WILLIAMS COMPANIES INC
Form 8-K
February 28, 2006

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UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 8-K
CURRENT REPORT
Pursuant to Section 13 or 15(d)
of the Securities Exchange Act of 1934
Date of Report (Date of earliest event reported): February 28, 2006
The Williams Companies, Inc.
(Exact name of registrant as specified in its charter)

Delaware	1-4174	73-0569878
(State or other jurisdiction of incorporation)	(Commission File Number)	(I.R.S. Employer Identification No.)

One Williams Center, Tulsa, Oklahoma	74172
(Address of principal executive offices)	(Zip Code)

Registrant s telephone number, including area code: 918/573-2000
Not Applicable

(Former name or former address, if changed since last report)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

o Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
o Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240-14a-12)
o Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
o Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

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Item 2.02. Results of Operations and Financial Condition.

On February 28, 2006, The Williams Companies, Inc. (Williams or the Company) issued a press release announcing its financial results for the quarter and year ended December 31, 2005. A copy of the press release and its accompanying financial highlights and reconciliation schedules are furnished as a part of this current report on Form 8-K as Exhibit 99.1 and is incorporated herein in its entirety by reference.

The press release and accompanying financial highlights and reconciliation schedules are being furnished pursuant to Item 2.02, Results of Operations and Financial Condition. The information furnished is not deemed filed for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, is not subject to the liabilities of that section and is not deemed incorporated by reference in any filing under the Securities Act of 1933, as amended.

Item 7.01. Regulation FD Disclosure.

Williams wishes to disclose for Regulation FD purposes its slide presentation, furnished herewith as Exhibit 99.2, to be utilized during a public conference call and webcast on the morning of February 28, 2006.

On February 28, 2006, Williams also announced that its domestic and international proved natural gas reserves as of December 31, 2005, increased to 3.6 trillion cubic feet equivalent. Williams replaced its 2005 U.S. natural gas production of 224 billion cubic feet equivalent at a ratio of 277 percent. A copy of the press release announcing the same is furnished as Exhibit 99.3 to this Current Report on Form 8-K and is incorporated herein.

The slide presentation and press release are being furnished pursuant to Item 7.01, Regulation FD Disclosure. The information furnished is not deemed filed for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, is not subject to the liabilities of that section and is not deemed incorporated by reference in any filing under the Securities Act of 1933, as amended.

Item 9.01. Financial Statements and Exhibits.

(a) None

(b) None

(c) Exhibits

Exhibit 99.1	Copy of Williams press release dated February 28, 2006, publicly announcing its fourth quarter and year-end 2005 financial results.
Exhibit 99.2	Copy of Williams slide presentation to be utilized during the

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February 28, 2006, public conference call and webcast.

Exhibit 99.3	Copy of Williams press release dated February 28, 2006, publicly announcing its replacement of 2005 U.S. natural gas production.

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

THE WILLIAMS COMPANIES, INC.

Date: February 28, 2006		/s/ Donald R. Chappel
	Name:	Donald R. Chappel
	Title:	Senior Vice President and Chief Financial Officer

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INDEX TO EXHIBITS

EXHIBIT NUMBER	DESCRIPTION
Exhibit 99.1	Copy of Williams press release dated February 28, 2006, publicly announcing its fourth quarter and year-end 2005 financial results.
Exhibit 99.2	Copy of Williams slide presentation to be utilized during the February 28, 2006, public conference call and webcast.
Exhibit 99.3	Copy of Williams press release dated February 28, 2006, publicly announcing its replacement of 2005 U.S. natural gas production.

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To make the computations of pro forma results under FAS 123, the fair value of each option grant is estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted-average assumptions: no dividend yield for all years and expected lives of ten years. The options and warrants granted under these plans are not registered and, accordingly, there is no quoted market price.

