

As filed with the Securities and Exchange Commission on May 18, 2001.

Registration No. 333-47424

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Amendment No. 3
To
FORM S-1

REGISTRATION STATEMENT
Under
THE SECURITIES ACT OF 1933

Westar Industries, Inc.

(Exact name of registrant as specified in its charter)

Kansas	7380	48-1092416
(State or other	(Primary Standard	(I.R.S. Employer
jurisdiction	Industrial	
of incorporation or	Classification Code	Identification Number)
organization)	Number)	

818 South Kansas Avenue
Topeka, Kansas 66612
(785) 575-6507

(Address, including zip code, and telephone number, including area code, of
registrant's principal executive offices)

Paul R. Geist
President

Westar Industries, Inc.
818 South Kansas Avenue
Topeka, Kansas 66612
(785) 575-6507

(Name, address, including zip code, and telephone number, including area code,
of agent for service)

With copies to:

Richard D. Terrill, Esq.
Executive Vice President and
General Counsel
Western Resources, Inc.
818 South Kansas Avenue
Topeka, Kansas 66612
(785) 575-6322

Gary W. Wolf, Esq.
Jonathan I. Mark, Esq.
Cahill Gordon & Reindel
Eighty Pine Street
New York, New York 10005
(212) 701-3000

Approximate date of commencement of proposed sale to the public: As soon as
practicable after this Registration Statement is declared effective.

The Registrant hereby amends this Registration Statement on such date or
dates as may be necessary to delay its effective date until the Registrant
shall file a further amendment which specifically states that this Registration
Statement shall thereafter become effective in accordance with Section 8(a) of
the Securities Act or until the Registration Statement shall become effective
on such date as the Commission, acting pursuant to said Section 8(a), may
determine.

+The information contained in this prospectus is not complete and may be +
+changed. We may not sell these securities until the registration statement +
+filed with the Securities and Exchange Commission is effective. This +
+prospectus is not an offer to sell these securities and we are not soliciting +
+an offer to buy these securities in any state where the offer or sale is not +
+permitted. +

SUBJECT TO COMPLETION, DATED MAY 18, 2001

PROSPECTUS

12,250,000 Shares

Westar Industries, Inc.

Common Stock

Westar Industries, Inc. is distributing to the holders of Western Resources, Inc. common stock, other than itself and foreign stockholders, at no charge, non-transferable rights to purchase shares of Westar Industries' common stock at a cash subscription price of \$10 per share. We are also distributing rights on the same terms to holders of Western Resources stock options and restricted share units. This prospectus covers the sale of up to an aggregate of 12,250,000 shares, representing approximately 14.3% of our issued and outstanding common stock upon the exercise of the rights. Presently, Western Resources owns 100% of our outstanding common stock. Assuming exercise of all of the rights, Western Resources will own approximately 85.7% of our outstanding common stock.

You will receive one right for every six shares of Western Resources common stock, or every six shares underlying a stock option or restricted share unit, held as of the close of business on May 9, 2001, the record date. You will not be entitled to receive any rights unless you were a Western Resources stockholder or holder of stock options or restricted share units at that time.

The rights will expire if they are not exercised by 5:00 p.m., New York City time, on July 13, 2001, the expected expiration date of the rights offering. We, at our sole discretion, may extend the period for exercising the rights. Rights which are not exercised by the expiration date will expire and will have no value. Your exercise of the rights may not be revoked unless the expiration date is extended for more than thirty days or there is a material change in the terms of the rights offering. You should carefully consider whether or not to exercise your rights before the expiration date.

We will consummate the rights offering only if, among other things, rights (including rights exercised pursuant to the over-subscription privilege) for at least 8.2 million shares of our common stock, representing approximately 10% of our outstanding common stock, are exercised by the final expiration date.

Each share of our common stock has associated with it one right to purchase one one-hundredth of a share of our preferred stock at a stipulated price in certain circumstances relating to changes in ownership of Westar Industries under our shareholder rights agreement.

Prior to the rights offering, there has been no public market for the shares of our common stock and we have set the subscription price. Application has been made to have our common stock listed on the NYSE. In the event we do not qualify for listing on the NYSE, we have made application to have our common stock listed for quotation on The Nasdaq National Market.

Investment in our common stock involves a high degree of risk. A discussion of risks you should consider in determining whether to exercise your rights

begins on page 8.

The gross proceeds from the rights offering, assuming all of the rights have been exercised, will be approximately \$122.5 million, all of which will be received by us. The net proceeds of the offering will be advanced to Western Resources and increase the amount of a receivable owed us. Expenses of the rights offering will be paid by us and are estimated to be approximately \$2.25 million.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or passed upon the adequacy or accuracy of this prospectus. Any representation to the contrary is a criminal offense.

The Solicitation Agent for the rights offering is:

Georgeson Shareholder Securities logo

The date of this prospectus is May . . , 2001

No person has been authorized by us to give any information or to make any representation not contained in this prospectus and, if given or made, such information or representation should not be relied upon as having been authorized by us. This prospectus does not constitute an offer or a solicitation of an offer to buy any securities other than the shares of our common stock to which it relates issuable upon exercise of the rights or an offer or solicitation to any person in any jurisdiction where such an offer or solicitation would be unlawful. Neither the delivery of this prospectus nor any distribution of the securities offered hereby shall, under any circumstances, imply or create any implication that there have not been any changes in our affairs or in the information set forth or incorporated by reference herein subsequent to the date hereof.

TABLE OF CONTENTS

	Page

Forward-Looking Statements.....	ii
Questions and Answers About the Rights Offering.....	iii
Who Can Help Answer Your Questions.....	vi
Summary.....	1
Risk Factors.....	8
The Rights Offering.....	19
Use of Proceeds.....	29
Market Price of Common Stock.....	29
Dividend Policy.....	29
Capitalization.....	30
Dilution.....	30
Selected Historical Consolidated Financial Data.....	31
Management's Discussion and Analysis of Financial Condition and Results of Operations.....	33
Business.....	55
Management.....	65
Ownership of Common Stock.....	76
Certain Relationships and Related Transactions.....	78
Description of Westar Industries Capital Stock.....	85
Plan of Distribution.....	89
Certain Federal Income Tax Consequences.....	90
Legal Matters.....	91
Experts.....	91
Available Information.....	91
Index to Westar Industries' Financial Statements.....	F-1
Exhibit--ONEOK Financial Statements	
A.Audited Consolidated Financial Statements.....	A
B.Unaudited Interim Consolidated Financial Statements for the quarter ended March 31, 2001.....	B

FORWARD-LOOKING STATEMENTS

You should rely only on the information contained in this prospectus. We have not authorized anyone to provide you with information different from that contained in this prospectus. The information contained in this prospectus is accurate only as of the date of this prospectus, regardless of the time of delivery of this prospectus or of any distribution of the rights.

Except for the historical information contained herein, this prospectus contains forward-looking statements, all of which are subject to risks and uncertainties. These risks and uncertainties include future events and conditions concerning capital expenditures; earnings; restructuring Protection One's customer acquisition channels; the administrative and other services provided by Western Resources to us; litigation; possible corporate restructurings; mergers and acquisitions; liquidity and capital resources; capitalization or growth opportunities; changes in accounting requirements and other accounting matters; and Protection One's financial condition and its impact on our consolidated results. Forward-looking statements can be identified by their use of words such as "expects," "plans," "will," "believes," "may," "could," "estimates," "intends" and other words of similar meaning. Should known or unknown risks or uncertainties materialize, including changes in future economic conditions, legislative developments, competing markets, amendments or revisions to Western Resources' current plans, when and whether the closing of the PNM merger and the related split-off of our company referred to below will occur, the impact of regulation by the State Corporation Commission of the State of Kansas, or the KCC, on such matters, and other circumstances affecting anticipated operations, revenues and costs, or should our assumptions prove inaccurate, actual results could vary materially from those anticipated. See "Risk Factors" for further information on these and other uncertainties.

ii

QUESTIONS AND ANSWERS ABOUT THE RIGHTS OFFERING

Q: What is a right?

A: Each right entitles its holder to purchase one share of our common stock at a subscription price of \$10 per share through July 13, 2001 or, if the subscription period is extended, through such later expiration date. In addition, each right carries with it an over-subscription privilege.

Q: What is the rights offering?

A: The rights offering is a distribution of rights on a pro rata basis to all Western Resources stockholders, other than foreign stockholders, who held shares of Western Resources common stock on May 9, 2001, the record date. We are also distributing rights to holders on that date of Western Resources stock options and restricted share units. "Pro rata" means in proportion to the number of shares of Western Resources common stock which you and the other persons receiving rights hold on the record date. We are distributing one right for every six shares of Western Resources common stock, or every six shares underlying a stock option or restricted share unit, held on the record date, provided that each such holder will receive at least one right.

Q: What is the over-subscription privilege?

A: The over-subscription privilege entitles you, if you exercise your rights in full, to subscribe for additional shares of our common stock at the subscription price in an amount up to a maximum of the higher of (1) five times the number of rights you receive, and (2) 100 shares. The over-subscription privilege covers shares for which rights were not exercised. If

there are more shares of our common stock available than the number of over-subscription requests, all over-subscription requests will be filled in full. If there are more over-subscription requests than available shares, the available shares will be allocated among those holders exercising the over-subscription privilege. The allocation will be made first to holders of less than 100 rights so that those holders may subscribe for 100 shares (or the next higher multiple of 10 shares) and thereafter pro rata among all holders exercising the over-subscription privilege.

For purposes of determining the number of additional shares available for the over-subscription privilege, a participant in the Western Resources, Inc. Employees' 401(k) Savings Plan or Protection One 401(k) Plan will be treated as having subscribed for the full number of shares elected by such participant even if the number of shares actually purchased for such participant's account is reduced because his or her available account is insufficient to pay the total subscription price.

Q: How was the subscription price per share determined?

A: Prior to the rights offering, there has been no public market for our common stock. We set the subscription price based upon factors we deemed relevant. In making this determination, we did not obtain an independent valuation of our company, our assets or our common stock. Accordingly, the actual value or resale value of our common stock may be significantly higher or lower than the subscription price for the rights. See "The Rights Offering--How The Exercise Price Was Arrived At" for further information.

Q: How do I exercise my rights?

A: You may exercise your rights by completing and signing the enclosed rights certificate. You must deliver your rights certificate together with full payment of the subscription price, including the price of any shares to be acquired by over-subscription, to the Subscription Agent on or prior to the expiration date. If you use the mail, we recommend that you use insured, registered mail, return receipt requested.

If you cannot deliver your rights certificate to the Subscription Agent on time, you may follow the procedures set forth in this prospectus under the heading "The Rights Offering--Guaranteed Delivery Procedures."

If you hold your shares of Western Resources common stock through a broker, custodian bank

iii

or other nominee, you must follow the instructions provided to you by that person.

Participants in the Western Resources, Inc. Employees' 401(k) Savings Plan and in the Protection One 401(k) Plan who have any portion of their accounts invested in the Western Resources Common Stock Fund will receive an allocation of rights in the rights offering to their respective plan accounts based on the number of shares of Western Resources common stock allocated to their respective accounts. Each participant will have the right to decide whether or not he or she wishes to exercise the rights allocated to his or her account. If the participant elects to exercise any such rights he or she must complete and sign the enclosed 401(k) subscription form and deliver it to the Subscription Agent on or prior to July 3, 2001 (or any later deadline that may be established if the expiration date of the rights offering is extended). This deadline is earlier than the expiration date of the rights offering because the 401(k) plan trustee (as recordholder of the Western Resources shares held in the 401(k) plan) is the party that must exercise any rights that plan

participants receive through the plan and the additional time is needed to enable the trustee to process participants' elections. Plan participants who exercise rights should not include the payment of the subscription price. If plan participants use the mail, we recommend that they use insured, registered mail, return receipt requested. The subscription price will be paid by the plan trustee from the participant's plan account by liquidating the account's interest pro rata from the plan's investment funds other than the Western Resources Common Stock Fund based on the participant's account balance in each such fund. Shares purchased pursuant to the participant's election will be allocated to the participant's plan account.

Q. Will I be charged a sales commission or a fee if I exercise my rights?

A. No. A brokerage commission or a fee will not be charged to rights holders for exercising their rights. However, if you exercise your rights through another person such as a broker, custodian bank or other nominee, you will be responsible for any fees charged by that person.

Q. Are there any conditions to the completion of the rights offering?

A. Yes. We will complete the rights offering only if rights for at least 8.2 million shares of our common stock, representing approximately 10% of our outstanding common stock (including rights exercised pursuant to the over-subscription privilege), are exercised by the final expiration date; the common stock offered hereby shall have been approved for listing on the NYSE or on The Nasdaq National Market; each of the agreements discussed in "Certain

Relationships and Related Transactions--Our Transactions Involving Western Resources" shall have been executed and delivered; and we are exempt from registration as an investment company under the Investment Company Act of 1940, as amended. However, we may waive any of these conditions. We also reserve the right to terminate the rights offering at any time for any other reason, including the KCC's investigation (described in this prospectus) concerning the rights offering, the proposed split-off and PNM merger, and any other legal or regulatory proceedings.

Q: May I transfer my rights if I do not want to purchase any shares?

A: No. You may not assign or transfer your rights.

Q: Am I required to subscribe in the rights offering?

A: No. You may choose not to exercise your rights.

Q: If I exercise rights in the rights offering, may I cancel or change my decision?

A: No. Once you have exercised your rights or your over-subscription privilege, your exercise may not be revoked unless the expiration date is extended by more than thirty days or a material change in the terms of the rights offering is made.

Q: If the rights offering is not completed, will my subscription payment be refunded to me?

A: Yes. The Subscription Agent will hold all funds it receives in escrow until completion of the rights offering. If the rights offering is not

iv

completed, the Subscription Agent will return promptly, without interest,

all subscription payments. In the event you choose to exercise your over-subscription privilege, but receive a prorated amount, you will receive a refund for the shares you do not receive.

Q. What are the material U.S. federal income tax consequences of the rights offering?

A: For United States federal income tax purposes, the receipt of rights in the rights offering by stockholders (other than the Western Resources,

Inc. Employees' 401(k) Savings Plan, the Protection One 401(k) Plan and employees or former employees of Western Resources receiving rights in the rights offering by reason of holding outstanding stock options or restricted share units) generally will be treated as a taxable dividend in an amount equal to the fair market value of the rights, which we currently estimate to be \$0.04 per right. The exercise of the rights will not cause you to recognize taxable income, gain or loss, and our shares you receive from the exercise of those rights will have a basis equal to the value of the rights on the date of distribution plus the subscription price paid. In general, if your rights expire unexercised, you will have a capital loss equal to the value of the rights on the date of distribution. Utilization of such capital loss is subject to limitations.

In the case of employees and former employees of Western Resources who receive rights in the rights offering by reason of holding outstanding stock options or restricted share units, the receipt of such rights will not be a taxable event but the exercise of such rights will result in taxable income at the time of exercise in an amount equal to the difference between the then fair market value of the stock and the cash subscription price. Our shares that such employees or former employees receive from the exercise of those rights will have a basis equal to the value of those shares on the date of exercise. The expiration of such rights unexercised would have no tax consequences for such employees or former employees.

Participants in the Western Resources, Inc. Employees' 401(k) Savings Plan or Protection One 401(k) Plan who have any portion of their accounts invested in the Western Resources Common Stock Fund will receive an allocation of

rights in the rights offering to their respective plan accounts based on the number of shares of Western Resources common stock allocated to their respective accounts. Neither the receipt of such rights nor the exercise of such rights within the plan accounts will be a taxable event. The participant will not be taxed on amounts held in his or her account until the participant receives distributions from the plan.

Q. What should I do if I have any questions?

A. If you have questions or need assistance, please contact the Information Agent, Georgeson Shareholder Communications Inc., toll free at (888) 388-2251. Banks and brokerage firms please call (212) 440-9800.

v

For a more complete description of the rights offering, see "The Rights Offering" beginning on page 19.

WHO CAN HELP ANSWER YOUR QUESTIONS

If you have more questions about the rights offering or would like additional copies of the prospectus, you should contact the Subscription or Information

Agent for the rights offering, as follows:

For information call Georgeson Shareholder Communications Inc., the Information Agent, at the following numbers:

Registered holders call toll free (888) 388-2251
Brokers and banks call (212) 440-9800

For delivery of documents and payments to the Subscription Agent:

By Mail: Alpine Fiduciary Services, Inc.
c/o Georgeson Shareholder Communications Inc.
P.O. Box 2065
South Hackensack, NJ 07606-9974

By Overnight: Alpine Fiduciary Services, Inc.
c/o Georgeson Shareholder Communications Inc.
111 Commerce Road
Carlstadt, NJ 07072

By Hand: Alpine Fiduciary Services, Inc.
c/o Georgeson Shareholder Communications Inc.
110 Wall Street, 11th Floor
New York, NY 10005
Attn: Will Richard

For wire transfers: Alpine Fiduciary Services, Inc., at the Provident Bank,

One East Fourth Street, Cincinnati, OH 45202

ABA No. #042000424

Account No. #0767-618

for further credit to Alpine Fiduciary Services, Inc. as
Agent

for Westar Industries

vi

SUMMARY

This summary highlights certain information from this document and may not contain all of the information that is important to you. To understand the rights offering more fully and for a more complete description of the legal terms of the rights offering, you should read carefully this entire document and the Exhibits hereto. This summary does not contain a complete statement of all material information relating to the matters discussed in this document.

The terms "Westar Industries," "we," "us" and "our" as used in this prospectus refer to Westar Industries, Inc. and its consolidated subsidiaries unless we indicate otherwise or the context otherwise requires. The term "Western Resources" refers to Western Resources, Inc., the parent of Westar Industries. The term "Protection One" refers to Protection One, Inc., a subsidiary of Westar Industries, and its subsidiaries. The term "Monitoring" refers to Protection One Alarm Monitoring, Inc., a wholly owned subsidiary of Protection One, and its subsidiaries. The term "Protection One Europe" collectively refers to Protection One International, Inc. and Protection One (UK) plc, both wholly owned subsidiaries of Westar Industries, and their subsidiaries. The term "ONEOK" refers to ONEOK, Inc. and its subsidiaries, in

which we own an approximate 45% interest.

Westar Industries, Inc.
818 South Kansas Avenue
Topeka, Kansas 66612
(785) 575-6507

We are principally engaged in the monitored security business through Protection One and Protection One Europe, which provided monitored security services to over 1.4 million customers in North America, the United Kingdom and continental Europe at March 31, 2001. We own approximately 85% of Protection One and 100% of Protection One Europe. We also own approximately 45% of ONEOK, an Oklahoma based company that purchases, gathers, processes, transports, stores, distributes and markets natural gas, an approximately 17% common stock interest in Western Resources, and a receivable owed to us by Western Resources in the amount of approximately \$116.6 million at April 30, 2001. In addition, we own interests in international power plants and other investments which in the aggregate are not material. Following completion of the rights offering, assuming full exercise of the rights, approximately 85.7% of our outstanding capital stock will be owned by Western Resources.

In April 2000, Western Resources announced that its board of directors had authorized the separation of its electric utilities from us and our subsidiaries. In May 2000, Western Resources announced that its board of directors had authorized management to explore strategic alternatives for its regulated electric utilities. On November 8, 2000, Western Resources entered into an agreement with Public Service Company of New Mexico (PNM) pursuant to which PNM (or a holding company formed by PNM, referred to in this prospectus as PNM Holdings) will acquire Western Resources in a tax-free stock-for-stock merger. All of our common stock held by Western Resources at that time will be distributed to Western Resources' shareholders in exchange for a portion of their Western Resources common stock. This exchange is referred to in this prospectus as the split-off.

The rights offering is the initial step in our separation from Western Resources. The rights offering is intended to result in the creation of a public market for our common stock and in that respect is essentially an initial public offering of our common stock. However, no assurance can be given as to if, when or whether the PNM merger or the split-off will occur.

Please refer to "Risk Factors" for information you should review in making a determination whether to exercise the rights you receive in the rights offering, including information with respect to an investigation by the KCC concerning the rights offering, the proposed split-off and PNM merger and related matters which could materially adversely impact these matters and our results of operations, financial position, business and prospects.

1

CORPORATE STRUCTURE SUBSEQUENT TO PROPOSED TRANSACTION

The chart below illustrates the corporate structure after the consummation of the rights offering assuming all of the rights are exercised.

{GRAPHIC}

As of May 18, 2001.

2

The Rights Offering

The Rights:

We will distribute to holders of Western Resources' common stock, other than ourself and foreign stockholders as of the close of business on May 9, 2001, the record date, at no charge, one non-transferable right for every six shares of Western Resources common stock owned by such stockholder. We will also distribute rights on the same terms to holders of Western Resources stock options and restricted share units. Participants in the Western Resources, Inc. Employees' 401(k) Savings Plan or Protection One 401(k) Plan who have any portion of their accounts invested in the Western Resources Common Stock Fund will receive an allocation of rights in the rights offering to their respective plan accounts based on the number of shares of Western Resources common stock allocated to their respective account. Each participant will have the right to decide whether or not he or she wishes to exercise the rights allocated to his or her account. If the participant elects to exercise any such rights, the cash subscription price will be paid from the participant's plan account by liquidating the account's interest pro rata from the plan's investment funds other than the Western Resources Common Stock Fund based on the participant's account balance in each such fund. Shares purchased pursuant to the participant's election will be allocated to the participant's plan account. The number of rights distributed to each person receiving rights will be rounded down to the nearest whole number because fractional rights will not be issued. The rights will be evidenced by a non-transferable rights certificate or, for 401(k) plan participants, a 401(k) subscription form.

Basic
Subscription
Privileges:

Each right will entitle the holder to purchase one share of our common stock for \$10, the per share subscription price. Each share of our common stock has associated with it one right to purchase one one-hundredth of a share of our preferred stock at a stipulated price in certain circumstances relating to changes in our ownership. See "Description of Westar Industries Capital Stock--Rights Plan."

Over-Subscription
Privilege:

Each holder who elects to exercise his or her rights in full may also subscribe for additional shares at the same subscription price per share in an amount up to a maximum of the higher of (1) five times the number of rights received and (2) 100 shares. The number of additional shares available for the over-subscription privilege will depend on how many holders exercise their rights. If there are not enough of our shares available to fully satisfy all of the over-subscription privilege requests, the available shares will be distributed among rights holders who exercised their over-subscription privilege. The allocation will be made first to holders of less than 100 rights so that those holders may subscribe for 100 shares (or the next higher multiple of 10 shares) and thereafter pro rata among all holders exercising the over-subscription privilege. In the event you choose to exercise the over-subscription privilege but receive a prorated amount, you will receive a refund for the subscription price of any shares you do not receive promptly after the expiration of

the rights offering. For purposes of determining the over-subscription privilege, a participant in the Western Resources, Inc. Employees' 401(k) Savings Plan or Protection One 401(k) Plan will be treated as having subscribed for the full number of shares elected by such participant even if the number of shares actually purchased for such participant's account is reduced because his or her available account is insufficient to pay the total subscription payment.

3

Conditions to the
Rights Offering:

We will not consummate the rights offering unless the following conditions have been satisfied: rights for at least 8.2 million shares of our common stock, representing approximately 10% of our outstanding common stock (including rights exercised pursuant to the over-subscription privilege), are exercised by the final expiration date; the common stock offered hereby shall have been approved for listing on the NYSE or on The Nasdaq National Market; we are exempt from registration as an investment company under the Investment Company Act of 1940, as amended (referred to as the Investment Company Act); and each of the agreements discussed in "Certain Relationships and Related Transactions--Our Transactions Involving Western Resources" shall have been executed and delivered. However, we may waive any of these conditions and choose to proceed with the rights offering. We also reserve the right to terminate the rights offering at any time for any other reason, including the KCC's investigation concerning the rights offering, the proposed split-off and PNM merger, and any other legal or regulatory proceedings (see "Risk Factors".)

Subscription
Price:

\$10 per share.

Record Date:

Western Resources stockholders of record, and persons holding Western Resources stock options and restricted shares units, as of the close of business on May 9, 2001, the record date, will receive the rights.

Expiration Date:

Unexercised rights will expire at 5:00 p.m., New York City time, on July 13, 2001, unless we decide in our sole discretion to extend the rights offering until some later time.

Rights Are Non-
Transferable:

The rights will be evidenced by non-transferable rights certificates. Only you may exercise your rights. You may not assign or transfer your rights.

Procedure for
Exercising
Rights:

You may exercise your rights by completing and signing your rights certificate. You must deliver your rights certificate with full payment of the subscription price, including the price of any shares to be acquired by over-subscription, to the Subscription Agent on or prior to the expiration date. If you use the mail, we recommend that you use insured, registered mail, return receipt requested. If you cannot deliver your rights certificate to the

Subscription Agent on time, you may follow the procedures set forth under "The Rights Offering--Guaranteed Delivery Procedures."

In the case of rights received by the Trustee of the Western Resources, Inc. Employees' 401(k) Savings Plan or the Protection One 401(k) Plan, plan participants may exercise rights allocated to their respective accounts by completing and signing their 401(k) subscription form and delivering it to the Subscription Agent on or prior to July 3, 2001 (or any later deadline that may be established if the expiration date of the rights offering is extended). This deadline is earlier than the expiration date of the rights offering because the 401(k) plan trustee (as recordholder of the Western Resources shares held in the 401(k) plan) is the party that must exercise any rights that plan participants receive through the plan and the additional time is needed to enable the trustee to process participants' elections. Plan participants who exercise rights should not include payment of the subscription price. If plan participants use the mail, we recommend that they use insured, registered mail, return receipt requested. The

4

subscription price will be paid by the plan trustee from the participant's account by liquidating the account's interest pro rata from the plan's investment funds other than the Western Resources Common Stock Fund based on the participant's account balance in each such fund.

Once you have exercised your rights or your over-subscription privilege, your exercise may not be revoked unless the expiration date is extended for more than thirty days or a material change in the terms of the rights offering is made. Rights not exercised prior to the expiration of the rights offering will be void.

How Rights
Holders Can
Exercise Rights
Through Others:

If you hold shares of Western Resources' common stock through a broker, custodian bank or other nominee, we will ask your broker, custodian bank or other nominee to notify you of the rights offering. If you wish to exercise your rights, you will need to have your broker, custodian bank or other nominee act for you.

Material U.S.
Federal Income
Tax Consequences:

For United States federal income tax purposes, the receipt of rights in the rights offering by stockholders (other than the Western Resources, Inc. Employees' 401(k) Savings Plan or Protection One 401(k) Plan and employees or former employees of Western Resources receiving rights in the rights offering by reason of holding outstanding stock options or restricted share units) generally will be treated as a taxable dividend in an amount equal to the fair market value of the rights, which we currently estimate to be \$0.04 per right. The exercise of the rights will not cause you to recognize taxable income, gain or loss, and the shares of our common stock you receive from the exercise of those rights will have a basis equal to the value of the rights on the date of distribution plus the subscription price paid. In general, if your rights expire

unexercised, you will have a capital loss equal to the value of the rights on the date of distribution. Utilization of such capital loss is subject to limitations.

In the case of employees and former employees of Western Resources who receive rights in the rights offering by reason of holding outstanding stock options or restricted share units, the receipt of such rights will not be a taxable event, but the exercise of such rights will result in taxable income at the time of exercise in an amount equal to the difference between the then fair market value of the stock and the cash subscription price. Our shares that such employees or former employees receive from the exercise of those rights will have a basis equal to the value of those shares on the date of exercise. The expiration of such rights unexercised would have no tax consequences for such employees or former employees.

Participants in the Western Resources, Inc. Employees' 401(k) Savings Plan or Protection One 401(k) Plan who have any portion of their accounts invested in the Western Resources Common Stock Fund will receive an allocation of rights in the rights offering to their respective plan accounts based on the number of shares of Western Resources common stock allocated to their respective accounts. Neither the receipt of such rights nor the exercise of such rights within the plan accounts will be a taxable event. The participant will not be taxed on amounts held in his or her account until the participant receives distributions from the plan.

**Issuance of Our
Common Stock:**

We will issue shares purchased in the rights offering as soon as practicable after the expiration of the rights offering.

5

**Number of Shares
of Common Stock
to Be Outstanding
After the Rights
Offering:**

Immediately following the rights offering and assuming all of the rights have been exercised, approximately 85.4 million shares of our common stock will be outstanding, of which approximately 85.7% will be owned by Western Resources.

**No Recommendation
to Rights
Holders:**

None of Westar Industries, Western Resources or their respective boards of directors or management makes any recommendation as to whether or not you should exercise your rights. You should make your own decision whether to exercise your rights and, if so, how many rights to exercise, after reading this prospectus and consulting with your advisors and based upon your own assessment of your best interests.

**Public Trading
Market for Our
Common Stock:**

Prior to the rights offering, there has been no public market for our shares of common stock. Application has been made to have our common stock listed on the NYSE. In the event we do not qualify for listing on the NYSE, we have made application to have our common stock listed for quotation on The Nasdaq National Market.

Use of Proceeds:

The gross proceeds from the rights offering, assuming all of the rights have been exercised, will be approximately \$122.5 million, all of which will be received by us. The net proceeds of the offering will be advanced to Western Resources which will increase the receivable from Western Resources. Expenses of the rights offering will be paid by us and are estimated to be approximately \$2.25 million.

Risk Factors:

You should carefully consider the information set forth under "Risk Factors" beginning on page 8 and all of the information in this prospectus before deciding to exercise your rights.

Subscription
Agent and
Information
Agent:

Georgeson Shareholder Communications Inc. is acting as the Information Agent and Alpine Fiduciary Services, Inc. is acting as the Subscription Agent.

Solicitation
Agent:

Georgeson Shareholder Securities Corporation.

6

Summary Historical Consolidated Financial Data

The following table sets forth our summary historical consolidated financial data derived from our audited consolidated financial statements as of December 31, 2000, 1999 and 1998 and for the four years ended December 31, 2000, our unaudited consolidated financial statements as of December 31, 1997 and 1996 and for the year ended December 31, 1996, and our unaudited interim consolidated financial statements as of and for the three months ended March 31, 2001 and 2000. Such summary information may not be indicative of our future performance as an independent company. In our opinion, all adjustments, which are normal and recurring in nature, considered necessary for a fair presentation have been included in our summary interim consolidated financial data. The results of operations for the three months ended March 31, 2001 and 2000 are not necessarily indicative of the results to be expected for the entire fiscal year or any other interim period. The summary financial information should be read in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations," "Risk Factors" and the consolidated financial statements and the notes thereto included elsewhere in this prospectus.

	As of and for the Year Ended December 31,					As of and for the Three Months Ended March 31,	
	2000	1999	1998	1997	1996	2001	2000
	(in millions except per share amounts)						
Statement of Operations							
Data:							
Total revenues.....	\$ 539.3	\$ 600.4	\$ 422.4	\$ 153.7	\$ 10.8	\$ 114.7	\$ 147.4
Earnings (loss) before extraordinary gains and accounting change.....	8.7(a)	(82.7) (c)	(83.7) (d)	419.0(e)	(19.4)	(17.8)	44.5(f)
Net income (loss).....	54.1(b)	(71.0) (c)	(82.1) (d)	419.0(e)	(19.4)	(12.8) (b)	59.2(f)
Earnings (loss) per common share--Basic and diluted(g):							
Before extraordinary gain and accounting change.....	\$ 0.12	\$ (1.13)	\$ (1.14)	\$ 5.72	\$ (0.27)	\$ (0.25)	\$ 0.61
Extraordinary gain.....	0.67	0.16	0.02	--	--	0.07	0.25
Accounting change.....	(0.05)	--	--	--	--	--	(0.05)
Earnings (loss) per common share.....	\$ 0.74	\$ (0.97)	\$ (1.12)	\$ 5.72	\$ (0.27)	\$ (0.18)	\$ 0.81
Balance Sheet Data:							
Current assets.....	\$ 155.6	\$ 371.0	\$ 476.3	\$ 247.2	\$ 32.5	\$ 162.7	\$ 190.9
Total assets.....	3,268.4	3,419.7	3,483.9	2,296.8	1,363.0	3,310.8	3,165.1
Long-term debt (net).....	543.2	771.0	842.9	331.8	65.2	527.0	697.2
Shareholder's equity.....	2,248.1	2,151.9	1,237.3	1,298.2	437.7	2,331.7	1,967.4
Book value per common share(g).....	\$ 30.71	\$ 29.40	\$ 16.90	\$ 17.73	\$ 5.98	\$ 31.85	\$ 26.88
Other Data:							
EBITDA(h).....	\$ 341.5	\$ 179.7	\$ 54.4	\$ 879.8	\$ (7.1)	\$ 47.2	\$ 159.8

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- (a) Includes a \$91.1 million pre-tax gain on the sale of an equity investment in a gas compression company and a \$24.9 million pre-tax gain on the sale of investments in paging companies.
- (b) Includes extraordinary gain of \$49.2 million in 2000 and \$4.9 million in the first quarter of 2001 associated with the extinguishment of Protection One debt.
- (c) Includes a \$76.2 million pre-tax charge to record impairment for marketable securities.
- (d) Includes a \$98.9 million pre-tax charge to record exit costs associated with international power development activities.
- (e) Includes a \$864.3 million pre-tax gain on the sale of Tyco International Ltd. common stock.
- (f) Includes a \$73.7 million pre-tax gain on the sale of an equity investment in a gas compression company and a \$24.9 million pre-tax gain on the sale of investments in paging companies.
- (g) Per share amounts based on approximately 73.2 million outstanding shares of our common stock.
- (h) EBITDA represents earnings before interest, taxes, depreciation and amortization. EBITDA does not represent cash flow from operations as defined by accounting principles generally accepted in the United States, should not be construed as an alternative to operating income and is indicative neither of operating performance nor cash flows available to fund the cash needs of our company. Items excluded from EBITDA are significant components in understanding and assessing the financial

performance of our company. We believe presentation of EBITDA enhances an understanding of financial condition, results of operations and cash flows because EBITDA is used by our company to satisfy its debt service obligations, capital expenditures, dividends and other operational needs. Our computation of EBITDA may not be comparable to other similarly titled measures of other companies.

