

For a purchaser at the original offering price of \$25

- Q.** For someone who purchased the FELINE PACSSM at the original offering price of \$25, what is the basis in the notes at the time of the exchange?
- A.** It is \$25.70, calculated in the following way:

Tax basis in note for holder who acquired unit at original issue

	<u>per share</u>
Original purchase price	\$ 25.00
OID accrued	\$ 4.91
Payments received	<u>\$ (4.21)</u>
Adjusted tax basis in notes	<u>\$ 25.70</u>

- Q.** For one who acquired at the original offering of \$25 and included the contract adjustment payments in income, what is the assumed basis in the forward purchase contract?
- A.** Zero
- Q.** Is there a gain or loss on the disposition of the note and the forward purchase contract?
- A.** There would be no gain or loss on the note and an \$11.70 loss on the forward purchase contract, calculated in the following manner:

Calculation of gain on exchange of FELINE PACS
for holders who acquired units at original issue

	<u>per share</u>
Consideration	
Cash	\$ 1.47
Fair market value (FMV) of common	\$ 12.53
Amount deemed paid to Williams for cancellation of forward contract	<u>\$ 11.70</u>
Proceeds	<u>\$ 25.70</u>
Sale of note	
Proceeds	\$ 25.70
Tax basis of note	<u>\$ 25.70</u>
Gain	\$ -
Loss on forward contract	
Amount paid to cancel	\$ (11.70)

For a purchaser at \$12.80 on March 24, 2004

In a second example, we will show the same set of calculations for someone who acquired the PACSSM after the original offer. Each person who has purchased after the initial offering can have different results dependent on

- the exact purchase price of the PACSSM,
- the date of the purchase, and
- the fair market value of the note on the date of the purchase.

This example is intended to explain the principles behind the calculation. In this hypothetical example, we will assume the purchaser acquired the PACSSM on March 24, 2004 for \$12.80, representing an original basis of \$25.00 for the notes and \$(12.20) basis in the forward purchase contract. For this or any other purchase, the fair market value of the notes may or may not be equal to the face value of \$25 per share.

- Q.** Given the foregoing, what is the original basis in the forward purchase contract?
- A.** The inferred value of the contract is a negative \$12.20, calculated in the following manner,

Tax basis in forward purchase contract for holder who acquired unit on March 24, 2004

	<u>per share</u>
Original purchase price	\$ 12.80
Assumed FMV of note	<u>\$ 25.00</u>
Inferred value of forward purchase contract (obligation)	<u>\$ (12.20)</u>

- Q.** For a purchaser of the FELINE PACSSM at \$12.80 on March 24, 2004, who assumes that the fair market value of the notes were \$25.00 at the time of the purchase, what is the basis in the notes at the time of the exchange?
- A.** It is \$25.22, calculated in the following way:

Tax basis in note for holder who acquired unit on March 24, 2004

	<u>per share</u>
Original assumed FMV	\$ 25.00
OID accrued	\$ 1.03
Payments received	<u>\$ (0.81)</u>
Adjusted tax basis in notes	<u>\$ 25.22</u>

The calculation of the \$1.03 OID accrued and the \$.81 of interest received, shown above, is detailed on the last page of this note.

- Q.** Would there be a gain or loss on the sale of the note or the forward purchase contract?
- A.** Yes, there would be a \$.48 gain on the sale of the note and a \$.50 gain on the disposition of the forward contract, calculated in the following manner. This assumes the holder included the contract adjustment payments in income.

Calculation of gain on exchange of FELINE PACS
for holders who acquired units on March 24, 2004

	<u>per share</u>
Consideration	
Cash	\$ 1.47
Fair market value of common	\$ 12.53
Amount deemed paid to Williams for cancellation of forward contract	<u>\$ 11.70</u>
Proceeds	<u>\$ 25.70</u>
Sale of note	
Proceeds	\$ 25.70
Tax basis of note	<u>\$ 25.22</u>
Gain on the sale of the note	<u>\$ 0.48</u>
Loss on forward contract	
Amount paid to cancel	\$ (11.70)
Original basis	<u>\$ (12.20)</u>
Gain (loss) disposition of forward contract	<u>\$ 0.50</u>

It must be emphasized that this second example of a purchase on a specific date is used to illustrate the calculations only. Every tax payer must calculate for their own purchase date, price, and assumption of the fair market value (FMV) of the note, taking into account the OID accrued and the interest payments received for their specific case. A schedule of the OID accrual rate is attached to this letter, as well as a calculation of the accrued OID and interest assumed in the hypothetical case above.

The foregoing discussion is for general information purposes only and may not be applicable to stockholders who are not citizens or residents of the United States. In addition, this discussion does not address tax consequences which may vary with your individual circumstances. Accordingly, you are urged to consult with your tax advisor to determine your particular tax consequences and filing obligations in connection with this exchange offer.

OID Schedule for The Williams Companies FELINE PACSSM
through the exchange date

<u>From:</u>	<u>To:</u>	OID/share/ <u>day</u>	OID/share/ <u>quarter</u>
1/14/2002	2/16/2002	\$0.004861	\$0.1604 *
2/17/2002	5/16/2002	\$0.004919	\$0.4427
5/17/2002	8/16/2002	\$0.004897	\$0.4407
8/17/2002	11/16/2002	\$0.004904	\$0.4413
11/17/2002	2/16/2003	\$0.004911	\$0.4419
2/17/2003	5/16/2003	\$0.004917	\$0.4426
5/17/2003	8/16/2003	\$0.004925	\$0.4432
8/17/2003	11/16/2003	\$0.004932	\$0.4439
11/17/2003	2/16/2004	\$0.004939	\$0.4445
2/17/2004	5/16/2004	\$0.004947	\$0.4452
5/17/2004	8/16/2004	\$0.004954	\$0.4459
8/17/2004	10/18/2004	\$0.004962	\$0.3126 *

* OID for these quarters is calculated based on the actual numbers of days in the quarter.

Sample Calculation for purchaser on March 24, 2004

OID Accrued

<u>From:</u>	<u>To:</u>	<u>days</u>	OID/share/ <u>day</u>	OID/share/ <u>period</u>
3/24/2004	5/16/2004	54	x \$0.004947 =	\$0.27
5/17/2004	8/16/2004			\$0.45
8/17/2004	10/18/2004	63	x \$0.004962 =	<u>\$0.31</u>
			Total	\$1.03

Interest received

<u>Payment date</u>	<u>Interest/share</u>
5/16/2004	\$0.40625
8/16/2004	<u>\$0.40625</u>
	\$0.81250