

**UNITED STATES DISTRICT COURT
DISTRICT OF OKLAHOMA**

VICTOR CALI and THOMAS INGOGLIA,
Individually And On Behalf of All Others Similarly
Situated,

Plaintiffs,

vs.

WILLIAMS COMPANIES, INC., WILLIAMS
COMMUNICATIONS GROUP, INC., KEITH E.
BAILEY, HOWARD E. JANZEN and SCOTT E.
SCHUBERT,

Defendants.

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) **CIVIL ACTION NO.** _____
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) **CLASS ACTION COMPLAINT**
) **FOR VIOLATIONS OF**
) **FEDERAL SECURITIES LAWS**
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) **JURY TRIAL DEMANDED**
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Plaintiffs have alleged the following based upon the investigation of plaintiffs' counsel, which included a review of United States Securities and Exchange Commission ("SEC") filings by Williams Companies, Inc. ("WMB") and Williams Communications Group, Inc. ("WCG"), as well as regulatory filings and reports, securities analysts' reports and advisories about WMB and WCG, press releases and other public statements issued by WMB and WCG, and media reports about WCG and WMB, and plaintiffs believe that substantial additional evidentiary support will exist for the allegations set forth herein after a reasonable opportunity for discovery.

NATURE OF THE ACTION

1. This is a federal securities class action brought on behalf of all purchasers of the common stock of WMB and/or the common stock of WCG between July 24, 2000 and January

29, 2002 seeking to pursue remedies under the Securities Exchange Act of 1934 (the "Exchange Act").

JURISDICTION AND VENUE

2. The claims asserted herein arise under and pursuant to Sections 10(b) and 20(a) of the Exchange Act [15 U.S.C. §§ 78j(b) and 78t(a)] and Rule 10b-5 promulgated thereunder by the Securities and Exchange Commission ("SEC") [17 C.F.R. § 240.10b-5].

3. This Court has jurisdiction over the subject matter of this action pursuant to 28 U.S.C. §§ 1331 and 1337, and Section 27 of the Exchange Act [15 U.S.C. § 78aa].

4. Venue is proper in this District pursuant to Section 27 of the Exchange Act, and 28 U.S.C. § 1391(b). WMB and WCG both maintain their principal place of business in this District and many of the acts and practices complained of herein occurred in substantial part in this District.

5. In connection with the acts alleged in this complaint, defendants, directly or indirectly, used the means and instrumentalities of interstate commerce, including, but not limited to, the mails, interstate telephone communications and the facilities of the national securities markets.

PARTIES

6. (a) Plaintiff Thomas Ingoglia, as set forth in the accompanying certification, incorporated by reference herein, purchased the common stock of WCG at artificially inflated prices during the Class Period and has been damaged thereby.

(b) Plaintiff Victor Cali, as set forth in the accompanying certification, incorporated by reference herein, purchased the common stock of WCG at artificially inflated prices during the Class Period and has been damaged thereby.

7. Defendant WMB is a Delaware corporation with its principal executive offices located at One Williams Center, Tulsa, Oklahoma 74172. WMB purports to engage in energy-related activities, including energy commodity marketing and trading and other energy-related services, including the transportation and storage of natural gas and other energy-related industries. WMB owned 86% of WCG until it effected a tax-free spin-off of WCG to its shareholders effective April 23, 2001.

8. Defendant WCG is a Delaware corporation with its principal executive offices located at One Technology Center, Tulsa, Oklahoma 74103. WCG purports to own and operate a 33,000 mile nationwide fiber-optic network focused on providing voice, data, Internet and video services to communications service providers.

9. Defendant Keith E. Bailey is, and at all times relevant to the allegations raised herein was, President, Chief Executive Officer and Chairman of the Board of WMB and, prior to the spinoff, was also the Chairman of the Board of WCG.

10. Defendant Howard E. Janzen is, and at all times relevant to the allegations raised herein was, President, Chief Executive Officer of WCG and, following the spinoff, also became Chairman of the Board of WCG.

11. Defendant Scott E. Schubert is, and at all times relevant to the allegations raised herein was Chief Financial Officer and Senior Vice President of WCG.

12. The defendants referenced above in ¶¶ 9-11 are referred to herein as the "Individual Defendants."

13. Because of the Individual Defendants' positions with WMB and/or WCG, they had access to the adverse undisclosed information about its business, operations, products, operational trends, financial statements, markets and present and future business prospects via access to internal corporate documents (including WMB's and WCG's operating plans, budgets and forecasts and reports of actual operations compared thereto), conversations and connections with other corporate officers and employees, attendance at management and Board of Directors meetings and committees thereof and via reports and other information provided to them in connection therewith.

14. It is appropriate to treat the Individual Defendants as a group for pleading purposes and to presume that the false, misleading and incomplete information conveyed in WMB's and WCG's public filings, press releases and other publications as alleged herein are the collective actions of the narrowly defined group of defendants identified above. Each of the above officers of WCG and/or WMB, by virtue of their high-level positions with WCG and/or WMB, directly participated in the management of the WCG and WMB, was directly involved in the day-to-day operations of WCG and WMB at the highest levels and was privy to confidential proprietary information concerning the WCG and WMB and their businesses, operations, products, growth, financial statements, and financial condition, as alleged herein. Said defendants were involved in drafting, producing, reviewing and/or disseminating the false and misleading statements and information alleged herein, were aware, or recklessly disregarded, that

the false and misleading statements were being issued regarding WCG and WMB, and approved or ratified these statements, in violation of the federal securities laws.

15. As officers and controlling persons of a publicly-held company whose common stock was, and is, registered with the SEC pursuant to the Exchange Act, and was traded on the New York Stock Exchange (the “NYSE”), and governed by the provisions of the federal securities laws, the Individual Defendants each had a duty to disseminate promptly, accurate and truthful information with respect to WCG's and WMB's financial condition and performance, growth, operations, financial statements, businesses, products, markets, management, earnings and present and future business prospects, and to correct any previously-issued statements that had become materially misleading or untrue, so that the market price of the WCG's and WMB's publicly-traded securities would be based upon truthful and accurate information. The Individual Defendants' misrepresentations and omissions during the Class Period violated these specific requirements and obligations.

16. The Individual Defendants participated in the drafting, preparation, and/or approval of the various public and shareholder and investor reports and other communications complained of herein and were aware of, or recklessly disregarded, the misstatements contained therein and omissions therefrom, and were aware of their materially false and misleading nature. Because of their Board membership and/or executive and managerial positions with WCG and WMB, each of the Individual Defendants had access to the adverse undisclosed information about WMB's and WCG's business prospects and financial condition and performance as particularized herein and knew (or recklessly disregarded) that these adverse facts rendered the

positive representations made by or about WMB and WCG and their businesses issued or adopted by WCG and WMB materially false and misleading.

17. Each of the defendants is liable as a participant in a fraudulent scheme and course of business that operated as a fraud or deceit on purchasers of WCG and WMB common stock by disseminating materially false and misleading statements and/or concealing material adverse facts. The scheme: (i) deceived the investing public regarding WCG's and WMB's businesses, operations, management and the intrinsic value of their common stock; (ii) enabled WMB to acquire Barrett Resources using its artificially inflated common stock as currency; and (iii) caused plaintiff and other members of the Class to purchase WCG and WMB securities at artificially inflated prices.

PLAINTIFFS' CLASS ACTION ALLEGATIONS

18. Plaintiffs bring this action as a class action pursuant to Federal Rule of Civil Procedure 23(a) and (b)(3) on behalf of a Class, consisting of all those who purchased or otherwise acquired the securities of WMB and/or WCG between July 24, 2000 and January 29, 2002 inclusive (the "Class Period") and who were damaged thereby. Excluded from the Class are defendants, the officers and directors of the Company, at all relevant times, members of their immediate families and their legal representatives, heirs, successors or assigns and any entity in which defendants have or had a controlling interest.

19. The members of the Class are so numerous that joinder of all members is impracticable. Throughout the Class Period, WMB and WCG common shares were actively traded on the NYSE. While the exact number of Class members is unknown to plaintiffs at this time and can only be ascertained through appropriate discovery, plaintiff believes that there are hundreds

or thousands of members in the proposed Class. Record owners and other members of the Class may be identified from records maintained by WMB and WCG or their transfer agents and may be notified of the pendency of this action by mail, using the form of notice similar to that customarily used in securities class actions.

20. Plaintiffs' claims are typical of the claims of the members of the Class as all members of the Class are similarly affected by defendants' wrongful conduct in violation of federal law that is complained of herein.

21. Plaintiffs will fairly and adequately protect the interests of the members of the Class and has retained counsel competent and experienced in class and securities litigation.

22. Common questions of law and fact exist as to all members of the Class and predominate over any questions solely affecting individual members of the Class. Among the questions of law and fact common to the Class are:

(a) whether the federal securities laws were violated by defendants' acts as alleged herein;

(b) whether statements made by defendants to the investing public during the Class Period misrepresented material facts about the businesses, operations and management of WMB and WCG; and

(c) to what extent the members of the Class have sustained damages and the proper measure of damages.

23. A class action is superior to all other available methods for the fair and efficient adjudication of this controversy since joinder of all members is impracticable. Furthermore, as

the damages suffered by individual Class members may be relatively small, the expense and burden of individual litigation make it impossible for members of the Class to individually redress the wrongs done to them. There will be no difficulty in the management of this action as a class action.

SUBSTANTIVE ALLEGATIONS

24. WMB is a Delaware corporation with its principal executive offices located in Tulsa, Oklahoma. According to the company's profile, WMB purports to engage in energy-related activities, including transportation and storage of natural gas and related activities; exploration and production of oil and gas; natural gas gathering, processing and treating activities; natural gas liquids transportation; transportation of petroleum products and related terminal services; and other energy-related services, including energy commodity marketing and trading. For the nine months ended 9/30/01, WMB reported revenues of \$8.72 billion, with purported earnings from continuing operations of \$939.1 million. Prior to the 4/01 spin-off or WCG, WMB was the parent of WCG and held 86% of WCG's common shares.

25. WCG is a Delaware corporation with its principal executive offices located in Tulsa, Oklahoma. WCG was originally a wholly owned subsidiary of WMB and, following its \$23 per share, 34 million share partial public offering in 10/99, WMB held up to 86% of WCG's common shares, until these shares were spun off to WMB's public shareholders in 4/01. According to the company's profile WCG purports to own and operate an extending nationwide fiber-optic network focused on providing voice, data, Internet and video services to communications services providers. WCG also purports to provide integrated fiber-optic, satellite and teleport video transmission services for the broadcast industry. For the nine months ended

9/30/01, WCG reported revenues of \$855.2 million, with a net loss from continuing operations of \$1.05 billion.

26. Immediately prior to the inception of the Class Period, and continuing throughout this period, market analysts and commentators consistently warned, over the objection of defendants, that there existed in the broadband market an over-supply of fiber-optic capacity. As shares of pure fiber-optic network carrier companies fell as much as 50% from their highs during FY:00 and as fears of overcapacity cut into expectations of future revenues, many companies continued their race to lay thousands of miles of fiber-optic cables to build networks and expand the amount of data these networks can carry at an annual rate of increase above 80%. In fact, at or around the inception of the Class Period, Renaissance Strategy Networks, a market research firm which analyzed the broadband market, concluded that in addition to the huge over-supply of “dark” or “un-lit” fiber capacity that existed, the expected capacity of “lit,” or activated, fiber will also expand by 79% per year, and by 2004 will amount to 160% of peak demand, with the result being deteriorating commodity pricing for broadband. Renaissance further expressed doubts that, even assuming demand increased according to expectations, all potential demand could probably not make use of the fiber network, since access to routes from homes and local networks would be slowed due to less efficient access to the main networks.

27. Evidence of the glut of capacity which existed throughout the Class Period is further demonstrated by the fact that by the beginning of the Class Period, almost 100 million miles of optical fiber - - more than enough to reach the sun - - were laid around the world almost all of which was done in the prior two years, as companies spent tens and hundreds of billions of dollars to build broadband communications networks. This massive spending and build-out of

capacity way in excess of demand also led to massive price cuts for broadband, and record defaults on telecom bonds which led to an unwillingness on the part of lenders to loan money to broadband suppliers. In fact, during the first half of 2001 alone, telecom companies defaulted on \$13.9 billion of telecommunications bonds, resulting in investor losses of at least \$12.8 billion, according to Fitch credit rating service. This compared to losses on similar bonds of approximately \$5.2 billion for 2000. These debt defaults resulted, in part, from declines in bandwidth prices in 2000 of 60% and of another 60% during the first half of 2001. In fact, between mid-2000 and the end of 1Q:01, lenders had accumulate so much telecom debt, and so many U.S. telecom companies had either filed for bankruptcy or were on the verge thereof, that the telecom industry's \$700 billion of debt was described by market commentators and analysts as a "ticking time bomb."