7

RISK FACTORS

You should carefully consider the following risk factors and all other information contained in this prospectus before exercising your rights. Investing in our common stock involves a high degree of risk. Any of the following risks could materially harm our business, operating results and financial condition and could result in a complete loss of your investment.

RISKS RELATED TO OUR SEPARATION FROM WESTERN RESOURCES

We have no operating history as an independent company.

Prior to the rights offering, we operated as a subsidiary in the broader corporate organization of Western Resources rather than as a stand-alone company. Western Resources assisted us by providing administrative functions through shared services arrangements and other support. Because we have never been operated as an independent company, we cannot assure you that we will be able to implement successfully the changes necessary to operate independently or that we will not incur additional costs operating independently that will result in losses.

Our historical financial information may not be representative of our results as a separate company and, therefore, may not be reliable as an indicator of our historical or future results.

The historical financial information we have included in this registration statement may not reflect what our results of operations, financial position and cash flows would have been had we been a stand-alone company during the periods presented or what our results of operations, financial position and cash flows will be in the future. This is because our consolidated financial statements reflect allocations for services, primarily with respect to corporate overhead, which may not reflect the costs we will incur for similar services as a stand-alone company. The information also does not reflect changes we expect to occur in the future as a result of our separation from Western Resources, including changes in how we fund our operations, taxes and employee matters.

The KCC has initiated an investigation of the actions of Western Resources and us related to the rights offering and our separation from Western Resources' electric public utility business and related matters which could materially adversely affect our business and our financial condition.

On May 8, 2001, the KCC, a regulatory agency with jurisdiction over the electric public utility business of Western Resources, initiated an investigation of Western Resources' and our actions with respect to the rights offering and our separation from Western Resources, including the terms of related agreements and other related matters. The order initiating the investigation requires that Western Resources and we explain why each of the "actions, events or relations" described in the order concerning the separation and related matters will not adversely affect Western Resources' ability to provide statutorily required electric public utility service at reasonable rates. In the order, the KCC stated that the investigation shall include, but not be limited to:

- . The basis for and the effect of the amended allocation agreement discussed below on Western Resources' ability to meet its obligations to provide sufficient and efficient service at just and reasonable rates.
- . The basis for and the effect of the intercompany receivable on Western Resources' ability to meet its obligations to provide sufficient and efficient service at just and reasonable rates.
- . The split-off of our stock and other aspects of our separation from Western Resources.
- . The effect of business difficulties faced by our operations, including whether the utility business of Western Resources should continue to be affiliated with us and, if so, under what conditions.
- . Whether the present and prospective capital structures of Western Resources are appropriate given the public utility responsibilities of Western Resources and its wholly owned electric utility subsidiary, Kansas Gas and Electric Company.
- . Whether Western Resources and Kansas Gas and Electric Company are taking the actions necessary to assure that electric service to Kansas customers is economical and efficient.

8

The Staff of the KCC is required by the order to report to the KCC no later than October 8, 2001, unless the date is extended. The KCC has invited others to submit requests for additional matters which might be considered.

By letter written to the Securities and Exchange Commission, or the SEC, on May 11, 2001, the KCC informed the SEC of its investigation and the "possibility of subsequent regulatory actions" indicating that "it is the {KCC's} position that any or all of the rights offering, Split-off or Merger are subject to its regulatory jurisdiction and may be modified or prohibited by the order of the Commission". The KCC stated that the purpose of the investigation is "to determine, among other things, whether or not the consummation of the rights offering, the Merger and the Split-off would leave the Western Resources portion of the resulting utility company which would be merged into PNM with negative equity (that is, more debt on its balance sheet than it has in assets). This would immediately impair the resulting utility's ability to raise capital for necessary construction projects (e.g., build power plants) and might even cause short-term financial hardship for the utility."

We are unable to predict what the nature and findings of the KCC Staff report may be and what action the KCC may take. No assurance can be given that the KCC will not take action which would result in modifications of the terms of the rights offering, the split-off, the composition of our assets (including our ONEOK and Western Resources holdings and the receivable from Western Resources), the composition of our liabilities, the terms of our agreements (or Protection One's agreements) and relations with Western Resources, including terms of the allocation agreement, the shared services agreement, borrowing arrangements, our option agreement to acquire Western Resources' interest in an electric power plant and the tax disaffiliation agreement.

We have not operated as a stand-alone company and our business, financial condition and prospects as described in this prospectus are based upon the premise that we will be able to implement the changes necessary to do so within the framework we describe in this prospectus which is provided by our present assets, liabilities, contracts and relationships with Western Resources. We can

give no assurance that actions taken by the KCC as a result of the investigation will not impact our assets, liabilities or these agreements and relationships in a manner which would materially adversely affect our financial position, results of operations, liquidity, business or prospects and, thus, our shareholders and the value of our common stock.

For further information, we refer you to the KCC order which is an exhibit to the Registration Statement of which this prospectus is a part.

We will need to find sources of capital.

We have historically relied on Western Resources for our capital needs for strategic transactions. Our needs for operating funds historically have not been significant because we operated as a subsidiary of Western Resources. After the rights offering, we do not expect Western Resources to finance our operations. We expect to have adequate cash flow to meet our existing operating requirements following the rights offering from existing cash balances, the operating cash flow of Protection One and Protection One Europe, dividends from ONEOK and our other investments, amounts repaid on the receivable owed to us by Western Resources, proceeds of asset sales and, following the closing of the PNM merger and the split-off, dividends from PNM Holdings. However, we can give no assurance as to whether our cash flow will be adequate in the future. In any event, we will need to find other sources of capital or financing to make any strategic acquisition or investment. We cannot assure you that capital or financing would be available to us on acceptable terms or at all. See the following risk factor for a discussion of restrictions on the use of cash from the sale of certain assets and the risk factor above for information on a KCC investigation which might materially adversely impact our liquidity.

The receivable owed to us by Western Resources will be converted into certain securities.

Our assets currently include a receivable due from Western Resources in the amount of approximately \$116.6 million at April 30, 2001. The receivable will be increased or decreased by additional advances or payments between us and Western Resources, including the advance of all the net proceeds of the rights

9

offering. Prior to the effective time of the PNM merger, pursuant to the allocation agreement, we will convert any amounts then outstanding under the receivable into (1) our common stock owned by Western Resources at a price based on the average market prices for the 20 trading days preceding conversion, but not less than the subscription price, (2) Western Resources common stock at a price based on the average market prices for the 20 trading days preceding conversion, or (3) Western Resources convertible preference stock. On February 28, 2001, we converted \$350 million of the then outstanding balance of the receivable into approximately 14.4 million shares of Western Resources common stock, representing approximately 17% of Western Resources outstanding common stock.

At the effective time of the PNM merger, any Western Resources common stock we own will be converted into PNM Holdings common stock based on the merger exchange ratio, and any Western Resources convertible preference stock we own will be converted into PNM Holdings convertible preferred stock. In addition, we will receive shares of our common stock as part of the split-off transaction and these shares will be retired.

In addition, under an amendment to the allocation agreement we have agreed to use the net cash proceeds of any sales of our ONEOK or Western Resources shares or the net cash proceeds of any borrowings by us secured by our interest in ONEOK or Western Resources, to purchase the securities described above or to

advance such proceeds to Western Resources which will increase the amount of the receivable owed to us. This agreement will terminate upon the earlier of the closing of the PNM merger or the secured debt of Western Resources related to its electric utility operations receiving an investment grade rating from Moody's and Standard & Poor's.

The allocation agreement and amendment to this agreement is described further under "Certain Relationships and Related Transactions--Our Transactions Involving Western Resources--Asset Allocation and Separation Agreement." You should refer to that description for information about termination of the amendment, actions required should the PNM merger not be completed and other important information concerning the allocation agreement. See also "Risk Factors--Risks Related To Our Separation From Western Resources" for information with respect to the KCC investigation which may materially adversely impact the agreement and the receivable due to us from Western Resources.

We are a holding company and are dependent on our subsidiaries and ONEOK to meet our payment obligations and requirements for liquidity.

We are a holding company with ownership interests in our subsidiaries, Western Resources, ONEOK and, following the closing of the PNM merger and the split-off, PNM Holdings. We conduct all of our business through our subsidiaries. The ability of our subsidiaries to pay dividends or to make loans, advances or other payments to us will depend on the subsidiaries' results of operations, provisions of applicable laws and contractual restrictions in existing and future instruments governing indebtedness.

Dividends on our ONEOK stock provide a significant portion of our cash flow from operations. A decrease or interruption in the dividends paid by ONEOK would adversely affect our liquidity and ability to continue our operations. There can be no assurance ONEOK will continue to pay dividends at the current rate or at all in the future. ONEOK's failure to pay dividends in certain amounts would result in the termination of a shareholder agreement with ONEOK unless we agreed otherwise, and we would then be free of certain restrictions contained in the shareholder agreement. Debt agreements pursuant to which ONEOK's outstanding long-term and short-term debt has been issued limit dividends and other distributions on its common stock. Please refer to ONEOK's financial statements attached hereto as Exhibit A and Exhibit B and ONEOK's Form 10-K for 2000 and Form 10-Q for March 31, 2001 and other documents it files with the Securities and Exchange Commission, or SEC, for further information concerning ONEOK. Such reports and documents are available at the SEC's public reference rooms and from the SEC's website. See "Available Information."

Dividends on PNM Holdings common stock will provide significant additional cash flow after the closing of the PNM merger and the split-off. A decrease or interruption in the dividends paid by PNM Holdings would

10

adversely affect our liquidity and ability to continue our operations. There can be no assurance PNM Holdings will pay dividends at the expected rate or at all following the closing of the PNM merger. PNM Holdings' failure to pay dividends in certain amounts would result in the termination of a shareholder agreement with PNM Holdings unless we agreed otherwise, and we would then be free of certain restrictions, including restrictions on our sale of our PNM Holdings stock, contained in the shareholder agreement. PNM Holdings may incur indebtedness subject to agreements which restrict its ability to pay dividends and make other distributions on its common stock.

Dividends on Western Resources common stock are currently reinvested under Western Resources' direct stock purchase plan. These dividends constitute a

significant portion of our income and if not reinvested would constitute a significant portion of our cash flow. A decrease or interruption in the dividends paid by Western Resources would adversely affect our operations and could adversely affect our liquidity. Western Resources' articles of incorporation and certain agreements relating to its indebtedness restrict its ability to pay dividends and make other distributions on its common stock in various circumstances.

Protection One has never paid any cash dividends on its common stock (other than a special dividend in connection with our acquisition of Protection One in 1997) and does not intend to pay any cash dividends in the foreseeable future. The ability of Monitoring, the principal operating subsidiary of Protection One, to pay dividends or make other distributions to Protection One is restricted by the agreements relating to certain of its indebtedness. Consequently, we do not have access to the cash flow of Protection One for the payment of dividends on our capital stock or for our other purposes.

See "Risks Factors--Risks Related To Our Separation From Western Resources" relating to the KCC investigation.

We must maintain our exemption from registration under the Investment Company Act.

Upon consummation of the rights offering, we will rely on a temporary one-year exemption from registration under the Investment Company Act. Registration would otherwise be required because of the value and nature of our ownership interests in ONEOK, our subsidiaries, our common stock interest in Western Resources, the receivable from Western Resources and, following the closing of the PNM merger and the split-off, an ownership interest in PNM Holdings. Registration under the Investment Company Act would impose significant restrictions on our operations and adversely affect shareholder value. We have submitted an application to the SEC requesting a permanent exemption from registration under the Investment Company Act, but no assurance can be given that we will receive a permanent exemption following the expiration of the temporary one-year exemption from registration under the Investment Company Act. Without a permanent exemption, we would need to take action to avoid registration. Possible action could include selling a portion of our ownership interests in ONEOK and PNM Holdings or exercising our option to purchase an electric generating facility near Joplin, Missouri from Western Resources and registering as a holding company under the Public Utility Holding Company Act of 1935, or PUHCA. Legislation has been proposed to repeal PUHCA which could eliminate this alternative. Our ability to transfer our ownership interests in ONEOK and PNM Holdings is restricted under the terms of shareholder agreements. Therefore, if we wished to dispose of all or a portion of our ONEOK or PNM Holdings interests in order to avoid registration under the Investment Company Act, such transactions could be required to be effected in a manner which could adversely affect the amount of proceeds we receive upon consummation.

We have deferred tax assets we may not utilize.

Western Resources makes payments to Protection One for current tax benefits utilized by Western Resources in its consolidated tax return pursuant to a tax sharing arrangement. If Western Resources completes its proposed transaction with PNM Holdings, including the split-off, we would no longer be able to file taxes on a consolidated basis with Western Resources. As a result, our deferred tax assets of \$80.1 million at March 31, 2001 would not be realizable and we would not be in a position to record a tax benefit for losses

incurred. We would be required to record a non-cash charge against income for the portion of our deferred tax assets we determine not to be realizable. This charge could be material and could have a material adverse effect on our

business, financial condition and results of operations.

If we register under the Public Utility Holding Company Act, we would have additional restrictions imposed on our business.

If we are unable to obtain a permanent exemption from registration under the Investment Company Act, we may decide to register as a holding company under PUHCA. Being subject to regulation under PUHCA would impose a number of restrictions on our operations. These restrictions include a requirement that the SEC approve, in advance, securities issuances, sales and acquisitions of utility assets or of securities of utility companies and acquisitions of interests in other businesses. PUHCA also limits the ability of registered holding companies to engage in non-utility ventures and regulates transactions between various affiliates within the holding company system, including the provision of services by holding company affiliates to the system's utilities. Legislation has been proposed to repeal PUHCA which could eliminate this exemption.

Our ability to grow may be affected by certain occurrences.

Our operations and ability to grow may be affected by numerous factors, including changes in customer requirements, new laws, technological advances, entry of new competitors and changes in our access to capital. We cannot predict which, if any, of these or other factors might have a significant impact in the future, nor can we predict what impact, if any, the occurrence of these or other events might have on our operations.

The split-off may not be completed.

Western Resources will distribute any shares of our common stock held by it at the time of the PNM merger to its shareholders immediately before the closing of the PNM merger. However, we can give no assurances whether or when the closing of the PNM merger or the split-off will occur since the closing is subject to the satisfaction of various closing conditions, including regulatory and shareholder approvals. In addition, in the event the split-off does not occur Western Resources may be required to take actions, including the sale of our common stock or our assets, to raise funds to reduce its debt. For a discussion of the actions Western Resources may be required to take, see "Certain Relationships and Related Transactions--Asset Allocation and Separation Agreement." The failure of Western Resources to complete the split-off could have a material adverse effect on the liquidity and trading price of our common stock. The investigation by the KCC discussed under "Risk Factors--Risks Related To Our Separation From Western Resources" may also impact the split-off.

RISKS PARTICULAR TO THE MONITORED SECURITY BUSINESS

Protection One has experienced net losses which are likely to continue.

Protection One has a history of significant net losses which are expected to continue. Protection One incurred net losses of \$8.5 million in the first quarter of 2001 (a net loss of \$26.8 million excluding extraordinary gains of \$18.3 million, net of tax), \$57.2 million in 2000 (a net loss of \$106.4 million excluding extraordinary gains of \$49.3 million, net of tax), \$80.7 million in 1999 (a net loss of \$91.9 million excluding the effect of a one time gain, net of tax), \$17.8 million in 1998, and \$42.3 million in 1997. These losses increased in 1999 and 2000 primarily due to accelerated amortization of customer accounts and a shorter period for amortizing goodwill. Losses may be higher in the future as a result of declining revenues and higher borrowing costs under Protection One's senior credit facility. Protection One is not expected to attain profitable operations in the foreseeable future.

The impact of recently proposed accounting changes relating to goodwill could be significant.

The Financial Accounting Standards Board (FASB) issued an exposure draft on February 14, 2001 which, if adopted as proposed, would establish a new accounting standard for the treatment of goodwill in a business

12

combination. The new standard would continue to require recognition of goodwill as an asset in a business combination but would not permit amortization as currently required by Accounting Principles Board ("APB") Opinion No. 17, "Intangible Assets." The new standard would require that goodwill be separately tested for impairment using a fair-value based approach as opposed to the undiscounted cash flow approach used under current accounting standards. If goodwill is found to be impaired, we would be required to record a non-cash charge against income. The impairment charge would be equal to the amount by which the carrying amount of goodwill exceeds the fair value. Goodwill would no longer be amortized on a current basis as is required under current accounting standards. The exposure draft contemplates this standard to become effective on July 1, 2001, although this effective date is not certain. New information from the FASB indicates the new rule is now expected to become effective on January 1, 2002, although this effective date is not certain. Furthermore, the proposed standard could be modified prior to its adoption.

If the new standard is adopted as proposed, any subsequent impairment test on the customer accounts would be performed on the customer accounts alone rather in conjunction with goodwill utilizing an undiscounted cash flow test pursuant to Statement of Financial Accounting Standards ("SFAS") No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of."

At March 31, 2001, we had \$959.6 million in goodwill attributable to acquisitions of businesses and \$971.0 million in customer accounts. Together these intangible assets represented 58.3% of the book value of our total assets. We recorded \$14.5 million and \$61.3 million in goodwill amortization expense in the first quarter of 2001 and the year ended December 31, 2000, respectively. If the new standard becomes effective as proposed, it is probable that we would be required to record a non-cash impairment charge. We are unable to determine the amount at this time, but we believe the amount would be material and could be a substantial portion of our intangible assets. This impairment charge would have a material adverse effect on our results of operations and could have a material adverse effect on our business and financial condition.

The impact of Protection One class action litigation may be material.

We, Protection One, certain of Protection One's officers and directors and Western Resources are defendants in a purported class action litigation pending in the U.S. District Court for the Central District of California brought on behalf of shareholders of Protection One. The plaintiffs are seeking unspecified compensatory damages based on allegations that various statements concerning Protection One's financial results and operations for 1997, 1998, 1999 and the first three quarters of 2000 were false and misleading. See "Business--Legal Proceedings" for a description of this litigation and other investigations, proceedings and arbitrations pending against Protection One or us. There can be no assurance that these proceedings will not have a material adverse impact on Protection One or us.

Protection One and Protection One Europe lose customers over time.

Protection One and Protection One Europe experience the loss of accounts, referred to as attrition, as a result of, among other factors, relocation of customers, adverse financial and economic conditions, competition from other alarm service companies, and customer service and operational difficulties with

the integration of acquired customers. The effects of the gross number of lost customers have historically been offset by a combination of factors that has resulted in an overall increase in the number of customers and revenue, including adding new accounts from customers who move into premises previously occupied by prior customers in which security alarm systems are installed, adding accounts for which Protection One obtains a guarantee from the seller that allows Protection One to "put" back to the seller cancelled accounts, and revenues from price increases and the sale of enhanced services. In 2000 and 2001, Protection One's customer acquisition strategies did not replace accounts lost as a result of attrition. This is due primarily to a move from reliance on a dealer program to generate customer accounts to reliance on a mix of marketing strategies. If Protection One's new marketing strategies do not increase the number of new accounts, or if Protection One is unable to reduce the level of attrition, there could be a material adverse effect on its business, financial condition and results of operation.

13

Protection One has a substantial amount of debt which could constrain its growth or otherwise adversely affect our investment.

Protection One has, and will likely continue to have, a large amount of consolidated indebtedness. As of March 31, 2001, Protection One had outstanding total indebtedness of approximately \$644.1 million. A large amount of indebtedness could have a negative impact on, among other things, Protection One's ability to obtain additional financing in the future for working capital, acquisitions of customer accounts, capital expenditures and general corporate purposes, Protection One's ability to withstand a downturn in its business or the economy generally, and Protection One's ability to compete against other less leveraged companies.

The indentures governing Protection One's long-term indebtedness require Protection One to satisfy certain financial conditions in order to borrow additional funds. The most restrictive of these covenants require total debt to annualized EBITDA for the most recent quarter to be less than 6.0, annualized EBITDA for the most recent quarter to interest expense to be greater than 2.25, and senior debt to annualized EBITDA to be less than 4 to 1. Protection One was in compliance with these covenants at March 31, 2001. Protection One's ability to comply with these ratios and the tests will be affected by events outside its control and there can be no assurance that Protection One will meet those tests. The indentures governing this indebtedness contain other covenants that impose operational restrictions on Protection One. A breach of any of the covenants could result in an event of default which would allow the lenders to declare all amounts outstanding immediately due and payable.

Protection One may not be able to replace its credit facility on current terms.

We provide a portion of Protection One's liquidity needs through an intercompany \$155 million senior credit facility which matures on January 2, 2002. As of April 30, 2001, Protection One had borrowed \$130 million under this facility. We have advised Protection One that we desire that Protection One replace the facility with other financing. Protection One has announced that it is considering new sources of financing, including new credit facilities with third parties and sales of assets. Protection One was unsuccessful in refinancing the facility with an unaffiliated lender on satisfactory terms in 2000. There is no assurance Protection One will be able to obtain new financing from third parties on similar terms with no disruption to its operations or liquidity, or at all. The investigation by the KCC discussed under "Risk Factors--Risks Related To Our Separation From Western Resources" may also impact our ability to provide Protection One credit.

The credit facility requires that Protection One comply with certain

financial covenants, including a leverage ratio of 5.50 to 1.0 and an interest coverage ratio of 2.25 to 1.0. At March 31, 2001, these ratios were approximately 4.9 to 1.0 and 2.4 to 1.0, respectively. The failure to satisfy these covenants could result in an event of default which would allow us to declare all amounts outstanding immediately due and payable. Protection One does not expect to be in compliance with the interest coverage ratio covenant because of expenses related to the consolidation of certain operations in 2001. We will waive compliance with this covenant or enter into an amendment of the senior credit facility to address this issue.

RISKS PARTICULAR TO OUR INTERESTS IN ONEOK AND PNM HOLDINGS

A shareholder agreement with ONEOK restricts our right to transfer and vote our ONEOK stock

We own approximately 45% of the capital stock of ONEOK. As of April 30, 2001, our interest consisted of approximately 2.2 million shares of the outstanding common stock of ONEOK and 19.9 million shares of convertible preferred stock. The terms of a shareholder agreement with ONEOK restrict our right to transfer and vote our ONEOK shares. Before we can transfer shares representing more than 5% of ONEOK's voting securities to another person (other than by way of a public offering), ONEOK must be given the opportunity to purchase those shares at a cash purchase price equal to 98.5% of the then current market price for ONEOK's common stock. During the term of the shareholder agreement, we have agreed to vote our shares, including for the election of directors, in an agreed upon manner rather than at our sole discretion. These restrictions may

14

prevent us from realizing the full benefits of ownership normally associated with owning a substantial stake in another entity. There can be no assurance as to what effect, if any, these restrictions may have on the value of our ownership stake in ONEOK.

In addition, on November 26, 2012 and each subsequent annual anniversary, each of us and ONEOK, on behalf of its shareholders, has the right to buy from or sell to the other all outstanding shares of ONEOK capital stock beneficially owned by the selling party (which, in the case of ONEOK, means its shareholders other than us and our affiliates). ONEOK may exercise its buy/sell rights immediately upon our registering as a holding company under PUHCA if ONEOK believes that our regulatory status would place an unreasonable restriction on the implementation of ONEOK's strategic business plans.

A stockholder agreement with PNM Holdings will restrict our right to transfer and vote any PNM Holdings stock we acquire in the PNM merger.

Prior to the closing of the PNM merger, any remaining balance of the receivable owed to us by Western Resources will be converted into Western Resources common stock and convertible preference stock or shares of our common stock and subsequently all Western Resources shares we own will be converted into PNM Holdings common stock and convertible preferred stock in the PNM merger. The terms of a stockholder agreement with PNM Holdings will restrict our right to transfer and vote our PNM Holdings shares. Before we can transfer shares representing more than 5% of PNM Holdings' voting securities to another person (other than by way of a public offering), PNM Holdings must be given the opportunity to purchase those shares at the cash price proposed by us. During the term of the agreement, we have agreed to vote our shares, including for the election of directors, in an agreed upon manner rather than at our sole discretion. These restrictions may prevent us from realizing the full benefits of ownership normally associated with owning a substantial stake in another entity. There can be no assurance as to what effect, if any, these restrictions may have on the value of our ownership stake in PNM Holdings. See

"Certain Relationships and Related Transactions--Our Transaction Involving PNM Holdings--Stockholder Agreement."

See "Risk Factors--Risks Related To Our Separation From Western Resources" for information with respect to the KCC investigation which may have an impact on our ownership of ONEOK and PNM Holdings.

RISKS PARTICULAR TO THIS OFFERING

There has been no prior public market for our common stock, so the trading price may be less than the subscription price.

There has been no public market for our common stock, and we cannot assure you that an active public market will develop. The subscription price of \$10 per share is not necessarily indicative of the market price of our common stock after the rights offering, which price may fall below the subscription price. We cannot assure you that if a trading market develops in our common stock, the stock will trade at prices in excess of the subscription price at any time after the date of this prospectus. We set the subscription price based upon factors we deemed relevant. In making our determination, we did not obtain an independent valuation of our company, our assets or our common stock. Accordingly, the actual value or resale value of our common stock may be significantly higher or lower than the subscription price for the rights. See "The Rights Offering--How The Exercise Price Was Arrived At."

It is difficult to predict whether an active market for our stock will develop and be sustained, and the market price of our stock may be volatile.

Prior to the closing of the rights offering you could not purchase our common stock publicly. We cannot assure you that investors will develop an interest in our common stock so that a trading market develops or, if a trading market does develop, how active that trading market will be or whether it will be sustained. Specific factors that may affect the price and liquidity of our securities include:

- . actual or anticipated fluctuations in our quarterly operating results;
- . operating results that vary from investors' expectations as to our future financial performance or changes in financial estimates;
- . announcements of technological innovations or new services by us or our competitors;
- . announcements by third parties of significant claims or proceedings against us;
- . whether and how any distributions or other dispositions of our common stock owned by Western Resources will be made;
- . whether our stock will continue to qualify for listing on the NYSE or The Nasdaq National Market;
- . the operating and stock price performance of other comparable companies; and
- . when and whether the PNM merger and our split-off from Western Resources would occur.

Western Resources' voting control after this offering and prior to the closing of the PNM merger and the split-off could prevent a change of control.

Upon closing of the rights offering and prior to the closing of the PNM merger and the split-off, Western Resources will have effective voting control over us since Western Resources will own approximately 85.7% of the outstanding shares of our common stock, assuming all rights are exercised. As a result, Western Resources will be able to control the outcome of substantially all matters submitted to our stockholders for approval, including the election of directors and any proposed merger, liquidation, transfer or encumbrance of a substantial portion of our assets, or amendment to our charter to change our authorized capitalization or otherwise. This concentration of voting power may also have the effect of delaying or preventing a change of control even if it would be beneficial to our minority stockholders.

Anti-Takeover Effects of Charter Provisions and Kansas Law.

Certain provisions of Kansas law and our Amended and Restated Articles of Incorporation and By-laws could delay, impede or make more difficult a merger, tender offer or proxy contest involving us, even if such events could be beneficial to the interests of our stockholders. A shareholders rights plan we have may also have such affect. Such provisions could limit the price that certain investors might be willing to pay in the future for shares of our common stock. See "Description of Westar Industries Capital Stock--Certain Anti-Takeover Provisions and Statutes."

The presence of interlocking directors and officers between Western Resources and us will create potential conflicts of interest.

Some of our directors also are directors, officers or employees of Western Resources and, in most cases, own either shares or rights to equity securities of Western Resources. As a result, these individuals have inherent conflicts of interest when making decisions related to transactions between us and Western Resources. Western Resources' ability to control us prior to the separation, together with the potential conflicts of interest of its directors and executive officers who also serve as our directors, could adversely affect the trading price and liquidity of our common stock. These factors could limit the price that investors might be willing to pay for our common stock in the future.

Personnel serving both Western Resources and us may suffer competing claims on their time which may place demands on our resources.

Initially, through the shared services agreement with Western Resources, we will rely on the services of personnel of Western Resources who will devote their business time and efforts to both Western Resources and us. The competing claims upon each person's time and energies could divert his or her attention from our affairs, placing additional demands on our resources. The efforts of all or any of these individuals may be

16

insufficient to meet both our needs and those of Western Resources. If we lose access to such services altogether, our business, prospects, results of operations and financial condition could be materially adversely affected.

As previously stated, we and our subsidiaries will be split off from Western Resources' electric utilities concurrently with the closing of the PNM merger. We will have the right to continue receiving administrative services pursuant to the shared services agreement for at least two years following the closing of the PNM merger. As we increase our infrastructure and hire additional staff, we expect Western Resources to allocate less of its resources to administrative services for us. We do not know what the cost for such services will be to us or the potential impact on our operations. See "Risk Factors--Risks Related To Our Separation From Western Resources," which may have a material adverse

impact on the shared services agreement.

We rely on intercompany agreements.

We have entered, or will enter, into intercompany agreements with Western Resources, including the shared services agreement. Pursuant to the shared services agreement, Western Resources will provide us with administrative services we request including financial reporting, accounting, auditing, tax, office services, payroll and human resources. We will pay Western Resources for these services at various hourly charges and negotiated fees. The agreement may be terminated upon one year's notice by either party but such notice may not be given earlier than the first anniversary of the closing of the PNM merger. A loss of services provided under the shared services agreement would cause us to seek such services from other sources and no assurance can be given that we will be able to obtain such services on terms at least comparable to the intercompany agreements with Western Resources. The terms of these intercompany agreements with Western Resources were negotiated in the context of a parent-subsidiary relationship. We cannot assure you that the terms of these agreements, or the related transactions, will be effected on terms at least as favorable to us as could have been obtained from unaffiliated third parties. See "Risk Factors--Risks Related To Our Separation From Western Resources," which may have a material adverse impact on the intercompany agreements. See also "Certain Relationships and Related Transactions."

A substantial amount of our common stock will be eligible for future sale or distribution.

Upon the closing of the rights offering, excluding shares owned by Western Resources, there will be issued and outstanding approximately 12.25 million shares of our common stock, assuming all rights are exercised. All such shares will be freely tradeable without restriction, except for any shares purchased by our "affiliates" as defined in Rule 144 under the Securities Act. The approximately 73.2 million shares owned by Western Resources will be "restricted securities" as that term is defined in Rule 144. Such restricted securities will be available for public sale only if registered under the Securities Act, sold in accordance with Rule 144 or sold or transferred in transactions otherwise exempt from registration requirements under the Securities Act. Under Rule 144, a person who is not our affiliate and who has held restricted securities for a period of one year may sell a limited number of shares to the public in ordinary brokerage transactions and, after holding the securities for two years, may freely trade them. Under Rule 144, affiliates of ours holding restricted securities may only sell all of them after holding them for one year and only within the parameters of Rule 144 governing the timing, manner and volume of sales of such shares. Our officers and directors and those of Western Resources may be considered to be affiliates for these purposes.

Following consummation of the rights offering and assuming all of the rights are exercised, Western Resources will hold approximately 73.2 million shares of our common stock which may not be sold to the public without registration under the Securities Act or transferred in transactions otherwise exempt from registration requirements under the Securities Act. We may enter into a registration rights agreement with Western Resources which would grant to Western Resources registration rights with respect to shares of our common stock that it holds. These registration rights would effectively allow Western Resources to sell all of its shares of common stock either on demand or upon the occurrence of certain events and to participate as a selling shareholder in future public offerings by us.

Although Western Resources currently intends to distribute, on a pro rata basis, the remaining shares of our common stock it holds to its common

stockholders immediately prior to the consummation of the PNM merger, it may sell additional shares of our common stock in one or more public or private transactions prior to the proposed split-off. The shares of our common stock distributed by Western Resources would be freely transferable upon such distribution, other than shares distributed to our affiliates.

In addition, 12.5 million shares of our common stock are reserved for issuance under our 2001 Long Term Incentive Compensation and Share Award Plan, and our Employee Stock Purchase Plan. Following the consummation of the rights offering, we intend to file registration statements on Form S-8 under the Securities Act covering the shares reserved for issuance under some or all of these plans. However, there is no present intention to issue any shares pursuant to such plans prior to completion of the split-off. Any such registration statement will automatically become effective upon filing.

