order No. 636 has remanded to FERC the issues of whether pipelines should absorb any portion of Order No. 636 transition costs and whether 10 percent of such costs should have been allocated to interruptible transportation services.

Pursuant to a stipulation and agreement approved by the FERC, Williams Natural Gas has made six filings to direct bill take-or-pay and gas supply realignment costs. The first provided for the offset of certain amounts collected subject to refund against previous take-or-pay direct-billed amounts and, in addition, covered $24 million in new costs. This filing was approved, and the final direct-billed amount, taking into consideration the offset, was $15 million. The second filing covered $18 million in gas supply realignment costs, and provided for an offset of $3 million. The third filing covered

$6.5 million in gas supply realignment costs. The remaining filings covered additional costs of $12 million, which are similar in nature to the costs in the second filing. An intervenor has filed a protest seeking to have the Commission review the prudence of certain of the costs covered by all of the filings made subsequent to the first filing, except for the third filing. On July 31, 1996, the administrative law judge issued an initial decision rejecting the intervenor's prudency challenge on the second filing. As of September 30, 1996, this subsidiary had an accrual of $81 million for its then-estimated remaining contract-reformation and gas supply realignment costs. Williams Natural Gas will make additional filings under the applicable FERC orders to recover such further costs as may be incurred in the future. Williams Natural Gas has recorded a regulatory asset of approximately $81 million for estimated future recovery of the foregoing costs.

In September 1995, Texas Gas received FERC approval of a settlement regarding Texas Gas' recovery of gas supply realignment costs. The settlement provides that Texas Gas will recover 100 percent of such costs up to $50

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million, will share in costs incurred between $50 million and $80 million, and will absorb any such costs above $80 million. The settlement also extends Texas Gas' pricing differential mechanism to November 1, 1996, and beyond that date for contracts in litigation as of that date. Through September 30, 1996, Texas Gas has paid or expects to pay approximately $80 million, previously accrued, for gas supply realignment costs, primarily as a result of contract terminations. Texas Gas has recovered approximately $54 million plus interest in gas supply realignment costs and, in accordance with the terms of its settlement, has a regulatory asset recorded at September 30, 1996, of approximately $13 million for the estimated future recovery of such costs, which is expected to be collected from customers prior to December 31, 1997. Ninety percent of the cost recovery is collected through demand surcharges on Texas Gas' firm transportation rates; the remaining 10 percent is recoverable from interruptible transportation service.

The foregoing accruals are in accordance with Williams' accounting policies regarding the establishment of such accruals which take into consideration estimated total exposure, as discounted and risk-weighted, as well as costs and other risks associated with the difference between the time costs are incurred and the time such costs are recovered from customers. The estimated portion of such costs recoverable from customers is deferred or recorded as a regulatory asset based on an estimate of expected recovery of the amounts allowed by FERC policy. While Williams believes that these accruals are adequate and the associated regulatory assets are appropriate, costs actually incurred and amounts actually recovered from customers will depend upon the outcome of various court and FERC proceedings, the success of settlement negotiations and various other factors, not all of which are presently foreseeable.

Environmental matters

Since 1989, Texas Gas and Transcontinental Gas Pipe Line have had studies underway to test certain of their facilities for the presence of toxic and hazardous substances to determine to what extent, if any, remediation may be necessary. Transcontinental Gas Pipe Line has responded to data requests regarding such potential contamination of certain of its sites. The costs of any such remediation will depend upon the scope of the remediation. At September 30, 1996, these subsidiaries had reserves totaling approximately $42 million for these costs.

Certain Williams subsidiaries, including Texas Gas and Transcontinental Gas Pipe Line, have been identified as potentially responsible parties (PRP) at various Superfund and state waste disposal sites. Although no assurances can be given, Williams does not believe that the PRP status of these subsidiaries will have a material adverse effect on its financial position, results of operations or net cash flows.

Transcontinental Gas Pipe Line, Texas Gas and Williams Natural Gas have identified polychlorinated biphenyl (PCB) contamination in air compressor systems, soils and related properties at certain compressor station sites. Transcontinental Gas Pipe Line, Texas Gas and Williams Natural Gas have also been involved in negotiations with the U.S. Environmental Protection Agency (EPA) and state agencies to develop screening, sampling and cleanup programs. In addition, negotiations with certain environmental authorities and other programs concerning investigative and remedial actions relative to potential mercury contamination at certain gas metering sites have been commenced by Williams Natural Gas, Texas Gas and Transcontinental Gas Pipe Line. As of September 30, 1996, Williams Natural Gas had recorded a liability for approximately $24 million, representing the current estimate of future environmental cleanup costs to be incurred over the next six to ten years. Texas Gas and Transcontinental Gas Pipe Line likewise had recorded liabilities for these costs which are included in the $43 million reserve mentioned above. Actual costs incurred will depend on the actual number of contaminated sites identified, the actual amount and extent of contamination discovered, the final cleanup standards mandated by the EPA and other governmental authorities and other factors. Texas Gas, Transcontinental Gas Pipe Line and Williams Natural Gas have deferred these costs pending recovery as incurred through future rates and other means.

In connection with the 1987 sale of the assets of Agrico Chemical Company, Williams agreed to indemnify the purchaser for environmental cleanup costs resulting from certain conditions at specified locations, to the extent such costs exceed a specified amount. It appears certain that such costs will exceed this amount. At September 30, 1996, Williams had approximately $9 million accrued for such excess costs. The actual costs incurred will depend on the actual amount and extent of contamination discovered, the final cleanup standards mandated by the EPA or other governmental authorities, and other factors.

A lawsuit was filed in May 1993, in a state court in Colorado in which certain claims have been made against various defendants, including Northwest Pipeline, contending that gas exploration and development activities in portions

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of the San Juan Basin have caused air, water and other contamination. The plaintiffs in the case sought certification of a plaintiff class. In June 1994, the lawsuit was dismissed for failure to join an indispensable party over which the state court had no jurisdiction. The Colorado court of appeals has affirmed the dismissal and remanded the

case to Colorado district court for action consistent with the appeals court's decision. Since June 1994, eight individual lawsuits have been filed against Northwest Pipeline and others in U.S. district court in Colorado, making essentially the same claims. Northwest Pipeline is vigorously defending these lawsuits.

Other legal matters

In December 1991, the Southern Ute Indian Tribe (the Tribe) filed a lawsuit against Williams Production, a wholly owned subsidiary of Williams, and other gas producers in the San Juan Basin area, alleging that certain coal strata were reserved by the United States for the benefit of the Tribe and that the extraction of coal-seam gas from the coal strata was wrongful. The Tribe seeks compensation for the value of the coal-seam gas. The Tribe also seeks an order transferring to the Tribe ownership of all of the defendants' equipment and facilities utilized in the extraction of the coal-seam gas. In September 1994, the court granted summary judgment in favor of the defendants and the Tribe lodged an interlocutory appeal with the U.S. Court of Appeals for the Tenth Circuit. Williams Production agreed to indemnify the Williams Coal Seam Gas Royalty Trust (Trust) against any losses that may arise in respect of certain properties subject to the lawsuit. In addition, if the Tribe is successful in showing that Williams Production has no rights in the coal- seam gas, Williams Production has agreed to pay to the Trust for distribution to then-current unitholders, an amount representing a return of a portion of the original purchase price paid for the units. While Williams believes that such a payment is not probable, it has reserved a portion of the proceeds from the sale of the units in the Trust.

In October 1990, Dakota Gasification Company (Dakota), the owner of the Great Plains Coal Gasification Plant (Plant), filed suit in the U.S. District Court in North Dakota against Transcontinental Gas Pipe Line and three other pipeline companies alleging that the pipeline companies had not complied with their respective obligations under certain gas purchase and gas transportation contracts. In September 1992, Dakota and the Department of Justice on behalf of the Department of Energy filed an amended complaint adding as defendants in the suit, Transco Energy Company, Transco Coal Gas Company and all of the other partners in the partnership that originally constructed the Plant and each of the parent companies of these entities. Dakota and the Department of Justice sought declaratory and injunctive relief and the recovery of damages, alleging that the four pipeline defendants underpaid for gas, collectively, as of June 30, 1992, by more than $232 million plus interest and for additional damages for transportation services and costs and expenses including attorneys' fees. In March 1994, the parties executed definitive agreements which would settle the litigation subject to final non-appealable regulatory approvals. The settlement is also subject to a FERC ruling that Transcontinental Gas Pipe Line's existing authority to recover in rates certain costs related to the purchase and transportation of gas produced by Dakota will pertain to gas purchase and transportation costs Transcontinental Gas Pipe Line will pay Dakota under the terms of the settlement. In October 1994, the FERC issued an order consolidating Transcontinental Gas Pipe Line's petition for approval of the settlement with similar petitions pending relative to two of the other three pipeline companies (the third pipeline having entered into a settlement) and setting the matter for hearing before an administrative law judge. In December 1995, the administrative law judge issued an initial decision in which he rejected the settlement agreements, finding that they were not prudent, and he ordered the pipeline companies to refund to their customers amounts collected since May 1993, in excess of the amounts he determined were appropriate. At the time of the ruling, Transcontinental Gas Pipe Line estimated that its share of the refunds the administrative law judge would require was approximately $75 million. The pipelines would be entitled to collect the amount of any such customer refunds from Dakota. The administrative law judge's decision is subject to review by the FERC. In February 1996, certain parties filed with the FERC a motion requesting that the

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FERC establish an additional proceeding to consider claims for additional refunds. Transcontinental Gas Pipe Line's share of these claimed additional refunds is $90 million and pertain to amounts paid to Dakota from November 1, 1988, to May 1, 1993. The pipelines have opposed this motion. The FERC held oral argument September 25, 1996.