28. Even analysts such as Beth Moore, of the consulting firm the Yankee Group, concluded that, while supply and demand should converge in the long term, due to the elasticity of pricing that would cause more applications to be developed to take advantage of any over-capacity, for at least the next two-years it was foreseeable that the glut of over-supply and over-capacity would continue to exist in many broadband markets. Despite the problems which existed in the broadband market, however, from at least the inception of the Class Period and continuing today, *at all times relevant to the allegations raised herein, defendants consistently and adamantly contended that WCG was not being adversely affected by any over-capacity or over-supply conditions*. Rather, throughout this time, defendants consistently stated that no over-supply conditions existed, and that any over-capacity related to un-lit fiber only. *As investors would ultimately learn, however, the over-supply and over-capacity problems which*

were adversely affecting WCG's competitors were also having a severe, adverse yet undisclosed affect on the financial condition of WCG as well.

29. At the same time that prices were falling and over-supply problems were growing in the fiber-optic network arena, the opposite was the case in the energy and natural gas markets. In fact, immediately prior to the inception of the Class Period, in 6/00, natural gas prices reached record highs in trading on the New York Mercantile Exchange. Thus, in 6/00, as supplies failed to keep up with demand, natural gas commodities prices rose as high as \$3.72 per thousand feet, up 47 percent from contract prices which existed a year ago. Not surprising, it was the combination of rising energy prices and stagnating and declining prices for broadband, in addition to higher than expected costs for building and operating the broadband network, that ultimately led WMB to decide to spin-off WCG. Despite defendants suggestion at that time, that the spin-off was in the best interest of *both* companies, in fact, however, the spin-off of WCG was not effectuated to allow WCG "easier access to capital" or to provide more clarity into the operations of the respective companies. Rather, as alleged herein, the spin-off of WCG was engineered for the sole purpose of removing WCG's mounting losses and rising expenses from WMB's balance sheet, before it was revealed that these costs and expenses were continuing to escalate beyond announced expectations, and before investors came to realize the true impaired condition of WCG.

30. Thus, it was against these market conditions that WMB rushed to spin off WCG prior to the time that investors learned of its true impaired condition and while commodity prices remained high. WMB attempted to dump WCG and thereby remove its losses from WMB's balance sheet and also avoid a massive write-down as WCG's stock price was decimated as its

impaired condition slowly became known to investors. WMB believed that by dumping WCG, it could then acquire Barrett, and quickly hedge Barrett's reserves through the sale of commodities contracts at all time high prices through WMB's commodities trading division. WMB wrongly believed it could both distance itself from the problems at WCG while at the same time reaping huge profits from its hedging transactions. The only problem was that, in order to spin-off WCG, WMB was forced to guarantee approximately \$2.5 billion of WCG debt in order to prop-up WCG and give that company the appearance that it had sufficient financing to fund WCG until such time that it could generate sufficient cash from operations to fund its massive debt and skyrocketing expenses. ***In guaranteeing WCG's debt while hiding the impairment of that company, however, WMB exposed shareholders of the company to a huge undisclosed financial liability.***

31. Then, on 01/29/02, WMB shocked the market by announcing that it would be delaying the release of its 2001 earnings "pending an internal assessment of William's contingent obligations to Williams Communications." According to the press release, WMB "expects to be able to estimate the financial effect, if any, regarding its ultimate obligation related to WCG's \$1.4 billion debt and network lease agreement covering assets that cost \$750 million."

32. In response to WMB's shocking announcement, the price of WMB common stock declined sharply falling from approximately \$24 per share to as low as \$18.70 per share and WCG common stock declined to as low as \$1.30 per share.

**FALSE AND MATERIALLY MISLEADING STATEMENTS
MADE BY DEFENDANTS DURING THE CLASS PERIOD**

33. On 7/24/00, the first day of the Class Period, WMB issued a press release on behalf of itself and its subsidiary WCG, which announced that the Board of WMB intended to separate the energy related businesses (WMB) from the communications businesses (WCG) within 18 months, subject to certain limited contingencies, as follows:

The Board of directors of Williams on Sunday authorized management to pursue a course of action that, if successful and approved by the board, would lead to a complete separation of the company's energy and communications businesses.

[Defendant Bailey], said that while the specific course of action has not been determined, it is envisioned *the process would take no more than 18 months*. He said any change from the current ownership structure would be contingent upon a number of factors, including ensuring favorable tax treatment for Williams' shareholders.

In addition to announcing the spinoff, defendant Bailey used this release to condition investors to believe that the stock distribution was being undertaken to allow *both* WMB and WCG to be able to have more "efficient and effective access" to capital and that the spin-off was not a means by which WMB was foisting its non-performing subsidiary onto its shareholders, thereby avoiding massive write-downs, cost and expenses, as follows:

"We believe these steps are the best way to ensure that both our energy and communications businesses have the efficient and effective access to the capital necessary to pursue the substantial growth opportunities that each enjoys," [Bailey] said. Obviously, the ability to do that is consistent with *the best long-term interest of our shareholders.*"

34. The statements contained in the 7/24/00 release were materially false and misleading and were known by defendants to be false at that time, or were recklessly disregarded thereby, for the following reasons, among others:

(i) that the spinoff was not in the best interest of both WMB and WCG as the primary motivation for the spinoff of WCG was to allow WMB to shore up its balance sheet so that it could then issue more stock and/or debt to acquire companies using its common stock as currency and protect its debt rating;

(ii) that WCG was operating at levels well below company sponsored expectations, such that revenue projections were overstated, and costs and expenses were understated, and also such that, in an effort to control costs, defendants would soon have to take actions which would have a further adverse impact on WCG's profitability; and

(iii) that, it was false and materially misleading to claim that the spinoff was in the best long term interest of the companies' shareholders when the spinoff actually exposed shareholders of the companies to significant additional undisclosed risks and uncertainties.

35. On 7/27/00, WCG issued a release published on *PR Newswire* which announced results for 2Q:00, the period ended 6/30/00, including unaudited 2Q:00 revenues of \$515.1 million, and Network revenue of \$145.6 million, in addition to the following:

The company reported a net loss for the second quarter of \$3.9 million, or a penny a share. Included in that amount is a pre-tax gain of \$214.7 million (before a deferred tax expense impact of \$82.1 million), or 29 cents per share after tax, resulting from the conversion of the company's ownership in Concentric Network Corporation into shares of common stock of NEXTLINK Communications, Inc. pursuant to a merger of those companies completed in the second quarter. This non-cash gain is excluded from the company's reported EBITDA loss of \$33.6 million.

In addition to announcing quarterly financial results, defendant Janzen used this release to condition investors to believe that the Company had already substantially completed its network

and had contained costs related to the build-out thereof, and that demand for access to WCG's complete network would drive foreseeable near-term revenue growth, as follows:

“We have continued to see a dramatic ramp-up in the overall industry demand for bandwidth. . . [W]e expect to see continued growth in network traffic in the third and fourth quarters,” said [defendant Janzen]. ***“At the same time, as our domestic long-haul network nears completion, we are creating a world-class service delivery capability to leverage our award-winning infrastructure.”***

Operating Highlights for the Second Quarter

Williams Communications is in the final stages of completing its domestic long-haul network, not only installing more than 1,300 route miles during the quarter but also continuing to keep pace with the rapid construction schedule by expanding the amount of fiber which is lit and fully operational. The network extends more than 28,000 miles, with 26,000 miles lit, making it the largest next-generation network in the United States. ***It is expected to reach 33,000 miles and 125 major cities at the end of 2000. . .***

* * *

Planned route miles are the total route miles we expect the U.S. intercity network will traverse. ***We anticipate that it will total approximately 33,000 route miles connecting 125 cities by the end of 2000***, with an additional 1,000 miles to be completed by the end of the first quarter of 2001.

36. In addition to the false statements made in the 7/24/00 release, the statements contained in the 7/27/00 release were materially false and misleading and were known by defendants to be false at that time, or were recklessly disregarded thereby, for the following reasons, among others:

(i) that WCG was experiencing declining demand for bandwidth such that its revenue projections were lacking in a reasonable basis at all times;

(ii) that, it was materially false and misleading to create the impression that, as a result of the purported completion of the company's fiber-optic network, the company would now be in a position to control and lower costs going forward, such that the company would

achieve near-term profitability and generate sufficient funds from operations to service its massive debt; and

(iii) that, it was materially false and misleading to create the impression that the company would be able to fund operations either through cash generated through its business or through issuing more debt, when in fact WCG could not raise more debt, except if such debt was guaranteed by WMB and WCG could not generate cash from operations sufficient to fund its network's completion without making massive cuts in its capital expense budget, which would necessarily impair the ability of WCG to generate revenues going forward.

37. During 2Q:00, energy prices soared as natural gas traded on the New York Mercantile Exchange at prices above \$3.75 per thousand cubic feet - - up 47% compared to year-ago prices. Rising prices also had a dramatic positive effect on the financial results of WMB, which on 7/24/00, issued a release announcing that purported quarterly profits had more than quadrupled, as second-quarter net income rose to \$351.8 million, or 78 cents per share, on a diluted basis, and as segment profit from WMB's energy businesses more than doubled that of the same period the prior year, driven primarily by higher income from electric power activities and continued improvement in key energy markets. In addition to the foregoing, defendants also used this release to further condition investors to believe that WCG was poised to reap substantial gains from the sale of broadband and related services as well as the purported reasons for the spin-off, as follows:

“As our communications business reported yesterday, *we are entering the stretch run in deploying the country's largest next-generation fiber-optic network, with completion scheduled for year end.* Network revenues are growing, and the continuing expansion of our book of business further validates the demand for value-added broadband products and services.”

* * *

The advantages of keeping the business together, such as giving Williams Communications access to construction expertise and rights of way, ***will be almost exhausted once the unit's network is completed later this year. Bailey said.***

38. The statements contained in WMB's 7/24/00 release were materially false and misleading, and were known by defendants to be false at the time of publication and dissemination, or were recklessly disregarded as such, for the reasons stated above. In addition, such statements were also false and materially misleading because they misstated the true reason for the spinoff, which was not the result of a lack of WCG's dependance on WMB going forward, but was rather WMB's desire to dump WCG before its true impaired financial condition became know to investors and before WMB would have to take a massive charge related to the ownership of WCG.

39. In addition to reporting better than expected 2Q:00 results, the drastic increase in the price of natural gas and other energy commodities during this quarter further hastened defendants urgency to dump WCG, so that it could wipe the losses and expenses associated with its subsidiary off its balance sheet - - expenses and losses which defendants knew or recklessly disregarded were not going to be reduced or contained in the near-term - - such that WMB could then finance the purchase of energy supply companies, using both equity and debt, and then hedge these acquired reserves through WMB's commodities trading operations. It was critical to defendants that these transactions occur as soon as possible in order for defendants to take advantage of the uncharacteristically high prices in the commodities markets and in order to

avoid disclosing that WCG was in much worse financial and operational condition than was previously reported or announced.

40. On 8/6/00, WMB issued a release published on *PR Newswire* which announced that the Internal Revenue Service had approved the tax-free nature of the spinoff of WCG, which was required to occur within 12 months to preserve the IRS order. Defendant Bailey was quoted in this release, as follows:

“This important ruling allows us to move forward with the assurance that, should our board ultimately approve the separation, it will be a tax-free event for our share-holders,” said [defendant] Bailey. ***“As our prior announcement made clear, tax treatment was an important predicate in the board’s decision-making process.*** We can now turn our attention to the myriad of other details that must be resolved prior to a final decision to move further down this path. ***We would not expect to make any progress reports as we move along, and we expect that our next formal communication on this matter will be when the board makes its final decision.***”

41. On 10/25/00, WCG issued a release published on *PR Newswire* which purported to announce “record” setting results for 3Q:00, the period ended 9/30/00, driven by “significant improvement was driven by record usage of fiber-optic capacity on Williams’ next-generation long-distance network as it approaches completion at the end of 2000.” In addition, the release stated the following:

Execution of Network Build Remains Full Year Ahead of Schedule

Construction of Williams’ domestic inter-city network remains one year ahead of the original schedule, with 33,000 route miles connecting 125 cities due to be completed by year-end 2000. Through September, Williams has 30,500 route miles of installed fiber-optic cable. . .