We may also issue large amounts of additional common stock in connection with raising additional capital and in connection with possible acquisitions. These shares would become available for resale at various dates in the future.

Sales under Rule 144 may have a depressive effect on the market price of our common stock due to the potential increased number of publicly held securities. The timing and amount of sales of common stock made pursuant to other filed registration statements could also have a negative impact on the market price of our common stock. Any stock options we issue are likely to be exercised, if at all, at a time when we otherwise could obtain a price for the sale of our common stock that is higher than the exercise price per share of such options or warrants. Any such exercise or the possibility of such exercise may impede our efforts to obtain additional financing through the sale of additional securities or make such financing more costly.

We cannot predict the effect, if any, that sales of our common stock, or the availability of shares for sale, or the distribution of our common stock in the future, will have on the market price prevailing from time to time. Nevertheless, sales of significant amounts of our common stock in the public or private market, or the perception that such sales may occur, or the expectation that additional shares will be distributed in the future, could adversely affect prevailing market prices.

See "Certain Relationships and Related Transactions--Asset Allocation and Separation Agreement" for a discussion of the obligation of Western Resources to continue to own at least 80% of our common stock.

18

THE RIGHTS OFFERING

The Rights

Westar Industries will distribute to each holder of Western Resources common stock, other than itself and foreign stockholders, who was a record holder on the record date, which was 5:00 p.m., New York City time, on May 9, 2001, at no charge, one non-transferable right for every six shares of Western Resources common stock such holder owned. We will also distribute rights on the same terms to holders of Western Resources stock options and restricted share units. Each holder of Western Resources common stock, stock options or restricted share units will receive at least one right. We will round down, to the nearest whole number, the number of rights we distribute to each person receiving rights. The rights will be evidenced by nontransferable rights certificates. Each right will allow you to purchase one share of our common stock at a price of \$10. If you elect to exercise your rights in full, you may also subscribe, at the subscription price, for additional shares of our common stock under your over-subscription privilege, if there are enough shares available. We are distributing rights to purchase approximately 14.3% of our outstanding common

stock in the rights offering.

Background and Purpose of the Rights Offering

In April 2000, Western Resources announced that its board of directors had authorized the separation of its electric utilities from us and our subsidiaries. In May 2000, Western Resources announced that its board of directors had authorized management to explore strategic alternatives for its regulated electric utilities. On November 8, 2000, Western Resources entered into an agreement with PNM pursuant to which PNM or PNM Holdings will acquire Western Resources in a merger. All of our common stock held by Western Resources immediately prior to the PNM merger will be distributed to Western Resources shareholders in exchange for a portion of their Western Resources common stock. Following the split-off, none of our shares will be owned by Western Resources.

The rights offering is the initial step in our separation from Western Resources. The rights offering is intended to result in the creation of a public market for our common stock and in that respect is essentially an initial public offering of our common stock. However, no assurance can be given as to whether or when the PNM merger or the split-off will occur.

How The Exercise Price Was Arrived At

Prior to this offering, there has been no public market for our common stock. Accordingly, the subscription price for the common stock was arrived at by our board of directors by considering the market values of Protection One, Western Resources and ONEOK and the adjusted book values of the other interests owned by us as described in the table below. The board of directors discounted the implied valuation per share arrived at to take into account the fact that we are a holding company and that this offering is being made through a rights offering of our common stock for which there is no existing market. In making this determination, we did not obtain an independent valuation of our company, our assets or our common stock. Accordingly, the actual value or resale value of our common stock may be significantly higher or lower than the subscription price for the rights.

Set forth below is a table which indicates assigned valuations, as of the dates indicated, of the various interests we own which were considered by the board of directors. For a number of reasons, the assigned valuations in the table do not, individually or in the aggregate, represent or imply the actual value which may be realized on any such interest, the actual aggregate market value of our common stock or indicate the per share price at which our common stock may trade following completion of the rights offering. Our business is subject to contractual arrangements, as well as various risks, which can affect the price of our common stock significantly.

Among other things, we have entered into an allocation agreement which governs aspects of our split-off from Western Resources. The agreement provides that until the earlier of the closing of the PNM merger and the date on which Western Resources electric utility operations receive an investment grade rating, we shall pay

to Western Resources the net cash proceeds from any sale of our ownership interests in ONEOK and Western Resources and the net cash proceeds of any borrowings by us secured by those interests. In addition, on May 8, 2001, the KCC, a regulatory agency with jurisdiction over the electric public utility of Western Resources, initiated an investigation of Western Resources' and our actions with respect to this rights offering and our split-off from Western Resources and related matters, including the terms of the allocation agreement

and the composition of our assets (including our ONEOK and Western Resources holdings and the receivable from Western Resources) and the composition of our liabilities. We are unable to predict the results of such investigation which may materially adversely affect our business and our common stock. A further discussion of the KCC investigation is set forth under the heading "Risk Factors--Risks Related To Our Separation From Western Resources" and a further discussion of the allocation agreement is set forth under the caption "Certain Relationships and Related Transactions--Our Transactions Involving Western Resources."

Other risks to which we are subject are discussed under the caption "Risk Factors" on page 8 of this prospectus and the information in the table below should also be considered in light of these risks. We are, therefore, unable to predict whether our common stock will trade at prices higher or lower than that which may be implied from the table below. Such information is, therefore, provided for illustrative purposes only.

Our independent auditors have not examined or reviewed the valuations below and do not express an opinion or any other form of assurance on any of the information in the table below.

Ownership Interest -----	Assigned Valuation	Assigned Valuation Per Share (1)
	(dollars in millions, except per share amounts)	
Protection One (2).....	\$ 164.9	\$ 1.93
Protection One Europe (3).....	41.5	.49
ONEOK (4).....	715.9	8.38
Value of Western Resources Shares (5).....	349.4	4.09
International Power Projects (6).....	10.1	.12
Other Interests (7).....	28.0	.33
Intercompany Receivable (8).....	238.7	2.80
Loan to Protection One (9).....	130.0	1.52
Taxes Owed to Western Resources.....	(26.0)	(0.30)
	-----	-----
Total (10).....	\$1,652.5	\$19.36
	=====	=====
Range of Implied Value Giving Effect to Estimated Market Discounts (11):		
.....	\$ 694.0	\$ 8.13
.....	\$ 925.3	\$10.84

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- (1) Assumes there are approximately 85.4 million shares of common stock outstanding upon completion of the rights offering.
 - (2) Our 85% interest in Protection One valued at 20-day volume-weighted average share price as of May 10, 2001.
 - (3) Book value less goodwill as of March 31, 2001.
 - (4) Our 45% interest in ONEOK calculated net of estimated taxes using a tax basis of \$379.5 million and a tax rate of 39.8%. Based on an aggregate of 22,164,000 shares of common and preferred shares owned and a 20-day volume-weighted average share price as of May 10, 2001.
 - (5) Based on a 20-day volume-weighted average share price of 14.6 million shares of Western Resources common stock we owned at May 10, 2001. Does

not take into account any decrease in Western Resources common stock market price per share should we and such shares no longer be consolidated with Western Resources for financial reporting purposes.

- (6) Represents investments in international power projects at book value as of March 31, 2001.
- (7) Other interests as of May 10, 2001.
- (8) As of May 10, 2001, as adjusted by giving effect to the advance of the estimated net proceeds of the rights offering, assuming all of the rights are exercised, to Western Resources.

20

- (9) Amount outstanding as of May 10, 2001 under the senior credit facility we provide to Protection One.
- (10) It is noted that at March 31, 2001 our net tangible book value was approximately \$401.1 million, or approximately \$4.70 per share assuming there are approximately 85.4 million shares of common stock outstanding upon completion of the rights offering. See "Dilution" for information with respect to immediate dilution to purchasers of the shares of common stock offered hereby based upon our net tangible book value at March 31, 2001.
- (11) Estimated using discount ranges believed appropriate for a holding company of 20% to 30% and for a rights offering of 30% to 40%.

No Fractional Rights

We will not issue fractional rights, but rather will round down the number of rights distributed to each holder of Western Resources common stock, stock options or restricted share units to the nearest whole number, provided that each holder will receive at least one right.

You may request that the Subscription Agent divide your rights certificate into parts. This could be needed, for instance, if you are the record holder for a number of beneficial holders of Western Resources common stock. However, the Subscription Agent will not divide your rights certificate so that you would receive any fractional rights.

Expiration of the Rights Offering

You may exercise your subscription privilege at any time before 5:00 p.m., New York City time, on July 13, 2001, the expiration date for the rights offering. There is an earlier deadline of July 3, 2001, for participants in Western Resources, Inc. Employees' 401(k) Savings Plan and Protection One 401(k) Plan, which is necessary to enable the 401(k) plan trustee to process participants' elections before the expiration date. We may, in our sole discretion, extend the time for exercising the rights. If you do not exercise your rights before the expiration date, your unexercised rights will be null and void. We will not be obligated to honor your exercise of rights if the Subscription Agent receives the documents relating to your exercise after the rights offering expires, regardless of when you transmitted the documents, except when you have timely transmitted the documents under the guaranteed delivery procedures described below. We may extend the expiration date by giving oral or written notice to the Subscription Agent on or before the scheduled expiration date.

If we elect to extend the expiration of the rights offering, we will issue a press release announcing the extension no later than 9:00 a.m., New York City

time, on the next business day after the most recently announced expiration date.

Subscription Privileges

Basic Subscription Privilege. Your rights entitle you to the basic subscription privilege and the over-subscription privilege. With your basic subscription privilege, you may purchase one share of our common stock per right, upon delivery of the required documents and payment of the subscription price of \$10 per share. You are not required to exercise all of your rights unless you wish to purchase shares under your over-subscription privilege. We will deliver to you certificates representing the shares which you purchased with your rights as soon as practicable after the rights offering has expired.

Full Exercise of Rights. You may exercise your over-subscription privilege only if you exercise your rights in full. To determine if you have fully exercised your rights, we will consider only the rights held by you in the same capacity. For example, suppose that you were granted rights with respect to shares of Western Resources common stock which you own individually and shares of Western Resources common stock which you own collectively with your spouse. If you wish to exercise your over-subscription privilege with respect to the rights you own individually, but not with respect to the rights you own collectively with your spouse, you only need to fully exercise those rights you own individually. You would not have to subscribe for any shares with respect to rights owned collectively with your spouse to exercise your individual over-subscription privilege.

21

When you complete the portion of your rights certificate to exercise your over-subscription privilege, you will be representing and certifying that you have fully exercised your subscription privileges as to shares of our common stock which you hold in that capacity. You must exercise your over-subscription privilege at the same time you exercise your rights in full.

If you own shares of Western Resources common stock through your broker, custodian bank or other nominee holder who will exercise your subscription privilege on your behalf, you must follow the instructions provided to you by that person. Your broker, custodian bank or other nominee holder may also disclose to us other information received from you.

Participants in the Western Resources, Inc. Employees' 401(k) Savings Plan or Protection One 401(k) Plan who have any portion of their accounts invested in the Western Resources Common Stock Fund will receive an allocation of rights in the rights offering to their respective plan accounts based on the number of shares of Western Resources common stock allocated to their respective accounts. Each participant will have the right to decide whether or not he or she wishes to exercise the rights allocated to his or her account. If the participant elects to exercise any such rights, the cash subscription price will be paid from the participant's plan account by liquidating the account's interests pro rata from the plan's investment funds other than the Western Resources Common Stock Fund based on the participant's account balance in each such fund. Shares purchased pursuant to the participant's election will be allocated to the participant's plan account.

Over-Subscription Privilege. In addition to your basic subscription privilege, you may subscribe for additional shares of our common stock, upon delivery of the required documents and payment of the subscription price of \$10 per share, before the expiration of the rights offering. The amount of additional shares for which you may subscribe is the higher of (1) five times the number of rights you receive, and (2) 100 shares. You may only exercise your over-subscription privilege if you exercise your rights in full and you will only receive shares of our common stock in fulfillment of your over-

subscription if other holders of rights do not exercise their rights in full. For purposes of determining the over-subscription privilege, a participant in the Western Resources, Inc. Employees' 401(k) Savings Plan or Protection One 401(k) Plan will be treated as having subscribed for the full number of shares elected by such participant even if the number of shares actually purchased for such participant's account is reduced because his or her available account is insufficient to pay the total subscription price.

Allocation. If there are more shares of our common stock available than the number of over-subscription requests, all over-subscription requests will be filled in full. If there are more over-subscription requests than available shares, we will allocate the available shares among those holders exercising the over-subscription privilege. The allocation will be made first to holders of less than 100 rights so that those holders may subscribe for 100 shares (or the next higher multiple of 10 shares) and thereafter pro rata among all holders exercising the over-subscription privilege.

Return of Excess Payment. If you exercised your over-subscription privilege and are allocated less than all of the shares for which you wished to subscribe, your excess payment for shares that were not allocated to you will be returned by mail without interest or deduction as soon as practicable after the expiration date. We will deliver to you certificates representing the shares you purchased as soon as practicable after the expiration date and after all pro rata allocations and adjustments have been completed.

Conditions to the Rights Offering

We will not consummate the rights offering unless the following conditions have been satisfied: rights for at least 8.2 million shares of our common stock, representing approximately 10% of our outstanding common stock (including rights exercised pursuant to the over-subscription privilege), are exercised by the final expiration date; the common stock offered hereby shall have been approved for listing on the NYSE or The Nasdaq National Market; we are exempt from registration as an investment company under the Investment Company Act; and each of the agreements discussed in "Certain Relationships and Related Transactions--Our

22

Transactions Involving Western Resources" shall have been executed and delivered. Subject to applicable law, we may waive any of the foregoing conditions and choose to proceed with the rights offering even if one or more of these events do not occur. If we terminate the rights offering, all rights will expire without value and all subscription payments received by the Subscription Agent will be returned promptly, without interest.

Other Matters

We are not making the rights offering in any state or other jurisdiction in which it is unlawful to do so, nor are we selling or accepting any offers to purchase any shares of our common stock from rights holders who are residents of those states or other jurisdictions. We may delay the commencement of the rights offering in those states or other jurisdictions, or change the terms of the rights offering in order to comply with the securities law requirements of those states or other jurisdictions. We may decline to make modifications to the terms of the rights offering requested by those states or other jurisdictions, in which case, if you are a resident of one of those states or jurisdictions you will not be eligible to participate in the rights offering.

Method of Subscription--Exercise of Rights

You may exercise your rights by delivering the following to the Subscription

Agent, at or prior to 5:00 p.m., New York City time, on July 13, 2001, the date on which the rights expire or, if the subscription period is extended, on the later date to which it is extended:

- Your properly completed and executed rights certificate with any required signature guarantees or other supplemental documentation; and
- Your full subscription price payment for each share subscribed for under your subscription privileges.

In the case of rights received by the Trustee of the Western Resources, Inc. Employees' 401(k) Savings Plan or the Protection One 401(k) Plan, plan participants may exercise rights allocated to their respective accounts by delivering to the Subscription Agent, their completed and executed 401(k) subscription form at or prior to 5:00 p.m., New York City time on July 3, 2001 (or any later deadline that may be established if the expiration date of the rights offering is extended). This deadline is earlier than the expiration date of the rights offering because the 401(k) plan trustee (as recordholder of the Western Resources shares held in the 401(k) plan) is the party that must exercise any rights that plan participants receive through the plan and the additional time is needed to enable the trustee to process participants' elections. Plan participants who exercise rights should not include payment of the subscription price. The cash subscription price will be paid by the plan trustee from the participant's account by liquidating the account's interest pro rata from the plan's investment funds other than the Western Resources Common Stock Fund based on the participant's account balance in each such fund.

Method of Payment

Your payment of the subscription price must be made in U.S. dollars for the full number of shares of common stock you are subscribing for by either:

- Check or bank draft drawn upon a U.S. bank or postal, telegraphic or express money order payable in U.S. dollars to the Subscription Agent; or
- Wire transfer of immediately available funds to the subscription account maintained by the Subscription Agent at the Provident Bank, One East Fourth Street, Cincinnati, OH 45202 ABA No. #042000424 Account No. #0767-618 for further credit to Alpine Fiduciary Services, Inc. as Agent for Westar Industries.

In the case of participants in the Western Resources, Inc. Employees' 401(k) Savings Plan or the Protection One 401(k) Plan, see "Method of Subscription--Exercise of Rights," above.

23

Receipt of Payment

Your payment will be considered received by the Subscription Agent only upon:

- Clearance of any uncertified check;
- Receipt by the Subscription Agent of any certified check or bank draft drawn upon a U.S. bank or of any postal, telegraphic or express money order payable in U.S. dollars; or
- Receipt of collected funds in the subscription account designated above.

Clearance of Uncertified Checks

If you are paying by uncertified personal check, please note that uncertified checks may take at least five business days to clear. If you wish to pay the subscription price by uncertified personal check, we urge you to make payment sufficiently in advance of the time the rights offering expires to ensure that your payment is received and clears by that time. We urge you to consider using a certified or cashier's check, money order or wire transfer of funds to avoid missing the opportunity to exercise your rights should you desire to do so.

Delivery of Subscription Materials and Payment

You should deliver your rights certificate and payment of the subscription price or, if applicable, notice of guaranteed delivery to the Subscription Agent by one of the methods described below:

If by mail to: Alpine Fiduciary Services, Inc.
c/o Georgeson Shareholder Communications Inc.
P.O. Box 2065
South Hackensack, NJ 07606-9974

If by overnight courier to: Alpine Fiduciary Services, Inc.
c/o Georgeson Shareholder Communications Inc.
111 Commerce Road
Carlstadt, NJ 07072

If by hand to: Alpine Fiduciary Services, Inc.
c/o Georgeson Shareholder Communications Inc.
110 Wall Street, 11th Floor
New York, NY 10005
Attn: Will Richard

For wire transfers:

Alpine Fiduciary Services, Inc., at the
Provident Bank, One East Fourth Street,
Cincinnati, OH 45202

ABA No. #042000424

Account No. #0767-618

for further credit to Alpine Fiduciary
Services, Inc. as Agent for Westar Industries

Call Georgeson Shareholder
Communications Inc., the
Information Agent at:

For registered holders call toll free (888)
388-2251
For brokers and banks call (212) 440-9800

Your delivery to an address other than the address set forth above will not constitute valid delivery.

Calculation of Rights Exercised

If you do not indicate the number of rights being exercised, or do not forward full payment of the total subscription price for the number of rights that you indicate are being exercised, then you will be deemed to have exercised your basic subscription privilege with respect to the maximum number of rights that may be exercised with the aggregate subscription price payment

you delivered to the Subscription Agent. If your aggregate subscription price payment is greater than the amount you owe for your subscription, you will be deemed to have exercised your over-subscription privilege to purchase the maximum number of shares with your overpayment. If your full subscription price payment is not applied to your purchase of shares, you will be refunded the amount of any overpayment, sent via mail, without interest or deduction, as soon as practicable after the expiration date of the rights offering.

Your Funds Will Be Held by the Subscription Agent Until Shares of Common Stock Are Issued

The Subscription Agent will hold your payment of the subscription price payment in a segregated account with other payments received from other rights holders until we issue your shares to you.

Signature Guarantee May Be Required

Your signature on each rights certificate must be guaranteed by an eligible institution such as a member firm of a registered national securities exchange or a member of the National Association of Securities Dealers, Inc., or by a commercial bank or trust company having an office or correspondent in the United States, subject to standards and procedures adopted by the Subscription Agent, unless:

- . Your rights certificate provides that shares are to be delivered to you as record holder of those rights; or
- . You are an eligible institution.

Notice to Beneficial Holders

If you are a broker, a trustee or a depository for securities who holds shares of Western Resources common stock for the account of others on May 9, 2001, the record date for the rights offering, you should notify the respective beneficial owners of such shares of the rights offering as soon as possible to find out their intentions with respect to exercising their rights. You should obtain instructions from the beneficial owner with respect to the rights, as set forth in the instructions we have provided to you for your distribution to beneficial owners. If the beneficial owner so instructs, you should complete the appropriate rights certificates and submit them to the Subscription Agent with the proper payment. If you hold shares of Western Resources common stock for the account(s) of more than one beneficial owner, you may exercise the number of rights to which all such beneficial owners in the aggregate otherwise would have been entitled had they been direct record holders of Western Resources common stock on the record date for the rights offering, provided that you, as a nominee record holder, make a proper showing to the Subscription Agent by submitting the form entitled "Nominee Holder Certification" which we will provide to you with your rights offering materials.

Beneficial Owners

If you are a beneficial owner of shares of Western Resources common stock or will receive your rights through a broker, custodian bank or other nominee, we will ask your broker, custodian bank or other nominee to notify you of the rights offering. If you wish to exercise your rights, you will need to have your broker, custodian bank or other nominee act for you. If you hold certificates of Western Resources common stock directly and would prefer to have your broker, custodian bank or other nominee exercise all or part of your rights for you, you should contact your nominee and request it to effect the transactions for you. To indicate your decision with respect to your rights, you should complete and return to your broker, custodian bank or other nominee the form entitled "Beneficial Owner Election Form." You should receive this form from your broker, custodian bank or other nominee with the other rights offering materials. If you wish to obtain a

separate rights certificate, you should contact the nominee as soon as possible and request that a separate rights certificate be issued to you. You will be responsible for any fees charged by your broker, custodian bank or other nominee in connection with the rights offering. We will pay your broker \$0.10 for each share purchased upon the exercise of rights (including shares purchased pursuant to the over-subscription privilege) by a beneficial owner of up to 5,000 shares of Western Resources common stock on the record date.

Instructions for Completing Your Rights Certificate

You should read and follow the instructions accompanying the rights certificates carefully.

If you want to exercise your rights, you should send your rights certificates with your subscription price payment to the Subscription Agent. Do not send your rights certificates and subscription price payment to us.

You are responsible for the method of delivery of your rights certificates with your subscription price payment to the Subscription Agent. If you send your rights certificates and subscription price payment by mail, we recommend that you send them by registered mail, properly insured, with return receipt requested. You should allow a sufficient number of days to ensure delivery to the Subscription Agent prior to the time the rights offering expires. Because uncertified personal checks may take at least five business days to clear, you are strongly urged to pay, or arrange for payment, by means of certified or cashier's check, money order or wire transfer of funds.

Determinations Regarding the Exercise of Your Rights

We, or the Subscription Agent on our behalf, will decide all questions concerning the timeliness, validity, form and eligibility of your exercise of your rights and our determinations will be final and binding. We, in our sole discretion, may waive any defect or irregularity, or permit a defect or irregularity to be corrected within such time as we may determine. We may reject the exercise of any of your rights because of any defect or irregularity. We will not receive or accept any subscription until all irregularities have been waived by us or cured by you within such time as we decide, in our sole discretion.

Neither we nor the Subscription Agent will be under any duty to notify you of any defect or irregularity in connection with your submission of rights certificates and we will not be liable for failure to notify you of any defect or irregularity. We reserve the right to reject your exercise of rights if your exercise is not in accordance with the terms of the rights offering or in proper form. We will also not accept your exercise of rights if issuance of shares of our common stock to you could be deemed unlawful under applicable law or is materially burdensome to us.

Guaranteed Delivery Procedures

If you wish to exercise rights, but you do not have sufficient time to deliver the rights certificate evidencing your rights to the Subscription Agent on or before the time your rights expire, you may exercise your rights by the following guaranteed delivery procedures:

- Deliver your subscription price payment in full for each share you subscribed for under your subscription privileges in the manner set forth above in "Method of Payment" to the Subscription Agent on or prior to the expiration date;

- . Deliver the form entitled "Notice of Guaranteed Delivery," substantially in the form provided with the Instructions as to the Use of Westar Industries Rights Certificates distributed with your rights certificates, at or prior to the expiration date or any extended expiration date; and
- . Deliver the properly completed rights certificate evidencing your rights being exercised and the related nominee holder certification, if applicable, with any required signatures guaranteed, to the Subscription Agent within three business days following the date of your Notice of Guaranteed Delivery.

26

Your Notice of Guaranteed Delivery must be delivered in substantially the same form provided with the Instructions as to the Use of Westar Industries Rights Certificates, which will be distributed to you with your rights certificate. Your Notice of Guaranteed Delivery must come from an eligible institution, or other eligible guarantee institutions which are members of, or participants in, a signature guarantee program acceptable to the Subscription Agent.

In your Notice of Guaranteed Delivery, you must state:

- . Your name;
- . The number of rights represented by your rights certificates, the number of shares of our common stock you are subscribing for under your basic subscription privilege and the number of shares of our common stock you are subscribing for under your over-subscription privilege; and
- . Your guarantee that you will deliver to the Subscription Agent any rights certificates evidencing the rights you are exercising within three business days following the date the Subscription Agent receives your Notice of Guaranteed Delivery.

You may deliver your Notice of Guaranteed Delivery to the Subscription Agent in the same manner as your rights certificates at the address set forth above under "--Delivery of Subscription Materials and Payment." You may alternatively transmit your Notice of Guaranteed Delivery to the Subscription Agent by facsimile transmission (Telecopy No.: (201) 460-2889). To confirm facsimile deliveries, you may call (201) 896-5679.

The Subscription Agent will send you additional copies of the form of Notice of Guaranteed Delivery if you need them. Registered holders please call toll free (888) 388-2251 to request any copies of the form of Notice of Guaranteed Delivery. Banks and brokerage firms please call (212) 440-9800 to request any copies of the form of Notice of Guaranteed Delivery.

Non-Transferability of Rights

Only you may exercise your rights or your over-subscription privilege. You may not assign or transfer your rights or your over-subscription privilege.

Procedures for Depository Trust Company Participants

We expect that you will be able to exercise your subscription privilege through the facilities of the Depository Trust Company. If your rights are held of record through the Depository Trust Company, you may exercise your basic subscription privilege by instructing the Depository Trust Company to transfer your rights from your account to the account of the Subscription Agent, together with certification as to the aggregate number of rights you are exercising and the number of shares of our common stock you are subscribing for under your subscription privilege and your subscription price payment for each

share you subscribed for under your subscription privilege.

Questions About Exercising Rights

If you have any questions or require assistance regarding the method of exercising your rights or requests for additional copies of this prospectus, the Instructions as to the Use of Westar Industries Rights Certificates or the Notice of Guaranteed Delivery, you should contact the Subscription Agent at the address and telephone number set forth above under "--Delivery of Subscription Materials and Payment."

Subscription Agent, Information Agent and Solicitation Agent

We have appointed Georgeson Shareholder Communications Inc. to act as Information Agent and Alpine Fiduciary Services, Inc. to act as Subscription Agent for the rights offering. All deliveries and correspondence sent to the Subscription Agent should be directed to the address set forth above. We have appointed Georgeson Shareholder Securities Corporation to act as Solicitation Agent.

27

Requests for assistance or additional copies of this prospectus should be directed to Georgeson Shareholder Communications Inc., as Information Agent, at the address set forth in "The Rights Offering--Delivery of Subscription Materials and Payment." We agreed to pay the Subscription Agent, the Solicitation Agent and the Information Agent reasonable and customary fees for their services and to reimburse them for their reasonable out-of-pocket expenses in connection with the rights offering. We have also agreed to indemnify the Subscription Agent, the Solicitation Agent and the Information Agent for certain liabilities, including liabilities under the federal securities laws.

No Revocation

Once you have exercised your subscription privileges, you may not revoke your exercise unless the expiration date is extended for more than thirty days or a material change in the terms of the rights offering is made. Rights not exercised prior to the final expiration date of the rights offering will expire.

Subscription Price

The subscription price is \$10 per share.

Extensions and Termination

We may extend the rights offering and the period for exercising your rights in our sole discretion. In addition, we may terminate the rights offering at any time prior to the time the rights offering expires.

No Recommendation

An investment in shares of our common stock must be made according to your evaluation of your best interests. None of Westar Industries, Western Resources or their respective boards of directors or management makes any recommendation as to whether you should exercise your rights.

28

USE OF PROCEEDS

The gross proceeds from the rights offering, assuming all of the rights have been exercised, will be approximately \$122.5 million, all of which will be received by us. Expenses of the rights offering will be paid by us and are estimated to be approximately \$2.25 million. We will advance the net proceeds of the offering to Western Resources, which will increase the balance of the receivable owed to us by Western Resources.

MARKET PRICE OF COMMON STOCK

No current public trading market for our common stock exists. Application has been made to have our common stock listed on the NYSE. In the event we do not qualify for listing on the NYSE, we have made application to have our common stock listed for quotation on The Nasdaq National Market.

DIVIDEND POLICY

We currently intend to retain all of our earnings to finance the growth and development of our business. We do not anticipate paying any cash dividends on our capital stock in the foreseeable future. We may incur indebtedness in the future that may effectively prohibit or restrict the payment of dividends. Moreover, Protection One is subject to restrictions under agreements for borrowed money which effectively prohibit it from paying dividends to us.

In the event we decide to declare dividends on our common stock in the future, such declaration will be subject to the discretion of our board of directors. Our board of directors may take into account such matters as general business conditions, our financial results, our liquidity and capital requirements, contractual, legal and regulatory restrictions on the payment of dividends by us to our stockholders or by our subsidiaries to us and any such other factors as our board of directors may deem relevant.

29

CAPITALIZATION

The following table sets forth our capitalization as of March 31, 2001. This table should be read in conjunction with "Risk Factors--Risks Related To Our Separation From Western Resources," "Management's Discussion and Analysis of Financial Condition and Results of Operations" and the consolidated financial statements and the notes thereto included elsewhere in this prospectus.

	March 31, 2001
	(in thousands)
Long-term debt, including current portion:	
Protection One debt 8.125% Senior subordinated notes due January 2009.....	\$ 238,240
7.375% Senior unsecured notes due August 2005.....	204,650
13.625% Senior subordinated discount notes due June 2005....	42,150
6.75% Convertible senior subordinated notes due September 2003.....	23,785
Other.....	43,164
Total long-term debt.....	551,989
Shareholder's equity:	
Common stock(a).....	732
Paid-in capital.....	2,055,701
Retained earnings.....	285,478
Accumulated other comprehensive income (loss).....	(10,224)
Total shareholder's equity.....	2,331,687
Total capitalization.....	\$2,883,676

 (a) Assumes approximately 73.2 million outstanding shares of our common stock.

DILUTION

Our net tangible book value at March 31, 2001 was approximately \$401.1 million, or approximately \$4.70 per share. Net tangible book value per share represents the amount of total tangible assets less total liabilities, divided by the number of shares of common stock outstanding, assuming there are approximately 85.4 million shares of common stock outstanding upon completion of the rights offering. After giving effect to the sale of 12.25 million shares of our common stock at the subscription price of \$10.00 per share and after deducting the estimated offering expenses, our as adjusted net tangible book value at March 31, 2001 would have been \$521.05 million or \$6.10 per share. This represents an increase in net tangible book value of \$1.40 per share to our existing shareholder and an immediate dilution (i.e., the difference between the exercise price per share and the net tangible book value per share adjusted for this offering) at March 31, 2001 of \$3.90 per share to purchasers of the shares of common stock offered hereby. The following table illustrates this per share dilution:

Exercise price per share.....	\$10.00
Net tangible book value per share at March 31, 2001.....	\$4.70
Increase per share attributable to this offering.....	1.40

As adjusted net tangible book value per share after this offering.....	6.10

Dilution per share to new investors.....	\$ 3.90
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The following table summarizes, on a pro forma basis, the number of shares of common stock purchased from us, the total consideration paid to us for those shares and the consideration given by the existing shareholder and by the new investors assuming approximately 85.4 million shares of our common stock are outstanding and all of the rights are exercised:

	Shares Purchased		Total Consideration		Average Price Per Share
	Number	Percent	Amount	Percent	
	(in millions)		(in millions)		
Existing shareholder.....	73.2	85.7%	\$ 2,056.4	94.4%	\$28.09
New investors.....	12.2	14.3	122.2	5.6	\$10.00

Total.....	85.4	100.0%	\$ 2,178.6	100.0%	
=====					

SELECTED HISTORICAL CONSOLIDATED FINANCIAL DATA

The following table sets forth our summary historical consolidated financial

data derived from our audited consolidated financial statements as of December 31, 2000, 1999 and 1998 and for the four years ended December 31, 2000, our unaudited consolidated financial statements as of December 31, 1997 and 1996 and for the year ended December 31, 1996 and our unaudited interim consolidated financial statements as of and for the three months ended March 31, 2001 and 2000. Such summary information may not be indicative of our future performance as an independent company. In our opinion, all adjustments, which are normal and recurring in nature, considered necessary for a fair presentation have been included in our summary interim consolidated financial data. The results of operations for the three months ended March 31, 2001 and 2000 are not necessarily indicative of the results to be expected for the entire fiscal year or any other interim period. The summary financial information should be read in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations," "Risk Factors" and the consolidated financial statements and the notes thereto included elsewhere in this prospectus.