In connection with agreements to resolve take-or-pay and other contract claims and to amend gas purchase contracts, Transcontinental Gas Pipe Line and Texas Gas each entered into certain settlements with producers which may require the indemnification of certain claims for additional royalties which the producers may be required to pay as a result of such settlements. As a result of such settlements, Transcontinental Gas Pipe Line and Texas Gas were named as defendants in, respectively, six and two lawsuits. Six of the eight lawsuits have been settled for cash payments aggregating approximately $8.9 million, all of which have previously been accrued, and of which approximately $3 million is recoverable as transition costs under Order 636. Damages, including interest, of approximately $29 million, have been asserted in the remaining cases. Producers have received and may receive other demands which could result in additional claims. Indemnification for royalties will depend on, among other things, the specific lease provisions between the producer and the lessor and the terms of the settlement between the producer and either Transcontinental Gas Pipe Line or Texas Gas. Texas Gas may file to recover 75 percent of any such additional amounts it may be required to pay pursuant to indemnities for royalties under the provisions of Order 528.

In November 1994, Continental Energy Associates Limited Partnership (the Partnership) filed a voluntary petition under Chapter 11 of the Bankruptcy Code with the U.S. Bankruptcy Court, Middle District of Pennsylvania. The Partnership owns a cogeneration facility in Hazelton, Pennsylvania (the Facility). Hazelton Fuel Management Company (HFMC), a subsidiary of Transco Energy, formerly supplied natural gas and fuel oil to the Facility. As of September 30, 1996, HFMC had current outstanding receivables from the Partnership of approximately $20 million, all of which has been reserved. The construction of the Facility was funded by several banks that have a security interest in all of the Partnership's assets. HFMC has asserted to the Bankruptcy Court that payment of its receivables is superior to

the lien of the banks and intends to vigorously pursue the collection of such amounts. HFMC has also filed suit against the lead bank with respect to this and other matters, including the alleged tortious interference with HFMC's contractual relations with the Partnership and other parties. In March 1995, the Bankruptcy Court approved the rejection of the gas supply contract between the Partnership and HFMC. HFMC has in turn asserted force majeure under a contract with a producer under which HFMC purchased natural gas for the Facility. The Partnership recently negotiated favorable buyouts of its power purchase agreements with two electric utilities. The buyouts are subject to Bankruptcy Court and Pennsylvania Public Utility Commission approvals.

On July 18, 1996, an individual filed a lawsuit in the United States District Court for the District of Columbia against 70 natural gas pipelines and other gas purchasers or former gas purchasers. All of Williams' natural gas pipeline subsidiaries are named as defendants in the lawsuit. The plaintiff claims, on behalf of the United States under the False Claims Act, that the pipelines have incorrectly measured the heating value or volume of gas purchased by the defendants. The plaintiff claims that the United States has lost royalty payments as a result of these practices. The pipelines intend to vigorously defend against these claims.

In addition to the foregoing, various other proceedings are pending against Williams or its subsidiaries which are incidental to their operations.

Summary

While no assurances may be given, Williams does not believe that the ultimate resolution of the foregoing matters, taken as a whole and after consideration of amounts accrued, insurance coverage, recovery from customers or other indemnification arrangements, will have a materially adverse effect upon Williams' future financial position, results of operations and cash flow requirements.

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Third Quarter 1996 vs. Third Quarter 1995

NORTHWEST PIPELINE'S revenues decreased $6.6 million, or 9 percent, due primarily to the effect of a 1995 reversal of approximately $16 million of certain accrued liabilities for estimated rate refunds, partially offset by approximately $3 million in 1996 related to a favorable regulatory decision. In addition, transportation rates increased effective February 1, 1996, associated with the expansion of mainline capacity placed into service on December 1, 1995. Total throughput increased 10.3 TBtu, or 6 percent, associated with the expansion of mainline capacity. Operating profit decreased $1.2 million, or 3 percent, due primarily to the approximate $11 million net effect of two reserve accrual adjustments in 1995. One was a $16 million favorable adjustment of rate refund accruals based on recent rate case developments. Partially offsetting this was a loss accrual (included in other income--net) in connection with a lawsuit involving a former transportation customer. In addition, operating profit this quarter benefitted from increased rates associated with the expansion of mainline capacity.

WILLIAMS NATURAL GAS' revenues increased $9.4 million, or 27 percent, due primarily to the effect of the 1995 direct bill refund of gas purchases of approximately $8 million and increased transportation revenue of $2 million. The increase in transportation revenue is due primarily to the collection of gas supply realignment costs. Total throughput decreased 7.1 TBtu, or 11 percent, due primarily to lower interruptible volumes. Costs and operating expenses increased $11 million, or 80 percent, due primarily to the effect of the 1995 direct bill refund of gas purchases and the amortization in 1996 of gas supply realignment costs. Operating profit decreased $100,000, or 1 percent.

TRANSCONTINENTAL GAS PIPE LINE'S revenues decreased $7.4 million, or 4 percent, due primarily to lower transportation costs charged to Transco by others and recovered in Transco's rates, partially offset by approximately $7 million in higher transportation revenue. Transportation revenue increased due primarily to increased throughput and new rates effective September 1, 1995, which allow the passthrough of increased costs. Total throughput increased 12.1 TBtu, or 4 percent, due primarily to increased long haul and firm production area transportation volumes. Costs and expenses decreased $14 million, or 9 percent, due primarily to lower transportation costs charged to Transco by others. Operating profit increased $6.6 million, or 19 percent, due primarily to higher transportation revenue and lower general and administrative expenses of approximately $2 million, partially offset by increased operation and maintenance expense of approximately $3 million. Because of its rate structure and historical maintenance schedule, Transco typically experiences lower operating profit in the second and third quarters as compared to the first and fourth quarters of the year.

TEXAS GAS TRANSMISSION'S revenues decreased $1.6 million, or 3 percent, due primarily to a lower level of recoverable costs. Total throughput increased 19.1 TBtu, or 13 percent. Operating profit decreased $800,000, or 23 percent, due primarily to higher operating and maintenance expense. Because of its rate structure, Texas Gas typically experiences lower operating profit in the second and third quarters as compared to the first and fourth quarters.

KERN RIVER GAS TRANSMISSION (KERN RIVER) operates a natural gas pipeline system extending from Wyoming through Nevada to California. On January 16, 1996, Williams acquired the remaining interest in Kern River. Revenues were $42.8 million in the third quarter of 1996, while costs and operating expenses were $9 million, selling, general and administrative expenses were $3 million and operating profit was $30.6 million. Prior to the acquisition, Williams accounted for its 50 percent ownership in Kern River using the equity method of accounting, with its share of equity earnings recorded in investing income. Equity earnings for the third quarter of 1995 was $8 million. Throughput was 68.5 TBtu in the third quarter of 1996. Throughput for the third quarter of 1996 is comparable to third-quarter 1995.

WILLIAMS FIELD SERVICES GROUP'S revenues increased $18.6 million, or 13 percent, due primarily to higher processing and natural gas liquids sales revenues of $3 million and $14 million, respectively. Processing and natural gas liquids volumes increased 14 percent and 49 percent, respectively, and average natural gas liquids prices also increased. A 21 percent increase in gathering volumes was offset by lower average gathering rates. Costs and operating expenses increased $6 million, or 6 percent, due primarily to expanded facilities and increased operations. Other income--net for 1996 includes a $3 million gain from the sale of a small gathering system in the Texas panhandle. Other income--net for 1995 includes $12 million in operating profit from the net effect of two unrelated items. One was $20 million of income from the favorable

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resolution of contingency issues involving previously regulated gathering and processing assets. This was partially offset by an $8 million loss accrual for a future minimum price natural gas purchase commitment. Operating profit increased $1.5 million, or 3 percent, due primarily to increased gas liquids margins and higher processing revenues, largely offset by higher costs and operating expenses associated with expanded facilities and increased operations and the 1995 $12 million net effect of two unrelated items in other income--net.

WILLIAMS ENERGY SERVICES' revenues increased $6 million, or 32 percent, due primarily to higher price-risk management revenues of $14 million, partially offset by lower natural gas physical trading and contract origination revenues of $5 million and $2 million, respectively. The

natural gas physical trading volumes increase of 12 percent from growth in west and mid-continent trading activity was more than offset by lower physical trading margins of $7 million. Operating profit increased $9.1 million from $4.4 million in 1995 due primarily to the increase in revenues combined with a reduction of development costs associated with its information products business, partially offset by higher selling, general and administrative expenses.