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Note 6 EMPLOYEE INCENTIVE PLANS (Continued)

Stock Option Plan (Continued)

A summary of the status of the Company s stock option and warrants plans as of September 30, 2005 and 2004 and changes during the nine months ending on those dates are presented below:

	Options		Warrants	
	Shares	Exercise Price	Shares	Exercise Price
Outstanding December 31, 2003	260,202	$10.581	280,400	$12.897
Granted				
Exercised				
Expired unexercised				
Forfeited				
Outstanding September 30, 2004	260,202	10.581	280,400	12.897
Exercisable September 30, 2004	138,202	$15.459	280,400	$12.897
Outstanding December 31, 2004	260,202	$10.581	280,400	$12.897
Granted				
Exercised	29,000	13.211	15,000	14.375
Expired unexercised	5,000	14.375	6,000	14.375
Forfeited				
Outstanding September 30, 2005	226,202	10.160	259,400	12.777
Exercisable September 30, 2005	152,202	$16.429	259,400	$12.777

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Note 6 EMPLOYEE INCENTIVE PLANS (Continued)

Stock Option Plan (Continued)

The following table summarizes information about fixed stock options and warrants outstanding at September 30, 2005:

	Options	Warrants
Number Outstanding	16,202	14,000
Number Exercisable	16,202	14,000
Exercise Price	73.75	73.75
Remaining life in years	2.62	2.62
Number Outstanding		14,000
Number Exercisable		14,000
Exercise Price		11.25
Remaining life in years		4.42
Number Outstanding	90,000	16,400
Number Exercisable	76,000	16,400
Range of exercise prices	5.25 - 8.45	22.20 -22.50
Weighted average exercise price	6.26	22.49
Weighted average remaining life in years	5.60	3.50
Number Outstanding	120,000	215,000
Number Exercisable	60,000	215,000
Range of exercise prices	4.50	8.00 - 10.625
Weighted average exercise price	4.50	8.17
Weighted average remaining life in years	7.68	4.26

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Note 7 MUTUAL FUND ADMINISTRATION

DHCM has an administrative, fund accounting and transfer agency services agreement with Diamond Hill Funds, an Ohio business trust, under which DHCM performs certain services for each series of the trust. These services include mutual fund administration, accounting, transfer agency and other related functions. For performing these services, each series of the trust compensates DHCM a fee at an annual rate of 0.40% for Class A and Class C shares and 0.20% for Class I shares times each series   average daily net assets. In addition, DHCM finances the up-front commissions paid to brokers who sell C shares of the Diamond Hill Funds. As financer, DHCM pays the commission to the selling broker at the time of sale. This commission payment is capitalized and expensed over 12 months to correspond with the matching revenues DHCM receives from the principal underwriter to recoup this commission payment. DHCM collected $1,455,179 and $623,445 for mutual fund administration revenue for the nine months ended September 30, 2005 and 2004, respectively; and for the three months ended September 30, 2005 and 2004, DHCM collected $596,845 and $240,505 for administration revenue, respectively. In fulfilling its role under this agreement, DHCM has engaged several third-party providers, and the cost for their services is paid by DHCM. Mutual fund administration expense for the nine months ended September 30, 2005 and 2004 was $1,581,888 and $762,975, respectively, and for the three months ended September 30, 2005 and 2004 was $605,852 and $235,112, respectively. Effective April 30, 2005, DHCM reduced the fee it charges for administrative services for Class A and Class C shares from 0.45% to 0.40%.

Note 8 INCOME TAXES

As of December 31, 2004, the Company and its subsidiaries had net operating loss (NOL) carry forwards for tax purposes of approximately $7,274,000.

Note 9 REGULATORY REQUIREMENTS

DHCM is a registered investment adviser and subject to regulation by the SEC pursuant to the Investment Advisors Act of 1940.

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DIAMOND HILL INVESTMENT GROUP, INC. AND SUBSIDIARIES

ITEM 2: Management s Discussion and Analysis or Plan of Operation

Forward-looking Statements

Throughout this discussion, the Company may make forward-looking statements relating to such matters as anticipated operating results, prospects for achieving the critical threshold of assets under management, technological developments, economic trends (including interest rates and market volatility), expected transactions and acquisitions, and similar matters. While the Company believes that the assumptions underlying its forward-looking statements are reasonable, any of the assumptions could prove to be inaccurate and accordingly, the actual results and experiences of the Company could differ materially from the anticipated results or other expectations expressed by the Company in its forward-looking statements. Factors that could cause such actual results or experiences to differ from results discussed in the forward-looking statements include, but are not limited to: the adverse effect from a decline in the securities markets; a decline in the performance of the Company s products; a general downturn in the economy; changes in government policy and regulation; changes in the Company s ability to attract or retain key employees; unforeseen costs and other effects related to legal proceedings or investigations of governmental and self-regulatory organizations; and other risks identified from time-to-time in the Company s other public documents on file with the SEC.