	As of and for the Year Ended December 31,					As of and for the Three Months Ended March 31,	
	2000	1999	1998	1997	1996	2001	2000
(in millions except per share amounts)							
Statement of Operations							
Data:							
Total revenues.....	\$ 539.3	\$ 600.4	\$ 422.4	\$ 153.7	\$ 10.8	\$ 114.7	\$ 147.4
Earnings (loss) before extraordinary gains and accounting change.....	8.7(a)	(82.7)(c)	(83.7)(d)	419.0(e)	(19.4)	(17.8)	44.5(f)
Net income (loss).....	54.1(b)	(71.0)(c)	(82.1)(d)	419.0(e)	(19.4)	(12.8)(b)	59.2(f)
Earnings (loss) per common share--							
Basic and diluted(g):							
Before extraordinary gain and accounting change.....	\$ 0.12	\$ (1.13)	\$ (1.14)	\$ 5.72	\$ (0.27)	\$ (0.25)	\$ 0.61
Extraordinary gain.....	0.67	0.16	0.02	--	--	0.07	0.25
Accounting change.....	(0.05)	--	--	--	--	--	(0.05)
Earnings (loss) per common share.....	\$ 0.74	\$ (0.97)	\$ (1.12)	\$ 5.72	\$ (0.27)	\$ (0.18)	\$ 0.81
Balance Sheet Data:							
Current assets.....	\$ 155.6	\$ 371.0	\$ 476.3	\$ 247.2	\$ 32.5	\$ 162.7	\$ 190.9
Total assets.....	3,268.4	3,419.7	3,483.9	2,295.8	1,363.0	3,310.8	3,165.1
Long-term debt (net).....	543.2	771.0	842.9	331.8	55.2	527.0	697.2
Shareholder's equity.....	2,248.1	2,151.9	1,237.3	1,298.2	437.7	2,331.7	1,967.4
Book value per common share(g).....	\$ 30.71	\$ 29.40	\$ 16.90	\$ 17.73	\$ 5.98	\$ 31.85	\$ 26.88
Other Data:							
EBITDA(h).....	\$ 341.5	\$ 179.7	\$ 54.4	\$ 879.8	\$ (7.1)	\$ 47.2	\$ 159.8

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- (a) Includes a \$91.1 million pre-tax gain on the sale of an equity investment in a gas compression company and a \$24.9 million pre-tax gain on the sale of investments in paging companies.
- (b) Includes extraordinary gain of \$49.2 million in 2000 and \$4.9 million in the first quarter of 2001 associated with the extinguishment of Protection One debt.
- (c) Includes a \$76.2 million pre-tax charge to record impairment for marketable securities.
- (d) Includes a \$98.9 million pre-tax charge to record exit costs associated with international power development activities.
- (e) Includes a \$864.3 million pre-tax gain on the sale of Tyco International Ltd. common stock.

31

- (f) Includes a \$73.7 million pre-tax gain on the sale of an equity investment in a gas compression company and a \$24.9 million pre-tax gain on the sale of investments in paging companies.
- (g) Per share amounts based on approximately 73.2 million outstanding shares of our common stock.
- (h) EBITDA represents earnings before interest, taxes, depreciation and amortization. EBITDA does not represent cash flow from operations as defined by accounting principles generally accepted in the United States, should not be construed as an alternative to operating income and is indicative neither of operating performance nor cash flows available to fund the cash needs of our company. Items excluded from EBITDA are significant components in understanding and assessing the financial performance of our company. We believe presentation of EBITDA enhances an understanding of financial condition, results of operations and cash flows because EBITDA is used by our company to satisfy its debt service obligations, capital expenditures, dividends and other operational needs. Our computation of EBITDA may not be comparable to other similarly titled measures of other companies.

32

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

You should read the following discussion in conjunction with our consolidated financial statements and the notes thereto included elsewhere in this prospectus.

Overview

We are principally engaged in the monitored security business through Protection One and Protection One Europe which provided monitored security services to over 1.4 million customers in North America, the United Kingdom and continental Europe at March 31, 2001. We own approximately 85% of Protection One and 100% of Protection One Europe. We also own approximately 45% of ONEOK, an Oklahoma based company that purchases, gathers, processes, transports, stores, distributes and markets natural gas, an approximately 17% common stock interest in Western Resources, and a receivable owed to us by Western Resources in the amount of approximately \$116.6 million at April 30, 2001. In addition, we own interests in international power plants and other investments which in the aggregate are not material.

We are currently 100% owned by Western Resources. After completion of the rights offering, assuming full exercise of the rights, we will be approximately 85.7% owned by Western Resources. Western Resources will distribute all of our remaining common stock it then owns to Western Resources shareholders in connection with the split-off. Western Resources may sell additional shares of our common stock in one or more public or private transactions prior to the proposed split-off.

The principal activity of Protection One and Protection One Europe is responding to the security needs of their customers. Services are provided to residential (both single family and multifamily residences), commercial and wholesale customers. Sales are generated primarily from recurring monthly payments for monitoring and maintaining the alarm systems that are installed in customers' homes and businesses. Security systems are designed to detect burglaries, fires and other events.

In prior years, Protection One's business was focused primarily on growing its customer account base to achieve critical mass. The strategic focus has now shifted to the following areas:

- . customer service;
- . reducing attrition (attrition is an industry term used to measure customer account terminations);
- . reducing customer acquisition costs, and diversifying the customer acquisition strategy;
- . integrating and building infrastructure such as common platforms for central monitoring stations, billing and other applications;
- . enhancing revenues and margins by offering additional services to new and existing customers; and
- . establishing name recognition by targeting growth to areas near existing branches to increase customer density.

We have four primary business segments, three of which relate to our alarm monitoring business and one of which relates to our other holdings. The four segments are:

- . Protection One North America ("North America")--our core North America alarm monitoring business.
- . Network Multifamily, Inc. ("Multifamily")--our North America alarm monitoring business servicing apartments, condominiums and other multifamily dwellings.
- . Protection One Europe---our alarm monitoring business in continental Europe and the United Kingdom.
- . Other---our other investments and operations, including (i) ONEOK, (ii) the receivable due from Western Resources, (iii) our approximately 17% common stock interest in Western Resources, (iv) Paradigm Direct LLC ("Paradigm") (until December 15, 2000), and (v) ownership interests in international power plants.

33

The following table sets forth the allocation of our revenue and income (loss) from operations among our reportable segments:

	Year Ended December 31,			Three Months Ended March 31,	
	2000	1999	1998	2001	2000
	(unaudited)				
	(in millions)				
Revenues:					
North America.....	\$ 364	\$397	\$ 344	\$ 83	\$ 97
Multifamily.....	39	39	33	9	10
Protection One Europe.....	134	163	44	23	40
Other.....	2	1	1	--	--
	-----	-----	-----	-----	-----
Total.....	\$ 539	\$600	\$ 422	\$ 115	\$ 147
	=====	=====	=====	=====	=====
Income (loss) from operations:					
North America.....	\$ (85)	\$(52)	\$ 11	\$ (23)	\$ (20)
Multifamily.....	2	7	6	--	--
Protection One Europe.....	(10)	13	10	(7)	--
Other.....	(20)	(9)	(136)	1	(3)
	-----	-----	-----	-----	-----
Total.....	\$(113)	\$(41)	\$(109)	\$ (29)	\$ (23)
	=====	=====	=====	=====	=====

Recent Significant Matters

The KCC Investigation.

On May 8, 2001, the KCC, a regulatory agency with jurisdiction over the electric public utility business of Western Resources, initiated an investigation of Western Resources' and our actions with respect to the rights offering and our separation from Western Resources, including the terms of related agreements and other matters. The order initiating the investigation requires that Western Resources and we explain why each of the "actions, events or relations" described in the order concerning the separation and related matters will not adversely affect Western Resources' ability to provide statutorily required electric public utility service at reasonable rates. In the order, the KCC stated that the investigation shall include, but not be limited to:

- The basis for and the effect of the amended allocation agreement discussed below on Western Resources' ability to meet its obligations to provide sufficient and efficient service at just and reasonable rates.
- The basis for and the effect of the intercompany receivable on Western Resources' ability to meet its obligations to provide sufficient and efficient service at just and reasonable rates.
- The split-off of our stock and other aspects of our separation from Western Resources.
- The effect of business difficulties faced by our operations, including whether the utility business of Western Resources should continue to be affiliated with us and, if so, under what conditions.
- Whether the present and prospective capital structures of Western Resources are appropriate given the responsibilities of Western Resources and its wholly owned electric utility subsidiary, Kansas Gas

and Electric Company.

- Whether Western Resources and Kansas Gas and Electric Company are taking the actions necessary to assure that service to Kansas customers is economical and efficient.

34

The Staff of the KCC is required by the order to report to the KCC no later than October 8, 2001, unless the date is extended. The KCC invited others to submit requests for additional matters which might be considered.

By letter written to the SEC on May 11, 2001, the KCC informed the SEC of its investigation and the "possibility of subsequent regulatory actions" indicating that "it is the {KCC's} position that any or all of the rights offering, Split-off or Merger are subject to its regulatory jurisdiction and may be modified or prohibited by the Order of the Commission". The KCC stated that the purpose of the investigation is "to determine, among other things, whether or not the consummation of the rights offering, the Merger and the Split-off would leave the Western Resources portion of the resulting utility company which would be merged into PNM with negative equity (that is, more debt on its balance sheet than it has in assets). This would immediately impair the resulting utility's ability to raise capital for necessary construction projects (e.g., build power plants) and might even cause short-term financial hardship for the utility."

We are unable to predict what the nature and findings of the KCC Staff report may be and what action the KCC may take. No assurance can be given that the KCC will not take action which would result in modifications of the terms of the rights offering, the split-off, the composition of our assets (including our ONEOK and Western Resources holdings and the receivable from Western Resources), the composition of our liabilities, the terms of our agreements (or Protection One's agreements) and relations with Western Resources, including terms of the allocation agreement, the shared services agreement, borrowing arrangements, our option agreement to acquire Western Resources' interest in an electric power plant and the tax disaffiliation agreement.

We have not operated as a stand-alone company and our business, financial condition and prospects as described in this prospectus are based upon the premise that we will be able to implement the changes necessary to do so within the framework we describe in this prospectus which is provided by our present assets, liabilities, contracts and relationships with Western Resources. We can give no assurance that actions taken by the KCC as a result of the investigation will not impact our assets, liabilities or these agreements and relationships in a manner which would materially adversely affect our financial position, results of operations, liquidity, business or prospects and, thus, our shareholders and the value of our common stock.

For further information, we refer you to the KCC order which is an exhibit to the Registration Statement of which this prospectus is a part.

Accounting Matters

Change in Estimate of Useful Life of Goodwill. In January 2000, Protection One and Protection One Europe re-evaluated the original assumptions and rationale utilized in the establishment of carrying value and estimated useful life of goodwill. Protection One concluded that due to continued losses and levels of attrition experienced in 1999, the estimated useful life of goodwill should be reduced from 40 years to 20 years as of January 1, 2000. After that date, remaining goodwill, net of accumulated amortization, is being amortized over its remaining useful life based on a 20-year life. The change in estimate resulted in additional goodwill amortization for the year ended December 31,

2000 of \$33 million, and a reduction to net income for such year of \$26.1 million.

Goodwill Exposure Draft. The Financial Accounting Standards Board (FASB) issued an exposure draft on February 14, 2001 which, if adopted as proposed, would establish a new accounting standard for the treatment of goodwill in a business combination. The new standard would continue to require recognition of goodwill as an asset in a business combination but would not permit amortization as currently required by Accounting Principles Board ("APB") Opinion No. 17, "Intangible Assets." The new standard would require that goodwill be separately tested for impairment using a fair-value based approach as opposed to the undiscounted cash flow approach used under current accounting standards. If goodwill is found to be impaired, we would be required to record a non-cash charge against income. The impairment charge would be equal to the amount by which the carrying amount of goodwill exceeds the fair value. Goodwill would no longer be

35

amortized on a current basis as is required under current accounting standards. The exposure draft contemplates this standard to become effective July 1, 2001, although this effective date is not certain. New information from the FASB indicates the new rule is now expected to become effective on January 1, 2002. Furthermore, the proposed standard could be modified prior to its adoption.

If the new standard is adopted, any subsequent impairment test on the customer accounts would be performed on the customer accounts alone rather than in conjunction with goodwill utilizing an undiscounted cash flow test pursuant to Statement of Financial Accounting Standards ("SFAS") No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of."

At March 31, 2001, we had \$959.6 million in goodwill attributable to acquisitions of businesses and \$971.0 million in customer accounts. Together these intangible assets represented 58.3% of the book value of our total assets. We recorded \$14.5 million and \$61.3 million in goodwill amortization expense in the first quarter of 2001 and for the year ended December 31, 2000, respectively. If the new standard becomes effective as proposed, it is probable that we would be required to record a non-cash impairment charge. We are unable to determine the amount at this time, but we believe the amount would be material and could be a substantial portion of our intangible assets. This impairment charge would have a material adverse effect on our results of operations and could have a material adverse effect on our business and financial condition.

Sale of Marketable Securities

In February 2000, a paging company whose securities were included in our investment portfolio at December 31, 1999 made an announcement that significantly increased the market value of paging company securities generally in the public markets. During the first quarter of 2000, we sold these paging securities and realized a pre-tax gain of \$24.9 million. During 2000, we also sold our equity investment in a gas compression company and realized a pre-tax gain of \$91.1 million.

Gain on Extinguishment of Debt

Protection One purchased \$17.5 million face value of its bonds on the open market in the first quarter of 2001. An extraordinary gain of \$4.9 million, net of tax of \$2.7 million was recognized at March 31, 2001, on the retirement of these bonds.

During 2000, we purchased \$170.0 million face value of Protection One bonds on the open market. In exchange for cash and the settlement of certain intercompany payables and receivables, \$103.9 million of these debt securities were transferred to Protection One. Protection One also purchased \$30.5 million face value of its bonds on the open market during 2000. In 2000, we recognized an extraordinary gain of \$49.2 million, net of tax of \$26.5 million, on these retirements.

Attrition

Subscriber attrition has a direct impact on our results of operations since it affects revenues, amortization expense and cash flow. We define attrition as a ratio, the numerator of which is the number of lost customer accounts for a given period, net of certain adjustments, and the denominator of which is the average number of accounts for a given period. In some instances, estimates are used to derive attrition data. We make adjustments to lost accounts primarily for the net change, either positive or negative, in our wholesale base and for accounts which are covered under a purchase price holdback and are "put" back to the seller. Protection One reduces the gross accounts lost during a period by the amount of the guarantee provided for in the purchase agreements with sellers. In some cases, the amount of the purchase holdback may be less than actual attrition experience. Protection One expects adjustments to lost accounts for purchase holdbacks will be lower in the future because Protection One is purchasing fewer accounts in the types of transactions that create holdbacks, and Protection One has extinguished a substantial portion of its purchase holdback reserve.

36

Actual attrition experience shows that the relationship period with any individual customer can vary significantly. Customers discontinue service for a variety of reasons, including relocation, service issues and cost. A portion of the acquired customer base can be expected to discontinue service every year. Any significant change in the pattern of historical attrition experience would have a material effect on our results of operations.

Protection One and Protection One Europe monitor attrition each quarter based on a quarterly annualized and trailing twelve-month basis. This method utilizes each segment's average customer account base for the applicable period in measuring attrition. Therefore, in periods of customer account growth, customer attrition may be understated and in periods of customer account decline, customer attrition may be overstated.

Customer attrition by business segment for the periods presented are summarized below:

	Customer Account Attrition					
	March 31, 2001		March 31, 2000		December 31, December 31, 2000 1999	
	Annualized First Quarter	Trailing Twelve Months	Annualized First Quarter	Trailing Twelve Months	Trailing Twelve Months	Trailing Twelve Months
Protection One:						
North America.....	16.2%	16.4%	11.9%	16.1%	15.4%	16.0%
Multifamily.....	6.3%	8.5%	7.9%	8.3%	8.9%	7.6%
Total Protection One.....	13.9%	14.7%	11.1%	14.3%	14.0%	14.3%
Protection One Europe...	8.4%	9.1%	10.7%	9.4%	12.2%	9.5%

Impairment Test. During the fourth quarter of 2000, Protection One performed an impairment test of its customer accounts and related goodwill under the guidance of SFAS No. 121. Paragraph 6 of SFAS No. 121 indicates that an impairment loss should be recognized if the sum of the expected future cash flows (undiscounted and without interest charges) is less than the carrying amount of the asset(s) grouped at the lowest level of identifiable cash flows. After performing this test, Protection One management determined that there was not an impairment.

Customer Creation and Marketing

In the first quarter of 2001, the North America segment added 15,182 customers, but the net number of customers decreased by 29,874 accounts compared to 13,729 customers added and a net decrease of 26,246 customers for the quarter ended March 31, 2000. For the quarter ended March 31, 2001, the Multifamily segment added 13,277 customers, with its net number of customers increasing by 8,392 accounts compared to 7,868 customers added and a net increase of 2,043 customers in the quarter ended March 31, 2000.

For the year ended December 31, 2000, the North America segment added 67,160 customer accounts, although the net number of customers decreased by 141,527 accounts (net of 17,342 accounts acquired in the PowerCall acquisition). The Multifamily segment added 39,855 accounts, with its net number of customers increasing by 12,997 accounts.

Protection One's current customer acquisition strategy for North America relies on a mix of internal sales, "tuck-in" acquisitions and dealers. The number of customer accounts being purchased through the dealer program decreased significantly from 9,391 in the first quarter of 2000 to 2,231 in the first quarter of 2001, and from 198,798 for the year ended December 31, 1999 to 21,817 for the year ended December 31, 2000. In February 2000, Protection One started a commission only internal sales program, with a goal of acquiring accounts at a cost lower than its external programs. Protection One currently has a commissioned sales force of over 300 persons. This program utilizes the existing branch infrastructure in approximately 70 markets. The internal sales program generated 12,951 accounts in the first quarter of 2001 and 27,259 accounts in 2000. The Multifamily segment utilizes a salaried and commissioned salary sales force to produce new accounts.

37

Protection One continually evaluates its customer creation and marketing strategy, including each respective channel, for economic returns, volume and other factors and may shift its strategy or focus, including the elimination of a particular channel.

In the first quarter of 2001, Protection One Europe added 3,325 customer accounts and the net number of customers increased by 493 and for the three months ended March 31, 2000, Protection One Europe added 11,536 customer accounts, and the net number of customers increased by 5,207 accounts. For the year ended December 31, 2000, the Protection One Europe segment added 24,771 customer accounts although the net number of customers increased 9,115.

Operating Results

Our operating results are discussed below on a consolidated basis and on a segment basis.

Consolidated Results

For the three months ended March 31, 2001, we reported a net loss of \$12.8 million. This loss is primarily the result of operating losses at Protection One and Protection One Europe. The loss was partially offset by net investment

earnings of \$16.7 million, which includes \$5.8 million of interest income from the receivable with Western Resources, and an extraordinary gain of \$4.9 million from retirement of Protection One bonds. Net income for the three months ended March 31, 2000 totalled \$59.2 million. An extraordinary gain of \$18.5 million on the retirement of Protection One bonds, a \$73.7 million pre-tax gain on the sale of our investments in a gas compression company, and a \$24.9 million pre-tax gain on the sale of investments in paging companies contributed to this gain. Protection One had a loss from operations of \$22.4 million and \$19.1 million for the three months ended March 31, 2001 and 2000, respectively. Protection One Europe had a loss from operations of \$6.6 million and income of \$0.1 million for the three months ended March 31, 2001 and 2000, respectively.

During 2000, we reported net income of \$54.1 million. A \$114.9 million pre-tax gain on the sale of marketable securities, an extraordinary gain of \$49.2 million, net of tax, attributable to our retirement of \$200.5 million of Protection One debt and a \$9.6 million pre-tax gain on the sale of our interest in Paradigm contributed significantly to our results. These favorable items were partially offset by losses from operations recorded by Protection One and Protection One Europe.

We reported a net loss of \$71.0 million for the year ended December 31, 1999. This loss was largely the result of operating losses at Protection One, and a \$76.2 million charge to write down marketable securities. This loss was partially offset by net investment earnings of \$25.2 million and a gain on the sale of Protection One's Mobile Services Group of \$17.2 million.

The 1998 net loss of \$82.1 million was unfavorably affected by a \$98.9 million charge to exit our international power project development activities.

38

North America Segment

The following table provides information for comparison of North America operating results for the periods presented. Next to each period's results of operations, the relevant percentage of total revenues is provided so you can make comparisons about the relative change in revenues and expenses.

	Year Ended December 31,						Three Months Ended March 31,			
	2000		1999		1998		2001		2000	
	(dollars in thousands)									
Revenues:										
Monitoring and related services.....	\$348,760	95.7%	\$381,891	96.1%	\$321,085	93.4%	\$ 79,104	95.3%	\$ 93,167	96.4%
Other.....	15,734	4.3	15,307	3.9	22,869	6.6	3,893	4.7	3,511	3.6
Total revenues.....	364,494	100.0	397,198	100.0	343,954	100.0	82,997	100.0	96,678	100.0
Cost of revenues:										
Monitoring and related services.....	116,425	32.0	104,202	26.2	93,869	27.2	25,788	31.1	28,125	29.1
Other.....	11,474	3.1	12,552	3.2	14,030	4.1	3,861	4.6	3,224	3.3
Total cost of revenues.....	127,899	35.1	116,754	29.4	107,599	31.3	29,649	35.7	31,349	32.4
Gross profit.....	236,595	64.9	280,444	70.6	236,355	68.7	53,348	64.3	65,329	67.6
Selling, general and administrative expenses (a).....	103,982	28.5	105,165	26.4	86,843	25.2	27,541	33.2	26,261	27.2
Acquisition and transition expenses (b).....	11,534	3.2	26,418	6.7	20,275	5.9	1,609	1.9	4,145	4.3
Amortization of intangibles and depreciation expense...	201,976	55.4	194,927	49.1	114,998	33.4	46,473	56.0	52,254	54.0
Other charges.....	4,380	1.2	5,809	1.5	3,400	1.0	419	0.5	3,050	3.2
Income (loss) from operations.....	\$ (85,277)	(23.4)%	\$ (51,875)	(13.1)%	\$ 10,839	3.2%	\$ (22,694)	(27.3)%	\$ 20,381	(21.1)%

- (a) Includes \$6.5 million and \$7.8 million of corporate expenses for 2000 and 1999, respectively. In 1998, such expenses were not separately identified.
- (b) Includes \$4.2 million of corporate expenses relating to a failed merger attempt in 1999.

Three Months Ended March 31, 2001 Compared to Three Months Ended March 31, 2000.

Customers. North America had a net decrease of 29,874 customers in the first quarter of 2001 as compared to a net decrease of 26,246 customers in the first quarter of 2000. The average customer base for the first quarter of 2001 and 2000 was 1,048,178 and 1,191,519, respectively, or a decrease of 143,341 customers. The number of customers decreased primarily because North America's customer acquisition strategies were not able to generate accounts in a sufficient volume at acceptable cost to replace accounts lost through attrition. Protection One expects that this trend will continue until the efforts they are making to acquire new accounts and reduce attrition become more successful than they have been to date. Until this trend is reversed, net losses of customer accounts will materially and adversely affect our business, financial condition and results of operations. The current focus is on the completion of North America's current infrastructure projects, the development of cost effective marketing programs, and the generation of positive cash flow.

The following table shows the change in the North America customer account base:

	Three Months Ended March 31,	
	2001	2000
Beginning Balance, January 1.....	1,063,115	1,204,642
Additions.....	15,182	13,729
Conversion adjustments.....	3,320	--
Customer losses not guaranteed with holdback put backs..	(42,487)	(35,526)
Customer losses guaranteed with holdback put backs and other.....	(5,889)	(4,449)
Ending Balance, March 31	1,033,241	1,178,396
Twelve month trailing attrition.....	16.4%	16.1%

39

Monitoring and Related Service Revenue. Revenues decreased approximately \$14.1 million or 15.1% in the first quarter of 2001 compared to the first quarter of 2000 primarily due to the decline in the customer base. These revenues consist primarily of contractual revenue derived from providing monitoring and maintenance service.

Other Revenues. These revenues consist primarily of revenues generated from internal installations of new alarm systems. These revenues consist primarily of the sale of burglar alarms, closed circuit televisions, fire alarms and card access control systems to commercial customers. In the first quarter of 2001, these revenues increased by approximately \$0.4 million or 10.9% from the first quarter of 2000.

Cost of Monitoring and Related Services Revenues. Costs for the first quarter of 2001 decreased by \$2.3 million, or 8.3%, to \$25.8 million from \$28.1 million for the first quarter of 2000. These costs generally relate to the cost of providing monitoring service and include the costs of monitoring, billing, customer service and field operations. Costs of monitoring and related services revenues as a percentage of the related revenues increased to 32.6% in the first quarter of 2001 from 30.2% in the first quarter of 2000. Although North America has reduced certain costs they have not been able to achieve cost reductions at the same rate as their decline in revenue.

Cost of Other Revenues. Costs were \$0.6 million or 19.8% greater than in the first quarter of 2000. These costs consist primarily of equipment and labor charges to install alarm systems, closed circuit televisions, fire alarms and card access control systems sold to customers. These costs as a percentage of other revenues were 99.2% for the first quarter of 2001 as compared to 91.8% for the first quarter of 2000.

Gross Profit. Gross profit for the first quarter of 2001 decreased by \$12.0 million, or 18.4%, to \$53.3 million from \$65.3 million in the first quarter of 2000. A reduction in the number of customers contributed to the decrease in gross profit. As a percentage of total revenues, gross profit was 64.3% for the first quarter of 2001, compared to 67.6% for the first quarter of 2000. The decrease in gross profit as a percentage of total revenues reflects the inability of North America to reduce costs at the same rate as the decline in

revenue.

Selling, General and Administrative Expenses. Expenses for the first quarter of 2001 increased \$1.3 million to \$27.5 million from \$26.3 million in the first quarter of 2000. Selling expense increased \$3.1 million from \$1.2 million in the first quarter of 2000 to \$4.3 million in the first quarter of 2001. This increase is generally due to an increase in the internal sales force and the resulting increase in sales commissions, wages and benefits and support costs. Bad debt expense decreased approximately \$2.4 million primarily due to increased collection efforts. As a percentage of total revenues, general and administrative expenses increased in the first quarter of 2001 because the decreases in expenses was proportionately less than the decrease in revenues.

Acquisition Expenses. Expenses generally decreased due to the reduced level of account acquisitions from dealers in the first quarter of 2001 as compared to 2000. In the first quarter of 2001 North America acquired 2,231 accounts through the dealer program as compared to 9,391 in the first quarter of 2000.

Amortization of Intangibles and Depreciation Expense. Expenses for the first quarter of 2001 decreased by \$5.8 million, or 11.1%, to \$46.5 million from \$52.3 million in the first quarter of 2000. This decrease reflects a reduction in depreciation expense of \$3.8 million primarily related to the accelerated depreciation to the billing and general ledger system used in 2000, and a reduction in subscriber amortization expenses of \$1.5 million related to the declining balance method of amortization utilized. The remaining \$0.5 million decrease is from goodwill amortization and is due to adjustments made to goodwill in 2000 to reflect utilization of tax net opening losses.

Other Charges. In the first quarter of 2001, these charges were \$0.4 million and consisted primarily of costs relating to the consolidation of the Hagerstown customer service center into the Wichita customer service center and for the first quarter of 2000 consisted of \$1.5 million for officer's severance and \$1.6 million for expenses relating to the sale of the European operations.

40

Interest Expense, Net. Expenses for the first quarter were \$14.3 million and \$18.4 million for 2001 and 2000, respectively. This decrease is due to the decrease in debt from \$1.1 billion at January 1, 2000 to \$644 million at March 31, 2001.

Year ended December 31, 2000 Compared to December 31, 1999.

Customers. North America had a net decrease of 141,527 customers (net of 17,342 customers acquired in the acquisition of PowerCall) in 2000 as compared to a net increase of 8,595 customers in 1999. The average customer base was 1,133,879 for 2000 compared to 1,200,345 for 1999. The number of customers decreased primarily because North America's customer acquisition strategies were not able to generate accounts in a sufficient volume at acceptable cost to replace accounts lost through attrition. Protection One expects this trend will continue until the efforts it is making to acquire new accounts and reduce attrition become more successful than they have been to date. Until this trend is reversed, net losses of customer accounts will materially and adversely affect our business, financial condition and results of operations. The focus remains on the completion of North America's current infrastructure projects, the development of cost effective marketing programs and the generation of positive cash flow.

The following table shows the change in the North America customer account base:

	Year Ended December 31,	
	2000	1999
Beginning balance, January 1.....	1,204,642	1,196,047
Additions.....	67,160	223,093
Customer losses not guaranteed with holdback put backs.....	(174,662)	(191,812)
Customer losses guaranteed with holdback put backs and other.....	(34,025)	(22,686)
Ending balance, December 31.....	1,063,115	1,204,642
Twelve month trailing attrition.....	15.4%	16.0%

Monitoring and Related Service Revenue. Revenues for 2000 decreased by \$33.1 million, or 8.7%, to \$348.8 million from \$381.9 million for 1999. The decrease is primarily due to the decline in the customer base. These revenues consist primarily of contractual revenue derived from providing monitoring and maintenance service.

Other Revenues. These revenues increased by 2.8% to \$15.7 million in 2000, compared to \$15.3 million in 1999. These revenues consist primarily of outright sales of alarms, closed circuit television, fire alarms and card access control systems.

Cost of Monitoring and Related Services Revenues. Costs for 2000 increased by \$12.2 million, or 11.7%, to \$116.4 million from \$104.2 million in 1999. Cost of monitoring and related services revenues as a percentage of the related revenues increased from 27.3% in 1999 to 33.4% in 2000. Compensation costs for the monitoring stations increased by approximately \$4.9 million due primarily to an increase in personnel. In addition, parts and materials costs increased by \$5.5 million and vehicle costs increased \$1.7 million. These costs generally relate to the cost of providing monitoring services and include the costs of monitoring, billing, customer service and field operations.

Cost of Other Revenues. Costs for 2000 decreased by \$1.1 million, or 8.6% to \$11.5 million from \$12.6 million in 1999. Parts and materials decreased by \$2.8 million and labor costs increased by \$1.7 million. These costs consist primarily of equipment and labor charges to install alarm systems, closed circuit televisions, fire alarms and card access control systems sold outright to our customers.

41

Gross Profit. Gross profit for 2000 decreased by \$43.8 million, or 15.6%, to \$236.6 million from \$280.4 million in 1999. Reduction in the number of customers contributed to the decrease in gross profit. As a percentage of total revenues, gross profit was 64.9% for 2000, compared to 70.6% for 1999. The decrease in gross profit as a percentage of total revenues reflects the increase in costs for 2000 resulting from increases in personnel, material and vehicle costs.

Selling, General and Administrative Expenses. Expenses for 2000 decreased \$1.2 million, or 1.1% to \$104.0 million from \$105.2 million in 1999, but

increased as a percentage of total revenues from 26.4% in 1999 to 28.5% in 2000. Selling expense increased \$3.1 million to \$8.7 million in 2000 from \$5.6 million in 1999. This increase is primarily due to an increase in sales commissions stemming from our increased emphasis on internal account growth which we believe will further increase as we continue to grow our internal sales force. Bad debt and collection expenses decreased approximately \$7.9 million primarily due to increased collection efforts in 2000. Subcontract expense for outside information technology support increased approximately \$4.3 million due primarily to work performed in connection with the implementation of North America's new billing, collection and monitoring software.

Acquisition Expenses. Expenses for 2000 decreased by \$14.9 million, or 56.3%, to \$11.5 million from \$26.4 million in 1999. Third party monitoring costs decreased by \$4.8 million, signs and decals expense decreased by \$1.9 million, printing expense decreased by \$1.7 million and compensation expense decreased by \$1.0 million. These decreases are a direct result of the significant decline in the number of new accounts acquired from 223,093 in 1999 to 67,160 accounts acquired in 2000. This decline is primarily due to the restructuring of North America's dealer program. The decrease in third party monitoring expense and associated increase in reprogramming expense are a result of North America's concentrated effort in late 1999 to move such accounts to North America's monitoring stations. Additionally, in the third quarter of 1999, \$3.7 million of costs relating to the termination of the Lifeline Systems, Inc., or Lifeline, merger were expensed.

Amortization of Intangibles and Depreciation Expense. Expenses for 2000 increased by \$7.0 million, or 3.6%, to \$202.0 million from \$194.9 million in 1999. Subscriber amortization for 2000 and 1999 was \$139.0 million and \$159.8 million respectively, a decrease of \$20.8 million. Protection One changed its amortization method for most of its customer base from a 10-year straight line method to a 10-year declining balance method as of the third quarter of 1999. The cumulative effect of this change in accounting principle was approximately \$28.6 million including approximately \$20.2 million of additional amortization from the effect of the change in amortization in years prior to 1999. This change does not include Protection One's Westinghouse customer pool for which it adopted an eight-year accelerated method from the date of the Westinghouse Security Systems acquisition.