WILLIAMS PIPE LINE'S (INCLUDING WILLIAMS ENERGY VENTURES) revenues increased $33 million, or 38 percent, due primarily to an increase in non-transportation revenue combined with a 3 percent increase in shipments. The increase in non-transportation revenue is due primarily to Williams Energy Ventures' ethanol sales following the August 1995 acquisition of Pekin Energy and the fourth-quarter 1995 completion of the Nebraska Energy plant, combined with higher product marketing and services revenue. Costs and operating expenses increased $37 million, or 64 percent, due primarily to ethanol production activities. Operating profit (including Williams Energy Ventures) decreased $5.2 million, or 26 percent, due primarily to the decision to suspend ethanol production to perform efficiency maintenance on ethanol production plants during the third-quarter 1996, a period of record high corn prices. This was slightly offset by the increase in transportation revenue. Williams Energy Ventures' results declined $6.3 million to a $5.2 million operating loss in 1996. During the fourth-quarter 1996, corn prices returned to more traditionally normal levels. In September 1996, Williams Energy Ventures announced it had acquired a 45.5 percent interest in eight petroleum products terminals in the Southeast, giving it a platform to market services in the southeastern region of the country.

WILLIAMS COMMUNICATIONS GROUP'S revenues increased $57.1 million, or 43 percent, due primarily to $31 million from the acquisitions of Global Access Telecommunications Services, ComLink, Inc., NUS Training, the teleports of ICG Wireless Services, ITC mediaConferencing and SoftIRON Systems. Additionally, increased business activity resulted in an $18 million revenue increase in new systems. Billable minutes from occasional service and the number of ports in service at September 30, 1996, increased 30 percent and 11 percent, respectively, compared to September 30, 1995. Costs and operating expenses increased $47 million, or 47 percent, and selling, general and administrative expenses increased $15 million, or 60 percent, due primarily to the overall increase in business activity and higher expenses for developing additional products and services, including expenses of the acquired operations. Operating profit decreased $4.5 million, or 68 percent, due primarily to the expense of developing additional products and services along with integrating the most recent acquisitions.

GENERAL CORPORATE EXPENSES increased $4.1 million, or 55 percent, due primarily to higher professional services. Interest accrued increased $26.1 million, or 39 percent, due primarily to higher borrowing levels including $643 million of debt assumed with the acquisition of Kern River (see Note 3), slightly offset by lower average interest rates. Interest capitalized decreased $2.6 million, or 56 percent, due primarily to lower capital expenditures for gathering and processing facilities. Investing income decreased $6.7 million, or 50 percent, due primarily to $8 million lower equity earnings from Williams' 50 percent ownership in Kern River. Kern Rivers' 1996 operating results are included in operating profit (see Note 3). The effective income tax rate in 1996 is less than the federal statutory rate due primarily to income tax credits from coal-seam gas production, partially offset by the effects of state income taxes. In addition, 1996 includes approximately $6 million, net of federal income tax effect, from the effects of state income tax adjustments related to 1995. The effective income tax rate in 1995 approximates the federal statutory rate as the effect of state income taxes was offset by income tax credits from coal-seam gas

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production.
Preferred stock dividends decreased $4.5 million, or 64 percent, due primarily to the difference in the fair value of subordinated debentures issued and the carrying value of the $2.21 cumulative preferred stock exchanged in 1995.

Nine Months Ended September 30, 1996 vs. Nine Months Ended September 30, 1995

NORTHWEST PIPELINE'S revenues increased $11.8 million, or 6 percent, due primarily to increased transportation rates, effective February 1, 1996, associated with the expansion of mainline capacity placed into service on December 1, 1995, and approximately $8 million related to reserve reversals and favorable regulatory decisions, partially offset by the effect of the 1995 reversal of approximately $16 million of certain accrued liabilities for estimated rate refund accruals. Total throughput increased 52.1 TBtu, or 9 percent. Operating profit increased $12.5 million, or 14 percent, due primarily to increased transportation rates associated with the expansion of mainline capacity, and the reserve reversals and favorable regulatory decisions, partially offset by the effect of the 1995 approximately $11 million net effect of two reserve accrual adjustments. One was a $16 million favorable adjustment of rate refund accruals based on recent rate case developments. Partially offsetting this was a loss accrual (included in other income--net) in connection with a lawsuit involving a former transportation customer.
WILLIAMS NATURAL GAS' revenues increased $18.5 million, or 16 percent, due primarily to the effect of the 1995 reversal of direct bill refund of gas purchases of approximately $8 million, in addition to increased transportation revenue of $12 million. The increase in transportation revenue is due primarily to new tariff rates

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that became effective August 1, 1995, and $6 million related to the collection of gas supply realignment costs. Total throughput increased 3.2 TBtu, or 1 percent. Costs and operating expenses increased $15 million, or 27 percent, due primarily to the effect of the 1995 reversal of direct bill refund of gas purchases and the 1996 amortization of gas supply realignment costs. Operating profit increased $4.4 million, or 15 percent, due primarily to new tariff rates that became effective August 1, 1995.
TRANSCONTINENTAL GAS PIPE LINE'S revenues increased $37.2 million, or 7 percent, due primarily to a full year of operations in 1996 compared with 1995, which reflected operations from January 18, 1995, when Williams acquired majority interest in Transco Energy. Revenues associated with the period January 1 through January 17, 1995, were $35.8 million. Revenues also increased due to $20 million in higher transportation revenue, partially offset by lower transportation costs charged to Transco by others and recovered in Transco's rates. Transportation revenue increased due primarily to increased throughput, which benefitted from a system expansion placed in service in late 1995, and new rates effective September 1, 1995, which allow the passthrough of increased costs. Total throughput increased 165.8 TBtu, or 17 percent, due primarily to a full year of operations in 1996 compared to a partial year in 1995. Operating profit increased $16 million, or 14 percent, due primarily to a full year of operations in 1996, increased transportation revenue and lower general and administrative expenses, partially offset by higher operation, maintenance and depreciation expense. Because of its rate structure and historical maintenance schedule, Transco typically experiences lower operating profit in the second and third quarters as compared to the first and fourth quarters of the year.
TEXAS GAS TRANSMISSION'S revenues and operating profit increased $33.5 million, or 18 percent, and $20.2 million, or 57 percent, respectively, due primarily to new rates that became effective April 1, 1995, and an adjustment to regulatory accruals based on a recent rate-case settlement. Also, the first quarter of 1995 reflected operations from January 18, when Williams acquired majority interest in Transco Energy. Revenues associated with the period January 1 through January 17, 1995, were $16 million. Total throughput increased 119.7 TBtu, or 26 percent, due primarily to a full year of operations in 1996 compared to a partial year in 1995. Because of its rate structure, Texas Gas typically experiences lower operating profits in the second and third quarters as compared to the first and fourth quarters of the year.
KERN RIVER GAS TRANSMISSION'S (KERN RIVER) remaining interest was acquired by Williams on January 16, 1996. Revenues and operating profit amounts for the nine months ended September 30, 1996, include the operating results of Kern River since the acquisition date. Kern River's revenues were $118.5 million

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for the nine months of 1996, while costs and operating expenses were $26 million, selling, general and administrative expenses were $9 million and operating profit was $83.7 million. Prior to the acquisition, Williams accounted for its 50 percent ownership in Kern River using the equity method of accounting, with its share of equity earnings recorded in investing income. Equity earnings for the nine months of 1996 includes $2 million for the period prior to the acquisition date, compared to $23 million for the first nine months of 1995. Throughput was 199.6 TBtu for the nine months of 1996 (for the period subsequent to the acquisition date). Throughput for the first nine months of 1996 is comparable to 1995.

WILLIAMS FIELD SERVICES GROUP'S revenues increased $108.2 million, or 26 percent, due primarily to higher gathering, processing and natural gas liquids sales revenues of $25 million, $11 million, and $37 million, respectively, combined with increased natural gas sales volumes. Gathering, processing and natural gas liquids volumes increased 26 percent, 25 percent and 40 percent, respectively. Average natural gas liquids prices also increased while average gathering rates decreased. Costs and expenses (excluding other income--net) increased $71 million, or 22 percent, due primarily to increased natural gas purchase volumes, expanded facilities and increased operations. Other income--net for 1996 includes a $3 million environmental remediation accrual offset by a $3 million gain from the sale of a small gathering system in the Texas panhandle. Other income--net for 1995 includes $12 million in operating profit from the net effect of two unrelated items. One was $20 million from the favorable resolution of contingency issues involving previously regulated gathering and processing assets. This was partially offset by an $8 million loss accrual for a future minimum price natural gas purchase commitment. Operating profit increased $24 million, or 21 percent, due primarily to increased natural gas liquids margins and higher gathering and processing revenues, partially offset by higher costs and operating expenses associated with expanded facilities and increased operations and the 1995 $12 million net effect of two unrelated items in other income--net.