Assets Under Management

As of September 30, 2005, assets under management totaled $1.15 billion, a 120% increase from December 31, 2004. Assets under management grew by 198% as of September 30, 2005 in comparison to September 30, 2004. Asset growth for the nine months and year ended September 30, 2005 is not necessarily indicative of the results that may be expected for the entire fiscal year ended December 31, 2005. The table below provides a summary of assets under management:

	9/30/2005	12/31/2004	9/30/2004
Individually Managed Accounts	$ 489,109,827	$ 265,428,049	$ 212,450,082
Mutual Funds	565,075,034	237,625,466	154,585,263
Private Investment Partnership	96,057,198	20,739,964	18,890,590
Total Assets Under Management	$ 1,150,242,060	$ 523,793,479	$ 385,925,936

Three months ended September 30, 2005 compared to three months ended September 30, 2004

Investment management revenues for the three months ended September 30, 2005 increased to $3,297,315 compared to $661,674 for the three months ended September 30, 2004, a 398% increase. A significant portion of this revenue increase was due to incentive fee revenue earned due to the strong investment performance achieved during the quarter.

The Company increased its investment management revenue from all three of its investment products mutual funds, managed accounts and a private investment partnership. Revenue from mutual funds increased 264% for the three months ended September 30, 2005 compared to the same period a year earlier. Revenue from managed accounts increased 165% for the three months ended September 30, 2005 compared to the three months ended September 30, 2004. Investment management revenue from DHIP improved by 1,320%, over the three months ended September 30, 2004. These fees grew from $111,714 to $1,586,728. The primary driver of this significant increase was an increase in assets under management and incentive fee revenue earned due to the strong investment performance achieved during the quarter. While the increase in assets under management results in recurring revenue, the incentive fee revenue is based on investment performance and therefore there can be no assurance that this will be recurring revenue.

Operating expenses for the three months ended September 30, 2005 increased to $3,410,352 compared to $722,121 for the three months ended September 30, 2004, an increase of 372%. Substantially all of this increase was due to incentive compensation expense of $2.5 million for the quarter. In establishing the incentive compensation accrual, management and the board s compensation committee considered

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numerous factors including market comparisons, firm profitability, and the investment performance generated by the company s investment team. The Company anticipates it will earn a profit for the full year including the impact of the incentive compensation expense.

The Company s net operating loss decreased slightly from a net loss of $60,447 for the three months ended September 30, 2004 to a net loss of $113,037 for the three months ended September 30, 2005.

Mutual fund administration, which represents administrative and financing fees collected in connection with the Company s mutual fund products net of all mutual fund administration and financing expenses paid by the Company, decreased from a net income of $5,393 for the three months ended September 30, 2004 to a net expense of $9,007 for the three months ended September 30, 2005. The Company continues to anticipate that mutual fund administration activity will be close to breakeven during the next fourth quarter. DHCM has an administrative, fund accounting and transfer agency services agreement with the Funds, where DHCM performs certain services for each of the Funds. DHCM collected $596,845 and $240,505 for mutual fund administration revenue for the three months ended September 30, 2005 and 2004, respectively. In fulfilling its role under this agreement, DHCM has engaged several third-party providers and the cost for their services are paid by DHCM. Mutual fund administration expense for the three months ended September 30, 2005 and 2004 were $605,852 and $235,112, respectively.

Investment return increased to a gain of $211,718 for the three months ended September 30, 2005 from a gain of $207,717 for the three months ended September 30, 2004. Management is unable to predict how future fluctuations in market values will impact the performance of the Company s investment portfolios.