As discussed above, Protection One also changed its estimate of the useful life of goodwill from 40 years to 20 years. As a result, goodwill amortization expense for North America increased \$21.0 million from \$20.3 million in 1999 to \$41.3 million for 2000. Additionally, in 2000, depreciation expense increased \$6.9 million from \$14.7 million in 1999 to \$21.6 million. This increase is due to accelerated depreciation of the general ledger and accounts receivable systems installed in 1999. In 2000, North America moved to another general ledger and accounts receivable system better suited to meet its needs.

Other Charges. In 2000, these charges included \$1.5 million for officers' severance and \$1.3 million in costs relating to the closing of our Chatsworth, California and Culver City, California offices. These costs for 1999 consisted of officers' severance costs of \$3.2 million and \$2.6 million in non-recurring costs incurred to transition certain back office functions from Irving, Texas to Topeka, Kansas.

Interest Expense, Net. Expense for 2000 and 1999 was \$59.0 million and \$76.1 million, respectively. This decrease is primarily a result of the reduction of approximately \$475 million in outstanding debt during 2000.

Year Ended December 31, 1999 Compared to Year Ended December 31, 1998

Customers. North America had a net increase of 8,595 customers in 1999 as

compared to a net increase of 445,156 customers in 1998. Accordingly, results for 1999 include a full year of operations with the customers added throughout 1998. We believe this to be the primary reason for North America's increase in revenues and associated cost of revenues in 1999 as compared to 1998.

The following table shows the change in the North America customer account base:

	Year Ended December 31,	
	1999	1998
Beginning balance, January 1.....	1,196,047	750,890
Additions.....	223,093	570,681
Customer losses not guaranteed with holdback put backs.....	(191,812)	(106,859)
Customer losses guaranteed with holdback put backs and other.....	(22,686)	(18,665)
Ending balance, December 31.....	1,204,642	1,196,047
Twelve month trailing attrition.....	16.0%	11.0%

Monitoring and Related Service Revenues. Revenues for 1999 increased by \$60.8 million, or 18.9%, to \$381.9 million from \$321.1 million for 1998. The primary reason for the increase in 1999 revenues is because North America had a full year of revenues from the additional customers added throughout 1998. An increase in North America's base monitoring and service fees also increased revenue in 1999.

Other Revenues. These revenues, which consist primarily of revenues generated from the internal installations of new alarm systems, decreased by 33.2% to \$15.3 million in 1999, compared to \$22.9 million in 1998. This decrease in revenues is due primarily to the reduction of internal sales and installation activities that resulted from North America's reliance on the dealer program for residential customers in 1999. North America continued its internal sales program and recorded installation revenues through the first half of 1998, but then relied almost entirely on the dealer program to acquire new customers for the balance of 1998 and all of 1999.

Cost of Monitoring and Related Services Revenues. Costs for 1999 increased by \$10.6 million, or 11.4%, to \$104.2 million from \$93.6 million for 1998. Cost of monitoring and related services revenues as a percentage of the related revenues decreased from 29.1% during 1998 to 28.0% during 1999. Monitoring and related services expense for 1999 increased primarily due to a full year of operations of the three major service centers and three smaller satellite monitoring facilities acquired in 1998. North America also incurred additional expense in 1999 relating to the addition of customer service representatives in the second quarter.

Cost of Other Revenues. Costs for 1999 decreased by \$1.4 million, or 10.5%, to \$12.6 million from \$14.0 million in 1998. This decrease corresponds with the decrease in the internal installations in 1999. Other cost of revenues as a percentage of other revenues increased to 82.6% in 1999 from 61.4% in 1998.

Gross Profit. Gross profit for 1999 increased by \$44.1 million, or 18.7%, to \$280.4 million from \$236.4 million in 1998. Contribution of new customers by

the dealer program and acquisitions produced the increase in gross profit. As a percentage of total revenues, gross profit was 70.6% for 1999 compared to 68.7% for 1998. The increase in gross profit as a percentage of total revenues reflects cost savings from the consolidation of some of North America's monitoring operations, offset by a partial year of expense associated with additional customer service representatives.

Selling, General and Administrative Expenses. Expenses for 1999 increased by \$18.3 million, or 21.1%, to \$105.2 million from \$86.8 million in 1998. The increase is attributable to costs associated with the overall increase in the average number of customers billed, additional bad debt expense of approximately \$10.5 million resulting from higher attrition, costs associated with Year 2000 compliance, professional fees and salary increases.

43

Acquisition Expenses. Expenses for 1999 increased by \$6.1 million, or 30.3%, to \$26.4 million from \$20.3 million in 1998. Protection One aggregates expenses incurred in the acquisition and integration of customers in this line item. These expenses include yard signs, the cost of monitoring acquired accounts by a third party, and the reprogramming of alarm panels for new customers. The increase in 1999 is primarily attributable to costs of \$4.0 million associated with the restructuring of the dealer program and \$3.7 million of costs related to the unsuccessful merger with Lifeline, offset by reduced transition expenses associated with acquisitions. In 1998, North America incurred \$5.3 million in additional customer transition expenses, primarily yard signs for WRSB customers related to the merger of WRSB and Protection One. North America incurred expenses to develop and manage its dealer program, as well as to contact, assimilate and solicit acquired and new customers for new services.

Amortization of Intangibles and Depreciation Expense. Expenses for 1999 increased by \$79.9 million, or 69.5%, to \$194.9 million from \$115.0 million in 1998. In 1999, Protection One changed its amortization method for most of its North American customers from a 10-year straight line method to a 10-year declining balance method which substantially increased amortization expense. Another primary factor resulting in the increase is the full year of amortization expense on subscribers acquired during 1998. These increases were partially offset by a \$1.9 million decrease in amortization of the Westinghouse customers under the eight-year accelerated amortization method.

Other Charges. These costs for 1999 increased by \$2.4 million to \$5.8 million from \$3.4 million in 1998. North America incurred \$5.8 million for severance and relocation expenses associated with a reorganization of its operations in 1999 and \$3.4 million for such expenses in late 1998.

Interest Expense. Interest expense for 1999 increased by \$23.7 million, or 45.2%, to \$76.1 million from \$52.4 million in 1998, reflecting Protection One's use of debt to finance a substantial portion of its customer account growth.

Other Nonrecurring (Income) Expense. Income in 1999 totaled \$12.7 million compared to \$5.7 million of income in 1998. In 1999, other income consisted primarily of a gain on the sale of Protection One's Mobile Services Group of \$17.2 million and dividend income reduced by losses on sales of marketable securities of \$7.7 million. In 1998, North America recognized a nonrecurring gain on the repurchase of customer contracts covered by a financing arrangement with New York Life Secured Asset Management Company, Ltd. (SAMCO), a third party, of approximately \$1.5 million. Also during 1998, North America restructured its investment in a security monitoring company and recognized a nonrecurring gain of approximately \$3.0 million.

44

Multifamily Segment

The following table provides information for comparison of Multifamily's operating results for the periods presented. Next to each period's results of operations, we provide the relevant percentage of total revenues so that comparisons about the relative change in revenues and expenses can be made.

	Year Ended December 31,						Three Months Ended March			
	2000		1999		1998		2001		2000	
	(dollars in thousands)									
Revenues:										
Monitoring and related services.....	\$35,250	89.5%	\$34,309	88.2%	\$29,356	87.8%	\$8,689	98.4%	\$8,688	85.7%
Other.....	4,116	10.5	4,592	11.8	4,061	12.2	143	1.6	1,453	14.3
Total revenues.....	39,366	100.0	38,901	100.0	33,417	100.0	8,832	100.0	10,141	100.0
Cost of revenues:										
Monitoring and related services.....	8,223	20.9	7,565	19.5	5,852	17.5	1,924	21.8	1,935	19.1
Other.....	3,629	9.2	4,174	10.7	3,320	11.5	161	1.8	1,382	13.6
Total cost of revenues.....	11,852	30.1	11,739	30.2	9,672	29.0	2,085	23.6	3,317	32.7
Gross profit.....	27,514	69.9	27,162	69.8	23,745	71.0	6,747	76.4	6,824	67.3
Selling, general and administrative expenses.....	9,902	25.2	10,613	27.3	9,767	29.2	2,418	27.4	2,702	26.7
Acquisition and transition expenses.....	--	--	313	0.8	--	--	--	--	--	--
Amortization of intangibles and depreciation expense...	15,596	39.6	9,507	24.4	7,721	23.1	4,000	45.3	3,834	37.8
Income from operations..	\$ 2,016	5.1%	\$ 6,729	17.3%	\$ 6,257	18.7%	\$ 329	3.7%	\$ 288	2.8%

Three Months Ended March 31, 2001 Compared to Three Months Ended March 31, 2000.

Customers. Multifamily had a net increase of 8,392 customers in the first quarter of 2001 as compared to a net increase of 2,043 customers in the first quarter of 2000. The average customer base was 312,153 for the first quarter of 2001 compared to 295,892 for the first quarter of 2000. The change in Multifamily's customer base for the period is shown below.

	Three Months Ended March 31,	
	2001	2000
Beginning balance, January 1.....	307,957	294,960
Additions, net of holdback put backs.....	13,277	7,868
Customer losses, net of holdback put backs.....	(4,885)	(5,825)
Ending balance, March 31.....	316,349	297,003
	=====	=====
Twelve month trailing attrition.....	8.5%	8.3%
	=====	=====

Monitoring and Related Services Revenues. Revenues were \$8.7 million for the first quarter of 2001 and 2000. The average customer base increase of 5.5% was offset by a decrease in recurring monthly revenue, or RMR, per customer. The decrease in RMR per customer is a result of an increase in the number of Multifamily customers added during 2000 through outright sales of security systems which have lower RMR than Multifamily's standard lease contracts which include an additional monthly charge for equipment.

45

Other Revenues. Revenues decreased by \$1.3 million or 90.2% to \$0.1 million in the first quarter of 2001 from \$1.4 million in the first quarter of 2000 primarily due decreases in revenue from outright sales.

Cost of Monitoring and Related Service Revenues. Costs for the first quarter of 2001 remained consistent with the cost incurred in the first quarter of 2000. This cost as a percentage of associated revenues decreased slightly from 22.3% to 22.1% for the respective periods.

Cost of Other Revenues. Costs decreased by \$1.2 million from \$1.4 million to \$0.2 million in the first quarter of 2001 due to the decrease in the number of outright sales and the deferral of \$0.4 million in costs.

Gross Profit. As a percentage of total revenues, gross profit was 76.4% for the first quarter of 2001, compared to 67.3% for the first quarter of 2000. The increase in gross margin percentage is the result of a significant reduction in low-margin sales.

Selling, General and Administrative Expenses. Expenses for the first quarter of 2001 decreased \$0.3 million to \$2.4 million from \$2.7 million in the first quarter of 2000 primarily due to a temporary decline in the sales force and the deferral sales expenses related to installations of new accounts.

Amortization of Intangibles and Depreciation Expense. Expense for 2001 increased by \$0.2 million, or 4.3% to \$4.0 million from \$3.8 million in 2000. This increase is the result of the larger customer base being amortized.

Year Ended December 31, 2000 Compared to December 31, 1999.

Customers. Multifamily had a net increase of 12,997 customers in 2000 as compared to a net increase of 9,006 customers in 1999. The average customer base was 301,459 in 2000 compared to 290,457 in 1999. The change in Multifamily's customer base for the period is shown below.

	Year Ended December 31,	
	2000	1999
Beginning balance, January 1.....	294,960	285,954
Additions, net of holdback put backs.....	39,855	30,973
Customer losses, net of holdback put backs.....	(26,858)	(21,967)
Ending balance, December 31.....	307,957	294,960
Twelve month trailing attrition.....	8.9%	7.6%

The increase in the attrition rate for Multifamily for 2000 is due to nonpayment of approximately 7,000 subscribers related to one developer. Had these accounts not attrited, the annualized quarterly attrition would have been approximately 6.5%. Protection One is pursuing contractual remedies for nonpayment of these accounts.

Monitoring and Related Services Revenues. Revenues for 2000 increased by \$0.9 million, or 2.7%, to \$35.2 million from \$34.3 million for 1999. Multifamily's additional revenues in 2000 were primarily attributable to the increase in the subscriber base. These revenues consist primarily of contractual revenues derived from providing monitoring and maintenance service.

Other Revenues. Revenues decreased by \$0.5 million or 10.4% to \$4.1 million in 2000 from \$4.6 million in 1999 primarily due to a decrease in the number of outright sales installations.

Cost of Monitoring and Related Service Revenues. Costs for 2000 increased by \$0.6 million, or 8.7%, to \$8.2 million from \$7.6 million for 1999. Monitoring and related service expenses, as a percentage of monitoring and related service revenues, increased to 23.3% for 2000 from 22% for 1999. This increase is primarily related to higher employment costs caused by the current competitive labor market and an increase in claims experience on a self funded medical insurance plan.

46

Cost of Other Revenues. Costs decreased by \$0.6 million, or 13.1%, to \$3.6 million from \$4.2 million in 1999. Other cost of revenues, as a percentage of other revenues, decreased to 88.2% in 2000 from 90.9% in 1999. This decline is principally due to an increase in sales access control contracts with greater installation margins than the standard alarm sale and the access control sales installed in 1999.

Gross Profit. Gross profit for the 2000 has not changed significantly from 1999. As a percentage of total revenues, gross profit was 69.9% for 2000, compared to 69.8% for 1999.

Selling, General and Administrative Expenses. Expenses decreased \$0.7 million or 6.7% to \$9.9 million in 2000 from \$10.6 million in 1999 primarily due to a temporary decline in the sales force.

Amortization of Intangibles and Depreciation Expense. Expense for 2000 increased by \$6.1 million, or 64.0%, to \$15.6 million from \$9.5 million in 1999. This increase is primarily due to the change in estimate of goodwill life from 40 years to 20 years, resulting in an increase in goodwill amortization expense of \$5.0 million. Subscriber amortization increased by \$1.0 million due to the larger customer base being amortized.

Year Ended December 31, 1999 Compared to Year Ended December 31, 1998.

Customers. During 1998 over 80,000 accounts were acquired in two acquisitions that increased monthly recurring revenues by approximately \$550,000 or \$6.6 million per year. About 39,000 of these accounts were acquired in May with the balance acquired in September. The 1999 results reflect a full year of operations with these acquired accounts which is the primary reason that revenues and associated expenses are higher in 1999. The change in Multifamily's customer base for 1999 and 1998 is shown below:

	Year Ended December 31,	
	1999	1998
Beginning balance, January 1.....	285,954	186,590
Additions, net of holdback put backs.....	30,973	110,152
Customer losses, net of holdback put backs.....	(21,967)	(10,788)
Ending balance, December 31.....	294,960	285,954
Twelve month trailing attrition.....	7.6%	4.6%

Monitoring and Related Services Revenues. Revenues for 1999 increased by \$5.0 million, or 16.9%, to \$34.3 million from \$29.4 million for 1998. Multifamily's additional revenues in 1999 were primarily attributable to the 1998 acquisitions.

Cost of Monitoring and Related Revenues. Costs for 1999 increased by \$1.7 million, or 29.3%, to \$7.6 million from \$5.9 million for 1998. Monitoring and related services expenses as a percentage of monitoring and related services revenues increased to 22.0% in 1999 from 19.9% during 1998. The percentage increase is due primarily to the lower contracted recurring revenues on the accounts acquired in 1998.

Gross Profit. Gross profit for 1999 increased by \$3.4 million, or 14.3%, to \$27.2 million from \$23.8 million in 1998. The increase is due to 1998 acquisitions. As a percentage of total revenues, gross profit was 69.8% for 1999, compared to 71.1% for 1998.

Selling, General and Administrative Expenses. Expenses for 1999 increased by \$0.8 million, or 8.7%, to \$10.6 million from \$9.8 million in 1998. The increase resulted primarily from increased selling expense attributable to a 20% increase in contract sales and increased general and administrative expenses principally associated with the 1998 acquisitions.

Amortization of Intangibles and Depreciation Expense. Expense for 1999 increased by \$1.8 million, or 23.1 %, to \$9.5 million from \$7.7 million in 1998. Multifamily amortizes customer accounts over 10 years using a straight-line method and goodwill over 40 years using a straight-line method.

47

Protection One Europe Segment

The following table provides information for comparison of Protection One Europe's operating results for the periods presented. Next to each period's results of operations, we provide the relevant percentage of total revenues so that comparisons about the relative change in the revenues and expenses can be made. The operating results for 2000 and 1999 include a full year of operations for acquisitions made in 1998. The operating results for 1998 reflect the partial year of operations reported in 1998.

	Year Ended December 31,						Three Months Ended March 31,			
	2000		1999		1998		2001		2000	
	(dollars in thousands)									
Revenues:										
Monitoring and related services.....	\$ 86,500	64.6%	\$ 92,793	56.9%	\$ 25,400	58.1%	\$21,023	93.3%	\$21,416	53.5%
Other.....	47,499	35.4	70,213	43.1	18,324	41.9	1,518	6.7	18,635	46.5
Total revenues.....	133,999	100.0	163,006	100.0	43,724	100.0	22,541	100.0	40,051	100.0
Cost of revenues:										
Monitoring and related services.....	21,023	15.7	21,110	13.0	4,100	9.4	7,746	34.4	5,682	14.2
Other.....	24,780	18.5	30,361	18.6	7,712	17.6	1,293	5.7	6,966	17.4
Total cost of revenues.....	45,803	34.2	51,471	31.6	11,812	27.0	9,039	40.1	12,648	31.6
Gross profit.....	88,196	65.8	111,535	68.4	31,912	73.0	13,502	59.9	27,403	68.4
Selling, general and administrative expenses.....	64,680	48.3	68,169	41.8	17,897	40.9	12,966	57.5	18,914	47.2
Acquisition and transition expenses....	2,293	1.7	733	0.4	22	0.1	16	0.1	383	1.0
Amortization of intangibles and depreciation expense...	30,842	23.0	29,472	18.1	3,945	9.0	7,168	31.8	8,006	20.0
Income (loss) from operations.....	\$ (9,619)	(7.2)%	\$ 13,161	8.1%	\$ 10,048	23.0%	\$ (6,648)	(29.5)%	\$ 100	0.2%

Three Months Ended March 31, 2001 Compared to Three Months Ended March 31, 2000.

Customers. Protection One Europe had a net increase of 493 customers in the first quarter of 2001 as compared to a net increase of 5,207 customers in the first quarter of 2000. The decrease in customer account generation is due to restructuring of commercial sales management, absence of acquisitions and lower sales productivity.

The following table shows the change in the Protection One Europe customer account base:

	Three Months Ended March 31,	
	2001	2000
Beginning balance, January 1.....	133,417	124,302
Additions.....	3,325	11,536
Customer losses.....	(2,832)	(6,329)
Ending balance, March 31.....	133,910	129,509
	=====	=====
Twelve month trailing attrition.....	9.1%	9.4%
	=====	=====

Revenues. In the first quarter of 2001, revenues decreased approximately \$17.5 million, to \$22.5 million from \$40.1 million in the same period for 2000. This decrease is primarily due to a reduced sales force and an increase in transactions that do not result in immediate sales recognition.

Cost of Revenues. Costs for the first quarter of 2001 decreased by \$3.6 million, to \$9.0 million from \$12.6 million for the first quarter of 2000. Cost of revenues increased as a percentage of revenues from 31.6% to 40.1% for the first quarter of 2000 and 2001, respectively. This was primarily due to lower installation volumes in the first quarter of 2001.

48

Gross Profit. Gross profit for the first quarter of 2001 decreased by \$13.9 million, or 50.7%, to \$13.5 million from \$27.4 million in the first quarter of 2000. This decrease is due to the reduced sales force and an increase in transactions that do not result in immediate sales recognition. As a percentage of total revenues, gross profit was 59.9% for the first quarter of 2001, compared to 68.4% for the first quarter of 2000.

Selling, General and Administrative Expenses. Expenses for the first quarter of 2001 decreased \$5.9 million to \$13.0 million from \$18.9 million in the first quarter of 2000. The decrease is due primarily to a reduced sales force in France and cost reductions resulting from the closing of nine branch offices in France.

Year Ended December 31, 2000 Compared to Year Ended December 31, 1999.

Customers. In 2000, Protection One Europe increased its customer base a total of 9,115 customers compared to an increase of 46,010 customers in the same period in 1999, including approximately 42,000 customers added through acquisitions in 1999. The smaller increase in 2000 resulted from reduced acquisitions in 2000, higher attrition and turnover in the sales force in France which caused a decline in sales productivity.

	Year Ended December 31,	
	2000	1999
Beginning balance, January 1.....	124,302	78,292
Additions.....	24,771	55,607
Customer losses.....	(15,656)	(9,597)
Ending balance, December 31.....	133,417	124,302
	=====	=====
Twelve month trailing attrition.....	12.2%	9.5%
	=====	=====

Revenues. In 2000, revenues decreased by approximately \$29.0 million, to \$134.0 million from \$163.0 million in 1999. This decrease is primarily attributable to a decline in commercial system sales and less favorable exchange rates. The adoption of Staff Accounting Bulletin ("SAB") No. 101, "Revenue Recognition," in 2000 also reduced revenues by \$10.9 million as compared to 1999. Refer to Note 2 of the Notes to Consolidated Financial Statements for additional information.

Cost of Revenues. In 2000, cost of revenues decreased by approximately \$5.7 million, to \$45.8 million from \$51.5 million in 1999. This decrease resulted from a \$5.9 million reduction to expense due to deferring direct selling and installation costs in accordance with SAB No. 101. This decrease was offset by additional costs from a larger work force in France, increased staffing to handle growth and a reduction in the work week for certain employees in France, higher selling costs related to higher turnover in the selling force in France and resulting training costs, and higher selling costs related to an effort to penetrate the residential market in France.

Gross Profit. Gross profit for 2000 decreased by \$23.3 million, or 20.9%, to \$88.2 million from \$111.5 million in 1999. As a percentage of total revenues, gross profit was 65.8% for 2000, compared to 68.4% for 1999. This decrease is due to reduced commercial system sales.

Year Ended December 31, 1999 Compared to Three Months Ended December 31, 1998.

Customers. In 1999, Protection One Europe acquired approximately 42,000 additional customers through acquisitions in the United Kingdom and continental Europe. These additional customers produced an increase in monthly recurring revenues of approximately \$1.0 million.

The results of operations for 1999 include a full year of operations for the 1998 acquisitions as well as a partial year of operations for the 1999 acquisitions. Protection One Europe experienced a net increase of 46,010 customers in 1999 or a 58.8% increase over the three month period ended December 31, 1998 amount of 78,292.

49

Protection One Europe changed its amortization method from a 10-year straight line method to a 10-year declining balance method which resulted in an increase in amortization expense in 1999 of approximately \$2.5 million. The balance of the increase is primarily attributed to a full year of amortization expense on subscribers acquired during 1998. In 1999 and 1998 we amortized goodwill over 40 years using a straight-line method. Goodwill amortization expense increased \$2.3 million to \$3.7 million in 1999.

Other

Investment earnings have historically been a significant component of our earnings. ONEOK investment income, earnings from other investments, interest income on debt securities and gains and losses on marketable security sales comprise the significant components of investment earnings.

Three Months Ended March 31, 2001 Compared to Three Months Ended March 31, 2000.

We reported \$18.0 million of other income in the first quarter of 2001 compared to \$117.9 million in the same period of 2000. Most of 2001 other income is due to \$13.4 million of ONEOK investment income and \$6.1 million of interest income of which \$5.8 million is from the receivable with Western Resources. The 2000 other income includes a \$73.7 million pre-tax gain on the sale of our investment in a gas compression company, a \$24.9 million pre-tax gain on the sale of investments in paging companies, \$13.4 million of ONEOK investment income and \$2.9 million of interest income.

Year Ended December 31, 2000 Compared to Year Ended December 31, 1999.

We reported \$204.4 million of other income in 2000 primarily due to gains on the sales of marketable securities of approximately \$114.9 million and a gain on the sale of Paradigm of \$9.6 million. We reported \$14.4 million of other expense in 1999 primarily due to ONEOK investment income of \$44.4 million and a

\$76.2 million impairment in our marketable securities portfolio.

Year Ended December 31, 1999 Compared to Year Ended December 31, 1998.

We reported \$14.4 million of other expense in 1999. Significant components include ONEOK investment income of \$44.4 million, interest income of approximately \$11.4 million, a \$76.2 million impairment in marketable securities due to an other than temporary decline in their value and a \$17.2 million gain on the sale of the Mobile Services Group. The impairment in marketable securities resulted from a decline in value experienced on those securities during the last six to nine months of 1999.

We reported \$35.5 million of other income in 1998. Significant components include ONEOK investment income of \$42.0 million and interest income of approximately \$6.5 million.

Liquidity and Capital Resources

Our principal need for liquidity is to fund the operations of our security monitoring businesses. Cash from Protection One's and Protection One Europe's operations, existing cash balances, dividends from ONEOK and other investments, proceeds from asset sales, amounts repaid on the receivable owed to us by Western Resources and, following the closing of the PNM merger and the split-off, dividends from PNM Holdings are expected to provide adequate liquidity. These liquidity sources are discussed further below. If these sources are insufficient, we may need to find third party sources of capital or financing. We cannot assure you that capital or financing will be available to us on acceptable terms or at all. See "Certain Relationships and Related Transactions" for a discussion of restrictions on the use of cash from certain asset sales. Furthermore, our liquidity and capital resources may be materially adversely affected as a result of the KCC investigation into the rights offering, the proposed split-off and the PNM merger and related matters discussed under "Recent Significant Matters," above.

50

Protection One relies principally on the senior credit facility we provide to meet its liquidity needs not met with its cash flow. At April 30, 2001, there was \$25 million of remaining availability under this facility. While we believe that we will have adequate resources at all times to satisfy our obligation under the senior credit facility, we could encounter timing issues because we will be unable to precisely match our receipts of dividends from ONEOK and other investments with the requests from Protection One for borrowings. These timing problems could present operational difficulties for us and Protection One.

Cash Flows

Operating Cash Flows. Our cash flows from operating activities for the three months ended March 31, 2001 was \$11.3 million as compared to \$51.6 million for the comparable period of 2000. This decrease is largely attributable to changes in working capital, along with lower sales for the three months ended March 31, 2001 as compared to 2000. Our cash flows from operating activities for 2000 was \$204.7 million as compared to \$103.6 million in 1999. Operating cash flows improved by \$104.1 million between 1999 and 1998. This is largely attributable to the inclusion of a full year of recurring revenue in 1999 from customer accounts added throughout 1998 as well as the recurring revenue associated with the net customer additions in 1999.

Investing Cash Flows. Our cash flows from investing activities resulted in a cash use of \$8.3 million for the three months ended March 31, 2001 compared to

cash provided of \$180.8 million for the three months ended March 31, 2000. This decrease is primarily due to proceeds received from the sale of marketable securities of \$194.1 for the three months ended March 31, 2000. Our investing activities provided cash flows of \$193.5 million for 2000 as compared to a use of cash of \$245.4 million for the comparative period of 1999. This increase is due to the sale of most of our marketable securities portfolio in 2000 and a significant reduction in our customer account purchases as compared to 1999. Due to lower customer account purchases and business combinations in 1999 as compared to 1998, we used \$898.1 million less cash in 1999 than in 1998.

EBITDA. Protection One generated \$138.7 million of positive earnings before income taxes, interest expense, depreciation and amortization, or EBITDA, from the North America and Multifamily operations in 2000. Protection One Europe generated \$21.2 million of positive EBITDA from its operations in 2000.

EBITDA does not represent cash flow from operations as defined by generally accepted accounting principles, should not be construed as an alternative to operating income and is indicative neither of operating performance nor cash flows available to fund our cash needs. Items excluded from EBITDA are significant components in understanding and assessing our financial performance. We believe that presentation of EBITDA enhances an understanding of our financial condition, results of operations and cash flows because EBITDA is used to satisfy our debt service obligations and our capital expenditure and other operational needs as well as to provide funds for growth. Protection One's computation of EBITDA may not be comparable to other similarly titled measures of other companies.

Dividends from ONEOK and other Investments

ONEOK dividends paid to us totaled \$9.9 million in the first quarter of 2001, \$39.8 million in 2000 and \$41.2 million in 1999. We received distributions from other investments of \$3.3 million in the first quarter of 2001, \$14.7 million in 2000 and \$18.8 million in 1999. A decrease or interruption in the dividends paid by ONEOK would adversely affect our liquidity and ability to continue our operations. There can be no assurance ONEOK will continue to pay dividends at the current rate or at all in the future. ONEOK's failure to pay dividends in certain amounts would result in the termination of the shareholder agreement between us and ONEOK unless we agreed otherwise and would have a material adverse effect on our cash flow and liquidity. Debt agreements pursuant to which ONEOK's outstanding long-term and short-term debt has been issued limit dividends and other distributions on its common stock. Please refer to ONEOK's financial statements, which are attached as Exhibit A and Exhibit B to this prospectus, and ONEOK's Form 10-K for 2000 and Form 10-Q for March 31, 2001 and other documents it files with the SEC (file no. 001-1364) for further information concerning ONEOK. Such reports and documents are available at the SEC's public reference rooms and from the SEC's website. See "Available Information."

Western Resources Receivable and Common Stock We Own

Our assets include a receivable due from our parent, Western Resources, in the amount of approximately \$116.6 million at April 30, 2001. The receivable will be increased or decreased by additional advances or payments between us and Western Resources, including the advance of the net proceeds of the rights offering. The receivable currently bears interest at 8.5% per annum. Prior to the effective time of the PNM merger, pursuant to the allocation agreement with Western Resources, we will convert any amounts then outstanding under the receivable into (1) Western Resources convertible preference stock, (2) shares of our common stock owned by Western Resources at a price based on the average market prices for the 20 trading days preceding conversion, but not less than the subscription price in the rights offering, or (3) Western Resources common

stock at a price based on the average market prices for the 20 trading days preceding conversion. On February 28, 2001, we converted \$350 million of the then outstanding balance of the receivable into approximately 14.4 million shares of Western Resources common stock, representing approximately 17% of Western Resources' outstanding common stock after conversion. In an amendment to the allocation agreement, we have agreed to use the net cash proceeds from sales of our interests in ONEOK or Western Resources or from any borrowings by us secured by either of these interests, to purchase the securities described above that we ultimately select which will increase the amount of the receivable owed to us. We must make all elections regarding conversion of the receivable prior to the closing of the PNM merger. See "Recent Significant Matters" above. The agreement as to the use of the net proceeds will terminate upon the earlier of the closing of the PNM merger or the secured debt of Western Resources related to its electric utility operations receiving an investment grade rating from Moody's and Standard & Poor's.

Repurchases of Securities

From January 1, 2001 through April 30, 2001, Protection One purchased 13,712,704 shares of its outstanding common stock for approximately \$15.0 million, of which 11,532,104 shares were purchased from us for approximately \$12.6 million. The purchases from us maintained our proportionate ownership of Protection One's outstanding stock. We or Protection One may continue to acquire additional shares of Protection One's common stock based upon market conditions and other factors. At April 30, 2001, Protection One had authority to purchase an additional 7,460,483 shares of its common stock.

We or Protection One may also continue to acquire additional debt securities in the open market or through negotiated transactions based upon market conditions and other factors. We expect that we would also realize an extraordinary gain on extinguishment of debt on any such purchases.

Material Commitments

Our principal commitments relate to the operations of our monitored security business. Protection One has material, long-term commitments made in the past several years in connection with its growth. We believe these commitments will be met through a combination of financings, operating cash flows and sale of assets. The following reflects these commitments as of March 31, 2001.

	Maturity Date	March 31, 2001
	-----	-----
		(in thousands)
Convertible Senior Subordinated Notes (a).....	September 2003	\$ 23,785
Senior Subordinated Discount Notes.....	June 2005	42,150
Senior Unsecured Notes.....	August 2005	204,650
Senior Subordinated Notes.....	January 2009	238,240
Other (b).....	Various	43,164

		\$551,989
		=====

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- (a) These notes are convertible into Protection One common stock at a price of \$11.19 per share, which is currently above the price at which the shares are traded in the public stock markets.
 - (b) Includes debt obligations assumed in the acquisition of a French security subsidiary in 1998, debt related to international power projects and capital leases.

Protection One was in compliance with the financial covenants under the senior credit facility and the indentures under which the notes listed above were issued for the first quarter of 2001. Protection One does not expect it will be in compliance with the interest coverage ratio covenant because of expenses related to the consolidation of certain operations in 2001. We will waive compliance with this covenant or enter into an amendment of the senior credit facility to address this issue.