WILLIAMS ENERGY SERVICES' revenues increased $9.3 million, or 14 percent, due primarily to higher price-risk management revenues of $29 million, partially offset by lower contract origination and natural gas physical trading revenues of $16 million and $3 million, respectively. Natural gas physical trading volumes increased 26 percent from 525 TBtu to 661 TBtu (an average of 2.4 Bcf/day), due primarily to increased trading activity in the west and mid-continent regions. This volume increase was more than offset by lower physical trading margins of $12 million. Operating profit increased $13.4 million, or 45 percent, due primarily to the increase in revenues combined with a reduction of development costs associated with its information products business, partially

offset by higher selling, general and administrative expenses.

WILLIAMS PIPE LINE'S (INCLUDING WILLIAMS ENERGY VENTURES) revenues increased $162.3 million, or 74 percent, due primarily to an increase in non-transportation revenue combined with a 10 percent increase in shipments. Shipments increased due primarily to new business and the impact during 1995 of unfavorable weather conditions and a November 1994 fire at a truck-loading rack. Average length of haul and transportation rate per barrel decreased 3 percent and 1 percent, respectively, due primarily to shorter haul movements. The increase in non-transportation revenue is due primarily to Williams Energy Ventures' ethanol sales following the August 1995 acquisition of Pekin Energy and the fourth-quarter 1995 completion of the Nebraska Energy plant, combined with higher product marketing and services revenues. Costs and expenses increased $154 million, or 91 percent, due primarily to ethanol production activities. Operating profit (including Williams Energy Ventures) increased $8.4 million, or 17 percent, due primarily to increased transportation revenue, partially offset by the decision to suspend ethanol production to perform efficiency maintenance on ethanol production plants during the third-quarter 1996, a period of record high corn prices. Williams Energy Ventures' operating loss increased $4.8 million to $5.6 million. During the fourth-quarter 1996, corn prices returned to more traditionally normal levels. In September 1996, Williams Energy Ventures announced it had acquired a 45.5 percent interest in eight petroleum products terminals in the Southeast, giving it a platform to market services in the southeastern region of the country.

WILLIAMS COMMUNICATIONS GROUP'S revenues increased $97.1 million, or 25 percent, due primarily to $60 million from the acquisitions of Global Access Telecommunications Services, ComLink, Inc., NUS Training, the teleports of ICG

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Wireless Services, ITC mediaConferencing and SoftIRON Systems. Additionally, increased business activity resulted in a $20 million revenue increase in new systems and an $11 million revenue increase in digital fiber television services. Billable minutes from occasional service and the number of ports in service at September 30, 1996, each increased 11 percent compared to September 30, 1995. Costs and operating expenses increased $72 million, or 24 percent, and selling, general and administrative expenses increased $36 million, or 49 percent, due primarily to the overall increase in business activity and higher expenses for developing additional products and services, including the cost of integrating the most recent acquisitions. Operating profit decreased $11 million, or 65 percent, due primarily to the expense of developing additional products and services along with integrating the most recent acquisitions.

GENERAL CORPORATE EXPENSES increased $4.2 million, or 16 percent, due primarily to higher employee compensation expense and professional services, partially offset by the effect of a $4 million contribution in 1995 to The Williams Companies Foundation. Interest accrued increased $61.4 million, or 30 percent, due primarily to higher borrowing levels including $643 million of debt assumed with the acquisition of Kern River (see Note 3), slightly offset by lower average interest rates. Interest capitalized decreased $6 million, or 57 percent, due primarily to lower capital expenditures for gathering and processing facilities, in addition to the completion of a Northwest Pipeline mainline expansion in 1995. Investing income decreased $66.5 million, or 82 percent, due primarily to the effect of a 1995 $15 million dividend from Texasgulf Inc. and interest earned in 1995 on the invested portion of the cash proceeds from the sale of Williams' network services operations, in addition to $22 million lower equity earnings from Williams' 50 percent ownership in Kern River. Kern River's 1996 operating results are included in operating profit since the acquisition date (see Note 3). The 1995 loss on sale of investment results from the sale of the 15 percent interest in Texasgulf Inc. (see Note 5). Other income (expense)--net in 1995 included $10 million for minority interest expense associated with the Transco merger. The effective income tax rate in 1996 is less than the federal statutory rate due primarily to income tax credits from coal-seam gas production, partially offset by the effects of state income taxes. In addition, 1996 includes recognition of favorable adjustments totaling $16 million related to research credits, previously provided deferred income taxes on certain regulated capital projects and state income tax adjustments related to 1995. The effective income tax rate in 1995 was less than the federal statutory rate due primarily to income tax credits from coal-seam gas production, partially offset by the effects of state income taxes and minority interest. In addition, 1995 included the previously unrecognized tax benefits related to the sale of Texasgulf Inc. (see Note 5) and recognition of an $8 million income tax benefit resulting from settlements with taxing authorities.

On January 5, 1995, Williams sold its network services operations to LDDS Communications, Inc. for $2.5 billion in cash. The sale yielded an after-tax gain of approximately $1 billion, which is reported as income from discontinued operations (see Note 7).

Preferred stock dividends decreased $4.8 million, or 38 percent, due primarily to the difference in the fair value of subordinated debentures issued and the carrying value of the $2.21 cumulative preferred stock exchanged in 1995.

Financial Condition and Liquidity

Liquidity

Williams considers its liquidity to come from two sources: internal liquidity, consisting of available cash

investments, and external liquidity, consisting of borrowing capacity from available bank-credit facilities, which can be utilized without limitation under existing loan covenants. At September 30, 1996, Williams had access to $499 million of liquidity representing the available portion of its $800 million bank-credit facility plus cash-equivalent investments. This compares with liquidity of $656 million at December 31, 1995, and $765 million at September 30, 1995. The decrease in 1996 is due to additional borrowings under the bank credit facility.

In 1996, capital expenditures (excluding acquisition of businesses) are estimated to be approximately $800 million. During 1996, Williams expects to

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finance capital expenditures, investments and working-capital requirements through cash generated from operations, the use of its $800 million bank-credit facility, or additional borrowings, which include public debt/equity offerings and/or expanding committed borrowing facilities.

Financing Activities

On January 16, 1996, Williams acquired the remaining interest in Kern River Gas Transmission Company for $206 million in cash and entered into a $205 million short-term borrowing agreement to finance the purchase (see Note 3).

For financial statement reporting purposes, $351 million of current debt obligations have been classified as non-current obligations based on Williams' intent and ability to refinance on a long-term basis. The amount available on the $800 million credit agreement of $497 million is sufficient to complete these refinancings.

The consolidated long-term debt to long-term debt-plus-equity ratio increased to 55.3 percent at September 30, 1996, from 47.4 percent at December 31, 1995. The increase is due primarily to the assumption of Kern River's debt, combined with the issuance of $250 million of debentures by Williams Holdings under a $400 million shelf registration statement filed with the Securities and Exchange Commission in January 1996, and higher borrowings by Williams Holdings under the bank-credit facility.

During March 1996, the Kern River floating-rate bank loan was refinanced through the issuance of 6.42 percent and 6.72 percent fixed-rate notes. Interest-rate swap agreements entered into by Kern River in prior years which effectively converted floating-rate debt to a fixed 9.1 percent remain outstanding. Concurrent with the refinancing, Kern River entered into additional interest-rate swap agreements which effectively offset the original interest-rate swaps and adjust the new fixed-rate notes to an effective interest rate of 8.5 percent.

In April 1996, Williams Holdings entered into an interest-rate swap agreement which effectively converted its 6.25 percent fixed-rate debentures to floating-rate debt (4.66 percent at September 30, 1996).

During the third quarter of 1996, Williams began the open-market purchase of its common stock. Purchases of 638,500 shares totaling $31 million were completed by September 30, 1996. The Williams' board of directors has authorized up to $800 million of such purchases.

The increase in receivables from December 31, 1995, is due primarily to increased trading activities by Williams Energy Services. The increase in property, plant and equipment primarily reflects the consolidation of Kern River following the January 1996 acquisition. The increase in other assets and deferred charges is due primarily to regulatory assets associated with debt and the excess purchase price allocated to intangibles for businesses acquired by Williams Communications Group.

Other

The Financial Accounting Standards Board has issued a new accounting standard, FAS No. 123 "Accounting for Stock-Based Compensation," effective for fiscal years beginning after December 15, 1995. As provided for in the standard, Williams will not adopt the recognition provisions and will provide the pro forma net income and earnings-per-share disclosures required by the standard in its 1996 annual financial statements.

Williams currently follows Accounting Principles Board Opinion No. 25 "Accounting for Stock Issued to Employees." Under this standard, because the exercise price of Williams' fixed-plan common stock options equals the market price of the underlying stock on the date of the grant, no compensation is recognized.

Part II. Other Information

Item 6. Exhibits and Reports on Form 8-K

(a) The exhibits listed below are filed as part of this report:

Exhibit 3-- By-laws as amended on September 19, 1996

Exhibit 11--Computation of Earnings Per Common and Common-equivalent Share

Exhibit 12--Computation of Ratio of Earnings to Combined Fixed Charges and Preferred Stock Dividend Requirements

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(b) During the third quarter of 1996, the Company filed a Form 8-K on July 21, 1996, which reported a significant event under Item 5 of the Form and included the exhibits required by Item 7 of the Form.

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

THE WILLIAMS COMPANIES, INC.