<u>Nine months ended September 30, 2005 compared to nine months ended September 30, 2004</u>

Investment management revenues for the nine months ended September 30, 2005 increased to $5,876,677 compared to $1,647,119 for the nine months ended September 30, 2004, a 256% increase. This revenue increase was driven by the increase in assets under management and incentive fee revenue earned from the private investment partnership. The Company increased its investment management revenue from all three of its investment products mutual funds, managed accounts and a private investment partnership. Revenue from mutual funds increased to $2,120,078 for the nine months ended September 30, 2005, compared to $657,525 for the nine months ended September 30, 2004, a 222% increase. Revenue from managed accounts increased 112% for the nine months ended September 30, 2005 compared to the nine months ended September 30, 2004. Investment management revenue from DHIP improved by 1,036%, over the nine months ended September 30, 2004. These fees grew from $179,205 to $2,034,912. The primary driver of this significant increase was an increase in assets under management and incentive fee revenue earned due to the strong investment performance achieved during the period. While the increase in assets under management results in recurring revenue, the incentive fee revenue is based on investment performance and therefore there can be no assurance that this will be recurring revenue.

Operating expenses for the nine months ended September 30, 2005 increased to $5,143,942 compared to $1,984,970 for the nine months ended September 30, 2004, an increase of 159%. The majority of this increase was due to incentive compensation expense of $2.5 million for the quarter. In establishing the incentive compensation accrual, management and the board s compensation committee considered numerous factors including market comparisons, firm profitability, and the investment performance generated by the company s investment team. The Company anticipates it will earn a profit for the full year including the impact of the incentive compensation expense.

The Company s net operating income improved from a net operating loss of $377,851 for the nine months ended September 30, 2004 to a net operating income of $732,735 for the nine months ended September 30, 2004. This improvement is primarily due to the significant increase in assets under management.

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Mutual fund administration, which represents administrative and financing fees collected in connection with the Company s mutual fund products net of all mutual fund administration and financing expenses paid by the Company, decreased from a net expense of $139,530 for the nine months ended September 30, 2004 to a net expense of $126,709 for the nine months ended September 30, 2005, a 9% improvement. A portion of the current period s net expense was due to one time expenses related to the offering of new Class I shares, which are offered to institutions and advisors. Due to the significant increase in assets under management in the Diamond Hill Funds (the Funds), the Company voluntarily decreased the fees it charges to the Funds effective April 30, 2005. This fee reduction will help improve investment performance of the Funds and as a result, better position the Funds among competitors. The Company anticipates that mutual fund administration activity will be close to breakeven during the fourth quarter. DHCM collected $1,455,179 and $623,445 for mutual fund administration revenue for the nine months ended September 30, 2005 and 2004, respectively. Mutual fund administration expense for the nine months ended September 30, 2005 and 2004 were $1,581,888 and $762,975, respectively.

Investment return increased to a gain of $378,469 for the nine months ended September 30, 2005 from a gain of $316,016 for the nine months ended September 30, 2004. This increase in investment gain results primarily from increases in market values of investments in the private investment partnership. Management is unable to predict how future fluctuations in market values will impact the performance of the Company s investment portfolios.

Liquidity and Capital Resources

The Company s entire investment portfolio is in readily marketable securities, which, provide for cash liquidity, if needed, within three business days. Investments in mutual funds are valued at their current net asset value. Investments in DHIP are valued based on readily available market quotations.

On July 21, 2004, the Company sold 60,000 shares of the company s common stock, from Treasury Stock through a private placement at a price of $7.00, thereby increasing the liquidity and capital resources by approximately $420,000.

As of September 30, 2005, the Company had working capital of approximately $4.8 million compared to $3.2 million at December 31, 2004 and compared to $3.1 million at September 30, 2004. Working capital includes cash, securities owned and accounts and notes receivable, net of all liabilities. The Company has no long-term debt.

The Company s net cash balance increased by $1,882,024 during the nine months ended September 30, 2005. Net cash provided by operating activities was $1,129,331. Investing activities during the nine months ended September 30, 2005 used $20,708. Financing activities provided $773,401 of cash during the nine months ended September 30, 2005, primarily from the sale of treasury stock.

The Company s net cash balance increased by $60,033 during the nine months ended September 30, 2004. Net cash used by operating activities was $429,198. Investing activities during the nine months ended September 30, 2004 used $19,303. Financing activities provided $508,534 of cash during the nine months ended September 30, 2004, primarily from the sale of treasury stock.

Investment management fees primarily fund the operations of the Company. Management believes that the Company s existing resources, including available cash and cash provided by operating activities, will be sufficient to satisfy its working capital requirements in the foreseeable future. However, no assurance can be given that additional funds will not be required. To the extent that returns on investments are less than anticipated, or expenses are greater than anticipated, the Company may be required to reduce its activities, liquidate the investment portfolio or seek additional financing. Further, this additional financing may not be available on acceptable terms, if at all.