On March 24, 2000, Moody's downgraded their ratings on Protection One's outstanding securities and on March 9, 2001, Moody's further downgraded these ratings citing concerns regarding operations, leverage and liquidity over the intermediate term, with outlook remaining negative. On April 24, 2001, Fitch downgraded its rating on Protection One's outstanding securities citing similar concerns. S&P and Fitch currently have Protection One's ratings on negative watch. As of April 30, 2001, these ratings were as follows:

	Senior Unsecured Debt	Senior Subordinated Unsecured Debt
S&P.....	B+	B-
Moody's.....	B3	Caa2
Fitch.....	B	CCC+

Capital Expenditures

Our principal capital expenditures are attributable to the requirements for Protection One. Protection One

originally expected capital expenditures for 2001 to be approximately \$85 million. Of such amount, approximately \$65 million would be to acquire customer accounts and \$20 million would be for fixed assets. Capital expenditures for 2002 and 2003 were originally expected to be approximately \$100 million and \$130 million, respectively. Of these amounts approximately \$80 and \$100 million were originally expected to acquire customer accounts and the balance would be for fixed assets. Protection One is reevaluating its budgeted estimated capital expenditures for 2001 and our estimates for 2002 and 2003. We currently do not have new estimates however, we anticipate the original estimates will be reduced upon the completion of this evaluation. These estimates are prepared for planning purposes and are revised from time to time. Actual expenditures for these and possibly other items not presently anticipated will vary from these estimates during the course of the years presented. We believe that Protection One's capital requirements will be met in 2001 through the use of internally generated funds, drawings under the senior credit facility they have with us and sales of assets. In subsequent years, we anticipate that these capital requirements will be met through the use of internally generated funds, asset sales, the senior credit facility or external financings. See "Liquidity and Capital Resources" above.

Protection One Europe expects capital expenditures, including customer account acquisitions and fixed assets, to be approximately \$5.4 and \$5.0 million for 2001 and 2002, respectively.

Tax Matters

We and Protection One are consolidated into income tax returns filed by Western Resources. We will enter into a tax disaffiliation agreement, and Protection One has entered into a tax sharing agreement, with Western Resources whereby Western Resources will make cash payments to us for current tax benefits utilized for income tax return purposes and which will require cash payments from us for current tax expenses incurred for income tax return purposes. If we or Protection One did not file taxes on a consolidated basis with Western Resources, our deferred tax assets (amounting to \$80.1 million at March 31, 2001) would not be realizable and we would not be in a position to record a tax benefit for losses incurred. We will cease filing consolidated returns with Western Resources upon consummation of the PNM merger and the split-off.

At the end of December 31, 1999, Protection One had a deferred tax valuation allowance of \$22.2 million relating to acquired net operating loss carryforwards. Protection One originally had determined that it was more

53

likely than not that the NOLs acquired through acquisitions would not be utilized and therefore established the valuation allowance. However, due to a change in federal tax regulations regarding the utilization of acquired NOL carryforwards, approximately \$19 million of these NOLs were utilized in Western Resources' 1999 consolidated tax return and \$3.2 million are expected to be utilized in Western Resources' 2000 consolidated tax return. Goodwill was reduced by the NOLs utilized and expected to be utilized. Approximately \$2 million of deferred tax assets existed at December 31, 2000 for which a valuation allowance has been provided.

Exposure to Market Risk

We are exposed to market risk, including changes in the market price, foreign currency exchange rates, equity instrument investment prices, as well as interest rates.

- . Foreign currency exchange rates. We have foreign operations with functional currencies other than the United States dollar. As of December 31, 2000, the unrealized loss on currency translation, presented as a separate component of stockholders' equity and reported within other comprehensive income was approximately \$6.4 million. A 10% change in the currency exchange rates would have an immaterial effect on other comprehensive income.
- . Marketable Equity and Debt Investments. We had approximately \$177.1 million of marketable securities as of December 31, 1999. By December 31, 2000, we sold most of these securities and realized a pre-tax gain of \$114.9 million. Following the sale of these securities, we had \$3.9 million of marketable securities as of December 31, 2000. We do not hedge these investments and are exposed to the risk of changing market prices. We classify these securities as available for sale for accounting purposes and mark them to market on the balance sheet at the end of each period as an adjustment to shareholders' equity. Declines in market value which are other than temporary are recognized in income.

54

BUSINESS

We are principally engaged in the monitored security business through Protection One and Protection One Europe which provided monitored security services to over 1.4 million customers in North America, the United Kingdom and

continental Europe at March 31, 2001. We own approximately 85% of Protection One and 100% of Protection One Europe. We also own approximately 45% of ONEOK, an Oklahoma based company that purchases, gathers, processes, transports, stores, distributes and markets natural gas, an approximately 17% common stock interest in Western Resources, and a receivable owed to us by Western Resources in the amount of approximately \$116.6 million at April 30, 2001. In addition, we own interests in international power plants and other investments which in the aggregate are not material. We may from time to time sell non-strategic portions of our monitored security business or assets and our interests in international power plants and other investments. Following completion of the rights offering, assuming full exercise of the rights, approximately 85.7% of our outstanding capital stock will be owned by Western Resources.

Monitored Security Services

General

Through Protection One and Protection One Europe, we provided monitored security services to over 1.3 million customers in North America and approximately 134,000 customers in the United Kingdom and continental Europe at March 31, 2001. Revenues are generated primarily from recurring monthly payments for monitoring and maintaining the alarm systems that are installed in customers' homes and businesses. Services are provided to residential (both single family and multifamily residences), commercial and wholesale customers. Currently, North America's customers are primarily in the residential market and Europe's customers are primarily in the commercial market.

Monitored security services consists of three business segments--North America, Multifamily and Protection One Europe. North America is the core alarm monitoring business in the United States and Canada which generated \$364.5 million, or 68%, of our revenues in 2000 and \$83 million, or 72%, of our revenues in the first quarter of 2001. Multifamily provides alarm monitoring services to apartments, condominiums and other multifamily dwellings and generated approximately \$39.4 million, or 7%, of our revenues in 2000 and \$8.8 million, or 8%, of our revenues in the first quarter of 2001. Protection One Europe generated \$134.0 million, or 25%, of our revenues in 2000 and \$22.5 million, or 20% of our revenues in the first quarter of 2001.

In prior years, the strategy for the monitored security business was focused primarily on growing the customer account base to achieve critical mass. Protection One and Protection One Europe grew rapidly by participating in the growth in the alarm industry and by acquiring other alarm companies. The strategic focus has now shifted to the following areas:

- . customer service;
- . reducing attrition;
- . reducing customer acquisition costs, and diversifying the customer acquisition strategy;
- . integrating and building infrastructure such as common platforms for central stations, billing and other applications;
- . enhancing revenues and margins by offering additional services to new and existing customers; and
- . establishing name recognition by targeting growth to areas near existing branches to increase customer density.

In April 2001, Richard Ginsburg joined Protection One as its Chief Executive Officer. Mr. Ginsburg has started a review of Protection One's operations and strategy. There could be significant changes in operations and strategy upon a completion of this review.

Operations

Monitored security services operations consist principally of alarm monitoring, customer service functions and branch operations.

Security alarm systems include many different types of devices installed at customers' premises designed to detect or react to various occurrences or conditions, such as intrusion or the presence of fire or smoke. Products range from basic intrusion and fire detection equipment to fully integrated systems with card access, closed circuit television and voice/video monitoring.

Alarm monitoring customer contracts generally have initial terms ranging from two to ten years in duration, and provide for automatic renewals for a fixed period (typically one year) unless one of the parties elects to cancel the contract at the end of its term.

Protection One maintains nine major service centers in North America to provide monitoring services to the majority of its customer base. In the United Kingdom, Protection One Europe's service centers are based in the metropolitan London area. The service centers in continental Europe are based in Paris and in metropolitan Marseilles, France.

Protection One maintains approximately 69 service branches in North America from which Protection One provides field repair, customer care, alarm response and sales services and 11 satellite locations from which they provide field repair services. Protection One's branch infrastructure plays an important role in enhancing customer satisfaction, reducing attrition and building brand awareness. Protection One Europe maintains approximately 44 sales branch offices in the United Kingdom and continental Europe.

During 2000, Protection One began installing a technology platform, referred to as MAS(R), or Monitored Automation Systems, that combines the customer service, monitoring, billing, and collection functions into a single system. Protection One also completed the installation of a new financial system in all of its locations. The MAS system will permit Protection One's service centers to operate on a capacity basis rather than a geographic basis, which is expected to provide additional operational efficiencies.

Customer Acquisition Strategy

Protection One relies on a mix of internal sales efforts, "tuck-in" acquisitions and dealers. In February 2000, Protection One initiated an internal sales program, with a goal of acquiring accounts at a cost lower than its external programs. This program utilizes Protection One's existing branch infrastructure in approximately 70 markets.

Protection One generates accounts through a dealer program comprised of direct dealers which are typically independent alarm companies with residential and small commercial sales, marketing and installation skills. Dealers enter into contracts with Protection One to generate new monitoring customers that they purchase from the dealers on an ongoing basis. The dealers install specified alarm systems, arrange for customers to enter into Protection One alarm monitoring agreements, and install Protection One yard signs and window decals. In addition, Protection One requires dealers to qualify prospective customers by meeting a minimum credit standard.

Multifamily markets its services and products primarily to developers, owners and managers of apartment complexes and other multifamily dwellings. Multifamily grows its business through national and regional advertising, nationwide professional field sales efforts, centralized inbound and outbound sales functions, prospective acquisition marketing efforts and professional

industry-related association affiliation. Protection One believes this targeted internal sales effort is an effective means of generating sales in the multifamily market, which is comprised primarily of developers and professionals that can be identified and contacted with relative ease.

Protection One Europe uses an internal sales force to acquire new accounts.

56

Competition

The security alarm industry is highly competitive and highly fragmented. In North America, most security alarm companies are either large regional or small, privately held alarm companies. Based on number of residential customers, Protection One believes the top five alarm companies in North America are:

- ADT Security Services, a subsidiary of Tyco International, Ltd. (ADT)
- SecurityLink
- Protection One
- Brinks Home Security Inc., a subsidiary of The Pittston Services Group of North America
- Honeywell Inc.

In the United Kingdom and continental Europe, there are a large number of small competitors and a few large regional competitors who have recently been taking steps towards establishing a continental presence. The large regional competitors include the following companies:

- CIPE, a subsidiary of ADT Security Services and Tyco International, Ltd., which is the largest security company in France
- Chubb, a United Kingdom based company which is also a leading security company in France
- Securitas, a world leader in the security industry based in Sweden, with its principal operations in the guarding industry but expanding operations in monitored security
- Group 4 Falck, a leading Danish security company with significant operations in Scandinavia and recent expansion into Germany and The Netherlands
- Rentokil Initial, a leading security company in The Netherlands with established operations in France and the United Kingdom

Some competitors have greater financial resources than Protection One or Protection One Europe, or may be willing to offer higher prices than Protection One or Protection One Europe are prepared to offer to purchase customer accounts. The effect of such competition may be to reduce the purchase opportunities available to Protection One and Protection One Europe, thus reducing their rate of growth, or to increase the price paid by Protection One and Protection One Europe for customer accounts, which would adversely affect their return on investment in such accounts and Protection One's and Protection One Europe's results of operations.

Regulatory Matters

A number of local governmental authorities have adopted or are considering

various measures aimed at reducing the number of false alarms. Such measures include:

- Subjecting alarm monitoring companies to fines or penalties for transmitting false alarms.
- Requiring permits for individual alarm systems and revoking permits following a specified number of false alarms.
- Imposing fines on alarm customers for false alarms.
- Imposing limitations on the number of times the police will respond to alarms at a particular location after a specified number of false alarms.
- Requiring further verification of an alarm signal before the police will respond.

Our monitoring services operations are subject to a variety of other laws, regulations and licensing requirements of both domestic and foreign federal, state, and local authorities. In certain jurisdictions, Protection One and Protection One Europe are required to obtain licenses or permits, to comply with standards

57

governing employee selection and training, and to meet certain standards in the conduct of our business. Many jurisdictions also require certain employees to obtain licenses or permits. Those employees who serve as patrol officers are often subject to additional licensing requirements, including firearm licensing and training requirements in jurisdictions in which they carry firearms.

The alarm industry is also subject to requirements imposed by various insurance, approval, listing and standards organizations. Depending upon the type of customer served, the type of security service provided, and the requirements of the applicable local governmental jurisdiction, adherence to the requirements and standards of such organizations is mandatory in some instances and voluntary in others.

Protection One's monitoring services advertising and sales practices are regulated in the United States by both the Federal Trade Commission and state consumer protection laws. In addition, certain administrative requirements and laws of the foreign jurisdictions in which Protection One and Protection One Europe operate also regulate such practices. Such laws and regulations include restrictions on the manner in which the sale of our security alarm system is promoted, the obligation to provide purchasers of our alarm systems with certain rescission rights and certain foreign jurisdictions' restrictions on a company's freedom to contract.

The alarm monitoring business utilizes telephone lines and radio frequencies to transmit alarm signals. The cost of telephone lines and the type of equipment which may be used in telephone line transmission are currently regulated by both federal and state governments. The Federal Communications Commission and state public utilities commissions regulate the operation and utilization of radio frequencies. In addition, the laws of certain of the foreign jurisdictions in which Protection One Europe operates regulate the telephone communications with the local authorities.

Risk Management

The nature of the services provided by our monitoring services potentially exposes us to greater risks of liability for employee acts or omissions, or system failure, than may be inherent in other businesses. Substantially all of

our alarm monitoring agreements, and other agreements, pursuant to which we sell our products and services contain provisions limiting liability to customers in an attempt to reduce this risk.

Our monitoring services carry insurance of various types, including general liability and errors and omissions insurance in amounts we consider adequate and customary for our industry and business. Our loss experience, and the loss experiences at other security service companies, may affect the availability and cost of such insurance. Certain of our insurance policies, and the laws of some states, may limit or prohibit insurance coverage for punitive or certain other types of damages, or liability arising from gross negligence.

ONEOK

We own approximately 45% of the capital stock of ONEOK. As of April 30, 2001, our interest included approximately 2.2 million shares of common stock and 19.9 million shares of convertible preferred stock.

ONEOK and its subsidiaries engage in several aspects of the energy business. ONEOK purchases, gathers, processes, transports, stores and distributes natural gas. ONEOK drills for and produces oil and gas, extracts, sells and markets natural gas liquids, and is engaged in the gas marketing and trading business. In addition, ONEOK leases and operates its headquarters office building (leasing excess space to others) and owns and operates a related parking facility. As a regulated natural gas utility, ONEOK distributes natural gas to approximately 1.4 million customers in the states of Oklahoma and Kansas.

Please refer to ONEOK's financial statements, which are attached as Exhibit A and Exhibit B to this prospectus, and to ONEOK's Form 10-K for 2000 and Form 10-Q for March 31, 2001 and other documents it files with the SEC for further information concerning ONEOK. Such reports and documents are available at the SEC's public reference rooms and from the SEC's website. See "Available Information."

See "Risk Factors--Risk Related To Our Separation From Western Resources" for information concerning a KCC investigation which could effect our ONEOK holdings.

58

ONEOK Convertible Preferred Stock

Dividends on the ONEOK convertible preferred stock are payable quarterly and are not cumulative, so that dividends unpaid as of the dividend payment date for any dividend period shall permanently remain unpaid for such dividend period. The dividend amount on each share of such stock, with respect to each dividend period on the ONEOK common stock, is equal to 1.5 times (1.25 times following November 2002) the dividend amount declared in respect of each share of ONEOK common stock for such dividend period, as adjusted to reflect any stock split or similar events. In no event, however, will the aggregate annual dividend amount per share be less than \$1.80 per share.

After the occurrence of a regulatory change, we will have the right to convert each share into one fully paid and nonassessable share of ONEOK common stock, subject to adjustment to reflect stock splits and similar events. Conversion will, however, be automatic and mandatory upon the transfer of ONEOK convertible preferred stock to any person other than us or one of our affiliates. A regulatory change is deemed to have occurred upon our receipt of an opinion to the effect that PUHCA has been repealed, we are otherwise exempt from PUHCA or that we have registered under PUHCA, such that we may fully and legally exercise our rights under the shareholder agreement.

Holders of ONEOK convertible preferred stock are not entitled to vote in any

election of directors to the board of ONEOK or any matter submitted to ONEOK shareholders other than as required by law. Holders of ONEOK convertible preferred stock are entitled to vote together with holders of ONEOK common stock, as a single class, with respect to (i) any proposed amendment to the ONEOK charter documents which would reasonably have the effect of modifying in any way the charter amendment allowing ONEOK to opt out of Oklahoma's Control Share Acquisition Statute or would reasonably cause ONEOK to become subject to the Control Share Acquisition Statute or any similar provisions; and (ii) any transaction or series thereof which, if consummated, would constitute a change in control. With respect to such matters, each share of ONEOK convertible preferred stock will carry a number of votes equal to the number of votes carried in the aggregate by the number of shares of ONEOK common stock issuable upon conversion of one share of ONEOK convertible preferred stock.

ONEOK Shareholder Agreement

The shareholder agreement between us and ONEOK provides for, among other matters, the matters specified below:

Standstill; Top-Up Rights. The shareholder agreement provides, among other things, that we and our affiliates will be prohibited from taking certain actions, including, without limitation:

- (a) prior to the occurrence of a regulatory change, the acquisition of voting securities of ONEOK that would cause us and our affiliates to have securities representing more than 9.9% of the total outstanding voting power of ONEOK and, at any time, the acquisition of securities that would cause total ownership percentage of us and our affiliates to exceed 45%, less the voting power represented by ONEOK securities we have transferred (the "Maximum Ownership Percentage"); and
- (b) engage in any action, either alone or in concert with others, to seek to control or influence ONEOK's management, board or policies.

In the event that our total ownership percentage falls below the Maximum Ownership Percentage, we have certain rights to acquire additional securities to restore our total ownership percentage to the Maximum Ownership Percentage.

Restrictions on Transfer. During the term of the shareholder agreement, we are prohibited, without the prior written consent of a majority of ONEOK's independent directors, from transferring any ONEOK securities, except (a) transfers of securities representing voting power of less than 5%, provided that the transferee does not have a voting ownership percentage of 5% or more immediately prior to such transfer;

59

(b) in a bona fide underwritten public offering pursuant to a registration rights agreement entered into between ONEOK and us; (c) pursuant to a pro rata distribution to our shareholders; and (d) pursuant to a procedure which permits us to transfer securities representing 5% or more of ONEOK's voting power, provided that ONEOK has been given notice thereof, and has failed, within a specified period of time, to purchase from us the securities proposed to be sold at a cash purchase price per share equal to 98.5% of the then current market price for ONEOK's common stock. In addition, in the case of a bona fide third party tender offer for ONEOK, we may tender into such offer a proportionate amount of our ONEOK securities.

Voting. During the term of the shareholder agreement, we have agreed to vote all voting securities owned by us as follows: with respect to the election of directors, we will vote our voting securities in favor of the election of all candidates for director nominated by the ONEOK board. With respect to any proposal initiated by a shareholder of ONEOK relating to the redemption of the

rights issued pursuant to the ONEOK Rights Agreement or any modification of the Rights Agreement (other than nonbinding precatory resolutions), we shall vote all voting securities beneficially owned by us in accordance with the recommendation of the ONEOK board. With respect to transactions constituting a change in control or with respect to any proposal relating to Oklahoma's Control Share Acquisition Statute, we may vote any or all of the voting securities and convertible preferred stock (which, as described above, has the right in such circumstance to vote together with the ONEOK common stock on a one vote per share basis, as adjusted to reflect any stock split or similar events) held by us in our sole discretion. With respect to any proposed amendment to the ONEOK certificate or ONEOK by-laws which would reasonably have the effect of modifying in any way applicability of Oklahoma's Control Share Acquisition Statute or would reasonably cause ONEOK to become subject to the Control Share Acquisition Statute or any similar provisions we have the right to abstain or vote against such amendment. With respect to all other matters, (i) prior to the occurrence of a regulatory change, we may vote any voting securities of ONEOK held by us in our sole discretion and (ii) after the occurrence of such a regulatory change, we may vote in our sole discretion voting securities representing up to 9.9% of the ONEOK outstanding voting power and we must vote any other voting securities owned by us in the same proportion as all voting securities voted on such other matter are voted by the other shareholders of ONEOK.

Term; Buy/Sell Option. The shareholder agreement terminates under certain circumstances, including, but not limited to: (a) ONEOK's quarterly dividend on the ONEOK common stock falling below \$0.30 per share (as adjusted to reflect any stock split or similar events) in any five quarters or ONEOK's failure to pay the stated quarterly dividend on any series of convertible preferred stock in any five quarters, (b) our total ownership percentage falling below 9.9% at any time or (c) our total ownership percentage falling below 30% at any time following November 26, 2012. In addition, on November 26, 2012, and each subsequent anniversary of the signing of the shareholder agreement, each of us and ONEOK, on behalf of ONEOK's shareholders, has the right to buy from or sell to the other, by purchase, sale or credible tender offer, as appropriate, all outstanding shares of ONEOK capital stock beneficially owned by the selling party (which, in the case of ONEOK, means the shareholders of ONEOK other than us and our affiliates). In addition, if we register as a holding company under PUHCA and ONEOK believes in good faith that our regulatory status would place an unreasonable restriction on the implementation of ONEOK's strategic business plans, ONEOK may immediately initiate its buy/sell rights.

Other Assets

Our assets currently include a receivable owed to us by Western Resources in the amount of approximately \$116.6 million at April 30, 2001. The receivable will be increased or decreased by additional advances or payments between us and Western Resources, including the advance of the net proceeds of the rights offering. The receivable currently bears interest at 8.5% per annum. Prior to the closing of the PNM merger and the split-off, pursuant to the allocation agreement, the outstanding balance of the receivable will be repaid by converting the receivable into (1) shares of our common stock owned by Western Resources at a price based on the average market prices for the 20 trading days preceding conversion, but not less than the subscription price, (2) shares of Western Resources common stock at a price based on the average market

60

prices for the 20 trading days preceding conversion, or (3) shares of Western Resources convertible preference stock. We have the right to choose the time of conversion and the security to be received. The conversion of the receivable is subject to the following conditions: (1) prior to converting the receivable into Western Resources convertible preference stock, we must convert the receivable into a number of shares of Western Resources common stock that would

be converted into 9.9% of the outstanding shares of PNM Holdings common stock on a fully diluted basis following the PNM merger (based on a good faith determination of the number of shares of PNM Holdings common stock that will be outstanding immediately following the PNM merger); (2) the maximum aggregate amount of the receivable that can be converted into convertible preference stock is \$375 million; and (3) the total amount that can be converted into Western Resources convertible preference stock and Western Resources common stock is limited to \$641 million.

We own approximately 14.4 million shares of the common shares of Western Resources, representing approximately 17% of the outstanding shares. We acquired these shares on February 28, 2001 by converting \$350 million of the then outstanding balance of receivable owed to us by Western Resources into shares of Western Resources common stock in the manner described in the preceding paragraph. These shares are held in the Western Resources Direct Stock Purchase Plan and therefore we do not currently receive cash from the dividends on these shares. Under Kansas law, we do not have the right to vote any shares of Western Resources common stock we own so long as we are a subsidiary of Western Resources.

At the effective time of the PNM merger and the split-off, any Western Resources common stock we own will be converted into PNM Holdings common stock based on the merger exchange ratio and any Western Resources convertible preferred stock will be converted into PNM Holdings convertible preferred stock. We expect our total investment will equal approximately 9.9% of the outstanding common stock of PNM Holdings and from approximately 11% to 19% of all common stock of PNM Holdings assuming conversion of all convertible preferred stock and other convertible securities we then own. In addition, we will receive shares of our common stock as part of the split-off transaction and these shares will be retired.

We own a 9% interest in a 478 megawatt power plant located near Istanbul in the Republic of Turkey. The plant began operation in 1999 and was constructed on a "build, operate, transfer" basis. The plant will transfer to the Republic of Turkey in 2019. A Turkish governmental agency, purchases all of the plant's power. The Turkish economy faces numerous material challenges and is currently being supported by emergency loans from the International Monetary Fund. High inflation, interest rates and unfavorable foreign currency prices have created an unstable economic environment in Turkey. Contracts require settlement in the United States dollar. However, the current unfavorable economic situation in Turkey substantially increases the risk associated with the Turkish governmental agency's ability to pay for power being delivered. The carrying value of our investment approximates \$9.2 million. We own 50% of a joint venture which owns 49% of four 55 megawatt coal fired power plants located in Dengfeng City in the Henan Province in the People's Republic of China. The plants primarily supply electricity to manufacturing facilities owned by the other owner of the plants. The transaction is structured on a twenty year term with a maturity in 2017.

We own convertible preferred stock of Guardian International, Inc. (Guardian) representing approximately 29% of the outstanding capital stock of Guardian on a fully diluted converted basis. Guardian is a leading supplier of security monitoring and high grade monitored security and fire systems in Florida and New York. Guardian had total revenues of \$18.3 million in fiscal 2000 and is headquartered in Hollywood, Florida.

We also have other various businesses and investments which in the aggregate are not material to our business or results of operation.

From time to time we may sell one or more of the assets discussed above.

See "Risk Factors--Risk Related To Our Separation From Western Resources," which could affect our Western Resources holdings, the receivable, and other assets.

Investment Company Act and PUHCA

We are presently exempt from registration under the Investment Company Act and upon completion of the rights offering will qualify for and rely on a temporary one year exemption from the Investment Company Act. If we were not exempt, we would be required to be registered as an investment company because of the value and nature of our ownership interests in ONEOK, our subsidiaries, the receivable from Western Resources and, following the closing of the PNM merger and the split-off, PNM Holdings. We have submitted an application to the SEC seeking permanent exemption from registration under the Investment Company Act. If our application is not approved, we would need to take action so as not to be required to register.

Possible action would include selling a portion of our ownership interests in ONEOK and PNM Holdings, or exercising our option to purchase an interest in an electric generating facility near Joplin, Missouri from Western Resources and registering to become a public utility holding company under PUHCA. Being subject to regulations under PUHCA would impose a number of restrictions on our operations. These restrictions include a requirement that the SEC approve, in advance, securities issuances, sales and acquisitions of utility assets or of securities of utility companies and acquisitions of interest in other businesses. PUHCA also limits the ability of registered holding companies to engage in non-utility ventures and regulates transactions between various affiliates within the holding company system, including the provision of services by holding company affiliates to the system's utilities. Legislation has been proposed which would repeal PUHCA.

Employees

As of March 31, 2001, we had 19 employees other than those employed by Protection One and Protection One Europe. We have entered into a shared services agreement with Western Resources pursuant to which Western Resources provides administrative services, including financial reporting, accounting, auditing, tax, office services, payroll and human resources. See "Certain Relationships and Related Transactions--Our Transactions Involving Western Resources--Shared Services Agreement."

At March 31, 2001, Protection One and Protection One Europe employed approximately 3,400 persons and 1,600 persons, respectively, on a full time basis. We believe that Protection One and Protection One Europe have good relations with their employees.

Properties

Our executive offices are located at 818 South Kansas Avenue, Topeka, Kansas 66612.

Protection One maintains its executive offices at 818 South Kansas Avenue, Topeka, Kansas 66612. Protection One and Protection One Europe operate primarily from the following facilities, although Protection One also leases office space for approximately 69 service branch offices and 11 satellite branches in North America and Protection One Europe leases offices for approximately 44 sales branch offices in the United Kingdom and continental Europe.

Location	Size (sq. ft.)	Lease/Own	Principal Purpose

United States			
Addison, TX.....	28,512	Lease	Service center/administrative headquarters
Beaverton, OR.....	44,600	Lease	Service center(1)
Irving, TX.....	53,750	Lease	Service center
Irving, TX.....	27,197	Lease	Administrative functions
Orlando, FL.....	11,020	Lease	Wholesale service center
Topeka, KS.....	17,703	Lease	Financial/administrative headquarters
Wichita, KS.....	50,000	Own	Service center/administrative functions
Canada			
Ottawa, ON.....	7,937	Lease	Service center/administrative headquarters
Vancouver, BC.....	5,177	Lease	Service center
Europe			
London, UK.....	8,900	Lease	Administrative/service center
Basingstoke (London), UK.....	4,600	Lease	Financial/administrative offices/service center
Paris, FR.....	3,498	Lease	Financial/administrative offices/service center
Vitrolles (Marseilles), FR.....	13,003	Lease	Administrative/service center

(1) On April 17, 2001, Protection One announced plans to consolidate this facility into its Wichita, Kansas customer service center by June 30, 2001.

Legal Proceedings

We, Western Resources, Protection One, Monitoring, and certain present and former officers and directors of Protection One are defendants in a purported class action litigation pending in the United States District Court for the Central District of California, Alec Garbini, et al. v. Protection One, Inc., et al., No. CV 99-3755 DT (RCx). Pursuant to an Order dated August 2, 1999, four pending purported class actions were consolidated into a single action. In February 2001, plaintiffs filed a Third Consolidated Amended Class Action Complaint ("Amended Complaint"). Plaintiffs purport to bring the action on behalf of a class consisting of all purchasers of publicly traded securities of Protection One, including common stock and notes, during the period of February 10, 1998 through February 2, 2001. The Amended Complaint asserts claims under Section 11 of the Securities Act of 1933 and Section 10(b) of the Securities Exchange Act of 1934 against Protection One, Monitoring, and certain present and former officers and directors of Protection One based on allegations that various statements concerning Protection One's financial results and operations for 1997, 1998, 1999, and the first three quarters of 2000 were false and misleading and not in compliance with generally accepted accounting principles. Plaintiffs allege, among other things, that former employees of Protection One have reported that Protection One lacked adequate internal accounting controls and that certain accounting information was unsupported or manipulated by management in order to avoid disclosure of accurate information. The Amended Complaint further asserts claims against Western Resources and us as controlling persons under Sections 11 and 15 of the Securities Act of 1933 and Sections 10(b) and 20(a) of the Securities Exchange Act of 1934. A claim is also asserted under Section 11 of the Securities Act of 1933 against Protection One's auditor, Arthur Andersen LLP. Arthur Andersen also serves as Western Resources' and our independent auditor. The Amended Complaint seeks an unspecified amount of compensatory damages and an award of fees and expenses,

including attorneys' fees. Defendants have moved to dismiss, in part, the Amended Complaint. Protection One intends to vigorously defend against all the claims asserted in the Amended Complaint. We cannot predict the impact of this litigation on us, which could be material.

An arbitration was commenced against Protection One and Monitoring by Ralph Apa in December 2000 alleging common law fraud, negligent misrepresentation of Oregon Blue Sky law claims based on the allegedly inflated stock price of the shares of Protection One stock received in connection with Protection One's acquisition of his alarm monitoring business on October 1, 1998 pursuant to an Agreement and plan of Reorganization. Mr. Apa also alleges breach of contract, breach of the covenant of good faith and fair dealing and conversion arising from the transaction. The statement of claim seeks undisclosed compensatory and punitive damages, interest and attorneys fees and costs. An arbitration date has not yet been set.

Six Protection One dealers have filed a class action lawsuit in the U.S. District Court for the Western District of Kentucky alleging breach of contract because of Protection One's interpretation of their dealer contracts. The action is styled Total Security Solutions, Inc., et al. v. Protection One Alarm Monitoring, Inc., Civil Action No. 3:99CV-326-H (filed May 21, 1999). In September 1999, the Court granted Protection One's motion to stay the proceeding pending the individual plaintiffs' pursuit of arbitration as required by the terms of their agreements. On June 23, 2000, the Court denied plaintiffs' motion for collective arbitration. In October 2000, notwithstanding the Court's denial of plaintiff's motion to have collective arbitration, the six former dealers filed a motion for arbitration with the American Arbitration Association. This motion was denied and the plaintiffs were advised to proceed individually. An arbitration proceeding with one plaintiff is open, but the plaintiff has not proceeded with the matter.

On April 2, 2001, Monitoring was served with a demand for arbitration by Cynthia L. Russell and Active Alert Security, Inc. before the American Arbitration Association. They are seeking approximately \$1.0 million, additional unspecified amounts for lost profits, interest and attorneys fees due to alleged defaults by Monitoring under a dealer agreement. An arbitration date has not yet been set.

Other Protection One dealers have threatened litigation or arbitration based upon a variety of theories surrounding calculations of holdback and other payments. Protection One believes it has complied with the terms of these contracts and intends to vigorously defend its position. Although Protection One believes that no such individual claim will have a material adverse effect, Protection One cannot currently predict the aggregate impact of these disputes with dealers, which could be material to Protection One.

On October 2, 2000, Protection One, as successor-in-interest to Centennial Security, Inc., was served with a demand for arbitration by Crimebusters, Inc., before the American Arbitration Association wherein Crimebusters is seeking \$7.0 million in damages due to alleged defaults by Protection One under an asset purchase agreement between Crimebusters, et al. and Centennial Security, Inc. Protection One has filed claims alleging fraud, willful misconduct and breach of contract against Crimebusters, et al. in the United States District Court for the District of Connecticut, Protection One Alarm Monitoring, Inc. v. Crimebusters, Inc., First Federal Security Systems, Inc. and Anthony Perrotti, Jr., Civil Action No. 300CV-1 932DJS, and in addition has demanded that Crimebusters withdraw the demand for arbitration, and requested of the American Arbitration Association that the arbitration action be dismissed or indefinitely stayed pending resolution of the District Court litigation. The ultimate outcome cannot presently be determined and the Protection One cannot currently predict the impact of this litigation, which could be material.

The SEC commenced a private investigation in 1997 with Western Resources relating to, among other things, the timeliness and adequacy of disclosure

filings with the SEC by Western Resources with respect to securities of ADT Ltd. Western Resources has cooperated with the SEC staff in this investigation. Under the allocation agreement, we have agreed to indemnify Western Resources with respect to this matter.