* * *

“With 27,000 route miles lit, Williams Communications is on track to be the nation’s most efficient, cost-effective broadband network,” said Frank Sample, president of the Williams Network... Construction to extend the edges of the Williams network directly to carrier customers is substantially complete in 11

cities, with 34 cities targeted for completion by the end of 2001 and 50 cities by the end of 2002.

* * *

Network Guidance

Williams Communications continues to target 20 percent sequential growth in recurring network revenue, which excludes one-time dark fiber sales and revenue from PowerTel for the fourth quarter. When this expected growth is combined with strong third quarter capacity sales and ***full-year dark fiber revenue of approximately \$70 million, full-year network revenue is estimated at \$700 million, or about 10 percent greater than current analyst consensus***. ***The company remains confident in its ability to meet current 2001 analyst estimates for total network revenue that range between \$1.3 billion and \$1.4 billion***. This reflects a 100 percent year-over-year growth in recurring revenue, 100 percent growth in PowerTel revenue and approximately \$100 million in dark fiber-related revenue. ***Consistent with these revenue expectations, the company is targeting the network being EBITDA-positive on an operational basis by the end of 2001.***

According to defendant Bailey:

“Williams Communications is successfully executing and delivering on our plan to provide the most efficient, innovative, scalable network services in North America - - a full year ahead of schedule. Our customers recognize Williams’ commitment to execute and deliver unparalleled broadband capacity, superior customer service and local-to-global network reach.”

According to defendant Janzen:

“With our stable anchor tenants and the exploding IP market, Williams differentiates itself from competitors and is best positioned to capitalize on this tremendous momentum. . .”

42. The statements contained in WCG’s 10/25/00 release were materially false and misleading, and were known by defendants to be false at the time of publication and dissemination, or were recklessly disregarded as such, for the reasons stated above. In addition, such statements were also false and materially misleading for the following reasons:

(i) that, based on conditions which existed at that time, defendants had no reasonable basis upon which to forecast 20% sequential growth in recurring network revenue

when WCG did not have the wherewithal to finance the company's capital expense budget such that WCG would have to take massive cuts which would necessarily impact recurring network revenue;

(ii) that, based on conditions which existed at that time, defendants had no reasonable basis upon which to forecast that total network revenues would grow to \$1.4 billion or that WCG could meet then current 2001 analysts' forecasts during the time that WCG did not have the wherewithal to finance the company's capital expense budget such that WCG would have to take massive cuts which would necessarily impact recurring network revenue; and

(iii) that, it was false and materially misleading to create the impression that, as a result of its purported completion of its network ahead of schedule, WCG would now be in a position to control costs such that it could make certain cost reductions without reducing the company's ability to generate sufficient revenues from operations that it could fund its debt and continue to connect customers to its network, which it could not. It was also false and materially misleading for defendants to claim that as a result of completing WCG's broadband network the company would not be adversely affected by the significant over-capacity or over-supply which existed in the broadband market when, at that time, the company was already being adversely affected by the conditions which defendants knew or recklessly disregarded then existed.

43. On 10/26/00, WMB issued a release published on *PR Newswire* which purported to announce results for 3Q:00, the period ended 9/30/01, the company's "fourth successive quarter of year-over-year earnings improvement," which was driven by higher energy commodity prices, among other positive developments.

44. On 11/16/00, defendants issued a release published on *PR Newswire* which announced that the WMB Board had authorized company management to continue to pursue the tax-free spinoff of WCG, as follows:

Assuming market conditions and other factors continue to support today's action, the board would expect to vote during the first part of next year to set a record date, the ratio of a share of Williams Communications stock that will be issued for each share of Williams stock and to direct the distribution of WCG shares.

"This important step continues a process that we believe remains in the best long-term interest of our shareholders," said [defendant] Bailey. "Our energy and communications businesses have tremendous opportunities before them. ***Creating the most effective and efficient access to capital will help fuel that growth, and we believe that can best be achieved by creating two independent businesses.***"

45. Soon thereafter, on 11/28/00, defendants issued a special press release published on *PR Newswire*, which purported to announce that WCG's fiber-optic network was "on schedule for year-end completion," as follows:

Mission Accomplished: ***Williams Communications' Visionary Network on Schedule For Year-end Completion.***

Just two years after announcing re-entry into the telecommunications marketplace. ***Williams Communications announced today its 33,000-mile network is on schedule for year-end completion, with 31,000 miles installed and 27,500 miles lit.***

"In less than 45 days the hard work of our teams across the nation will come to fruition," said Frank Semple, president of Williams Communications' network unit. "The Williams network is perfectly positioned to handle large volumes of traffic from established and emerging carriers. Many carriers are transitioning from their own legacy networks to our visionary network. . ."

. . . ***Williams Communications' fiber-optic network***, already the largest among non-legacy providers, ***is a full year ahead of the original construction schedule announced in 1998.*** It is scheduled to reach 33,000 lit and operational route miles and 125 cities by the end of 2000. . .

46. The statements contained in WCG's 11/28/00 release were materially false and misleading, and were known by defendants to be false at the time of publication and dissemination, or were recklessly disregarded as such, for the reasons stated above.

47. As commodity energy prices continued to trade above historical levels during the end of 2000, on 12/26/00, WMB announced that 4Q:00 profits would beat analysts estimates, due in substantial part to gains in the company's energy trading unit. That day, *Bloomberg* news service reported that WMB was now expected to earn "well above" \$0.17 per share in 4Q:00, substantially beating the average estimate of analyst polled by First Call/Thompson Financial. The company didn't give a specific fourth-quarter forecast, but based on the release of this announcement shares of WMB rose \$4.56, or 14 percent, to \$37.44 per share.

48. Soon after raising guidance for WMB's 4Q:00 results, on 1/3/01, WMB issued a press release published on *PR Newswire* which announced that the company expected to "meet or exceed 2001 Wall Street estimates," as follows:

Williams said today that expanding earnings capacity in marketing and trading combined with the growth of its other energy businesses should enable the company to meet or exceed Wall Street's 2001 estimates of \$1.26 per share for consolidated and \$1.73 per share for energy-only results.

* * *

Williams Communications, which includes a leading-edge broadband network, single-source communications systems integration and multiple technology applications for business, ***expects to produce 2001 network-related revenue that will be approximately \$1.3 billion***, more than double that of recurring 2000 network revenues. ***Network EBITDA*** (earnings before interest, taxes, depreciation and amortization) ***is expected to be positive on a run-rate basis by year-end 2001.***

49. The statements contained in WMB's 1/3/01 release were materially false and misleading, and were known by defendants to be false at the time of publication and

dissemination, or were recklessly disregarded as such, for the reasons stated above. In addition, such statements were also materially false and misleading because, as a result of the debt guarantees which WMB supplied to WCG, or knew it would have to supply prior to the spinoff, and the significant risk of loss to which these guarantees subjected shareholders of the company, defendants had no reasonable basis to claim that WMB expected to meet or exceed 2001 Wall Street expectations. In fact, as defendants were well aware, had they taken adequate reserves to account for the massive debt guarantees which WMB would need to put in place prior to the spinoff, they would not have met analysts expectations for 2001.

50. On or about 1/8/01, in anticipation of the WCG spin-off, WMB reported in a filing with the SEC that it will be contributing to WCG a promissory note in favor of WMB of approximately \$975 million, in exchange for additional shares of WCG common equity, and WMB may also contribute certain physical assets, including a building under construction, in exchange for additional shares of WCG equity. According to WMB's filing, it was then "evaluating several credit support mechanisms to enable us to obtain the capital we need to allow us to continue to execute our growth and business strategy." This news had the immediate effect of boosting WCG's bond prices. However, what the market did not know at this time was that defendants had used this transaction as a means of providing WCG with assets which WCG would then sell back to WMB at inflated prices at a later time. Unbeknownst to investors, defendants had entered into this non-arms length transaction as a means of providing WCG with sources of capital which, as a result of WCG's impaired operations, defendants knew WCG would exhaust in the near-term.

51. In addition to the financing transaction announced on 1/8/01, on 1/10/01 *Bloomberg* reported that the prior day shares of WMB declined over 7 percent after the company, faced with a cash shortage, moved to sell \$1.2 billion of new stock. In addition, upon review of Williams 1/9/01 SEC filing made in connection with the offering, as of 9/30/00 WCG had only \$152 million of borrowing capacity left on its \$1.05 billion credit line, before leverage covenants would be violated. WMB's cash position at year-end 2000 had also dropped significantly, to \$225 million, from \$1.9 billion in the year earlier period. In combination, the equity sales and announced debt forgiveness saved WCG from having to raise cash by selling equity at what was then viewed as a "punishing discount" which would dilute WCG shareholders and further driving down the price of WCG shares, and instead allowed WMB to effectively sell its own stock and pass the new equity through to WCG in the form of debt forgiveness. The effect of these pre-spin-off transactions was to boost WMB's ownership of WCG while simultaneously bolstering WCG's balance sheet, and reducing WMB's debt ratio from the mid 60% range to the upper 50% range, more in line with its peers. This, and the 1/8/01 transaction, however, substantially increased WMB's risk of loss related to its WCG obligations.

52. On 1/11/01, Fitch credit rating service issued a release published on *Business Wire* which announced that it had rated WMB's \$700 million 7.5% notes due 2031 and \$400 million of 6.75 puttable asset term securities (PATS) "BBB." According to Fitch, contributing to WMB's rating was the following:

WMB's pending spin-off of its remaining 85% interest in Williams Communications Group to shareholders has ***positive credit implications for WMB shareholders***. Under GAAP accounting, WCG's \$3.5 billion of outstanding debt is fully consolidated into WMB but is legally non-recourse non-cross defaulted to WMB. Following the complete separation, Fitch believes that WMB will have

less of an economic incentive to support WCG in a downside scenario as it will cease to maintain a controlling equity interest in WCG. Therefore, WMB creditors will be able to focus strictly on cash flows from the energy business (both pipelines and nonregulated) to service WMB's remaining \$7.6 billion of debt obligations.

53. On 1/12/01, *Bloomberg* reported that WCG had filed a "shelf-registration" with the SEC to allow the company to sell debt, common and/or preferred equity from time to time in any combination or amount up to \$2 billion. Based on this news, shares of WCG rallied \$1.88 to close trading at \$19.50, up 11% on the trading day.

54. On 1/29/01, WCG announced another reorganizing transaction ostensibly designed to equip WCG to survive as a wholly independent company, which included the sale of WCG's enterprise services business, Williams Communications Solutions, LLC ("Solutions") to Platinum Technologies Inc. ("Platinum"). In exchange for WCG's largest revenue generating unit, contributing over \$1.3 billion in revenues to the company during 2000, Platinum agreed to pay \$125 million in cash at closing plus provide a \$75 million note payable over 18 months, in addition to collecting certain accounts receivables for WCG totaling \$206 million, subject to a collection fee. In total, excluding Solutions Canadian assets, which were not sold to Platinum, WCG stated that it expected to realize at between \$350 - \$450 in cash from the disposition of the entire Solutions segment. Defendant Janzen explained that the sale would "improve shareholder value." Despite the sale, however, WCG was still forced to record a 4Q:00 loss from discontinued operations of up to \$1.17 per share, which includes estimated losses at the time the business was sold. Following this announcement, shares of WCG closed at above \$18.00 per share and WMB stock closed above \$39.00 per share, both stocks up marginally on this announcement.

55. On 2/5/01, WCG issued a press release published on *PR Newswire* which announced that it had exceeded market expectations for 4Q:01 revenues from continuing operations. In addition to announcing these quarterly results, defendant Janzen used this release to condition investors to believe that the WCG network was sufficiently operational so as to drive revenues and profits by the time the spin-off occurred, as follows:

“Williams Communications is delivering as promised the most efficient innovative, scalable network services in North America - - ***a full year ahead of schedule***. This continued strong execution positions us to exceed Wall Street’s fourth quarter expectations for both revenue and EBITDA, said [defendant] Janzen.

“Now that our bandwidth network is in place,” Janzen said, “we are sharpening our focus on delivering superior service, expanding facilities to our customers whose businesses are built on bandwidth, and maintaining our unparalleled technology leadership.”