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Impact of Inflation and Other Factors

The Company s operations have not been significantly affected by inflation. The Company s investment portfolios of equity and fixed income securities are carried at current market values. Therefore, the Company s profitability is affected by general economic and market conditions and fluctuations in interest rates. The Company s business is also subject to government regulation and changes in legal, accounting, tax and other compliance requirements. Changes in these regulations may have a significant effect on the Company s operations.

ITEM 3: Controls and Procedures

Management, including the Chief Executive Officer and the Chief Financial Officer have conducted an evaluation of the effectiveness of disclosure controls and procedures pursuant to Exchange Act Rule 13a-14. Based on the evaluation, the Chief Executive Officer and the Chief Financial Officer concluded that the disclosure controls and procedures are effective in ensuring that all material information required to be filed in this quarterly report has been made known to them in a timely fashion. There have been no significant changes in internal controls, or in factors that could significantly affect internal controls, subsequent to the date the Chief Executive Officer and the Chief Financial Officer completed their evaluation.

PART II: OTHER INFORMATION

ITEM 1: Legal Proceedings None

ITEM 2: Changes in Securities None

ITEM 3: Defaults Upon Senior Securities None

ITEM 4: Submission of Matters to a Vote of Security Holders - None

ITEM 5: Other Information None

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DIAMOND HILL INVESTMENT GROUP, INC. AND SUBSIDIARIES
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ITEM 6: Exhibits

*3.1	Amended and Restated Articles of Incorporation of the Company.
*3.2	Code of Regulations of the Company.
***10.1	1993 Non-Qualified and Incentive Stock Option Plan.
****10.2	Synovus Securities, Inc., Sub-Advisory Agreement with the Diamond Hill Capital Management, Inc. dated January 30, 2001.
**10.3	Employment Agreement between the Company and Roderick H. Dillon, Jr. dated May 11, 2000.
**10.4	Employment Agreement between the Company and James F. Laird dated October 24, 2001.
*****10.5	Form of Subscription Agreement for common Shares of Diamond Hill Investment Group, Inc. executed by subscribers as part of the private placement dated July 21, 2004.
******10.6	2005 Employee and Director Equity Incentive Plan
*******14.1	Code of Business Conduct and Ethics.
31.1	Certification of Chief Executive Officer required by Rule 13a-14(a) or Rule 15-d-14(a)
31.2	Certification of Chief Financial Officer required by Rule 13a-14(a) or Rule 15d-14(a)
32.1	Certification of Chief Executive Officer and Chief Financial Officer required by Rule 13a-14(b) or Rule 15(d)-14(b) and Section 1350 of Chapter 63 of Title 18 of the United States Code (18 U.S.C. 1350).

* Filed with the Securities and Exchange Commission as an exhibit to the Company s Form 8-K filed on May 8, 2002 and incorporated herein by reference.

** Filed with the Securities and Exchange

Commission as an exhibit to the Company s Form 10-KSB filed on March 28, 2003 and incorporated herein by reference.

*** Filed with the Securities and Exchange Commission as an exhibit to the Company s Proxy Statement filed on July 21, 1998 and incorporated herein by reference.

**** Filed with the Securities and Exchange Commission as an exhibit to the Company s Form 10-KSB filed on March 1, 2001 and incorporated herein by reference.

***** Filed with the Securities and Exchange Commission as an exhibit to the company s Form 10-QSB filed on November 14, 2003 and incorporated herein by reference.

****** Filed with the Securities and

Exchange Commission as an exhibit to the Company s Form 10-QSB filed on August 12, 2005.

******* Filed with the Securities and Exchange Commission as an exhibit to the Company s Proxy Statement filed on April 9, 2004 and incorporated herein by reference.

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DIAMOND HILL INVESTMENT GROUP, INC. AND SUBSIDIARIES

SIGNATURES

In accordance with the requirements of the Exchange Act, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized:

DIAMOND HILL INVESTMENT GROUP, INC.

Signature	Title	Date
/s/ R. H. Dillon	President and Director	November 14, 2005
R. H. Dillon		
/s/ James F. Laird	Chief Financial Officer	November 14, 2005
James F. Laird		

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