(Registrant)

Gary R. Belitz

Gary R. Belitz
Controller
(Duly Authorized Officer and
Chief Accounting Officer)

November 14, 1996

INDEX TO EXHIBITS

<TABLE>
<CAPTION>

EXHIBIT NUMBER	DESCRIPTION
<S>	<C>
Exhibit 3	--By-laws as amended on September 19, 1996
Exhibit 11	--Computation of Earnings Per Common and Common-equivalent Share
Exhibit 12	--Computation of Ratio of Earnings to Combined Fixed Charges and Preferred Stock Dividend Requirements
Exhibit 27	--Financial Data Schedule

</TABLE>

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Exhibit 3

BY-LAWS
OF
THE WILLIAMS COMPANIES, INC.
(hereinafter called the "Company")

ARTICLE I

OFFICES

Section 1. Registered Office

The registered office of the Company shall be in the City of Wilmington, County of New Castle, State of Delaware.

Section 2. Other Offices

The Company may also have offices at such other places both within and without the State of Delaware as the Board of Directors may from time to time determine.

ARTICLE II

MEETINGS OF STOCKHOLDERS

Section 1. Place of Meetings

Meetings of the stockholders for the election of Directors or for any other purpose shall be held at such time and place, either within or without the State of Delaware, as shall be designated from time to time by the Board of Directors and stated in the notice of the meeting or in a duly executed waiver of notice thereof.

Section 2. Annual Meetings

The Annual Meetings of the Stockholders shall be held on such date and at such time as shall be designated from time to time by the Board of Directors and stated in the notice of the meetings, at which meetings the stockholders shall elect by a plurality vote the Directors to be elected at such meetings, and transact such other business as may properly be brought before the meetings. Written notice of the Annual Meeting stating the place, date and hour of the meeting shall be given to each stockholder entitled to vote at such meeting not less than ten nor more than sixty days before the date of the meeting.

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Section 3. Special Meetings

Unless otherwise prescribed by law or by the Restated Certificate of Incorporation, Special Meetings of Stockholders, for any purpose or purposes, may be called by either the Chairman of the Board, if one has been elected, or the President, and shall be called by either such officer or the Secretary at the request in writing of (i) a majority of the Board of Directors, or (ii) the stockholders owning of record at least a majority in number of the issued and outstanding shares of stock of the Company entitled to vote. Such request shall state the purpose or purposes of the proposed meeting. Written notice of a Special Meeting stating the place, date and hour of the meeting and the purpose or purposes for which the meeting is called shall be given not less than ten nor more than sixty days before the date of the meeting to each stockholder entitled to vote at such meeting.

Section 4. Quorum

Except as otherwise provided by law or by the Restated Certificate of Incorporation, the holders of a majority of the capital stock issued and outstanding and entitled to vote thereat, present in person or represented by proxy, shall constitute a quorum at all meetings of the stockholders for the transaction of business. If, however, such quorum shall not be present or represented by proxy at any meeting of the stockholders, the stockholders entitled to vote thereat, present in person or represented by proxy, shall have power to adjourn the meeting from time to time, without notice other than announcement at the meeting, until a quorum shall be present or represented. At such adjourned meeting at which a quorum shall be present or represented by proxy, any business may be transacted which might have been transacted at the meeting as originally noticed. If the adjournment is for more than thirty days, or if after the adjournment a new record date is fixed for the adjourned meeting, a written notice of the adjourned meeting shall be given to each stockholder entitled to vote at the meeting.

Section 5. Voting

At each meeting of stockholders held for any purpose, each stockholder of record of Common Stock entitled to vote thereat shall be entitled to one vote for every share of such stock standing in such stockholder's name on the books of the Company on the date determined in accordance with Section 5 of Article V of these By-laws, and each stockholder of record of Preferred Stock entitled to vote thereat shall be entitled to the vote as set forth in the resolution or resolutions of the Board of Directors providing for such series for each share of Preferred Stock standing in such stockholder's name on the books of the Company on the date determined in accordance with Section 5 of Article V of these By-laws. On any matter on which the holders of the Preferred Stock or any series thereof shall be entitled to vote separately as a class or series, they shall be entitled to one vote for each share held.

Each stockholder entitled to vote at any meeting of stockholders may authorize not in excess of three persons to act for such stockholder by a proxy

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signed by such stockholder or such stockholder's attorney-in-fact. Any such proxy shall be delivered to the secretary of such meeting at or prior to the time designated for holding such meeting, but in any event not later than the time designated in the order of business for so delivering such proxies. No such proxy shall be voted or acted

upon after three years from its date, unless the proxy provides for a longer period. Except as otherwise provided by law or by the Restated Certificate of Incorporation, at each meeting of the stockholders, all corporate actions to be taken by vote of the stockholders shall be authorized by a majority of the votes cast by the stockholders entitled to vote thereon, present in person or represented by proxy, and where a separate vote by class is required, a majority of the votes cast by the stockholders of such class, present in person or represented by proxy, shall be the act of such class.

Unless required by law or determined by the chairman of the meeting to be advisable, the vote on any matter, including the election of Directors, need not be by written ballot. In the case of a vote by written ballot, each ballot shall be signed by the stockholder voting, or by such stockholder's proxy, and shall state the number of shares voted.

Section 6. List of Stockholders Entitled to Vote

The officer of the Company who has charge of the stock ledger of the Company shall prepare and make, at least ten days before every meeting of stockholders, a complete list of the stockholders entitled to vote at the meeting, arranged in alphabetical order, and showing the address of each stockholder and the number of shares registered in the name of each stockholder. Such list shall be open to the examination of any stockholder or person representing a stockholder by proxy, for any purpose germane to the meeting, during ordinary business hours, for a period of at least ten days prior to the meeting, either at a place within the city where the meeting is to be held, which place shall be specified in the notice of the meeting, or, if not so specified, at the place where the meeting is to be held. The list shall also be produced and kept at the time and place of the meeting during the whole time thereof, and may be inspected by any stockholder of the Company who is present.

Section 7. Stock Ledger

The stock ledger of the Company shall be the only evidence as to who are the stockholders entitled to examine the stock ledger, the list required by Section 6 of this Article II or the books of the Company, or to vote in person or by proxy at any meeting of stockholders.

ARTICLE III

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DIRECTORS

Section 1. Number and Election of Directors

The number of Directors constituting the Board of Directors shall be no more than seventeen nor less than five, the precise number within such limitations to be fixed by resolution of the Board of Directors from time to time. Except as provided in Section 2 of this Article III, the Directors to be elected at each Annual Meeting of Stockholders shall be elected by a plurality of the votes cast at such Annual Meeting of Stockholders, and each Director so elected shall hold office until the third Annual Meeting of Stockholders following such election and until a successor is duly elected and qualified, or until earlier resignation or removal. Any Director may resign at any time upon notice to the Company. Directors need not be stockholders.

Notwithstanding the foregoing, whenever the holders of any Preferred Stock, as may at any time be provided in the Restated Certificate of Incorporation or in any resolution or resolutions of the Board of Directors establishing any such Preferred Stock, shall have the right, voting as a class or as classes, to elect Directors at any Annual or Special Meeting of Stockholders, the then authorized number of Directors of the Company may be increased by such number as may therein be provided, and at such meeting the holders of such Preferred Stock shall be entitled to elect the additional Directors as therein provided. Any Directors so elected, unless so reelected at the Annual Meeting of Stockholders or Special Meeting held in place thereof, next succeeding the time when the holders of any such Preferred Stock became entitled to elect Directors as above provided, shall not hold office beyond such Annual or Special Meeting. Any such provision for election of Directors by holders of the Preferred Stock shall apply notwithstanding the maximum number of Directors set forth in the provisions hereinabove.

Section 2. Vacancies

Subject to the provisions of the Restated Certificate of Incorporation, vacancies and newly created directorships resulting from any increase in the authorized number of Directors may be filled by a majority of the Directors then in office, though less than a quorum, or by a sole remaining Director, and the Directors so chosen shall hold office for a term that shall coincide with the unexpired portion of the term of that directorship, and until their successors are duly elected and qualified, or until their earlier resignation or removal.

Section 3. Duties and Powers

The business of the Company shall be managed by or under the direction of the Board of Directors which may exercise all such powers of the Company and do all such lawful acts and things as are not by statute or by the Restated Certificate of Incorporation or by these By-laws directed or required to be exercised or done by the stockholders.

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Section 4. Meetings

The Board of Directors of the Company may hold meetings, both regular and special, within or without the State of Delaware. Regular meetings of the Board of Directors may be held without notice at such time and at such place as may from time to time be determined by the Board of Directors. Special meetings of the Board of Directors may be called by the Chairman of the Board, if one has been elected, or by the President or any three Directors. Notice thereof stating the place, date and hour of the meeting shall be given to each Director either by mail not less than forty-eight (48) hours

before the date of the meeting, by telephone or telegram on twenty-four (24) hours notice, or on such shorter notice as the person or persons calling such meeting may deem necessary or appropriate in the circumstances.