Fourth Quarter Operational Highlights

Network Completed Full Year Ahead of Schedule

Williams Communications completed its 33,000-mile next-generation network connecting 125 cities at the end of 2000 - - within three years of the launch date of Jan. 5, 1998, and ***a year earlier than scheduled***. . . Williams now owns nearly 39,000 route miles of fiber-optic network. . .

* * *

Williams Communications continues to remain confident in its ability to meet or exceed 2001 analysts’ estimates for total network revenue that range between \$1.3 billion and \$1.4 billion. . . Consistent with these revenue forecasts, the company expects to be EBITDA-positive on an operational basis by the end of 2001. . .

Following the publication of this release, shares of WCG traded down \$0.07 to close trading at \$17.98 per share.

56. On 2/5/01, WMB issued a release published on *PR Newswire* announcing purported results for FY:01 from continuing operations of \$873.2 million, or \$1.95 per share, up from \$178 million, or \$0.40 per share on a restated basis for 1999, as results continued to be driven by strong demand for energy and high commodity energy prices. In addition, the 2/5/01 release quoted defendant Bailey, as follows:

“As we enter 2001, we believe that our performance will meet the expectations of the financial community as the productive capacity that we have aggressively developed in each of our businesses delivers bottom-line results,” [Bailey] said. “Our recently completed equity offering is a major factor in providing the financial capacity for us to execute the growth strategy of each of our businesses.”

57. Following the announcement of 4Q and FY:00 results, on 2/5/01, defendant Janzen appeared on CNBC and granted a widely circulated interview on “Power Lunch, with host Bill Griffeth, during which he stated that:

Well, we had a great quarter. If you look at where we are in the life cycle of our business, building our revenue ramp on networks is really critical. And if you look at that, we had a 27 percent increase in revenue from the third quarter to the fourth, which ***continues our track and shows that we’re on track to double that network revenue this year [to between \$1.3 and \$1.4 billion].***

* * *

Actually, Solutions was a drain on our profitability. So with Solutions being sold there’s an immediate positive impact because we were experiencing losses in that business.

58. The statements contained in WCG’s 2/5/01 release and WMB’s 2/5/01 release as well as the statements made by defendant Janzen during his CNBC interview were materially false and misleading, and were known by defendants to be false at the time of publication and dissemination, or were recklessly disregarded as such, for the reasons stated herein.

59. On 2/13/01, *Bloomberg* news service reported that WCG announced that its cash flow loss this year will be narrower than forecast partly because of the sale of the Solutions unit, as follows:

After adjusting for costs from the Solutions unit that is being sold and the spinoff of Williams Communications from its parent, and excluding the Broadband Media unit and certain investments, ***the company expects a narrower loss before interest, taxes, depreciation and amortization than analysts have estimated, it said without giving a specific forecast.***

The Solutions unit designs, installs and manages communications networks for businesses, Williams Communications plans to sell the unit's U.S. and Mexican operations this quarter. The Canadian operations will be sold later in the year, the company said last week.

Any additional assets would be sold before the spinoff from William Cos., the No. 2 U.S. natural-gas pipeline operator. The spinoff is expected in the first half. . .

* * *

Capital spending this year is expected to be \$1.8 billion to \$2.0 billion, the company said. That's "a couple hundred million" below the previous forecasts," [defendant] Schubert said.

* * *

Williams Communications is considering selling \$1.2 billion to \$1.5 billion in a private placement of structured notes this year or next, Schubert said. The company could also add \$400 million to \$600 million to a \$1.5 billion bank facility, of which it has borrowed \$525 million so far, Schubert said.

60. On 2/15/01, *TheStreet.com* reported on the statements made by WCG at a Wall Street analysts' conference, as follows:

Williams Communications keeps promising it will ride the crest of the bandwidth market, and observers at a conference Thursday seemed inclined to agree.

The Tulsa, Okla., company which puts fiber in the diets of telecommunications providers made a presentation Thursday morning to investors and analysts at the Wall Street Analysts Conference in New York. ***The company tried to dispel what***

it called the myth of a coming bandwidth glut, promoted its recently completed next-generation 33,000-mile network and even waxed poetic about its baseball-like tech-farm system.

But perhaps most notably, Williams stood firm on what many observers are most concerned about: the health of its balance sheet. “We believe we are on a clear path to profitability,” [defendant] Schubert said. “We have a sound funding strategy in place.”

The Cash Question

Indeed, in these economically softening times, you don’t need to be a pessimist or a skeptic to worry if debt-heavy network spenders like Williams will manage to stay afloat. *Finding cash a little hard to come by last year, the company trimmed its network spending and liquidated its stake in Sycamore Networks.*

But this week, the communications arm, which expects to be spun off from its parent during the first half of the year, reaffirmed its goals of producing operating earnings before interest, taxes, depreciation and amortization, or EBITDA, by the end of the year. . . Williams also forecasts full-year 2001 network revenue of \$1.3 billion to \$1.4 billion.

As for 2001 consolidated expenditures, Williams expects to spend \$1.8 billion to \$2 billion, with about \$1.5 billion targeted to its network projects. Thursday morning, *the telecom company emphasized it sees a “tremendous shift” in 2001 spending from last year, during which spending went forward laying its “base capabilities” and as a result was “highly nondiscretionary.” It said it expects discretionary capital spending to hit 50% this year and to exceed 70% over the next few years.*”

“I expect that in the future years spending will continue to decline,” Schubert said.

* * *

Outlining a range of funding options in the pipeline, the company said it is confident of getting about \$3.5 to \$4 billion - - above its projected needs. *Among its main funding sources will be a \$1 billion loan and an undetermined amount from stock issuance for asset purchases from Williams Cos. Issuing a structured note, engaging in sale-and-leaseback transactions and increasing its commercial bank facility will also offer more flexibility, Williams said.*

61. On 2/27/01, *Bloomberg* reported that WCG announced that it was arranging a \$950 million add-on loan to add to its \$1.05 billion credit facility. According to *Bloomberg*, the company's add-on credit facility includes a \$500 million term loan offered to institutional investors, with a yield 3.5 percent more than the London interbank offered rate, or Libor. Subsequent to this announcement, the yield was raised to Libor +4% as a result of the inability of WCG to attract lenders at lower rates of return.

62. The following day, on 2/28/01, *TheStreet.com* issued a follow-up article on WCG which reported on its latest round of financing, as follows:

Williams Communications is exchanging stock for assets, including an intercompany note, with its parent and largest shareholder, energy company Williams.

Williams Communications which provides voice, data, Internet and video services to communications service providers, will issue 24.3 million additional shares to Williams, which then will own 420 million shares, or 86%, of the unit's stock, up from 85% before the transaction.

Williams Communications will purchase its outstanding promissory note from Williams Cos. and acquire other physical assets, including the 15-story, 750,000-square-foot Williams Technology Center, which, when completed, will sit adjacent to Williams Cos.' headquarters tower.

* * *

Williams Cos. said "this is another key step in executing the financing plan the we have previously outlined. . .

In addition, at this time defendant Bailey was also quoted as stating, that:

"We are also evaluating other credit support mechanisms to enable Williams Communications to obtain the capital to fully execute its business strategy," Baily said. "Coming out of this transaction with two strong companies capable of continued rapid growth is the primary reason we started down this path last year."

63. In connection with the announcement of this asset/equity swap between WMB and WCG, on 3/1/01, *Tulsa World* reported the following:

[Defendant] Janzen said the strengthening of [WCG's] balance sheet is an important step in preparing for a spinoff.

“This will broaden our ability to pre-fund our growth plan, as promised in our recent analyst conference, and to capitalize on unique market opportunities,” he said.

Williams spokesman Jim Gipson said that at the time the boards of directors of the two companies agreed to the swap in mid-January, Williams Communications stock was selling between \$19 and \$19.50 a share. At the mid-point of that range, the value of the newly-issued stock would be about \$467 million.

At the time this transaction was closed, however, shares of WCG were trading at \$12.46 per share and shares of WMB were trading at \$41.70 per share.

64. The statements made by defendants and reported between 2/13/01 and 3/1/01 were materially false and misleading, and were known by defendants to be false at the time of publication and dissemination, or were recklessly disregarded as such, for the reasons stated herein.

65. On 3/9/01, Fitch credit rating service, in affirming WCG's senior unsecured debt rating at “BB-,” stated the following:

This rating action follows a series of announcements and anticipated closing of several financial commitments by WCG and its parent. The Williams Company, in preparation of an expected tax-free spin-off. By recapitalizing the company and increasing its financial flexibility, WCG will enhance its ability to pre-fund its current growth plan to reach free cash flow.

In January 2001, WCG filed a shelf registration statement to raise as much as \$2 billion and use the proceeds for network expansion, working capital, and general corporate purposes. The Williams Company is evaluating several credit support mechanisms with contingent equity commitments enabling WCG to obtain financing on more favorable terms. Also in January, WCG announced the

proposed sale of its Solutions business unit, with expected proceeds of approximately \$400 million. By selling Solutions, which had been a drain on cash flow in the past, WCG can focus on operating and growing its core broadband network business.

Additional significant transactions include the debt-to-equity conversion of the company's \$950 million inter-company loan, the expansion of its senior credit facility to \$2 billion, a potential Algar Telcom Leste S.A. (ATL) sale, and an expected private equity investment as part of a strategic alliance. ***While WCG started the year with a funding gap, the above transactions, along with its current liability position of over \$1 billion, provide WCG with more than \$4 billion of funding. Assuming all financial commitments complete as expected, the funding risk to the company is effectively reduced into 2003 and possibly beyond.***

* * *

A number of operational uncertainties which existed at the time of the IPO, have been removed as the company transitions from the construction phase to operation of its network. Due to the significant build-out completed last year, WCG must increase utilization of its network to achieve better efficiencies from network assets and improve EBITDA margins. WCG will use the revenue ramp of its high quality recurring customers to drive results for 2001. By the end of the year, WCG expects to be EBITDA positive. ***Since the network is built out, capital expenditures are highly discretionary and success-based, providing more flexibility within WCG's business plan.***

66. According to a *Bloomberg* news service report issued the same day, the Fitch rating came after WCG agreed to pay even higher yields and other incentives. According to the *Bloomberg* report, WCG granted these enhancements after J.P. Morgan Chase & Co. and Bank of America Corp., the company's biggest lenders, refused to loan more money to WCG because they were already "loaded down with loans to the company." Also according to *Bloomberg*, banks have been hurt by the falling value of many telecom loans, making them reluctant to extend money, and especially following the *Bloomberg* Index of U.S. telecommunications services companies having fallen 42% during the past year. What's more, *Bloomberg* reported

that many fund managers aren't willing to buy new loans from telecom companies because they already hold so much of their debt.

67. On 3/15/01, WCG issued a release published on *PR Newswire* which announced the company's private placement of \$1.4 billion in structured notes, as follows:

Williams Communications Group announced today the WCG Note Trust, a special purpose subsidiary, intends to issue \$1.4 billion structured notes due 2004 in a private placement by the end of the month. The proceeds will be used for capital spending on telecommunications assets.

Williams (NYSE:WMB) owns approximately 86 percent of Williams Communications' outstanding shares and *is providing indirect credit support for the structured notes through a commitment to issue Williams' equity in the event of a WCG default.* . .

"Issuing these notes is an important step in preparation for the proposed spinoff," said [defendant] Janzen.

68. In rating WCG's \$1.4 billion Note Trust a "BBB-," Fitch credit rating service provided more detail on WMB's credit support, as follows:

The support for the rating comes from a pre-funded six-month interest reserve and contingent equity commitment from WMB. The interest reserve (approximately \$55 million) will be invested in WMB senior unsecured demand loans and will be available for debt service on the Notes in the event WCG fails to pay interest on the underlying WCG Notes. . .

While multiple principal repayment sources are available, including either repayment or sale of the WCG Note..., *Noteholders should view WMB's support and equity commitment as the fundamental basis for the "BBB-" rating. Upon a Note trigger event and subject to certain standstill periods, the share trustee will remarket the WMB mandatory convertible preferred stock on terms that are designed to generate proceeds sufficient to redeem the Notes in full. In the event that the issuance of the preferred securities yields less than the amount due under the Notes, pursuant to the Share Trust Agreement, WMB is required to deliver additional preferred shares (or common stock) for sale until at least \$1.4 billion has been raised. If WMB does not deliver under this obligation, the difference between the principal due on the Notes and the amount raised becomes a contract claim against WMB.* Such obligation would represent a general unsecured claim against WMB. *Importantly, WMB's obligations under*

the Share Trust Agreement remain enforceable in the event WCG is ultimately spun-off.