We are party to claims and matters of litigation incidental to the normal course of business. The ultimate outcome of such matters cannot presently be determined; however, in the opinion of management, the resolution of such matters will not have a material adverse effect upon our financial position or results of operations.

64

MANAGEMENT

Directors and Executive Officers

Our board of directors currently consists of four directors, Mr. Wittig, Mr. Lake, Mr. Koupal and Mr. Geist all of whom are executive officers of Western Resources. The board of directors will be increased to seven directors concurrently with the consummation of the rights offering, consisting of the four current directors, and the three persons not affiliated with us or Western Resources identified below.

Our articles of incorporation provide that our board of directors is divided into three classes of directors, with the classes to be as nearly equal in number as possible. Mr. Wittig and Mr. Geist serve and Mr. Christensen will serve as Class I directors, whose terms expire at the 2004 annual shareholders' meeting. Mr. Lake serves and Mr. St. Clair will serve as Class II directors, whose terms expire at the 2003 annual shareholders' meeting. Mr. Koupal serves and Mr. Edwards will serve as Class III directors, whose terms expire at the 2002 annual shareholders' meeting. Executive officers are elected annually by the board of directors and serve at its discretion. The following table sets forth information as to the persons who serve or who are expected to serve as our directors and executive officers immediately following the rights offering.

Name ----	Age ---	Position -----
Howard A. Christensen.....	67	Director
R. A. Edwards.....	55	Director
Paul R. Geist.....	37	Director and President
Carl M. Koupal, Jr.....	47	Director
Douglas T. Lake.....	50	Director
Pack St. Clair.....	60	Director
David C. Wittig.....	45	Chairman of the Board
Greg A. Greenwood.....	35	Treasurer and Secretary

Howard A. Christensen

Mr. Christensen is the President and Chief Executive Officer of Christensen & Associates, an investor relations and strategic planning firm. Mr. Christensen is also a director of Protection One.

R.A. Edwards

Mr. Edwards is the President and Chief Executive officer of the First National Bank of Hutchinson, Kansas. He is also a member of the University of Kansas Business School Advisory Board and a trustee of the Kansas University

Endowment Association.

Paul R. Geist

Mr. Geist has been a director since April 2001 and has served as President since September 2000. Mr. Geist also is Vice President, Corporate Development, of Western Resources (since February 2001). From November 1999 to February 2001, Mr. Geist served as Executive Director, Corporate Strategy of Western Resources. From October 1998 to November 1999, Mr. Geist served as Vice President--Finance of Panera Bread Company. Prior to that, Mr. Geist served as Executive Vice President--Chief Financial Officer for Houlihan's Restaurant Group, Inc.

Carl M. Koupal, Jr.

Mr. Koupal has been a director since June 1995. Mr. Koupal is Executive Vice President and Chief Administrative Officer of Western Resources. Mr. Koupal is a director of Protection One.

65

Douglas T. Lake

Mr. Lake has been a director since September 1998. Mr. Lake currently serves as Executive Vice President and Chief Strategic Officer of Western Resources (since September 1998). Prior to that Mr. Lake was Senior Managing Director at Bear, Stearns & Co. Inc., an investment banking firm. Mr. Lake is also a director of Western Resources, Protection One, ONEOK and Guardian International, Inc.

Pack St. Clair

Mr. St. Clair is the President of Cobalt Boat Company, Neodesha, Kansas.

David C. Wittig

Mr. Wittig has been Chairman of the Board since February 2001. Mr. Wittig currently serves as Chairman of the Board, President, and Chief Executive Officer of Western Resources (since January 1999, March 1996, and July 1998, respectively). Prior to that time, Mr. Wittig was Executive Vice President of Corporate Development of Western Resources. Mr. Wittig is a director of OMX, Inc., and a trustee of the Kansas University Endowment Association and Boys Harbor, Inc.

Greg A. Greenwood

Mr. Greenwood has served as Treasurer and Secretary since September 2000. Mr. Greenwood also currently serves as Senior Director, Finance, of Western Resources and has held that position since October 1999. He has served in various other capacities with Western Resources since 1993.

Committees of the Board of Directors

Prior to or immediately following the closing of the rights offering, our board of directors will establish an audit committee, a nominating committee and a compensation committee of our board of directors. The audit committee will be comprised of three independent directors and the compensation committee will be comprised of at least two independent directors. The audit committee will be responsible for reviewing our audited financial statements and accounting practices, and considering and recommending the employment of, and approving the fee arrangements with, independent accountants for both audit functions and for advisory and other consulting services. The compensation

committee will review and approve the compensation and benefits for our key executive officers, administer our employee benefit plans and make recommendations to the board of directors regarding such matters. The nominating committee will select nominees for election as members of the board of directors. The board of directors may establish additional committees from time to time.

Director Compensation

To date, we have not paid compensation to any of our directors for acting in such capacity. Beginning after the closing of the rights offering, directors who are not our full-time employees or full-time employees of Western Resources will receive an annual cash fee of \$20,000, an annual grant of 5,000 stock options, and cash meeting fees of \$1,000 per board or committee meeting attended. Directors who are our officers and full-time employees or full-time employees of Western Resources will receive no additional compensation for service as directors. We reimburse all directors for the expenses incurred in attending meetings of the board of directors. All directors are eligible for grants of options and restricted share units under our 2001 Long-Term Incentive Compensation and Share Award Plan. Each independent director appointed concurrently with the closing of the rights offering will receive options to purchase 5,000 shares of our common stock at a price per share equal to the subscription price for our common stock.

66

Executive Compensation

Each of our executive officers is currently an employee of Western Resources. Prior to the rights offering, all compensation paid to our executive officers was paid by Western Resources and a portion of this expense was allocated to us. After completion of the rights offering, their compensation will initially be handled in the same manner, but we expect that one or more officers will at some time become solely our employees and that we will then pay all of their compensation.

Long Term Incentive Compensation and Share Award Plan

Our board of directors has adopted and Western Resources as our sole stockholder has approved the Westar Industries, Inc. 2001 Long Term Incentive Compensation and Share Award Plan (the "Plan"). The Plan allows the granting of stock options, stock appreciation rights, called SARs, restricted share and restricted share unit awards, performance share and performance unit awards, dividend equivalent awards, director shares in lieu of fees, and other share-based awards (collectively, "awards") to eligible Plan participants. While we have no current plans to grant awards other than stock options, restricted share awards, restricted share unit awards and dividend equivalent awards, and the issuance of shares to non-employee directors in lieu of fees, the board of directors believes that the ability to use different types of equity compensation vehicles will give us the flexibility needed to adapt most effectively over time to changes in the labor market and in equity compensation practices.

The board has authorized the issuance of up to 8.5 million shares of our common stock pursuant to awards granted under the Plan. If an award expires or is canceled without having been fully exercised or vested, the unvested or canceled shares generally will be available thereafter for grants of awards. The number of shares available for grant under the Plan, as well as outstanding awards, non-employee director shares and the numerical limits for individual grants, will be adjusted as appropriate to reflect any stock splits, stock dividends, recapitalizations, reorganizations or other changes to our capital structure. The type, amount and conditions of any awards have not been

determined.

Purpose of the Plan. The Plan is intended to attract, motivate and retain (1) employees of Westar Industries and its affiliates, and (2) non-employee directors of Westar Industries, called outside directors. The Plan is designed to further the growth and financial success of Westar Industries and its affiliates by aligning the interests of the Plan participants, through stock ownership and other incentives, with the interests of our stockholders. The Plan is also intended to meet competitive compensation levels through increases in variable (at-risk) pay rather than traditional base salary.

Administration of the Plan. The Plan will be administered by the compensation committee of the board or such other board committee as may be designated by the board to administer the Plan, referred to as the Committee. The Committee must have two or more members and all of the members of the Committee must qualify as "non-employee directors" under Rule 16b-3 under the Securities Exchange Act of 1934, and as "outside directors" under Section 162(m) of the Internal Revenue Code (for purposes of qualifying amounts received under the Plan as "performance-based compensation" under Section 162(m)).

Subject to the terms of the Plan, the Committee has the sole discretion to determine the employees who shall be granted awards, to designate affiliates that will be participating employers under the Plan, to determine the type(s) and number of awards to be granted, to determine the number of shares to which awards may relate, to determine the manner in which an award may be settled, to determine the manner in which awards may be deferred, to prescribe the form of award agreements, to adopt or alter rules and regulations and to appoint agents to administer the Plan, to correct defects or inconsistencies and to construe and interpret the Plan, to accelerate the exercisability of awards, and to determine the terms and conditions of all awards. The Committee may delegate its authority to grant and administer awards to a separate committee appointed by the Committee, but only the Committee may make awards to participants who are executive officers of Westar Industries. The non-employee director portion of the Plan will be administered by the full board of directors, rather than the Committee.

67

Eligibility to Receive Awards. Employees of Westar Industries and its affiliates are eligible to be selected to receive one or more awards. The actual number of employees who will receive awards under the Plan cannot be determined because selection for participation in the Plan is in the sole discretion of the Committee.

The Plan also allows for non-employee directors to receive all or a portion of their fees in the form of awards. The terms and conditions of awards to be granted to directors are discussed below under "Director Fees."

Options. The Committee may grant non-qualified stock options, incentive stock options, called ISOs, or any combination thereof. The number of shares covered by each option will be determined by the Committee, but during any calendar year, no participant may be granted options or SARs for more than 2 million shares.

The exercise price of each option is set by the Committee and may require achievement of performance criteria established by the Committee. The exercise price of an ISO must comply with the provisions of Section 422 of the Internal Revenue Code, which currently provides, among other things, that the aggregate fair market value of the shares (determined on the grant date) covered by ISOs which first become exercisable by any participant during any calendar year may not exceed \$100,000.

Stock options may be exercised in whole or in part. The Committee may permit payment through the tender of shares of our common stock then owned by the participant, or by any other means that the Committee determines to be consistent with the Plan's purpose. Any taxes required to be withheld must be paid at the time of exercise.

Options become exercisable at the times and on the terms established by the Committee. Options expire at the times established by the Committee, but generally not later than 10 years after the date of grant. The Committee may extend the maximum term of any option granted under the Plan, subject to the preceding limits.

Director Fees. Non-employee director participants may receive a portion of their annual director fees in shares or other types of awards permitted by the plan as determined by the board of directors, with the remainder of the fees to be payable either in cash or shares as elected by the non-employee director participant.

The required portion of stock compensation will be paid at the beginning of each year, or promptly following the non-employee director's election to the board. The elective stock compensation due a non-employee director participant will be payable on a quarterly basis, as described in the Plan. Distribution amounts will be determined by dividing the participant's required and elected dollar amount of compensation by the market value of the shares on the date one business day prior to the date of distribution. For additional information concerning fees payable to non-employee directors, see "--Directors' Compensation."

Stock Appreciation Rights. The Committee determines the terms and conditions of each SAR. SARs may be granted in conjunction with an option, or may be granted on an independent basis. The number of shares covered by each SAR will be determined by the Committee, but during any calendar year, no participant may be granted options and SARs for more than 2 million shares.

Upon exercise of an SAR, the participant will receive payment from us in an amount measured by the difference between the exercise price of the right and the fair market value of shares on the exercise date or other date specified by the Committee.

SARs are exercisable at times and on the terms established by the Committee. Proceeds from SAR exercises may be paid in cash, shares, or property as determined by the Committee. SARs expire at the times established by the Committee.

Restricted Share Awards and Restricted Share Unit Awards. Restricted share awards are shares of stock that are granted subject to restrictions established by the Committee. Restricted share units are rights to receive

68

shares or cash at the end of a specified deferral period subject to restrictions established by the Committee. The number of restricted shares and restricted share units (if any) granted to a participant will be determined by the Committee.

In determining the vesting schedule for each award of restricted shares or restricted share units, the Committee may impose whatever conditions to vesting it determines to be appropriate. For example, the Committee may (but is not required to) provide that restricted share units will vest only if one or more of the following measures in setting the performance goals are satisfied. In order for the award to qualify as "performance-based" compensation under Section 162(m) of the Internal Revenue Code, the Committee must use one or more of the following measures in setting the performance goals: (1) total

shareholder return; (2) earnings per share; (3) operating income; (4) net income; (5) pro forma net income; (6) return on shareholders' equity; (7) return on designated assets; (8) shareholder value added; (9) revenues; (10) capital gains; (11) expenses; (12) operating profit margin; (13) operating cash flow; (14) net profit margin; (15) achievement of operational strategies in terms of control of accidents, lost time and/or customer satisfaction; and (16) earnings before interest, taxes, depreciation and/or amortization. The Committee may apply the performance measures on a corporate, subsidiary, affiliate, division or business unit basis, as deemed appropriate in light of the participant's specific responsibilities. The Committee may, in its sole discretion, accelerate the time at which any restrictions lapse or remove any restrictions. In no event may the total compensation payable to any participant in any calendar year under all performance-based restricted shares, restricted units, performance shares and performance units intended to qualify as "performance-based" compensation under Section 162(m) of the Code exceed the equivalent of 2 million shares.

Performance Share Awards and Performance Unit Awards. Performance share awards and performance unit awards are amounts credited to a bookkeeping account established for the participant. The performance goals are established by the Committee at the time of its grant. A performance share has an initial value equal to the fair market value of a share of our common stock on the date of grant. The number of performance units or performance shares (if any) granted to a participant will be determined by the Committee.

Whether a performance unit or performance share actually will result in a payment to a participant will depend upon the extent to which performance goals established by the Committee are satisfied. The applicable performance goals will be determined by the Committee. In order to qualify as "performance-based" compensation under Section 162(m) of the Internal Revenue Code, the same measures of performance goals stated under restricted share awards above must be used. In no event may the total compensation payable to any participant in any calendar year under all performance-based restricted shares, restricted units, performance shares and performance units intended to qualify as "performance-based" compensation under Section 162(m) of the Code exceed the equivalent of 2 million shares.

After a performance unit or performance share award has vested (that is, after the applicable performance goal or goals have been achieved), the participant will be entitled to receive a payout of cash, shares, or any combination thereof, as determined by the Committee. Unless otherwise determined by the Committee at the date of grant, unvested performance units and performance shares will be forfeited upon the earlier of the recipient's termination of employment or the date set forth in the award agreement.

Dividend Equivalents. Dividend equivalents are rights to receive cash, shares or other property equal in value to dividends paid with respect to a specified number of shares. Independently or in connection with an award, the board may grant dividend equivalents to a participant based on the dividends declared on the shares for record dates during the period between the date an award is granted and the date such award is exercised or the date all conditions of the award shall have been satisfied. Dividend equivalents may be paid or distributed when accrued or deemed to have been reinvested in additional shares or other investment vehicles as determined by the Committee.

Other Share-Based Awards. The Committee is authorized to grant other stock-based awards subject to such terms and conditions as it may prescribe.

Nontransferability of Awards. Unless otherwise set forth by the Committee in the award agreement, awards (other than vested shares) granted under the Plan may not be sold, transferred, pledged, assigned, or otherwise alienated or

hypothecated, other than by will or by the applicable laws of descent and distribution; provided, however, that a participant may designate one or more beneficiaries to receive any exercisable or vested awards following his or her death.

Change of Control. In the event of a change of control, all awards granted under the Plan then outstanding but not then exercisable (or subject to restrictions) shall become immediately exercisable, all restrictions shall lapse, and any performance criteria shall be deemed satisfied, unless otherwise provided in the applicable award agreement. In addition, for a period of up to 60 days following a change of control, a participant may elect to surrender any outstanding award and receive a cash payment equal to the value of such award, with the value of any shares being determined for this purpose based on the "change of control price" (essentially, the higher of the highest reported sales price during the 30 days preceding the change of control or the highest price paid or offered in the transaction). In general, a change of control occurs if (1) a person (other than Western Resources and its subsidiaries and certain other entities) is or becomes a "beneficial owner," either directly or indirectly, of 20% or more of the outstanding voting securities, (2) the composition of the board changes whereby directors at the effective date of the Plan (including new directors approved by a vote of three-quarters of the directors then in office and any directors previously so approved) cease to constitute a majority of the board, (3) the consummation of a merger, consolidation, statutory share exchange or similar form of corporate transaction involving Westar Industries occurs (subject to certain exceptions), or (4) the stockholders of Westar Industries approve a plan of complete liquidation or dissolution of Westar Industries or a sale of all or substantially all of its assets. Our separation from the regulated electric utility business of Western Resources through a distribution of our common stock to the stockholders of Western Resources concurrently with the consummation of a transaction involving a strategic partner for Western Resources' electric utilities will not be a change of control under the Plan.

Federal Income Tax Consequences. A recipient of a stock option or SAR will not have taxable income on the date of grant. Upon the exercise of non-qualified options and SARs, the participant will recognize ordinary income equal to the difference between the fair market value of the shares on the date of exercise and the exercise price. Any gain or loss recognized upon any later disposition of the shares generally will be capital gain or loss.

Purchase of shares upon exercise of an ISO will not result in any taxable income to the participant, except for purposes of the alternative minimum tax. Gain or loss recognized by the participant on a later sale or other disposition will be either long-term capital gain or loss or ordinary income, depending upon how long the participant has held the shares. Any ordinary income recognized will be in the amount, if any, by which the lesser of (1) the fair market value of such shares on the date of exercise, or (2) the amount realized from the sale, exceeds the exercise price.

Upon receipt of a restricted share, restricted share unit, dividend equivalents, a performance unit or a performance share, the participant will not have taxable income except that in the case of restricted shares, the participant may elect to be taxed at the time of the award. Absent such election, upon vesting the participant will recognize ordinary income equal to the fair market value of the shares at such time. With respect to restricted share units, performance units, dividend equivalents and performance shares, upon payment in cash or unrestricted shares, the participant will recognize ordinary income equal to the amount of cash and the fair market value of the stock at the time of payment.

The Committee may permit participants to satisfy tax withholding requirements in connection with the exercise or receipt of an award by (1) electing to have Westar Industries withhold otherwise deliverable shares, or (2) delivering to Westar Industries then owned shares having a value equal to

the amount required to be withheld.

70

Westar Industries will be entitled to a tax deduction for an award in any amount equal to the ordinary income realized by the participant at the time the participant recognizes such income. Internal Revenue Code Section 162(m) contains special rules regarding the federal income tax deductibility of compensation paid to our Chief Executive Officer and to each of the other four most highly compensated executive officers. The general rule is that annual compensation paid to any of these specified executives will be deductible only to the extent that it does not exceed \$1 million. We can preserve the deductibility of certain compensation in excess of \$1 million, however, if we comply with conditions imposed by Section 162(m). The Plan has been designed to permit the Committee to grant awards which satisfy the requirements of Section 162(m).

Amendment and Termination of the Plan. The board generally may amend or terminate the Plan at any time and for any reason, but in accordance with Section 162(m) of the Internal Revenue Code, certain material amendments to the Plan will be subject to shareholder approval.

Westar Industries, Inc. Employee Stock Purchase Plan

Our board of directors adopted, and Western Resources as our sole stockholder has approved, the Westar Industries, Inc. Employee Stock Purchase Plan, called the ESPP. The ESPP will provide a means for eligible employees of Westar Industries and designated subsidiaries to purchase shares of our common stock under favorable terms through payroll deductions or cash payments. The board believes that adoption of the ESPP will promote the interests of Westar Industries and its stockholders by assisting us in attracting, retaining and stimulating the performance of employees and by aligning employees' interests through their purchases of common stock with the interests of stockholders.

Shares Subject to the Plan. We have authorized the issuance of up to 4 million shares of our common stock under the ESPP, subject to adjustment from time to time for stock dividends, recapitalization, merger, spin-off, and certain changes in capitalization as provided in the ESPP.

Administration. The ESPP will be administered by the Committee. The Committee is authorized to administer and interpret the ESPP and to make such rules and regulations as it deems necessary to administer the ESPP.

Eligibility. The ESPP is an employee benefit program that enables qualified employees of Westar Industries and its subsidiaries designated by the Committee to purchase shares of common stock at a discount through payroll deductions or cash payments without incurring broker commissions. To participate, an employee must have been employed for at least one year at the beginning of the offering period and the employee's customary employment must be for more than 20 hours each week and five months in any calendar year (unless the Committee determines otherwise on a uniform and nondiscriminatory basis). An employee is not eligible to continue participation in the ESPP in the event his or her employment is voluntarily or involuntarily terminated, or if such employee owns or will own, as a result of such participation, shares possessing 5% or more of the total combined voting power or value of all classes of stock of Westar Industries or any related corporation. Currently, all employees would be eligible; however, it is not anticipated that the ESPP will be offered to employees prior to the split-off. Non-employee directors of Westar Industries are not eligible to participate in the ESPP.

Stock Purchases. The ESPP will be implemented through a series of offerings. The length of each offering period will be established by the Committee. During these offering periods, participating employees accumulate funds in an account

used to buy common stock through payroll deductions or cash payments at a rate selected by the employee (subject to such maximums and minimums as the Committee may prescribe). No participating employee may be granted an option to purchase common stock that permits the employee to purchase in any calendar year under the ESPP shares of common stock with the aggregate fair market value (determined at the time such option is granted) in excess of \$25,000.

71

At the end of each offering period, the market price of our common stock is determined and the participating employees' accumulated funds (including any interests that may be credited under rules prescribed by the Committee) are used to purchase the appropriate number of shares of common stock. The purchase price per share of common stock under the ESPP will be established by the Committee, but may not be less than the lower of 85% of the per share fair market value on the date of grant or exercise.

Amendment and Termination. The board of directors has the power to amend, suspend or terminate the ESPP, provided that the board may not amend the ESPP without shareholder approval if such approval is required by Section 423 of the Internal Revenue Code.

Effective Date; Term of the Plan. The ESPP shall become effective upon consummation of the rights offering. The ESPP will continue in effect until the day preceding the tenth anniversary of the effective date, unless sooner terminated by the board of directors.

Federal Income Tax Consequences. We intend that the ESPP qualify as an "employee stock purchase plan" under Section 423 of the Code. Section 423 allows an employer to grant options to its employees to purchase company stock at a stipulated price without having the employees realize taxable income at the time the option is granted or when exercised. The basis of the stock received on exercise of an option under the ESPP is the exercise price paid for the stock. The Code imposes a holding period for favorable tax treatment upon disposition of common stock acquired under the ESPP equal to the later of two years after the grant date or one year after the purchase date. When the common stock is sold after this holding period, the employee will realize ordinary income up to the amount of any discount (up to a maximum of 15%) from the fair market value of common stock as of the grant date. Any further gain is taxed at long term capital gain rates. If the stock is sold before the holding period expires, the employee will realize ordinary income to the extent of the difference between the price actually paid for the stock and the fair market value of the stock at the purchase date, regardless of the price at which the stock is sold; and any further gain would be capital gain (short term or long term, depending on the holding period). If the sale price is less than the fair market value of the stock on the purchase date, the employee will realize a capital loss equal to such difference.

We may not take a deduction for the difference between the fair market value of the common stock on the date of purchase by the employee and the purchase price paid for the common stock by the employee unless the employee disposes of the stock before the statutory holding periods expire.

The Westar Industries, Inc. 2001 Short Term Incentive Plan

Our board of directors adopted the Westar Industries, Inc. 2001 Short Term Incentive Plan, called the Short Term Plan. Western Resources, as our sole stockholder, approved the Short Term Plan to qualify compensation paid under the Plan as "performance-based" compensation not subject to the limitation on deductibility for federal income tax purposes of certain executive compensation in excess of \$1 million under Section 162(m) of the Code. The Short Term Plan is intended to serve as a vehicle for making certain annual incentive compensation awards to employees who are or are expected to become subject to

Section 162(m).

Purpose. The purpose of the Short Term Plan is to motivate key executives, managers, and select exempt employees to achieve the highest level of performance to further the achievement of our goals, objectives, and strategies. The Short Term Plan is designed to reward performance using financial incentives to supplement base compensation. Also, the Short Term Plan will enhance our ability to attract new executive talent when needed. In addition, the Short Term Plan is intended to benefit us in the pursuit of our goals and objectives by stimulating and motivating officers and select employees, which will in turn enhance productivity and promote the retention of experienced and qualified executive talent in a cost effective and efficient manner. A further purpose of the Plan is to serve as a qualified "performance-based" compensation program under Section 162(m) of the Code.

72

Administration. The Short Term Plan is administered by the Committee. The Committee will have full and complete discretion (subject to the terms of the Short Term Plan) to determine the persons to whom awards shall be granted, to grant awards under the Short Term Plan, to determine the terms, conditions, restrictions and performance goals relating to each award, and to interpret and apply the terms of the Plan.

Eligibility. The Committee may grant awards under the Short Term Plan to the Chief Executive Officer of Westar Industries and the other four most highly compensated officers of Westar Industries and its subsidiaries who are subject to Section 162(m) of the Code as well as to any other salaried employees or groups of salaried employees as the Committee may designate. Currently, only the named executive officers would be eligible to participate in the Short Term Plan. Non-employee directors of Westar Industries are not eligible to participate in the Short Term Plan.

Awards. Not later than 90 days after the beginning of each calendar year (or such other date as may be required or permitted by Section 162(m) of the Code), the Committee will determine the persons to whom awards will be made for that calendar year (the "Participants"), select one or more performance measures, establish objective written performance goals with respect to each selected performance measure, and establish in writing the award opportunities and other terms of the awards to be made to each Participant. The performance measures which may serve as determinants of the Participant's award opportunities are limited to: total shareholder return, earnings per share, earnings before interest, taxes, depreciation and/or amortization, operating income, net income, pro forma net income, return on shareholders' equity, return on designated assets, shareholder value added, revenues, capital gains, expenses, operating profit margin, operating cash flow, net profit margin, and achievement of operational strategies in terms of control of accidents, lost time and/or customer satisfaction. The performance goals may be determined by reference to the performance of Westar Industries or of a subsidiary or affiliate or a division or unit of any of the foregoing. The selected goals may be different for different Participants. Performance goals will include a threshold level below which no payment will be made, a level of performance at which the target payment will be made and a maximum level of performance above which no additional amount will be paid. Unless the Committee determines otherwise, a Participant's award opportunity will be expressed in terms of a percentage of the Participant's eligible compensation. The Committee may adjust performance goals, to the extent consistent with Section 162(m) of the Code, to account for extraordinary events affecting the determination of performance. The maximum amount payable to any Participant in respect of all awards (other than Insurance-Related Awards described below) under the Short Term Plan in respect of any calendar year is \$3.0 million.

Payment of Awards. Payments in respect of awards (other than Insurance-

Related Awards described below) earned under the Plan will be made in cash following the calendar year for which the award was granted. Before payment is made the Committee must certify in writing the extent to which the Participant has satisfied the performance goals, and payment will be made only to the extent the award has been earned on account of attainment of such performance goals. The Committee may not increase the amount payable under an award above the amount actually earned by the Participant.

If the Participant ceases to be continually employed by Westar Industries (other than as a result of a Westar Industries approved leave of absence or the Participant's death, disability or retirement under the Westar Industries pension plan's early or normal retirement provisions or other circumstance specified by the committee), the Participant shall forfeit all rights to the award for the calendar year not then ended. If the Participant dies, becomes disabled or retires under the Westar Industries pension plan's early or normal retirement provisions during a calendar year or other circumstances specified by the Committee, his or her award for that year will be prorated to reflect the period of participation prior to termination.

Insurance-Related Awards. In addition to the awards described below, the Committee may make awards called Insurance-Related Awards to such eligible employees as the Committee may select pursuant to which amounts earned by the Participant shall be applied to the purchase of life insurance policies on the Participant's life in which the Participant will have an interest as discussed below. Such Insurance-Related Awards shall be made within the same time periods as other incentive awards under the Short Term Plan, and the Participant's

73

entitlements under such Insurance-Related Awards shall be conditioned on such objective written performance goals as the Committee shall establish. The maximum amount of compensation that may be earned by any Participant in respect of all Insurance-Related Awards for any calendar year shall be \$10 million. The Committee shall select the applicable performance measure or measures from the same list of available measures described above.

Following the calendar year for which the Insurance-Related Award was granted, the Committee will determine the amount earned by the Participant that is to be applied toward the purchase of a life insurance policy on the life of the Participant. Before a policy is so purchased, the Committee must certify in writing the extent to which the Participant has satisfied the performance goals, and the purchase will be made only to the extent the award has been earned on account of attainment of such performance goals.

As a condition to the purchase of a life insurance policy on the life of a Participant, the Participant must enter into an agreement with Westar Industries in such form as the Committee determines in its sole discretion. Unless the Committee determines otherwise, such agreement shall include the following:

- (i) Westar Industries will be the owner of the policy and will be entitled, upon the death of the Participant, to the portion of the death benefit equal to the sum of (A) the greater of the total amount of the premiums paid by Westar Industries under the policy (as adjusted for interest at a rate determined by the Committee) or the cash surrender value of the policy, reduced in either case by any indebtedness against the policy existing at the time of the Participant's death (including any interest due on such indebtedness), together with (B) the amount of any death benefit sold to Westar Industries by the Participant. The balance of the death benefit shall be payable to the beneficiary or beneficiaries designated by the Participant.

- (ii) The Participants will have the right to sell to Westar Industries at a

price determined under a formula established in the agreement all or a portion of his or her interest in the death benefit under the Policy, subject to such terms and conditions as the Committee may determine.

Change of Control. In the event of a change of control, awards granted under the Plan (other than Insurance-Related Awards, which may contain their own provisions regarding change of control) shall become immediately payable in an amount which shall be the greater of (1) the participant's target bonus for that calendar year or (2) the bonus computed by determining the performance as of the date of the change of control and then projecting such performance through December 31 of that calendar year as if such performance had continued at the same rate through such December 31. In general, a change of control occurs if (1) a person (other than Western Resources and its subsidiaries and certain other entities) is, or becomes a "beneficial owner," either directly or indirectly, of 20% or more of the outstanding voting securities, (2) the composition of the board changes whereby directors at the effective date of the Plan (including new directors approved by a vote of three-quarters of the directors then in office and any directors previously so approved) cease to constitute a majority of the board, (3) the consummation of a merger, consolidation, statutory share exchange or similar form of corporate transaction involving Westar Industries occurs (subject to certain exceptions), or (4) the stockholders of Westar Industries approve a plan of complete liquidation or dissolution of Westar Industries or a sale of all or substantially all of its assets. Our separation from the regulated electric utility business of Western Resources through a distribution of our common stock to the stockholders of Western Resources concurrently with the consummation of a transaction involving a strategic partner for Western Resources' electric utilities will not be a change of control under the Plan.

Amendment and Termination. The board of directors may from time to time and at any time alter, amend, suspend, discontinue, or terminate the Short Term Plan; provided, however, that any amendment which requires shareholder approval in order to comply with Code Section 162(m) shall not be effective unless approved by the shareholders. The board of directors may not modify or terminate the Short Term Plan to the extent doing so would adversely affect the rights of a Participant to an outstanding award.

74

Effective Date. The Short Term Plan will be effective upon consummation of the rights offering.

Federal Income Tax Consequences. In respect of awards (other than Insurance-Related Awards) under the Short Term Plan, a Participant will recognize ordinary income for federal income tax purposes in an amount equal to the amount paid to the Participant under the Short Term Plan. Westar Industries generally will be entitled to a corresponding federal income tax deduction at the time of the payment. The Short Term Plan has been drafted and is intended to be administered to enable payments under the Short Term Plan to qualify as "performance-based" compensation for purposes of Section 162(m) of the Code. Section 162(m) of the Code disallows a public company's deductions for employee remuneration exceeding \$1 million per year for the chief executive officer and the four other most highly compensated executive officers, but contains an exception for "performance-based" compensation.

The federal income tax treatment of the Insurance-Related Awards will depend on the specific terms of the applicable arrangements. It is expected that a Participant will not realize taxable income upon the purchase of a life insurance policy by Westar Industries but would have taxable income each year equal to the term life insurance value of the current life insurance protection. In addition, a Participant would have ordinary compensation income in an amount equal to the amounts received under the Insurance-Related Awards upon the sale of any portion of the death benefit to Westar Industries. Westar

Industries could not deduct its premium payments to purchase the life insurance policy or the term life insurance value, but could deduct the amounts paid to the Participant upon the sale of any portion of the death benefit to Westar Industries. Neither Westar Industries nor the beneficiary of the Participant would realize taxable income on the death benefit payable upon the death of the Participant.

75

OWNERSHIP OF COMMON STOCK

Security Ownership of Western Resources

The following table sets forth information with respect to the beneficial ownership of our common stock by Western Resources, our sole shareholder as of April 30, 2001.

Name and Address of Beneficial Owner -----	Amount and Nature of Beneficial Ownership(1)	Percent of Class
Western Resources, Inc. 818 S. Kansas Avenue Topeka, KS 66612 -----	73,197,115	100%

(1) Upon consummation of the split-off, Western Resources will cease to be an indirect beneficial owner of our Common Stock.

Security Ownership of Management

The following table sets forth information known to us regarding beneficial ownership of our common stock and that of Western Resources and Protection One as of April 30, 2001 by each of our directors, director nominees and named executive officers and all such persons as a group.