Section 5. Quorum

Except as may be otherwise specifically provided by law, the Restated Certificate of Incorporation or these By-laws, at all meetings of the Board of Directors, a majority of the entire Board of Directors shall constitute a quorum for the transaction of business and the act of a majority of the Directors present at any meeting at which there is a quorum shall be the act of the Board of Directors. If a quorum shall not be present at any meeting of the Board of Directors, a majority of the Directors present thereat may adjourn the meeting from time to time, without notice other than announcement at the meeting, until a quorum shall be present.

Section 6. Actions of the Board

Unless otherwise provided by the Restated Certificate of Incorporation or these By-laws, any action required or permitted to be taken at any meeting of the Board of Directors or of any committee thereof may be taken without a meeting, if all the members of the Board of Directors or committee, as the case may be, consent thereto in writing, and the writing or writings are filed with the minutes of the proceedings of the Board of Directors or committee.

Section 7. Meetings by Means of Conference Telephone

Unless otherwise provided by the Restated Certificate of Incorporation or these By-laws, members of the Board of Directors, or any committee designated by the Board of Directors, may participate in a meeting of the Board of Directors or such committee by means of a conference telephone or similar communications equipment by means of which all persons participating in the meeting can hear each other, and participation in a meeting pursuant to this

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Section 7 shall constitute presence in person at such meeting.

Section 8. Committees

The Board of Directors may designate one or more committees, each committee to consist of one or more of the Directors. The Board of Directors may designate one or more Directors as alternate members of any committee, who may replace any absent or disqualified member at any meeting of any such committee. In the absence or disqualification of a member of a committee, the member or members present at any meeting and not disqualified from voting, whether or not a quorum, may unanimously appoint another member of the Board of Directors to act at the meeting in the place of any absent or disqualified member. Any such committee, to the extent provided in the resolution of the Board of Directors, or in the By-laws of the Company, shall have and may exercise all the powers and authority of the Board of Directors in the management of the business and affairs of the Company, and may authorize the seal of the Company to be affixed to all papers which may require it; but no such committee shall have the power or authority in reference to the following matters: (i) approving or adopting, or recommending to the stockholders, any action or matter expressly required by Delaware law to be submitted to stockholders for approval; or (ii) adopting, amending or repealing any By-law of the Company. Each committee shall keep regular minutes and report to the Board of Directors when required.

Section 9. Compensation

The Directors may be paid their expenses, if any, of attendance at each meeting of the Board of Directors and such compensation for serving as a Director and attending each meeting of the Board of Directors as may be fixed from time to time by resolution of the Board. No such payment shall preclude any Director from serving the Company in any other capacity and receiving compensation therefor. Members of special or standing committees may also be paid such compensation for committee service or for attending committee meetings as the Board may establish from time to time.

Section 10. Retirement Policy

The normal retirement date for a Director shall be at the first Annual Meeting of Stockholders of the Company following the Director's 72nd birthday, and except as provided in this Section 10, no one shall serve as a Director beyond this normal retirement date. A Director may be nominated (and elected) to serve as a Director after the normal retirement date provided that: (i) the Director expresses to the Board of Directors a willingness to serve as a Director after the normal retirement date; (ii) at the time of being a nominee for a term of office that would extend beyond the normal retirement date, such person was a Director and was so elected by the stockholders of the Company; (iii) the Director's nomination as a nominee for the term extending beyond the normal retirement date was by majority vote of all Directors then in office; (iv) the stockholders of the Company were advised fully regarding the Director's intent to serve on the Board after the normal retirement date; and (v) the Director was thereafter elected a Director by the stockholders in accordance with the Restated Certificate of Incorporation and By-laws of the

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Company. Nothing herein shall be construed to create a right of any Director to be nominated for reelection to the Board or as a limitation upon the right of the Board of Directors not to nominate any Director for such reelection.

BY-LAWS
OF
THE WILLIAMS COMPANIES, INC.

ARTICLE IV

OFFICERS

Section 1. General

The officers shall be elected by the Board of Directors and shall include a President, a Secretary and a Treasurer and, at the discretion of the Board of Directors, may include a Chairman of the Board, one or more Vice Presidents and such other officers as the Board of Directors may from time to time deem necessary or appropriate. Any number of offices may be held by the same person, unless otherwise prohibited by law, the Restated Certificate of Incorporation or these By-laws. The officers need not be stockholders nor, except in the case of the Chairman of the Board, need such officers be Directors.

Section 2. Election

The Board of Directors shall elect the officers of the Company who shall hold their offices for such terms and shall exercise such powers and perform such duties as shall be determined from time to time by the Board of Directors; and all officers shall hold office until their successors are chosen and qualified, or until their death, resignation or removal. Any officer elected by the Board of Directors may be removed at any time by the affirmative vote of a majority of the Board of Directors. Any vacancy occurring in any office shall be filled by the Board of Directors.

Section 3. Voting Securities Owned by the Company

Powers of attorney, proxies, waivers of notice of meeting, consents and other instruments relating to securities owned by the Company may be executed in the name of and on behalf of the Company by the Chief Executive Officer, any Vice President or the Secretary, and any such officer may in the name of and on behalf of the Company, take all such action as any such officer may deem advisable to vote in person or by proxy at any meeting of security holders of any corporation in which the Company may own securities and at any such meeting shall possess ownership of such securities and which, as the owner thereof, the Company might have exercised and possessed if present. The Board of Directors may, by resolution, from time to time confer like powers upon any other person or persons.

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Section 4. Chief Executive Officer

If no Chairman of the Board has been elected, the President shall be the Chief Executive Officer. If a person has been elected as both Chairman of the Board and President, that person shall be the Chief Executive Officer. Otherwise, if a Chairman of the Board has been elected, the Board of Directors shall designate either the Chairman of the Board or the President as Chief Executive Officer. Subject to the directions of the Board of Directors or any duly authorized committee of Directors, the Chief Executive Officer shall direct the policy of the Company and shall have general direction of the Company's business, affairs and property and over its several officers, in addition to his duties set forth in Section 5 or 6 of this Article IV, as the case may be.

Section 5. Chairman of the Board

If one has been elected, the Chairman of the Board shall, if present, preside at all meetings of the Board of Directors and of the stockholders. The Chairman of the Board may, with the Treasurer or the Secretary, or an Assistant Treasurer or an Assistant Secretary, sign certificates for stock of the Company and any other documents, of whatever nature, in the name of the Company, except in cases where the signing and execution thereof shall be expressly delegated by the Board of Directors or by a duly authorized committee of Directors, or by these By-laws to some other officer or agent of the Company, or shall be required by law otherwise to be signed or executed and shall perform such other duties as may from time to time be assigned by the Board of Directors or by any duly authorized committee of Directors.

Section 6. President

The President, unless he is serving as Chief Executive Officer, shall be responsible to the Chairman of the Board. During the absence or disability of the Chairman of the Board, or if one shall not have been elected, the President shall exercise all the powers and discharge all the duties of the Chairman of the Board. The President may, with the Treasurer or the Secretary, or an Assistant Treasurer or an Assistant Secretary, sign certificates for stock of the Company and any other documents, of whatever nature, in the name of the Company, except in cases where the signing and execution thereof shall be expressly delegated by the Board of Directors or by a duly authorized committee of Directors, or by these By-laws, to some other officer or agent of the Company, or shall be required by law otherwise to be signed or executed and shall perform such other duties as may from time to time be assigned by the Board of Directors or by any duly authorized committee of Directors.

Section 7. Vice Presidents

In the absence of the President or in the event of inability or refusal of the President to perform the duties of his office, the Vice Presidents, if any have been elected, in the order designated by the Board of Directors or, in the absence of such designation, in the order of seniority in office, shall perform

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the duties and possess the authority and powers of the President. Any Vice President may also sign and execute in the name of the Company deeds, mortgages, bonds, contracts and other instruments, except in cases where the signing and execution thereof shall be expressly delegated by the Board of Directors or by a duly authorized committee of Directors, or by these By-laws, to some other officer or agent of the Company, or shall be required by law otherwise to be signed or executed. Each Vice President shall perform such other duties and have such other

powers as the Board of Directors from time to time may prescribe.

Section 8. Secretary

The Secretary shall attend all meetings of the Board of Directors and all meetings of stockholders and record all of the proceedings thereat in a book or books to be kept for that purpose; the Secretary shall also perform, or cause to be performed, like duties for the standing committees when required. The Secretary shall give, or cause to be given, notice of all meetings of the stockholders and special meetings of the Board of Directors, and shall perform such other duties as may be prescribed by the Board of Directors or the Chief Executive Officer. If the Secretary shall be unable or shall refuse to cause notice to be given of all meetings of the stockholders and special meetings of the Board of Directors, and if there be no Assistant Secretary, then either the Board of Directors, the Chairman of the Board, if one has been elected, or the President may choose another officer to cause such notice to be given. The Secretary shall have custody of the seal of the Company and the Secretary or any Assistant Secretary, if there be one, shall have authority to affix the same to any instrument requiring it and when so affixed, it may be attested by the signature of the Secretary or by the signature of any such Assistant Secretary. The Board of Directors may give general authority to any other officer to affix the seal of the Company and to attest the affixing by such officers a signature. The Secretary shall see that all books, reports, statements, certificates and other documents and records required by law to be kept or filed are properly kept or filed, as the case may be.