69. On 3/30/01, the penultimate day of the first quarter, WMB issued a release filed with the SEC pursuant to Form 8-K which announced that the WMB board approved the tax-free spin-off of WCG, as follows:

Williams announced today that its board of directors approved a tax-free spinoff of the company's communications business to Williams' shareholders.

The spinoff will be in the form of a dividend. Williams will distribute approximately 400 million shares, or about 95 percent of the Williams Communications common stock it currently owns, ***to holders of Williams common shares on the record date, which is 5 p.m. Eastern time on April 9. Distribution is to occur April 23.***

In addition to announcing the spin-off, defendant Bailey used the press release to condition investors to believe the following:

"Today's decision brings to a conclusion an effort that began last summer. That is when our board began an analysis of whether separating Williams and Williams Communications would best enable each to reach its full potential and to most effectively access capital markets," said [defendant] Bailey.

"Obviously, the capital markets are very different today than when we began pursuing this objective, but the conclusion is obvious." he said. "With sufficient capital on hand to meet its needs well into 2002 and its next-generation network completed and open for business, ***we believe Williams Communications is poised to deliver on its great potential.***

70. On 4/10/01, the board of WMB announced that they had set the ratio for distribution ratio, pursuant to which shares of WCG would be spun off to Williams shareholders. According to the WMB board, each shareholder of the company on the record date, 4/9/01, would receive .822399 shares of WCG for each WMB share held at the close of trading.

71. On 4/19/01, only days before the spin-off distribution date, WCG issued a release published on *Business Wire*, which responded to Winstar Communications Inc.'s 4/18/01 filing

for Chapter 11 bankruptcy protection, stating that this event would not have a “significant cash impact in 2001,” as follows:

Williams Communications Responds to Winstar Bankruptcy, Reaffirms First Quarter 2001 Revenue Guidance; Expects to Report EBITDA Results Favorable to Previous Guidance

In 1998, Williams Communications entered into a \$400 million agreement with Winstar for a 25-year commitment to use approximately two percent of the wireless local capacity of Winstar. Under the agreement, Winstar is to construct 270 wireless hubs by the end of 2001. As of March 31, 2001, Winstar had delivered 200 hubs, or antenna sites, to Williams Communications for which it has paid approximately \$300 million. Previously, the company estimated that it would pay an additional \$100 million for the delivery and acceptance of the remaining 70 hubs Winstar is committed to deliver. Williams Communications is not required to pay the additional \$100 million if the remaining hubs are not delivered and accepted.

. . . Williams Communications has not yet fully integrated this wireless capacity into its fiber service offerings and does not expect that any such idling of the wireless hub assets would impact its marketing business plan or product offerings in 2001. Moving forward, Williams Communications is prepared to adjust its product offering plans for subsequent years to compensate if these wireless assets are lost.

* * *

Although a number of uncertainties exist in any bankruptcy and the rights and obligations of Winstar and its creditors will be determined over time in the bankruptcy court, *Williams Communications believes that its net cash position and accounts receivable exposure relative to Winstar, when taken as a whole, will not have a significant cash impact in 2001.*

Williams Communications has not altered its expectations that it will be EBITDA positive on an operational basis by the end of 2001. In addition, Williams Communications reaffirms its first quarter revenue guidance and report EBITDA results that are favorable to previous guidance.

72. The statements made by defendants in the 4/19/01 release were materially false and misleading, and were known by defendants to be false at the time of publication and dissemination, or were recklessly disregarded as such, for the reasons stated herein. In addition,

such statements were also materially false and misleading because, at the time of the Winstar bankruptcy filing market conditions had so far deteriorated in the broadband sector that it was impossible for WCG to meet its financial goals for 2001 without substantially revising estimates to include massive cap-ex spending reductions and without making major reductions in the company's revenue forecasts.

73. On 4/24/01, WCG announced that effective at the close of business the prior day, 4/23/01, WMB completed its tax-free spin-off of WCG in a distribution of 398.5 million shares to WMB's shareholders of record as of 4/9/01. In connection with the spin-off, defendant Bailey resigned from the WCG board of directors, and defendant Janzen was elected chairman of the WCG board following Bailey's resignation.

74. Immediately following the spin-off, on 4/24/01, defendants were quoted in the local press, the *Tulsa World*, as follows:

“With a strong and diverse customer base, a fully operational network and a solid financial plan, the spinoff is another step in the natural progression of Williams Communications’ growth,” said [defendant] Janzen. ***“The spinoff provides the market with a more accurate view of Williams Communications’ business strengths and gives investors the chance to align themselves with a proven high-tech growth strategy.”***

Planing for the spinoff of Williams Communications . . . began ***last summer*** when ***Williams Cos.’ board of directors decided to separate the two companies.*** Their rationale is that as separate companies, ***the two would have more direct access to capital markets.***

* * *

. . . On the energy side, analysts said shedding the communications business will lighten the parent company's debt load, freeing it to commit more capital to energy exploration and production, refining, storage and distribution.

75. The statements made by defendants and reported by Tulsa World on 4/24/01 were materially false and misleading, and were known by defendants to be false at the time of publication and dissemination, or were recklessly disregarded as such, for the reasons stated herein.

76. Within days of the spinoff, on 4/26/01, WMB issued a release published on *PR Newswire* which, after effectively divorcing its operating results from those of WCG, announced that 1Q:01 results from “continuing operations” more than doubled on a year-over-year basis, as follows:

Williams today announced unaudited first quarter 2001 *results from continuing operations of \$378.3 million, or 78 cents per share, compared with a restated \$138.9 million, or 31 cents per share, for the same period last year.*

* * *

“Based on this quarter’s results and our view of the balance of the year, ***we are again adjusting our estimate for 2001, anticipating results of from \$2.10 to \$2.20 per share,***” [Bailey] said.

* * *

Results of Williams Communications, which was spun off to shareholders earlier this week, are reported as discontinued operations. Williams’ prior-period consolidated financial results have been restated as a result of this transaction.

* * *

Editors note: Unaudited consolidated net income the first quarter fro 2001, which includes the effects of discontinued operations, was \$199.2 million, or 41 cents per share, compared with 22 cents per share for the same period last year.

77. The statements made by defendants in the 4/26/01 release were materially false and misleading, and were known by defendants to be false at the time of publication and dissemination, or were recklessly disregarded as such, for the reasons stated herein. In addition,

such statements were materially false and misleading because, by deconsolidating its balance sheet WMB created the false impression that it had already taken all necessary charges related to the spinoff of WCG, when in fact WMB had failed to create any reserve or make any allocation on its balance sheet for the \$2.5 billion in credit guarantees which it had made for WCG, and had also failed to disclose to investors the true risks which resulted from guaranteeing WCG's debt as a result of the undisclosed, impaired condition of WCG.

78. Within one week of the spinoff of WCG to shareholders of WMB, on 5/1/01, *Bloomberg* news service reported that WCG had announced much wider than expected losses for 1Q:01, the period ended 3/31/01 (the day after the spin-off was officially declared by the WMB board), as follows:

Williams Communications Inc... had a wider first quarter loss on costs related to its spinoff from pipeline company Williams Cos.

The loss widened to \$302.2 million, or 65 cents a share after the payment of preferred dividends, compared with a loss from continuing operations of \$86.2 million, of 18 cents, in the year-earlier quarter.

* * *

The Tulsa, Oklahoma-based ***company had been expected to post a loss of 55 cents, the average estimate of analysts by First Call/Thompson Financial.***

79. On 5/1/01, in addition to the *Bloomberg* report, WCG also issued a release published on *PR Newswire* which reiterated these results and which purported to provide the following guidance to investors, as follows:

Although the current economic environment appears to be weakening, Williams Communications continues to see strong demand for bandwidth services. As capital becomes more difficult to obtain, many bandwidth-centric companies are looking to Williams Communications as an alternative to investing heavily into their own network build-outs.

Williams Communications continues to remain confident in its ability to meet previous 2001 revenue guidance as adjusted for the potential loss of revenue associated with the Winstar contract. As previously disclosed, the bankruptcy filing of Winstar could impact network revenue by approximately \$90 million. Accordingly, Williams Communications is adjusting previous 2001 revenue guidance to \$1.2 - \$1.3 billion to reflect this impact.

... Williams Communications continues to project being EBITDA positive on an operational basis by the end of 2001.

... [T]he company has been able to reduce its 2001-2002 capital expenditures program from the \$3.9 billion previously forecast, to \$3.2 billion, and still achieve its long-term growth objectives.

80. The statements made by defendants and contained in the 5/1/01 release and *Bloomberg* report were materially false and misleading, and were known by defendants to be false at the time of publication and dissemination, or were recklessly disregarded as such, for the reasons stated above. In addition, such statements were also materially false and misleading because WCG had again used its release to attempt to condition investors to believe that WCG was still on course to meet expected financial and operational forecasts, and that its above plan expenses were one-time expenses related to the spinoff and were not indicative of the impaired condition of the company. In fact, by this time WCG was not operating according to company sponsored expectations and the higher costs were indicative of the operational and financial problems which existed at WCG throughout the Class Period.

81. On 5/1/01, WMB was also forced to make a Regulation FD Disclosure filing with the SEC, after it was accidentally disclosed, that company outsiders were mistakenly patched into a telephonic meeting of the company's board of directors, and learned that WMB was considering a proposal to acquire Barrett. According to WMB, the company made its Reg. FD filing, "the disclosure of the purpose of the meeting to three outside individuals was non-

intentional. No terms of any potential proposal were disclosed, nor was any action of the Board of Directors disclosed.”

82. Later, on 5/7/01, WMB issued a release published on *PR Newswire* which announced that it had signed a definitive merger agreement with Barrett, pursuant to which WMB would acquire all of the assets of Barrett in a cash and stock transaction valued at approximately \$2.8 billion, including the assumption of approximately \$300 million in debt, as follows:

The terms of the merger agreement, which was approved by both companies’ Boards of Directors, provides for Williams to promptly commence a first-step cash tender offer of \$73.00 per share for 50 percent of the outstanding Barrett common stock, followed by *a second-step merger with a fixed ratio of 1.767 shares of Williams common stock for each remaining share of Barrett common stock. . .*

The transaction is valued at \$1.34 per thousand cubic feet of proved gas equivalent reserves and would more than double Williams’ proved natural gas reserves, while significantly enhancing its ability to profitably grow its power business.

The cash offer represents a 60% premium to Barrett’s price on 3/6/01, the day before the first unsolicited offer was made to acquire Barrett.

83. On 5/25/01, after stating that WCG may be looking for a private equity investment of up to \$250 million, the *Tulsa World* reported the following:

Williams Communications Group Inc. would like to find a major network customer interested in purchasing a stake in its system, company executives said Thursday.

However, they said, the company is not cash-poor nor does it need investment or operating capital, said [defendant] Schubert.

“We absolutely do not have a cash flow problem,” Schubert said in answer to speculation about its \$7 billion in long-term debt. ***“With the financing we completed prior to the spinoff, we have liquidity well into 2003.”***

A meeting between analysts and Williams Communications executives presented the company with speculation that the company may be needing additional financing to expand its 33,000 mile fiber-optic network or to equip it in major cities in which it has a presence.

But Williams Communications executives said they are in ongoing negotiations with major telecommunications companies about capacity on the network.

The analysts “probably are putting things together incorrectly,” Schubert said. “Our conversations (with telecom companies) are part of our ongoing marketing strength to focus on large telecom players whose traffic can help baseload our network.”

* * *

“If a company like SBC was willing to buy an equity stake (in the network) we would be willing to sell,” Schubert said. “We are actively courting telecom players to outsource their telecom needs to us. We are not looking to raise capital in the equity markets.”

Schubert also said Williams Communications is not laying off employees or contemplating such action.

84. The statements made by defendants and reported by *Tulsa World* on 5/25/01 were materially false and misleading, and were known by defendants to be false at the time of publication and dissemination, or were recklessly disregarded as such, for the reasons stated above.

85. On 6/5/01, WCG issued a release published on *PR Newswire* which announced that, after the sale of its Canadian Solutions business and its investments in another subsidiary, the company had successfully completed the execution of its 2001 financing plan, as follows:

“With the recently announced agreement to sell WCG’s investment in ATL and the closing of the sale of the Canadian operations of the Solutions business to Telus, we have executed on virtually every element of our financing plan as described in our first quarter earnings call,” said [defendant]

Schubert. ***“This successful execution of our financing plan pre-funds the company into 2003 when we continue to project achieving free cash flow.”***

The company expects to generate additional liquidity through the sale-leaseback of the Williams Communications Technology Center, projected to occur later this summer, and the issuance of strategic equity within the next twelve months.”

86. The statements made by defendants and contained in the 6/5/01 release were materially false and misleading, and were known by defendants to be false at the time of publication and dissemination, or were recklessly disregarded as such, for the reasons stated above.

87. On 6/4/01, WCG shares fell 10.7 percent to hit a then record low of \$3.85 per share, after *Barron’s* reported that analyst Robert Gensler, manager of the year’s top performing telecommunications fund, stated that ***WCG would either go out of business or file for bankruptcy protection within the next few years.*** On 6/5/01, *The Daily Oklahoman* reported the following:

Company officials and analysts agreed that investors were likely reacting to bearish comments made by an analyst in this week’s *Barron’s*. Robert Gensler, manager of the year’s top-performing telecommunications fund, grouped Williams Communications with a broadband provider for the Internet industry - and painted a dim picture for both.

* * *

Williams Communications dismissed the comments as “one analyst’s opinion,” saying the company is destined to emerge as one of the few survivors in the telecom industry. . .

“Once people get under the hood and really look at our company, they’ll see that we’re much better positioned than almost all the telecom carriers out there,” said a representative for Williams Communications.

* * *

However, at least one analyst - *Michael Hodel of Morningstar* - expressed some caution about the financial condition of Williams Communications. He described Williams Communications as “one of the more heavily leveraged telecom companies out there.”

After the most recent stock decline, WCG shares were down 90.5% from the stock’s 52 week high of \$40.63.

88. On 6/17/01, *Bloomberg* reported a story broken by the *Orange County Register* which concluded that, after an analysis by the paper based on federal smoke-stack output logs, state power-grid records and regulatory filings, ***WMB had cut California plant output during shortages, and then boosted production only when grid operators agreed to pay more for power.*** *Bloomberg* also reported that WMB had offered financial incentives to operators who supplied power for WMB to extend maintenance outages at generators, allowing the company to sell power from other units at higher prices. Also, according to *Bloomberg*, this artificial price inflation was allegedly responsible for contributing materially to over \$1 billion in profits earned since 10/00. *Bloomberg* also reported that while WMB had sold power at many times cost, ran AES plants at less than full power during shortages and discussed financial incentives with plant operators, the company maintained that it did break the law. Despite WMB’s contention that it did not break the law, however, by this time the company had become the subject of a United States Department of Justice Investigation for violations of federal antitrust laws, and WMB was subject to tens of millions of dollars in fines and civil penalties.

89. By 6/19/01, after WCG’s nearest competitor Level 3 Communications Inc. announced that it would cut 24% of its workforce in response to a “slowing economy,” investors and traders bid down the price of WCG’s debt to a mere 36 cents on the dollar - - indicating that investors believed that the company would default on its payments, only one day after shares of

WCG fell an additional 12.5% to a new 52-week low of \$2.75 per share. Despite reports at this time that the industry was “crippled” by an oversupply of fiber-optic networks and a shortage of customers, *WCG again stated that “no layoffs” at the company were planned.* (quoting, *The Daily Oklahoman*, 6/19/01)

90. In addition to the foregoing, within several weeks, as WCG’s debt continued to trade at significantly reduced levels, in line with the debt of some firms that have since filed for protection from creditors, the *Rocky Mountain News* reported that these declines were due in substantial part to investors beliefs that the “loss ridden” company is increasingly unlikely to meet scheduled bond payments. Moreover, according to the *Rocky Mountain News*, several money-losing companies similar to WCG, such as Teligent Inc., Viatel Inc., PSINet Inc., Metricom Inc., and 360Networks Inc., had all slid into bankruptcy after stumbling as competition, slack demand and a slowing U.S. economy stifled revenue growth and made investors less willing to provide additional capital.

91. According to a Merrill Lynch & Co., in the April - June quarter their index of high-yield telecom company bonds, which includes Level 3 and WCG and other telecom firms, showed telecom debt had fallen by 18%, and in the first 6 months of 2001 had fallen 21%, including an 11% decline in June alone - - their second biggest decline all year. ***Despite the obvious signs of WCG’s financial instability, and the questions surrounding WEC’s ability to meet its debt covenants and service its debt, at this time WMB made no adjustments to its balance sheet to account for the WCG loan guarantees, and the fact that now WCG faced a substantial likelihood of a default.***

92. Despite the company's repeated denials, the last as late as 6/19/01, on 6/28/01 WCG announced that it would *cut up to 500 jobs*, which the company deemed "necessary" after re-evaluating costs. The same day, the *Tulsa World* reported the following:

Williams Communications Group Inc., which has insisted for months that its cash position is strong and its employees base solid amid an anemic technology sector and its plunging stock price, will cut several hundred positions beginning on Monday.

[Defendant] Janzen said Wednesday at a late afternoon press conference in the Williams Center that the job cuts will total less than 500 people, all of whom will receive severance packages.

He said the *job reductions were necessary as the company re-evaluated its costs.*

* * *

The reality is that *our company is a very healthy one that is positioned to go forward.*" [defendant Janzen said]

93. In connection with the acquisition of Barrett by WMB, on 6/28/01, WMB filed with the SEC a false and materially misleading Registration Statement which materially misrepresented material facts and which omitted to disclose facts necessary to make the statements contained therein not false and materially misleading.

94. In the Risk Disclosure section of the Registration Statement, under the heading, "Williams may be subject to liabilities pertaining to its spin-off telecommunications business unit," the Registration Statement stated that WMB maintained an indirect credit support for WCG of \$1.4 billion, as follows:

. . . Williams is providing indirect credit support for \$1.4 billion of Williams Communications' structured notes through a commitment to issue Williams equity in the event of a Williams Communications default, or to the extent Williams Communications' refinancing or remarketing of certain structured notes prior to March 2004 produces proceeds of less than \$1.4 billion. The ability of

Williams Communications to make payments on the notes is dependent on its ability to raise additional capital and its subsidiaries' ability to dividend cash to Williams Communications. Williams Communications, however, is obligated to reimburse Williams for any payment Williams may be required to make in connection with these notes.

95. No other disclosures regarding WMB's credit obligations in favor of WCG were disclosed in the Registration Statement. Rather than disclose that WMB would have to support at least \$2.5 billion of WCG debt and that WCG was operating well below company sponsored guidance, the Registration Statement represented and warranted that all necessary disclosures were *already* made and that no material adverse events had occurred between the signing of the Merger Agreement, on 5/7/01 and the time of the closing of the merger in 8/01, as follows:

In the merger agreement, WMB has made representations and warranties relating to, among other things;

SEC filings,

the absence of material adverse changes¹,

accuracy of information supplied,

compliance with applicable laws and regulations.

* * *

Section 5.5 SEC Documents and Other Reports. Parent has filed with the SEC all documents required to be filed by it since April 1, 1998 under the Securities Act or the Exchange Act (the Parent SEC Documents). *As of their respective filing dates, the Parent SEC Documents complied in all material respects with the requirements of the Securities Act or the Exchange Act, as the case may be, each as in effect on the date so filed, and at the time filed with the SEC none of*

¹Material Adverse Change is defined in the Merger Agreement as, "any change or effect (or any development that, insofar as can reasonably be foreseen, is likely to result in any change or effect) that is materially adverse to the business, properties, assets, condition (financial or otherwise) or results of operations of [Barrett] and its Subsidiaries taken as a whole, or [WMB] and its Subsidiaries taken as a whole, as the case may be."

the Parent SEC Documents contained any untrue statement of a material fact or omitted to state a material fact required to be stated therein or necessary to make the statements therein, in light of the circumstances under which they were made, not misleading. The financial statements of Parent included in the Parent SEC Documents comply as of their respective dates in all material respects with the then applicable accounting requirements and the published rules and regulations of the SEC with respect thereto, have been prepared in accordance with GAAP (except in the case of the unaudited statements, as permitted by Form 10-Q under the Exchange Act) applied on a consistent basis during the periods involved (except as may be indicated therein or in the notes thereto) and fairly present the consolidated financial position of Parent and its consolidated Subsidiaries as at the dates thereof and the consolidated results of their operations and their consolidated cash flows for the periods then ended (subject, in the case of unaudited statements, to normal year-end audit adjustments and to any other adjustments described therein).

96. In regard to the disclosure of WMB's liabilities, the Registration Statement stated the following:

Except as set forth above or in Item 5.3 of the Parent Letter, as of the date of this Agreement, there are no securities, options, warrants, calls, rights, commitments, agreements, arrangements or undertakings of any kind to which Parent or any of its Significant Subsidiaries is a party or by which any of them is bound obligating Parent or any of its Significant Subsidiaries to issue, deliver or sell or create, or cause to be issued, delivered or sold or created, additional shares of capital stock or other voting securities or Parent Stock Equivalents of Parent or of any of its Significant Subsidiaries or obligating Parent or any of its Significant Subsidiaries to issue, grant, extend or enter into any such security, option, warrant, call, right, commitment, agreement, arrangement or undertaking.

* * *

Section 5.11 Liabilities. Except as set forth in the Parent Filed SEC Documents, *neither Parent nor any of its Subsidiaries has any liabilities or obligations of any nature (whether accrued, absolute, contingent or otherwise) required by GAAP to be set forth on a consolidated balance sheet of Parent and its Subsidiaries or in the notes thereto, other than liabilities and obligations incurred in the ordinary course of business since December 31, 2000* and liabilities which would not, individually or in the aggregate, reasonably be expected to have a Material Adverse Effect on Parent.

97. Importantly, the Background to the Merger section of the Registration Statement outlined the critical period during which the representations and warranties were operative, and the period to which those representations and warranties pertained, as follows:

WMB Evaluates Possible Combination Several Months Prior to mid-3/01

Barrett Resources was one of the potential acquisition candidates identified in that process.

Following Shell Oil Co's 3/1/01 Unsolicited Tender, Barrett Seeks Other Offers

Following the March 8, 2001 board meeting, Barrett Resources immediately began a process for seeking business combination proposals from qualified parties. The company's financial advisors, Goldman, Sachs & Co. and Petrie Parkman & Co., Inc., contacted approximately 45 parties worldwide on behalf of Barrett, including Williams. In addition, Robert Buford, a director of Barrett and an acquaintance of defendant Bailey, contacted him to invite WMB to enter the bidding process.

Mid-3/01 to 5/2/01 WMB Conducts Due Diligence

Commencing in mid-March 2001 and continuing through May 2, 2001, WMB and its representatives visited Barrett and conducted a due diligence review of the business and financial condition of Barrett. Bailey and other representatives of WMB held several discussions with representatives of Barrett (including Mr. Buford) about WMB's interest in Barrett and Barrett's strategic fit with WMB. Similar reviews and discussions were taking place during this period with other parties which had signed confidentiality agreements. On 5/2/01, Barrett set the deadline for other interested parties participating in the bidding process.

On 5/1/01, Negotiations Mistakenly Disclosed During Conference Call

On 5/1/00, WMB board together with its' financial advisors, held a telephonic meeting for the purpose of considering the authorization of an acquisition proposal for Barrett. At the beginning of the meeting, outside individuals were mistakenly connected by a conference call vendor. Before this error was discovered, officers of WMB stated that the board meeting had been called to consider the proposal to acquire Barrett. As a result of this unintentional, inadvertent disclosure, Williams filed a Form 8-K disclosing this event on 5/1/01.

WMB Offers \$71 on 5/2 and \$73 on 5/5: Half Stock, Half Cash

On 5/2/01, three parties including WMB delivered proposals to acquire all of the outstanding shares of Barrett. WMB submitted a proposal at a price equivalent to \$71.00 per share that provided for the purchase of one-half of the shares pursuant to a cash tender offer followed by a merger in which each remaining share would be exchanged for shares of Williams common stock at a fixed exchange ratio to be determined based on the average closing prices of WMB common stock for the ten consecutive days preceding the execution of a merger agreement

On the afternoon of 5/5/01, both WMB and another company responded Barrett's request for improved offers and WMB increased the value of its proposal to \$73.00 per share, while maintaining the structure and other terms set forth in its initial proposal. The second company did not change its originally proposed price. That evening, Barrett's financial advisors informed WMB that it was the prevailing bidder.