Section 9. Treasurer

The Treasurer shall have the custody of the corporate funds and securities and shall keep full and accurate accounts of receipts and disbursements in books belonging to the Company and shall deposit all moneys and other valuable effects in the name and to the credit of the Company in such depositories as may be designated by the Board of Directors. The Treasurer shall disburse the funds of the Company as may be ordered by the Board of Directors, taking proper vouchers for such disbursements, and shall render to the Board of Directors, at its regular meetings, or when the Board of Directors so requires, an account of

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all transactions of the Treasurer and of the financial condition of the Company.

Section 10. Assistant Secretaries

Except as may be otherwise provided in these By-laws, Assistant Secretaries, if there be any, shall perform such duties and have such powers as from time to time may be assigned to them by the Board of Directors, the Chief Executive Officer, any Vice President or the Secretary, and in the absence of the Secretary or in the event of the disability or refusal of the Secretary to act, shall perform the duties of the Secretary, and when so acting, shall have all the powers of and be subject to all the restrictions upon the Secretary.

Section 11. Assistant Treasurers

Assistant Treasurers, if there be any, shall perform such duties and have such powers as from time to time may be assigned to them by the Board of Directors, the Chief Executive Officer, any Vice President or the Treasurer, and in the absence of the Treasurer or in the event of the disability or refusal to act of the Treasurer, shall perform the duties of the Treasurer, and when so acting, shall have all the powers of and be subject to all the restrictions upon the Treasurer.

Section 12. Other Officers

Such other officers as the Board of Directors may choose shall perform such duties and have such powers as from time to time may be assigned to them by the Board of Directors.

ARTICLE V

STOCK

Section 1. Form of Certificates

Every holder of stock in the Company shall be entitled to have a certificate signed in the name of the Company (i) by the Chairman of the Board, if one has been elected, or the President; and (ii) by the Secretary or an Assistant Secretary of the Company, certifying the number of shares owned.

Section 2. Signatures

Where a certificate is countersigned by (i) a transfer agent other than the Company or its employee, or (ii) a registrar other than the Company or its employee, any other signature on the certificate may be a facsimile. In case any officer, transfer agent or registrar who has signed or whose facsimile signature has been placed upon a certificate shall have ceased to be such officer, transfer agent or registrar before such certificate is issued, the certificate may be issued by the Company with the same effect as if such officer or entity were an officer, transfer agent or registrar at the date of

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issue.

Section 3. Lost Certificates

The Board of Directors may direct a new certificate to be issued in place of any certificate theretofore issued by the Company alleged to have been lost, stolen or destroyed, upon the making of an affidavit of that fact by the person claiming the certificate of stock to be lost, stolen or destroyed. When authorizing such issue of a new certificate, the Board of Directors may, in its discretion and as a condition precedent to the issuance thereof, require the owner of such lost, stolen or destroyed certificate, or such owner's legal representative, to advertise the same in such manner as the Board of Directors shall require and/or to give the Company a bond in such sum as it may direct as indemnity against any claim that may be made

against the Company and its transfer agents and registrars with respect to the certificate alleged to have been lost, stolen or destroyed.

Section 4. Transfers

Stock of the Company shall be transferable in the manner prescribed by law and in these By-laws. Transfers of stock shall be made on the books of the Company only by the person named in the certificate or by such person's attorney lawfully constituted in writing and filed with the Secretary of the Company, or a transfer agent for such stock, if any, and upon the surrender of the certificate therefor, which shall be canceled before a new certificate shall be issued.

Section 5. Record Date

In order that the Company may determine the stockholders entitled to notice of or to vote at any meeting of stockholders or any adjournment thereof, or entitled to receive payment of any dividend or other distribution or allotment of any rights, or entitled to exercise any rights in respect of any change, conversion or exchange of stock, or for the purpose of any other lawful action, the Board of Directors may fix, in advance, a record date, which shall not be more than sixty days nor less than ten days before the date of such meeting, nor more than sixty days prior to any other action for which a record date is required. A determination of stockholders of record entitled to notice of or to vote at a meeting of stockholders shall apply to any adjournment of the meeting; provided, however, that the Board of Directors may fix a new record date for the adjourned meeting.

ARTICLE VI

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NOTICES

Section 1. Notices

Whenever written notice is required by law, the Restated Certificate of Incorporation or these By-laws, to be given to any Director, member of a committee or stockholder, such notice may be given by mail, addressed to such Director, member of a committee or stockholder, at such address as appears on the records of the Company, with postage thereon prepaid, and such notice shall be deemed to be given at the time when the same shall be deposited in the United States mail. Written notice may also be given personally or by telegram, telex or cable.

Section 2. Waivers of Notice

Whenever any notice is required by law, the Restated Certificate of Incorporation or these By-laws, to be given to any Director, member of a committee or stockholder, a waiver thereof in writing, signed by the person or persons entitled to said notice, whether before or after the time stated therein, shall be deemed equivalent thereto.

ARTICLE VII

GENERAL PROVISIONS

Section 1. Dividends

Dividends upon the capital stock of the Company, subject to the provisions of the Restated Certificate of Incorporation, if any, may be declared by the Board of Directors at any regular or special meeting, and may be paid in cash, in property or in shares of the capital stock. Before payment of any dividend, there may be set aside out of any funds of the Company available for dividends such sum or sums as the Board of Directors from time to time, in its absolute discretion, deems proper as a reserve or reserves to meet contingencies, or for equalizing dividends, or for repairing or maintaining any property of the Company, or for any proper purpose, and the Board of Directors may modify or abolish any such reserve.

Section 2. Fiscal Year

The fiscal year of the Company shall be fixed by resolution of the Board of Directors.

Section 3. Corporate Seal

The corporate seal shall have inscribed thereon the name of the Company, the year of its organization and the words "Corporate Seal, Delaware." The seal may be used by causing it or a facsimile thereof to be impressed, affixed, reproduced or otherwise.

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Section 4. By-laws Subject to Law and Restated Certificate of Incorporation of the Company

Each provision of these By-laws is subject to any contrary provision of the Restated Certificate of Incorporation of the Company or of an applicable law as from time to time in effect, and to the extent any such provision is inconsistent therewith, such provision shall be superseded thereby for as long as such inconsistency shall exist, but for all other purposes these By-laws shall continue in full force and effect.

ARTICLE VIII

INDEMNIFICATION

Section 1. Power to Indemnify in Actions, Suits or Proceedings Other Than Those by or in the Right of the Company

Subject to Section 3 of this Article VIII, the Company shall indemnify any person who was or is a party or is threatened to

be made a party to any threatened, pending or completed action, suit or proceeding, whether civil, criminal, administrative or investigative (other than an action by or in the right of the Company) by reason of the fact that such person is or was a Director, officer, employee or agent of the Company, or is or was serving at the request of the Company as a director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise, against expenses (including attorneys' fees), judgments, fines and amounts paid in settlement actually and reasonably incurred in connection with such action, suit or proceeding if such person acted in good faith and in a manner such person reasonably believed to be in or not opposed to the best interests of the Company, and, with respect to any criminal action or proceeding, had no reasonable cause to believe the conduct was unlawful. The termination of any action, suit or proceeding by judgment, order, settlement, conviction or upon a plea of nolo contendere or its equivalent, shall not, of itself, create a presumption that the person did not act in good faith and in a manner which such person reasonably believed to be in or not opposed to the best interests of the Company, and, with respect to any criminal action or proceeding, had reasonable cause to believe that the conduct was unlawful.

Section 2. Power to Indemnify in Actions, Suits or Proceedings by or in the Right of the Company

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Subject to Section 3 of this Article VIII, the Company shall indemnify any person who was or is a party or is threatened to be made a party to any threatened, pending or completed action or suit by or in the right of the Company to procure a judgment in its favor by reason of the fact that such person is or was a Director, officer, employee or agent of the Company, or is or was serving at the request of the Company as a director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise against expenses (including attorneys' fees) actually and reasonably incurred in connection with the defense or settlement of such action or suit if such person acted in good faith and in a manner such person reasonably believed to be in or not opposed to the best interests of the Company; except that no indemnification shall be made in respect to any claim, issue or matter as to which such person shall have been adjudged to be liable to the Company unless and only to the extent that the Court of Chancery of the State of Delaware or the court in which such action or suit was brought shall determine upon application that, despite the adjudication of liability but in view of all the circumstances of the case, such person is fairly and reasonably entitled to indemnity for such expenses which the Court of Chancery of the State of Delaware or such other court shall deem proper.

Section 3. Authorization of Indemnification

Any indemnification under this Article VIII (unless ordered by a court) shall be made by the Company only as authorized in the specific case upon a determination that indemnification of the Director, officer, employee or agent is proper in the circumstances because such person has met the applicable standard of conduct set forth in Section 1 or Section 2 of this Article VIII, as the case may be. Such determination shall be made (i) by the Board of Directors by a majority vote of a quorum consisting of Directors who were not parties to such action, suit or proceeding, or (ii) if such a quorum is not obtainable, or, even if obtainable a quorum of disinterested Directors so directs, by independent legal counsel in a written opinion, or (iii) by the stockholders. To the extent, however, that a Director, officer, employee or agent of the Company has been successful on the merits or otherwise in defense of any action, suit or proceeding described above, or in defense of any claim, issue or matter therein, such person shall be indemnified against expenses (including attorneys' fees) actually and reasonably incurred in connection therewith, without the necessity of authorization in the specific case.