On May 14, 2001, Williams commenced the tender offer for 16,730,502 shares of Barrett Resources common stock.

98. Based on the reassurance that no material adverse events had occurred during the relevant period preceding the Barrett acquisition, the Registration Statement also stated that the consideration received by Barrett's shareholders was fair from a financial perspective, as follows:

. . .The Barrett Resources board reviewed carefully the proposals received on the publicly announced May 2, 2001 deadline and the results of further negotiations with the two parties presenting the highest proposals. ***The Barrett Resources board noted that the Williams proposal, based on the closing price of Williams common stock on May 4, 2001*** (the last trading day before the execution of the merger agreement), ***offered the highest value of any proposal that it received***, although the Barrett Resources board was aware that the Williams common stock price might be adversely affected, at least temporarily, by the announcement of the execution of the merger agreement.

* * *

The opinion of Goldman Sachs delivered to the Barrett Resources board on May 7, 2001, that, as of that date, and based upon and subject to the various qualifications and assumptions described in its opinion, the consideration to be received by the holders of shares of Barrett Resources common stock in the tender offer and the merger, taken as a unitary transaction, was fair from a financial point of view to the holders of such shares receiving such consideration.

Implicit in the valuation assumptions utilized to assess the value of the stock portion of the Merger consideration, was the assumption that shares of WMB were not artificially inflated at that time.

99. With the exception of the Background to the Merger section contained in the Barrett acquisition Registration Statement, which are presumably accurate and which show that defendants were considering the acquisition of Barrett at least from the inception of 2001, the statements contained in the Registration Statement and reproduced above were materially false and misleading for the following reasons:

(i) that, it was materially false and misleading for WMB to disclose to Barrett's shareholders that it provided "credit support for \$1.4 billion of Williams Communications' structured notes," when in fact at the time of the merger WMB had guaranteed upwards of \$2.5 billion in WCG debt. While it is arguable that not all of the obligations were indirect credit supports for structured debt, in fact, the failure of WMB to make any further disclosure regarding the obligations it had for WCG's debt rendered the Registration Statement false and materially misleading;

(ii) that, it was materially false and misleading for WMB to state either that its SEC filings were complete and up to date or that no material adverse event had occurred the disclosure of which was required to make such statements not false and materially misleading when defendants had failed to disclose that, as a result of the impaired operational and financial condition of WCG that WMB had substantial a undisclosed risk of loss which WMB had neither properly reserved for or adequately disclosed;

(iii) that, as a result of WMB's failure to either disclose the true risk of loss associated with its \$2.5 billion in loan guarantees to WCG or to properly reserve for these potential

and probable losses, it was materially false and misleading for WMB to state in the Registration Statement that all of the company's SEC documents had been prepared and filed in conformity with Generally Accepted Accounting Principles;

(iv) that, as a result of the undisclosed liabilities related to WMB's guarantee of WCG's debt and the undisclosed risk of loss associated thereto, it was materially false and misleading for defendants to represent to Barrett's shareholders that the consideration offered in the merger offered to Barrett the highest value of any proposal received, when in fact the stock portion of this offer was artificially inflated as a result of defendants' false statements and omissions.

100. On 7/30/01, WMB issued a release published on *PR Newswire* which purported to announce results for 2Q:00, the period ended 6/30/01, which stated the following:

Led by improved refining volumes and margins, higher natural gas production prices and a gain on the sale of convenience stores, Williams today reported unaudited second-quarter income from continuing operations of \$339.5 million, or 69 cents per share on a diluted basis. This compares with \$286.4 million, or 63 cents per share on a diluted basis, during the same period a year ago.

* * *

As a result of current performance and outlook for the remainder of the year, Bailey said he now is comfortable with increasing previous earnings guidance for the full year to approach the current Wall Street consensus estimate of \$2.32 per share.

101. The statements made by defendants and contained in the 7/30/01 release were materially false and misleading, and were known by defendants to be false at the time of publication and dissemination, or were recklessly disregarded as such, for the reasons stated above. In addition, as a result of the substantial risk of default to which WCG had now become susceptible, WMB was obligated to make certain reserves on its financial statement and balance sheet to account for its \$2.5

billion in loan guarantees to WCG. Defendants' failure to make any adjustment to WMB's financial statements or balance sheet rendered its financial statements unreliable and presented the financial condition of WMB in a manner which did not present investors with a fair and accurate portrayal of WMB's finances or operations. As such, defendant WMB's financial statements for the 3Q:01 were not prepared in accordance with GAAP and are, therefore, presumptively false and materially misleading.

102. Desperate to create the appearance that WCG was not floundering so soon after it was spun-off, despite the fact that it was, on 8/1/01, when the company announced results for 2Q:01 it took drastic measures to insure that it beat Wall Street's expectations by drastically cutting costs by over \$1 billion, despite the long-term adverse effects these capital expenditure spending reductions would have on WCG's ability to generate revenues and profits going forward. Thus, according to WCG's release published that day on *PR Newswire*:

Having completed a mid-year review of capital expenditure requirements, the company is updating guidance to reflect a reduction in projected capital spending for the 2001-2002 period, from \$3.2 billion to \$2.0 billion. The reduced capital requirements reflect : 1) the redeployment of warehouse equipment, 2) availability of better-than-expected equipment pricing, and 3) greater capacity realization from deployed technology. . .

In addition to the foregoing, at this time ***WCG also reduced projected Network revenues for 2001 by at least \$90 million, to \$1.1 - \$1.2 billion, down from pre-spinoff estimates of as much as \$1.4 billion.*** Since 6/00, the time when the spin-off was first announced, WCG had lowered 2001 sales forecasts four times. The reduction of capital expenses and the reduction of WCG's revenue forecasts acted as a partial admission that defendants lacked any reasonable basis to state, previously, that WCG was on track to meet financial forecasts for 2001. By radically reducing capital expenditures in 2001, as defendants knew they would be forced to do as a result of the impaired

operational capacity of WCG following the spinoff, defendants also knew that it would be impossible to obtain targeted revenue and earnings forecasts for the year. In fact, it was only as a result of defendants' massive cap-ex reductions that the company could claim that it was fully funded going forward. However, ***this statement too was false and materially misleading because it failed to reveal that defendants had now sacrificed the company's earnings potential merely to stay in business.***

103. On 8/2/01 WMB announced that it had completed the acquisition of Barrett pursuant to the terms previously announced and pursuant to the Agreement and Plan of Merger dated 5/7/01.

104. On 8/29/01, the *Associated Press* news wire service reported that shares of WCG again plunged after analysts stated that WCG was facing debt problems and would not be able to meet certain imminent debt covenants. Immediately following this decline, *AP* reported the reaction of Steven Remchuk, regional investment executive in Tulsa for Banc One Investment Advisors, who stated, "***The market is telling you there is a high probability that they are going to have difficulty surviving in their current form.***" *AP* also quoted after Peter Cohan, a Massachusetts financial analyst and author, who stated "***I think Williams could be another of those companies who won't make it.***" Based on the price of shares and possibility that the company won't be able to meet a Sept. 30 financial obligation, Cohan said WCG finds itself in a "bad financial situation."

105. On 8/30/01, according to *Tulsa World*, WCG denied reports that it would default on any of its covenants related to its 9/30/01 deadline to raise \$700 million from the sale of Solutions and that it would be able to issue \$150 million in equity by year end. *Tulsa World* stated the that:

Schubert said Williams Communications plans to raise an additional \$500 million in cash by Dec. 31. ***At least \$150 million of that will come through an equity issue,*** although the type has not been determined.

* * *

On Aug. 15, [defendant] Janzen addressed several rumors about the company in a letter to shareholders.

In the letter, he said *reports that Williams Communications' business plan is failing, that a bandwidth glut threatens to sink the entire sector and that the company is on the verge of disappearance all were false.*

106. On 9/17/01, WCG issued a release published on *PR Newswire* which announced that the company had completed the lease-back of One Technology Center, WCG's recently acquired Tulsa headquarters, to WMB in exchange for \$276 million in cash. According to the company's release, defendant Janzen stated, "*This is one more step in the successful execution of our financing plan and reaffirms Williams Communications' commitment to deliver on its promises.*" This news, however, further depressed WCG shares which closed the day's trading at \$1.41 per share, down \$0.07 per share. Based on this share price, the 24.3 million shares of stock traded to WMB in exchange for One Technology Center and the company's \$950 million promissory note was now worth \$36 million. At no time did defendants even attempt to explain the business judgement which propelled WMB to enter into this transaction.

107. The materially false and misleading statements issued by defendants had their intended effect. As evidence of this, on 9/26/01, Credit Lyonnais analyst Gordon Howald issued a report on WMB, reiterating an "ADD" recommendation and a \$34 price target, as follows:

* Based on a worst-case scenario in which Williams Communications Group (WCG) files for bankruptcy protection, which we believe is unlikely, Williams has a maximum liability exposure of \$2.4 billion, including secured and non-secured debts.

* Relative to earnings, we estimate a WCG bankruptcy protection filing would have a negative impact of \$0.12 per share on 2002 earnings due to share dilution.

* * *

WCG Bankruptcy Scenario-Unlikely

As the telecommunications sector continues to deteriorate, there has been concern over Williams's exposure to WCG. WCG was spun off from Williams on a tax-free basis on April 23, 2001. While WCG and Williams operate as separate companies, Williams has approximately \$2.4 billion of maximum potential liability in the event of a WCG bankruptcy. This worst-case scenario assumes that WCG's assets become totally worthless, and that the value of its debt declines to zero. However, we believe a bankruptcy filing by WCG is unlikely for several reasons.

(1) WCG is funded through 2003. Williams reported cash on hand at the end of 1Q01 of about \$238 million and raised \$1.4 billion from the issuance of a structured note, increased its credit facility by \$450 million and completed certain asset sales for \$264 million. The company also expects to raise incremental funds through asset sales and financing to approach \$500 million. In the early days of WCG's operations, Williams transferred its Tulsa, Oklahoma headquarters to Williams Companies. The combined proceeds from all of these transactions, including cash from operations, is expected to fund WCG through 2003, at which point the company is expected to turn cash flow positive. . .

(2) WCG has stated publicly that it has no intention of filing for bankruptcy protection and has no reason to file. It has taken a very strong stance. We believe that if WCG suddenly changes its stance, its damage to shareholder credibility would exclude it from having any meaningful, future relationship with the investor community. We believe WCG may have taken this strong stance for exactly this reason.

It is obvious from the foregoing that the analysts at Credit Suisse had fully relied on defendants' misleading statements to reach its conclusion that WCG was well funded, given the fact that it relied on the same false premise that WCG was funded through 2003, without taking into account the effects of the company's massive cap-ex reductions and revenue forecast revisions and given the fact that the analysts based its opinion on the basis of WCG's denials that it would need credit support.

108. On 9/28/01, investors began to run scared as WCG failed to issue any statement regarding its ability to raise the full \$700 million pursuant to its loan covenants, the last \$200 million of which was purportedly to come from accounts receivable collections. **On 9/28/01, shares of WCG closed at \$1.18 per share**, near the bottom of the stock's 52-week range of \$1.12 to \$21.13.

Despite the fact that WCG had apparently scraped the remainder of the money together at the last minute, with no explanation as to where the remainder of the money WCG needed to meet its obligations came from, on 10/1/01, WCG simply issued a release published on *PR Newswire* which stated that it had met all covenant requirements under its bank credit facility and publicly traded bonds for 3Q:01. In addition, at this time defendant Schubert used this release to mislead investors to believe that, “We continue to execute on our financing plan. We are committed to delivering on our promises, including meeting our covenant requirements.”

109. Investors, however, were not impressed by WCG’s purported last-minute satisfaction of its debt covenants, and shares of WCG stock traded down to close at \$1.14 per share on 10/1/01.

110. On 10/25/01, *Bloomberg* reported that WMB had announced that its 3Q:01 profits had surged 83%, in significant part due to its acquisition of Barrett, as follows:

Barrett Pays Off

Williams’ earnings from trading were \$357.2 million while profit from producing gas more than tripled to \$56.9 million. . .

With Barrett, Williams has hedged about 80 percent of production for the next three years at more than \$4 per million British thermal units. . . This is well above the current price on the New York Mercantile Exchange of about \$2.90.

“The Barrett acquisition just really improved their earnings,” said Edward Jones analyst Zach Wagner, who doesn’t own Williams shares.

* * *

Williams boosted its forecast for full-year earnings to \$2.40 a share, from \$2.30 and \$2.35. The company expects earnings to rise 15 percent a year.

Third-quarter profit was reduced \$105.5 million by writedowns and other unspecified costs, Williams said. The company had a \$71 million writedown for a drop in value of its 4% stake in Williams Communications Group, Inc., whose shares have plunged 93% in the past year.

Excluding the items, Williams said it earned \$326.8 million, or 65 cents per share. The company was expected to make 53 cents a share on that basis, the average estimate of analysts surveyed by Thompson Financial/First Call. Forecasts ranged from 48 cents to 66 cents.

Included in the writedown was \$70 million attributed to the diminution in value of WMB's investment in WCG, of which WMB still maintained approximately 20 million shares. Based on this devaluation, had WMB not foisted WCG onto its shareholders in 4/01, WMB would now be faced with a massive writedown in excess of over 2.23 billion in addition to the credit guarantees which it would likely still have been required to provide.

111. On 11/1/01, *Bloomberg* reported that WCG had announced that it had meet analysts 3Q:01 loss projections despite larger than expected expenses related to depreciation and amortization expenses, which nearly tripled compared to 3Q:00. These results did little to restore investor confidence in WCG and its shares traded down \$0.11 to close at \$1.56 per share. The continuing depressed price of WCG shares made it impossible for the company to sell the required \$125 million in equity by Dec. 31, 2001, without substantially diluting the company's existing shareholders and **without further jeopardizing the company's ability to retain its share listing on a national exchange.** Thus, *on 11/1/01, WCG also announced that it had altered its bank credit facility covenant which required the company to raise additional capital by the end of 2001. With the change, the company said the date by which it has to raise additional funds has been extended to July 1, 2003.*

112. Then, on 01/29/02, WMB shocked the market by announcing that it would be delaying the release of its 2001 earnings "pending an internal assessment of William's contingent obligations to Williams Communications." According to the press release, WMB "expects to be able

to estimate the financial effect, if any, regarding its ultimate obligation related to WCG's \$1.4 billion debt and network lease agreement covering assets that cost \$750 million."

113. In response to WMB's shocking announcement, the price of WMB common stock declined sharply falling from approximately \$24 per share to as low as \$18.70 per share and WCG common stock declined to as low as \$1.30 per share.

114. Defendants' statements and representations listed herein were materially false and misleading at all times because, among the other reasons stated herein, they failed to disclose and misrepresented the following adverse facts, among others:

(a) WMB was carrying on its financial statements receivables from WCG that were impaired, uncollectible and should have been written-off in whole or in substantial part. Rather than writing off these impaired assets, which amounted to tens of millions of dollars, WMB agreed to extend up to \$100 million of WCG's receivables with an outstanding balance due on March 31, 2001, to March 15, 2002; and

(b) that the sale and leaseback of WCG's office properties in or about 09/01 was a non-arm's-length transaction at an inflated value for the properties whose motive and intent was to funnel monies to WCG and avoid forcing WMB to perform its guaranties and thereby adversely affect its results and debt ratings.

**Applicability Of Presumption Of Reliance:
Fraud-On-The-Market Doctrine**

115. At all relevant times, the market for WMB's and WCG's securities was an efficient market for the following reasons, among others:

(a) WCG's and WMB's stock met the requirements for listing, and was listed and actively traded on the NYSE, a highly efficient and automated market;

(b) As a regulated issuer, WMB and WCG filed periodic public reports with the SEC and the NYSE;

(c) WMB and WCG regularly communicated with public investors via established market communication mechanisms, including through regular disseminations of press releases on the national circuits of major newswire services and through other wide-ranging public disclosures, such as communications with the financial press and other similar reporting services; and

(d) WMB and WCG were followed by several securities analysts employed by major brokerage firms who wrote reports which were distributed to the sales force and certain customers of their respective brokerage firms. Each of these reports was publicly available and entered the public marketplace.

116. As a result of the foregoing, the market for WMB's and WCG's securities promptly digested current information regarding WMB and WCG from all publicly available sources and reflected such information in WMB's and WCG's stock price. Under these circumstances, all purchasers of WMB's and WCG's securities during the Class Period suffered similar injury through their purchase of WMB's and WCG's securities at artificially inflated prices and a presumption of reliance applies.

NO SAFE HARBOR

117. The statutory safe harbor provided for forward-looking statements under certain circumstances does not apply to any of the allegedly false statements pleaded in this complaint. Many of the specific statements pleaded herein were not identified as "forward-looking statements"

when made. To the extent there were any forward-looking statements, there were no meaningful cautionary statements identifying important factors that could cause actual results to differ materially from those in the purportedly forward-looking statements. Alternatively, to the extent that the statutory safe harbor does apply to any forward-looking statements pleaded herein, defendants are liable for those false forward-looking statements because at the time each of those forward-looking statements was made, the particular speaker knew that the particular forward-looking statement was false, and/or the forward-looking statement was authorized and/or approved by an executive officer of WMB and/or WCG who knew that those statements were false when made.

FIRST CLAIM

Violation Of Section 10(b) Of The Exchange Act And Rule 10b-5 Promulgated Thereunder Against All Defendants

118. Plaintiffs repeat and reallege each and every allegation contained above as if fully set forth herein.

119. During the Class Period, defendants carried out a plan, scheme and course of conduct which was intended to and, throughout the Class Period, did: (i) deceive the investing public, including plaintiff and other Class members, as alleged herein; (ii) enable WMB to acquire Barrett Resources using its artificially inflated common stock as currency; and (iii) cause plaintiff and other members of the Class to purchase WCG's and WMB's securities at artificially inflated prices. In furtherance of this unlawful scheme, plan and course of conduct, defendants, and each of them, took the actions set forth herein.

120. Defendants (a) employed devices, schemes, and artifices to defraud; (b) made untrue statements of material fact and/or omitted to state material facts necessary to make the statements not misleading; and (c) engaged in acts, practices, and a course of business which operated as a fraud and deceit upon the purchasers of the WCG's and WMB's securities in an effort to maintain artificially high market prices for WCG's and WMB's securities in violation of Section 10(b) of the Exchange Act and Rule 10b-5. All defendants are sued either as primary participants in the wrongful and illegal conduct charged herein or as controlling persons as alleged below.

121. Defendants, individually and in concert, directly and indirectly, by the use, means or instrumentalities of interstate commerce and/or of the mails, engaged and participated in a

continuous course of conduct to conceal adverse material information about the business, operations and future prospects of WMB and WCG as specified herein.

122. These defendants employed devices, schemes and artifices to defraud, while in possession of material adverse non-public information and engaged in acts, practices, and a course of conduct as alleged herein in an effort to assure investors of WMB and WCG's value and performance and continued substantial growth, which included the making of, or the participation in the making of, untrue statements of material facts and omitting to state material facts necessary in order to make the statements made about WMB and WCG and their businesses operations and future prospects in the light of the circumstances under which they were made, not misleading, as set forth more particularly herein, and engaged in transactions, practices and a course of business which operated as a fraud and deceit upon the purchasers of WMB and WCG securities during the Class Period.

123. Each of the Individual Defendants' primary liability, and controlling person liability, arises from the following facts: (i) the Individual Defendants were high-level executives and/or directors at WMB and WCG during the Class Period and members of the Company's management team or had control thereof; (ii) each of these defendants, by virtue of his responsibilities and activities as a senior officer and/or director of WMB and WCG was privy to and participated in the creation, development and reporting of the WMB's and WCG's internal budgets, plans, projections and/or reports; (iii) each of these defendants enjoyed significant personal contact and familiarity with the other defendants and was advised of and had access to other members of WMB's and WCG's management team, internal reports and other data and information about the WMB's and WCG's finances, operations, and sales at all relevant times; and (iv) each of these defendants was aware of

the WMB's and WCG's dissemination of information to the investing public which they knew or recklessly disregarded was materially false and misleading.

124. The defendants had actual knowledge of the misrepresentations and omissions of material facts set forth herein, or acted with reckless disregard for the truth in that they failed to ascertain and to disclose such facts, even though such facts were available to them. Such defendants' material misrepresentations and/or omissions were done knowingly or recklessly and for the purpose and effect of concealing WMB's and WCG's operating condition and future business prospects from the investing public and supporting the artificially inflated price of its securities. As demonstrated by defendants' overstatements and misstatements of WMB's and WCG's businesses, operations and earnings throughout the Class Period, defendants, if they did not have actual knowledge of the misrepresentations and omissions alleged, were reckless in failing to obtain such knowledge by deliberately refraining from taking those steps necessary to discover whether those statements were false or misleading.

125. As a result of the dissemination of the materially false and misleading information and failure to disclose material facts, as set forth above, the market price of WCG's and WMB's securities was artificially inflated during the Class Period. In ignorance of the fact that market prices of WCG's and WMB's publicly-traded securities were artificially inflated, and relying directly or indirectly on the false and misleading statements made by defendants, or upon the integrity of the market in which the securities trade, and/or on the absence of material adverse information that was known to or recklessly disregarded by defendants but not disclosed in public statements by defendants during the Class Period, plaintiffs and the other members of the Class acquired WMB and WCG securities during the Class Period at artificially high prices and were damaged thereby.

126. At the time of said misrepresentations and omissions, plaintiff and other members of the Class were ignorant of their falsity, and believed them to be true. Had plaintiffs and the other members of the Class and the marketplace known the truth regarding the problems that WCG and WMB were experiencing, which were not disclosed by defendants, plaintiffs and other members of the Class would not have purchased or otherwise acquired their WCG and WMB securities, or, if they had acquired such securities during the Class Period, they would not have done so at the artificially inflated prices which they paid. 127. By virtue of the foregoing, defendants have violated Section 10(b) of the Exchange Act, and Rule 10b-5 promulgated thereunder.

128. As a direct and proximate result of defendants' wrongful conduct, plaintiffs and the other members of the Class suffered damages in connection with their respective purchases and sales of WCG's and WMB's securities during the Class Period.

SECOND CLAIM

Violation Of Section 20(a) Of The Exchange Act Against Individual Defendants

129. Plaintiffs repeat and reallege each and every allegation contained above as if fully set forth herein.

130. The Individual Defendants acted as controlling persons of WMB and WCG within the meaning of Section 20(a) of the Exchange Act as alleged herein. By virtue of their high-level positions, and their ownership and contractual rights, participation in and/or awareness of the Company's operations and/or intimate knowledge of the false financial statements filed by WCG and WMB with the SEC and disseminated to the investing public, the Individual Defendants had the power to influence and control and did influence and control, directly or indirectly, the decision-

making of WCG and WMB, including the content and dissemination of the various statements which plaintiffs contend are materially false and misleading. The Individual Defendants were provided with or had unlimited access to copies of WCG's and WMB's reports, press releases, public filings and other statements alleged by plaintiffs to be misleading prior to and/or shortly after these statements were issued and had the ability to prevent the issuance of the statements or cause the statements to be corrected.

131. In particular, each of these defendants had direct and supervisory involvement in the day-to-day operations of WMB and WCG and, therefore, is presumed to have had the power to control or influence the particular transactions giving rise to the securities violations as alleged herein, and exercised the same.

132. As set forth above, WCG, WMB and the Individual Defendants each violated Section 10(b) and Rule 10b-5 by their acts and omissions as alleged in this Complaint. By virtue of their positions as controlling persons, the Individual Defendants are liable pursuant to Section 20(a) of the Exchange Act. As a direct and proximate result of defendants' wrongful conduct, plaintiffs and other members of the Class suffered damages in connection with their purchases of the WCG 's and WMB's securities during the Class Period.

WHEREFORE, plaintiffs pray for relief and judgment, as follows:

(a) Determining that this action is a proper class action, designating plaintiffs as Lead Plaintiffs and certifying plaintiffs as class representatives under Rule 23 of the Federal Rules of Civil Procedure and plaintiffs' counsel as Lead Counsel;

(b) Awarding compensatory damages in favor of plaintiffs and the other Class members against all defendants, jointly and severally, for all damages sustained as a result of defendants' wrongdoing, in an amount to be proven at trial, including interest thereon;

(c) Awarding plaintiffs and the Class their reasonable costs and expenses incurred in this action, including counsel fees and expert fees; and

(d) Such other and further relief as the Court may deem just and proper.

JURY TRIAL DEMANDED

Plaintiffs hereby demands a trial by jury.

Dated: January 29, 2001

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