Section 4. Good Faith Defined

For purposes of any determination under Section 3 of this Article VIII, a person shall be deemed to have acted in good faith and in a manner such person reasonably believed to be in or not opposed to the best interests of the Company, or, with respect to any criminal action or proceeding, to have had no reasonable cause to believe such person's conduct was unlawful, if such person's action is based on the records or books of account of the Company or another enterprise, or on information supplied to such person by the officers of the Company or another enterprise in the course of their duties, or on the advice of legal counsel for the Company or another enterprise or on information or records given or reports made to the Company or another enterprise by an

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independent certified public accountant or by an appraiser or other expert selected with reasonable care by the Company or another enterprise. The term "another enterprise" as used in this Section 4 shall mean any other corporation or any partnership, joint venture, trust or other enterprise of which such person is or was serving at the request of the Company as a director, officer, employee or agent. The provisions of this Section 4 shall not be deemed to be exclusive or to limit in any way the circumstances in which a person may be deemed to have met the applicable standard of conduct set forth in Sections 1 or 2 of this Article VIII, as the case may be.

Section 5. Indemnification by a Court

Notwithstanding any contrary determination in the specific case under Section 3 of this Article VIII, and notwithstanding the absence of any determination thereunder, any Director, officer, employee or agent may apply to any court of competent jurisdiction in the State of Delaware for indemnification to the extent otherwise permissible under Sections 1 and 2 of this Article VIII. The basis of such indemnification by a court shall be a determination by such court that indemnification of the Director, officer, employee or agent is proper in the circumstances because such person has met the applicable standards of conduct set forth in Sections 1 and 2 of this Article VIII, as the case may be. Notice of any application for indemnification pursuant to this Section 5 shall be given to the Company promptly upon the filing of such application.

Section 6. Expenses Payable in Advance

Expenses by an officer or Director incurred in defending a civil or criminal action, suit or proceeding may be paid by the Company in advance of the final disposition of such action, suit or proceeding upon receipt of an undertaking by or on behalf of the Director or officer to repay such amount if it shall ultimately be determined that such person is not entitled to be indemnified by the Company as authorized in this Article VIII.

Such expenses incurred by other employees and agents shall be so paid upon such terms and conditions, if any, as the Board of Directors deems appropriate.

Section 7. Nonexclusivity of Indemnification and Advancement of Expenses

The indemnification and advancement of expenses provided by or granted pursuant to this Article VIII shall not be deemed exclusive of any other rights to which those seeking indemnification or advancement of expenses may be entitled under any By-law, agreement, contract, vote of stockholders or disinterested Directors or otherwise, both as to action in such person's official capacity and as to action in another capacity while holding such

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office, it being the policy of the Company that indemnification of the persons specified in Sections 1 and 2 of this Article VIII shall be made to the fullest extent permitted by law. The provisions of this Article VIII shall not be deemed to preclude the indemnification of any person who is not specified in Sections 1 or 2 of this Article VIII but whom the Company has the power or obligation to indemnify under the provisions of the General Corporation Law of the State of Delaware or otherwise.

Section 8. Insurance

The Company may purchase and maintain insurance on behalf of any person who is or was a Director, officer, employee or agent of the Company, or is or was serving at the request of the Company as a director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise against any liability asserted against such person and incurred by such person in any such capacity, or arising out of such person's status as such, whether or not the Company would have the power or the obligation to indemnify such person against such liability under the provisions of this Article VIII.

Section 9. Meaning of "Company" and "Other Enterprises" for the Purposes of Article VIII

A. For purposes of this Article VIII, references to "the Company" shall include, in addition to the resulting corporation, any constituent corporation (including any constituent of a constituent) absorbed in a consolidation or merger which, if its separate existence had continued, would have had power and authority to indemnify its directors, officers, employees or agents so that any person who is or was a director, officer, employee or agent of such constituent corporation, or is or was serving at the request of such constituent corporation as a director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise, shall stand in the same position under the provisions of this Article VIII with respect to the resulting or surviving corporation as such person would have with respect to such constituent corporation if its separate existence had continued.

B. For purposes of this Article VIII, references to "other enterprises" shall include employee benefit plans; references to "fines" shall include any excise taxes assessed on a person with respect to an employee benefit plan; and references to "serving at the request of the Company" shall include any service as a Director, officer, employee or agent of the Company which imposes duties on, or involves services by, such Director, officer, employee or agent with respect to an employee benefit plan, its participants or beneficiaries; and a person who acted in good faith and in a manner such person reasonably believed to be in the interests of the participants and beneficiaries of an employee benefit plan shall be deemed to have acted in a manner "not opposed to the best interests of the Company" as referred to in this Article VIII.

Section 10. Survival of Indemnification and Advancement of Expenses

The indemnification and advancement of expenses provided by, or granted pursuant to, this Article VIII shall, unless otherwise provided when authorized

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or ratified, continue as to a person who has ceased to be a Director, officer, employee or agent and shall inure to the benefit of the heirs, executors and administrators of such a person.

ARTICLE IX
AMENDMENTS

Section 1. Amendments of By-laws

These By-laws may be altered, amended, supplemented or repealed and new By-laws may be adopted by the stockholders entitled to vote at any duly constituted Annual or Special Meeting of Stockholders, and, except as otherwise expressly provided in a By-law made by the stockholders, by the Board of Directors at any duly constituted regular or special meeting thereof; provided that no amendment of these By-laws changing the place named therein for the annual election of Directors shall be made within sixty days next before the day on which any such election is to be held.

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Exhibit 11

The Williams Companies, Inc.
Computation of Earnings Per Common and Common-Equivalent Share

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	(Thousands, except per-share amounts)			
	Three months ended September 30,		Nine months ended September 30,	
	1996	1995	1996	1995
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Primary earnings:				
Income from continuing operations	$ 71,000	$ 68,500	$256,300	$ 235,000
Preferred stock dividends:				
$2.21 cumulative preferred stock	400	1,500	1,200	5,500
$3.50 cumulative convertible preferred stock	2,200	2,100	6,600	3,600
Effect of preferred stock exchange	--	3,500	--	3,500
Income from continuing operations, net of preferred stock dividends	68,400	61,400	248,500	222,400
Income from discountinued operations	--	--	--	1,005,700
Income applicable to common stock	$ 68,400	$ 61,400	$248,500	$1,228,100
Primary shares:				
Average number of common shares outstanding during the period	104,899	102,054	104,701	97,144
Common-equivalent shares attributable to options and deferred stock	3,376	3,453	3,393	3,229
Total common and common-equivalent shares	108,275	105,507	108,094	100,373
Primary earnings per common and common-equivalent share:				
Income from continuing operations	$ .63	$ .58	$ 2.30	$ 2.22
Income from discontinued operations	--	--	--	10.02
Net income	$ .63	$ .58	$ 2.30	$ 12.24
Fully diluted earnings:				
Income from continuing operations	$ 71,000	$ 68,500	$256,300	$ 235,000
Preferred stock dividends:				
$2.21 cumulative preferred stock	400	1,500	1,200	5,500
Effect of preferred stock exchange	--	3,500	--	3,500
Income from continuing operations, net of preferred stock dividends	70,600	63,500	255,100	226,000
Income from discontinued operations	--	--	--	1,005,700
Income applicable to common stock	$ 70,600	$ 63,500	$255,100	$1,231,700
Fully diluted shares:				
Average number of common shares outstanding during the period	104,899	102,054	104,701	97,144
Common-equivalent shares attributable to options and deferred stock	3,506	3,627	3,519	3,397
Dilutive preferred shares	3,906	3,906	3,906	2,189
Total common and common-equivalent shares	112,311	109,587	112,126	102,730
Fully diluted earnings per common and common-equivalent share:				
Income from continuing operations	$ .63	$ .58	$ 2.27	$ 2.20
Income from discontinued operations	--	--	--	9.79
Net income	$ .63	$ .58	$ 2.27	$ 11.99

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Exhibit 12

The Williams Companies, Inc. and Subsidiaries
Computation of Ratio of Earnings to Combined Fixed Charges
and Preferred Stock Dividend Requirements
(Dollars in millions)

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<S>	Nine months ended September 30, 1996 <C>
Earnings:	
Income from continuing operations before income taxes	$379.0
Add:	
Interest expense - net	261.1
Rental expense representative of interest factor	19.6
Interest accrued - 50 percent owned company	1.3
Other	2.8
Total earnings as adjusted plus fixed charges	$663.8
Fixed charges and preferred stock dividend requirements:	
Interest expense - net	$261.1
Capitalized interest	4.5
Rental expense representative of interest factor	19.6
Pretax effect of dividends on preferred stock of the Company	12.4
Interest accrued - 50 percent owned company	1.3
Combined fixed charges and preferred stock dividend requirements	$298.9
Ratio of earnings to combined fixed charges and preferred stock dividend requirements	2.22

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