Name of Beneficial Owner -----	The Company(1)(2)	Western Resources(2)	Protection One(2)
		Shares -----	Percent of Class -----
Howard A. Christensen...	--	--	--
R. A. Edwards.....	504	3,024	--
Paul R. Geist.....	1,600	9,600(4)	--
Greg A. Greenwood.....	1,006	6,038(4)	--
Carl M. Koupal, Jr.....	29,290	175,745(4)	--
Douglas T. Lake.....	45,852	275,112(4)	--
Pack St. Clair.....	--	--	--
David C. Wittig.....	128,226	769,356(4)(5)	1.09%
All executive officers and directors as a group.....	206,478	1,238,875	1.76%
			7,500(3)

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- (1) Shares beneficially owned by directors, director nominees and executive officers includes shares that such persons have the right to acquire pursuant to the rights offering assuming that no shares are available through the over-subscription privilege. We have no knowledge whether such persons will exercise their rights.
 - (2) Except as noted, each individual owns less than one percent of the outstanding shares of the respective company's common stock. Except as noted, all directors, director nominees and executive officers as a group own less than one percent of the outstanding shares of the respective company's common stock. No director or executive officer owns any equity securities of the respective company other than common stock.
 - (3) Shares subject to options that are currently exercisable or that become exercisable within 60 days after April 30, 2001.
 - (4) Includes restricted stock or restricted share units granted to executive officers and employees of Western Resources as follows: Mr. Geist, 9,200 shares; Mr. Greenwood, 3,604 shares; Mr. Koupal, 160,051 shares; Mr. Lake, 207,625 shares; Mr. Wittig, 444,320 shares.
 - (5) Includes 31,484 shares of Western Resources common stock held by Mr. Wittig's spouse, not subject to his voting or investment power.

76

Resale of Our Common Stock

All shares of our common stock purchased by holders of Western Resources common stock upon exercise of the rights will be freely transferable, except that shares of our common stock purchased by persons who are deemed to be our "affiliates" (as such term is defined under the Securities Act) at the time of consummation of the rights offering may be resold by them only in transactions permitted by the resale provisions of Rule 144 under the Securities Act or as otherwise permitted under the Securities Act. Persons who may be deemed to be our affiliates generally include individuals or entities that control, are controlled by, or are under common control with, us or our principal stockholder, Western Resources, and may include certain officers and directors of such parties as well as principal stockholders of such parties.

77

CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

Our Transactions Involving Western Resources

In connection with the rights offering, we will enter into a number of agreements with Western Resources for the purpose of allocating assets and liabilities between us and defining our continuing relationship following the rights offering. These agreements are summarized below. Each of these agreements has been negotiated in the context of a parent-subsidiary relationship and, therefore, will not be the result of negotiations between independent parties with separate representation. Thus, we cannot guarantee you that each of these agreements or the related transactions will be on as favorable terms as could have been obtained from unaffiliated third parties. Furthermore, these agreements and related matters are the subject of an investigation being conducted by the KCC which could have an impact on these agreements and relationships as discussed under "Risk Factors--Risks Related To our Separation from Western Resources."

Asset Allocation and Separation Agreement

We have entered into an asset allocation and separation agreement with Western Resources which was amended on May 2, 2001, which provides for the allocation of assets and liabilities between Western Resources and us. The allocation agreement divides non-tax assets and liabilities substantially on a corporate organizational basis such that the assets and liabilities of ours and our subsidiaries (as reflected on our balance sheet) will remain assets and liabilities of ours and our subsidiaries and the assets and liabilities of Western Resources and its subsidiaries (other than ours and our subsidiaries) will remain assets and liabilities of Western Resources. Tax assets and liabilities are not treated in the allocation agreement, but rather are addressed in a separate tax disaffiliation agreement (which is described below). Certain additional assets and liabilities relating to the unregulated business will be transferred from Western Resources to us, including certain smaller companies, certain legal claims, and certain interests in leased facilities. We will also assume liability for any discontinued non-utility operations from and after January 1, 1995. Western Resources will retain all liabilities associated with Western Resources' former gas business and electric utility business, including any marketing and other related service businesses.

We will indemnify Western Resources with respect to (i) all of the assumed and transferred liabilities discussed above; (ii) any claims related to information in this registration statement and the proxy statement for the merger and the separation, except to the extent Western Resources or PNM has provided the information for those documents in which case Western Resources will indemnify us; and (iii) joint litigation involving Protection One and ONEOK, as well as a previous investment in ADT Ltd. In addition, we will indemnify Western Resources and PNM Holdings for certain payments under Western Resources' executive employment agreements and executive salary continuation plan, to the extent the net present value of all such payments exceed \$80 million (if the payments include gross-up payments) or \$50 million (if the payments do not include gross-up payments). These amounts are net of tax benefits to Western Resources, and these amounts are limited to payments under employment agreements that relate to both a change in control and a termination of employment, occurring as a result of the transactions contemplated by the merger agreement between Western Resources and PNM Holdings, and payments under the executive salary continuation plan that relate to a change in control. Western Resources will indemnify us for all other claims related to these payments, including shareholder and third party claims.

The allocation agreement also provides the terms for repayment of a receivable in the amount of approximately \$116.6 million at April 30, 2001 owed to us by Western Resources. The receivable will be increased or decreased by additional advances or payments between us and Western Resources, including the advance of the net proceeds of the rights offering. Pursuant to the allocation agreement, the outstanding balance of the receivable will be repaid by our election, prior to the closing of the PNM merger and the split-off, to convert the receivable into (1) convertible preference stock of Western Resources, (2) shares of our common stock currently held by Western Resources at a price based on the average market prices for the 20 trading days preceding conversion, but not less than the subscription price or (3) shares of common

stock of Western Resources at a price based on the average market prices for the 20 trading days preceding conversion. Furthermore, beginning with the date of the amendment we will be required to advance to Western Resources the net cash proceeds from the sale of our interests in ONEOK and Western Resources, or from any borrowings secured by us secured by either of these interests. These advances would increase the balance of the receivable, which will be repaid with the securities described above that we ultimately select. We must make all elections prior to the closing of the PNM merger and the split-off. The agreement as to the use of the net proceeds will terminate upon the earliest of

the closing of the PNM merger and the split-off, or Western Resources' secured debt securities receiving an investment grade rating from Moody's and Standard & Poors. On February 28, 2001, we converted \$350 million of the then outstanding balance of the receivable into approximately 14.4 million shares of Western Resources common stock, representing approximately 17% of Western Resources' outstanding common stock, pursuant to the allocation agreement.

The amendment to the allocation agreement may be terminated if (1) the KCC issues an order with respect to the restructuring of Western Resources' assets, debt or the matters covered by the amendment which is inconsistent with the amendment, or (2) the Staff of the KCC or others initiate a docket with respect to the restructuring of Western Resources, assets, debt or the matters covered by the amendment which is inconsistent with the amendment and which causes the rights offering to be terminated prior to its successful completion or we and Western Resources do not issue the rights or the right offering is not successfully completed. The amendment may also be terminated if after the rights offering is successfully completed, the KCC issues an order or orders attempting to set aside or materially alter the amendment or the right offering. If the amendment is terminated, the terms of the allocation agreement as in effect prior to the amendment shall automatically be reinstated.

The allocation agreement further provides that if the PNM merger is terminated, Western Resources will meet with the Staff within 60 days after termination to discuss the appropriate level of debt for Western Resources. If an agreement cannot be reached, Western Resources or the Staff may submit the matter to the KCC for a hearing and an order. If the PNM merger is terminated, Western Resources will reduce its total debt by at least \$100 million per year, until its debt level reaches the agreed upon debt level, or until it reaches the debt level established by a final, non-appealable KCC order. Western Resources will raise the funds needed to make this debt reduction in several ways including (1) selling our common stock, (2) selling Western Resources common stock, (3) converting the outstanding balance of the receivable to common stock or preference stock of Western Resources, (4) selling our assets or (5) taking other actions to allow for an orderly reduction of the debt. In addition, Western Resources has agreed that it will not dividend our common stock to holders of its common stock until Western Resources and the KCC have come to a resolution. Prior to the PNM merger, Western Resources will not sell more than 19.9% of our common stock, and if the PNM merger is terminated, Western Resources will continue to own at least 80.0% of our common stock, unless Western Resources first provides not less than 30 days advance notice to the KCC. Finally, Western Resources has agreed not to incur any additional debt or pledge utility assets for additional debt, for us until a resolution has been reached with the KCC.

The allocation agreement also provides:

- . that the split-off will not be consummated unless the following conditions have been satisfied or waived: (1) our common stock shall have been registered under the Securities Exchange Act of 1934 and any registration statement under the Securities Act filed in connection with the split-off shall have become effective and such effectiveness shall not have been withdrawn or suspended; (2) the common stock to be delivered in the split-off shall have been approved for listing on the NYSE; (3) each of our board of directors and the Western Resources board of directors shall have received a solvency opinion in connection with the split-off, (4) the conditions to consummation of the PNM merger shall have been satisfied (other than those that will be satisfied after the split-off); (5) no injunction shall be in place and all governmental and other consents required for the consummation of the split-off shall have been obtained; (6) we shall be exempt from registration under the Investment Company Act; (7) the other intercompany agreements required to be executed by the allocation agreement shall be in force and

effect; and (8) we shall have been released from obligations we currently have under certain split dollar insurance policies and guarantees. The split-off will be effective immediately prior to the consummation of the PNM merger. The PNM merger and the split-off will be consummated so that the consideration paid in the strategic transaction and the shares of common stock distributed in the split-off will be issuable only to the same Western Resources stockholders. No fractional shares will be issued in the split-off and any such shares will be sold in the open market, and the proceeds will be disbursed to each holder entitled thereto.

- . that we will pay all expenses incurred by us in connection with the rights offering and Western Resources will pay all expenses incurred in connection with the split-off.

Shared Services Agreement

Prior to the split-off, Western Resources will provide management and administrative services to us under the shared services agreement. This agreement may be terminated by giving one year's notice, which notice may not be given prior to the first anniversary of the closing of the PNM merger. The services to be provided by Western Resources, through its employees, will include financial reporting, accounting, auditing, tax, office services, payroll and human resources, as well as management consulting services. We will pay Western Resources for these services at various hourly charges and negotiated fees and will reimburse Western Resources for out-of-pocket expenses. As we increase our infrastructure and hire additional staff, we expect Western Resources to allocate less of its resources to administrative and management services for us.

Option Agreement

We have entered into a stock purchase option agreement with Western Resources that grants us an option to purchase the interest of Western Resources in an electric power plant near Joplin, Missouri under joint development with the Empire District Electric Company. The plant is scheduled to commence operations in June 2001. Western Resources' interest in the power plant is held by Westar Generating, Inc., a subsidiary of Western Resources. The purchase option granted is for a period of three years, subject to two optional one year extension periods.

Among the conditions to our ability to exercise the option are that we have not been able to otherwise obtain a permanent exemption from registration under the 1940 Act, delivery of an opinion of counsel that registration under the 1935 Act will provide an exemption to the 1940 Act and that the power purchase agreement between Westar Generating and Western Resources be in place and all regulatory approvals having been obtained. A power purchase agreement provides for the sale from Westar Generating to Western Resources of the entire output of the Joplin, Missouri power plant, at cost, for a period of seven years, subject to a five year extension.

Tax Disaffiliation Agreement

Prior to the split-off, we and Western Resources will enter into a tax disaffiliation agreement, which will set forth each party's rights and obligations with respect to payments and refunds, if any, of Federal taxes for periods before and after the split-off and related matters such as the filing of Federal tax returns and the conduct of audits or other proceedings involving claims made by the Internal Revenue Service. This agreement will remain in force for the full period of any statute of limitations.

Under the tax disaffiliation agreement, we will assume sole responsibility of any (i) tax liability assessed to the extent attributable to us or any corporation that will be a member of the consolidated group of which we are the common parent immediately after the distribution (the "Westar Group") and (ii)

tax liability resulting from the breach by us or any member of the Westar Group of certain representations and covenants that we have provided to Western Resources relating to the distribution. An indemnity arises under the tax disaffiliation agreement only to the extent the tax liability results in a cash payment to a tax authority.

80

Our Transactions Involving PNM Holdings

Registration Rights Agreement

The registration rights agreement will be entered into as of the closing of the combination, between us and PNM Holdings upon the completion of the PNM merger. It is contemplated that any Western Resources common stock we own at the time the combination is completed will be exchanged in the combination for common stock of PNM Holdings. The registration rights agreement will allow us to obtain registration of the PNM Holdings common stock for sale to the public.

The registration rights agreement provides us with three demand registrations (not including registrations that may be completed on Form S-3) and unlimited piggyback registrations, which serve to allow us to cause PNM Holdings to register the shares of PNM Holdings which are owned by us, so as to allow us to sell these shares on the open market. The registration rights are subject to customary cutbacks, as described below.

Our right to the three demand registrations is conditioned on each request covering at least 25,000 shares, and registrations on Form S-3 (which are limited to two per calendar year) are not counted against this limit, although are deemed "demand registrations" for the other purposes of the registration rights agreement. PNM Holdings may postpone a registration (twice in any twelve month period) if it determines that it would, in general, be harmful to PNM Holdings. We will select the managing underwriter and investment bankers for any demand registration, subject to the reasonable satisfaction of PNM Holdings.

We also have unlimited piggyback registration rights, which permit us to participate in a registered offering by PNM Holdings on Forms S-1, S-2 or S-3. However, if the managing underwriter determines that the price or number of shares sold may be adversely impacted due to the number of shares which the parties are attempting to sell, the number may be cut back, with our shares being cut back first. PNM Holdings' other shareholders also have similar piggyback rights, permitting participation in any demand registration requested by us. Similarly, if the managing underwriter determines that the price or number of shares sold may be adversely impacted due to the number of shares which the parties are attempting to sell, the number may be cut back, with PNM Holdings' other shareholders being cut first in this situation.

We are responsible for 50% of our pro-rata share of direct expenses (i.e. filing fees, fees and expenses of compliance with securities or blue sky laws, printing expenses, messenger and delivery expenses, NASD fees, stock exchange and qualification fees, fees and disbursements of our counsel and accountants) in connection with any registration statement. PNM Holdings is responsible for the balance of the expenses.

PNM Holdings agrees to indemnify us, our officers, directors, partners, employees and agents and each person who controls us and the officers, directors, partners, employees and agents of such controlling person and each person who participates as a placement or sales agent or as an underwriter in any offering or sale of the shares, against any losses, claims, damages or liabilities arising out of or based upon an untrue statement or alleged untrue statement of a material fact contained in any registration statement or the associated documents (with customary exceptions for information furnished by

any of the parties above, in which case we or the other parties will indemnify PNM Holdings). Also, the agreement provides that PNM Holdings agrees not to enter into any agreement offering registration rights to any person which contains terms which are materially adverse to us, or materially adversely affect our rights, under our registration rights agreement, unless, prior to entering into such agreement, it offers registration rights on substantially similar terms to us.

Stockholders' Agreement

At the closing of the combination, we and PNM Holdings will enter into a stockholders' agreement, which will govern the relationship between PNM Holdings and us as an PNM Holdings stockholder.

For the term of the agreement (discussed below), we agree, without the prior approval of a majority of the board of directors of PNM Holdings, not to

- . acquire the power to vote in excess of 9.9% of the voting securities of PNM Holdings;

81

- . acquire, propose to acquire, or publicly announce or otherwise disclose an intention to propose to acquire, or offer or agree to acquire an ownership percentage of PNM Holdings in excess of what we own at the closing of the PNM merger;
- . deposit any security in a voting trust or subject any security to any similar arrangement or proxy with respect to the voting of such security;
- . make or participate in any solicitation of proxies to seek to advise or influence any person to vote against any proposal or director nominee recommended to the shareholders of PNM Holdings or any of its subsidiaries by at least a majority of the board of directors of PNM Holdings;
- . form, join or in any way participate in a group (that would be required to file a statement under Section 13(d) of the Exchange Act, as amended) with respect to any security of PNM Holdings or any securities of its subsidiaries;
- . commence a merger, acquisition or other business combination transaction relating to PNM Holdings;
- . initiate a "proposal," "propose," or otherwise solicit the approval of, one or more shareholders for a "proposal" or induce or attempt to induce any other person to initiate a "proposal";
- . act, alone or in concert with others, to seek to control or influence the management, the board of directors or policies of PNM Holdings; or
- . take any other action to seek or effect control of PNM Holdings other than in a manner consistent with the terms of the agreement.

We have agreed to certain voting restrictions with respect to the PNM Holdings stock we will hold, which generally will require us to vote our stock in the same proportion as all voting securities owned by the other shareholders of PNM Holdings. We have also agreed to certain other limits on the amount of our ownership interest in PNM Holdings, although we also have the right to repurchase securities in the open market if our voting power falls below 9.9%. We and our group of subsidiaries will also agree to certain transfer restrictions on the securities of PNM Holdings which we and our subsidiaries hold. PNM Holdings agrees not to amend, alter or repeal, or propose the

amendment, alteration or repeal of, any provision of its charter or by-laws in any manner which is inconsistent with the terms of the stockholders agreement and which adversely affects our rights under the terms of the stockholders agreement, and not to implement or amend any provision of any rights agreement in any manner which is inconsistent with the terms of the stockholders agreement or the merger agreement or which adversely affects our rights after the split-off under the terms of the agreement. However, PNM Holdings may implement a rights plan in customary form for registered holding companies under PUHCA, provided that such plan will (i) exempt us from its provisions pursuant to which ownership of a beneficial interest in PNM Holdings' securities affects the exercisability of the rights and (ii) not apply to any person that acquires less than a 20% beneficial ownership interest in PNM Holdings' voting securities. Furthermore, PNM Holdings may not create classes of stock superior to the PNM Holdings convertible preferred stock that is issued to us in the combination in voting or liquidation/dissolution rights, and agrees to take such actions as are necessary to ensure that the provisions of Section 203 of the Delaware General Corporation Law (which relates to business combinations with interested shareholders) will not be applicable to us. During the term of the agreement, we are entitled to representation on the PNM Holdings board (one board seat if there are nine or ten seats, and two seats if there are twelve seats on the board (PNM Holdings has agreed not to cause the board of directors to have eleven seats)) and also to representation on committees.

The stockholders agreement terminates upon the occurrence of specified events, such as PNM Holdings' failure to pay the stated quarterly dividend on any series of convertible preferred stock for four consecutive quarters; the election to the board of a majority of directors other than those nominated by the nominating committee of the board; the size of the board being increased to more than twelve directors; our and our group of subsidiaries' total ownership percentage falling below 9.9% for a period of 365 consecutive days; or the occurrence of any material uncured breach of the agreement or the merger agreement by PNM Holdings. The stockholders agreement may also be terminated by the mutual written agreement of PNM Holdings and us.

82

Our Transactions Involving Protection One

Purchase of Protection One Europe

On February 29, 2000, Protection One sold its European operations and certain investments to us. The consideration paid was comprised of approximately \$183 million in cash and certain of Monitoring's outstanding debt securities that we had acquired with a market value of approximately \$61 million (including 6.75% convertible senior subordinated notes due 2003 convertible into 3,554,560 shares of common stock of Protection One). The transaction was accounted for at book value. We agreed to pay Protection One a portion of the net gain, if any, on a subsequent sale of the business on a declining basis over the four years following the date of the purchase agreement. Protection One used the cash proceeds of the sale to reduce the \$240 million outstanding balance under the \$250 million senior credit facility provided by us to Monitoring.

Based on the recommendation of a special committee of the board of directors of Protection One, the sale of Protection One's European operations and the entering into of the amendment to the senior credit facility were approved by Protection One's board of directors. The special committee received a fairness opinion from an investment banker with regard to the sale of the European operations.

We are the lender under Protection One's senior credit facility. On February 29, 2000, we and Protection One entered into an amendment to the

senior credit facility that reduced the commitment under the senior credit facility from \$250 million to \$115 million, changed the maturity date from December 21, 2001 to January 2, 2001 and changed various other provisions of the facility, including the interest for borrowing and calculation of financial covenants. The amendment also provided that the commitment available under the facility may be increased by up to \$40 million to finance certain acquisitions by Protection One approved by us. On December 21, 2000, we and Protection One entered into an amendment to the senior credit facility that extended the maturity date to March 2, 2001 and increased the interest rate to reflect current market conditions. On February 28, 2001, the senior credit facility was further amended to, among other changes, further extend the maturity date to January 2, 2002. In March 2001, pursuant to the terms of the facility, Protection One requested, and we approved, a \$40 million increase in the commitment under the senior credit facility. As of April 30, 2001, approximately \$130 million was drawn under the facility. Amounts outstanding have been eliminated in our consolidated financial statements.

Sale of Protection One Common Stock and Debt Securities

From January 1, 2001 through April 30, 2001, Protection One purchased 13,712,704 million shares of its outstanding common stock pursuant to its share repurchase program. Concurrently with these open market purchases, Protection One purchased 11,532,104 million shares from us for \$12.6 million at the same prices as the market purchases.

In first quarter of 2001, Protection One purchased from us \$66.1 million face value of its debt securities for \$45.2 million.

Transactions Between Protection One and Western Resources

See "Risk Factors Related to our separation from Western Resources" for information with respect to the KCC investigation which may impact on the agreements described below.

Contribution Agreement

Pursuant to a contribution agreement between Protection One and Western Resources, Western Resources has agreed to certain arrangements relating to the election of directors of Protection One. In addition, during the 10-year period following November 24, 1997, a merger or a sale of all or substantially all of the assets of

83

Protection One involving Western Resources or any affiliate of Western Resources generally will require the prior approval of a majority of the "Independent Directors" (as defined in the contribution agreement), and Western Resources may not acquire more than 85% of the outstanding shares of common stock or other voting securities of Protection One except under specified circumstances and subject to specified limitations.

Tax Sharing Arrangement

A tax sharing arrangement between Protection One and Western Resources, which will be terminated upon consummation of the PNM merger, provides for the payment or receipt of amounts to or from Western Resources for tax payments made or tax benefits utilized by Western Resources. Accordingly, receivables of \$3.2 million and \$31.1 million at December 31, 2000 and 1999, respectively, from Western Resources have been recorded to reflect net amounts due from Western Resources pursuant to this arrangement.

Services Agreement

During the third quarter of 1999, Protection One entered into a service agreement with Western Resources which provides for certain services for a term of twelve calendar months commencing January 1, 2000, and continuing on a year-to-year basis thereafter until terminated by either party in accordance with the terms of the agreement. Pursuant to this agreement, Western Resources provides administrative services, including accounting, human resources, legal, facilities and technology services. During 1999, Protection One incurred charges of approximately \$2 million for these services, which were based upon various hourly charges, negotiated fees and out-of-pocket expenses. These charges were approximately, \$7.3 million in 2000 and \$2.4 million in the first quarter of 2001.

Other

We may extend loans, or guarantee payment of loans being extended by a bank or other lender, in an aggregate amount not to exceed \$20 million for the purchase of shares of our common stock upon the exercise of rights by our officers and directors and certain of the officers and the directors of Western Resources.

84

DESCRIPTION OF WESTAR INDUSTRIES CAPITAL STOCK

The following description does not purport to be complete, but summarizes the material terms of our capital stock, and is qualified in its entirety by reference to our Articles of Incorporation, our Bylaws and the Kansas General Corporation Code ("KGCC"). Copies of our articles and bylaws are filed as exhibits to the Registration Statement and are incorporated by reference herein.

General

Our authorized capital stock consists of 500,000,000 shares of common stock, par value \$.01 per share, and 50,000,000 shares of preferred stock, no par value, of which 5,000,000 shares are designated as Series A Junior Participating Preferred Stock ("Series A Preferred Stock") and 45,000,000 shares are undesignated. Upon closing of the rights offering, we will have outstanding approximately 85.4 million shares of common stock and no shares of preferred stock.

Common Stock

Dividend Rights

The holders of our common stock are entitled to receive dividends, when and as declared by our Board of Directors subject to the preferred rights of the holders of the preferred stock. See "Dividend Policy."

Voting Rights

The holders of our common stock are entitled to one vote per share. Holders of common stock do not have cumulative voting rights.

Liquidation Rights

Upon any liquidation, dissolution or winding up, whether voluntary or involuntary, our remaining assets shall belong to and be divided among the holders of our common stock after satisfaction of the liquidation preference of the preferred stock. The consolidation or merger of us with or into any other corporation or corporations or a share exchange or division involving us pursuant to applicable law will not be deemed a liquidation, dissolution or winding up under our articles.

Preemptive or Other Subscription Rights

The holders of our common stock have no right to participate in any right of subscription to any increased or additional capital stock of ours.

Conversion and Other Rights

Our common stock does not have any conversion, redemption or sinking fund provisions and is not liable to further call or assessment by us. All issued and outstanding shares of our common stock are fully paid and non-assessable.

Preferred Stock

Our board has the authority, without further stockholder approval, to issue the shares of preferred stock in one or more series and to fix the number of shares constituting the series and the preferences, limitations and relative rights, including dividend rights, dividend rate, voting rights, terms of redemption, redemption price or prices, conversion rights and liquidation preferences of the shares constituting any series, without any further

85

vote or action by our stockholders. The issuance of preferred stock by our board could adversely affect the rights of holders of common stock. As of the date of this prospectus, except for the Series A Preferred Stock, there are no shares of preferred stock designated and no shares of preferred shares are outstanding.

The potential issuance of preferred stock may have the effect of delaying, deferring or preventing a change in control of us and may discourage bids for our common stock at a premium over its market price and may adversely affect the market price of, and the voting and other rights of the holders of, our common stock. We have no current plans to issue any shares of preferred stock other than the Series A Preferred Stock.

Series A Preferred Stock

Our board of directors designated 5,000,000 shares of preferred stock as Series A Junior Participating Preferred Stock, no par value per share. The terms of the Series A Preferred Stock are summarized below under "Rights Plan."

Rights Plan

Our board of directors has adopted, and Western Resources, as our sole stockholder, has approved a shareholder rights plan under which our stockholders have been granted one preferred stock purchase right (each, a "purchase right") for each outstanding share of our common stock. Each purchase right, when it becomes exercisable as described below, entitles the holder to purchase from us one one-hundredth of a share of Series A Preferred Stock, at a price of \$40, subject to adjustment. The issuance of the rights will not result in any tax consequence. The description and terms of the purchase rights are set forth in the rights agreement which has been filed as an exhibit to the registration statement of which this prospectus is a part.

The purchase rights become exercisable upon the occurrence of a "distribution date," which is defined as the earlier to occur of:

- ten calendar days following the date (the "shares acquisition date") of public announcement that a person or group of affiliated or associated persons, other than Western Resources (an "acquiring person") has acquired, or obtained the right to acquire, beneficial ownership of 20% or more of the outstanding shares of the common stock (a "substantial block") or

- . ten calendar days following the commencement or announcement of an intention to make a tender offer or exchange offer if, upon consummation thereof, such person would be an acquiring person.

The purchase rights will be transferred with and only with our common stock until the distribution date. Thereafter, separate certificates evidencing the purchase rights will be mailed to holders of record of our common stock and such separate purchase right certificates alone will evidence the purchase rights.

The purchase rights are not exercisable until the distribution date. The purchase rights will expire at the close of business on unless earlier redeemed or exchanged by us as described below.

In the event that:

- . we are the surviving corporation in a merger with an acquiring person and its common stock is not changed or exchanged,
- . a person or group becomes the beneficial owner of more than 20% of the then outstanding shares of common stock (except pursuant to an offer for all outstanding shares of our common stock which the board of directors determines to be fair to and otherwise in the best interests of us and our stockholders),
- . an acquiring person engages in one or more "self-dealing" transactions as set forth in the rights agreement, or

86

- . during such time as there is an acquiring person, an event occurs which results in such acquiring person's ownership interest being increased by more than 1% (e.g., a reverse stock split), at any time following the distribution date, each holder of a purchase right will thereafter have the right to receive, upon exercise, common stock (or, in certain circumstances, cash, property or other securities of Westar Industries) having a value equal to two times the purchase price. Following the occurrence of any of the events set forth in the bullet points above in this paragraph, all purchase rights that are beneficially owned by any acquiring person will be null and void.

In the event that, at any time following the shares acquisition date:

- . we are acquired in a merger or other business combination transaction (other than a merger described in the immediately preceding paragraph or a merger which follows an offer described in the immediately preceding paragraph), or
- . 50% or more of our assets or earning power is sold or transferred,

each holder of a purchase right (other than purchase rights which previously have been annulled and voided as set forth above) shall thereafter have the right to receive, upon exercise, common stock of the acquiring company having a value equal to two times the purchase price. The events set forth in this paragraph and in the preceding paragraph are referred to as the "triggering events."

The purchase price payable, and the number of shares of Series A Preferred Stock or other securities or property issuable upon exercise of the purchase rights are subject to adjustment from time to time to prevent dilution.

At any time after any person becomes an acquiring person, the board of directors may exchange the purchase rights (other than purchase rights owned by

the acquiring person which shall have become null and void), in whole or in part, at an exchange ratio of one share of common stock (or a fraction of a share of Series A Preferred Stock having the same market value) per purchase right (subject to adjustment).

In addition, at any time prior to 5:00 P.M. New York City time on the tenth calendar day following the shares acquisition date, we may redeem the purchase rights in whole, but not in part, at a price of \$.01 per purchase right.

Until a purchase right is exercised, the holder thereof, as such, will have no rights as a stockholder of Westar Industries, including, without limitation, the right to vote or to receive dividends.

Each share of Series A Preferred Stock will have a quarterly dividend rate per share equal to the greater of \$1.00 or 100 times the per share amount of any dividend declared from time to time on the common stock, subject to certain adjustments. The Series A Preferred Stock will not be redeemable. In the event of liquidation, the holders of the Series A Preferred Stock will be entitled to receive a preferred liquidation payment per share of \$4,000 (plus accrued and unpaid dividends) or, if greater, an amount equal to 100 times the payment to be made per share of common stock, subject to certain adjustments.

Generally, each share of Series A Preferred Stock will vote together with the common stock and any series of preferred stock entitled to vote in such manner and will be entitled to 100 votes, subject to certain adjustments. In the event of any merger, consolidation, combination or other transaction in which shares of common stock are exchanged for or changed into other stock or securities, cash and/or other property, each share of Series A Preferred Stock will be entitled to receive 100 times the aggregate amount of stock, securities, cash and/or other property, into which or for which each share of common stock is changed or exchanged, subject to certain adjustments.

These dividend, voting and liquidation rights of the Series A Preferred Stock are protected by anti-dilution provisions.

87

Our board of directors may amend the rights agreement prior to the distribution date. After the distribution date, our board may amend the provisions of the rights agreement to cure any ambiguity, defect or inconsistency, to make changes which do not adversely affect the interests of holders of purchase rights or, with certain limitations, to shorten or lengthen any time period under the rights agreement.

Certain Anti-Takeover Provisions and Statutes

Our Articles and Bylaws

Our articles and bylaws and the KGCC contain several provisions that may make the acquisition of control of Westar Industries more difficult without the prior approval of the board of directors. Certain provisions of our articles and the bylaws, among other things:

- (i) classify the board of directors into three classes, each of which serves for staggered three-year terms;
- (ii) provide that directors may be removed by the stockholders only for cause;
- (iii) provide that only the Chairman of the Board or the board of directors may call special meetings of the stockholders;

(iv) provide that stockholders must comply with certain advance notice procedures in order to nominate candidates for election to the board of directors or to place stockholders' proposals on the agenda for consideration at meetings of the stockholders;

(v) provide that, except with respect to Western Resources for so long as it continuously own at least 50% of our voting stock, the stockholders' action may be taken only at annual or special meetings; and

(vi) provide that the stockholders may amend or repeal any of the foregoing provisions of our articles or bylaws only by a vote of 80% of the stock entitled to vote generally in the election of directors.

Business Combination Statutes

The KGCC has a statute known as a "business combination statute." This statute restricts certain "business combinations" between a domestic corporation and an "interested stockholder." For this purpose, a "business combination" means one of various types of transactions, including mergers, that increases the proportionate voting power of the interested stockholder. An "interested stockholder" means any person, or their affiliate or associate, who owns or controls 15% or more of the outstanding shares of the corporation's voting stock.

Under the statute, a domestic corporation may not engage in a business combination with an interested stockholder for a period of three years following the time the interested stockholder became an interested stockholder, unless:

- . prior to that time the board of directors of the corporation approved either the business combination or the transaction that resulted in the stockholder becoming an interested stockholder;
- . upon consummation of the transaction that resulted in the stockholder becoming an interested stockholder, the interested stockholder owned at least 35% of the voting stock of the corporation outstanding at the time the transaction commenced, excluding shares owned by persons who are directors and also officers and shares held by specified employee stock ownership plans; or
- . at or after that time the business combination is approved by the board of directors and authorized at a stockholders' meeting by the affirmative vote of at least two-thirds of the outstanding voting stock not owned by the interested stockholder.

A domestic corporation may opt out of coverage of the business combination statute by including a provision to that effect in its governing corporate documents. Westar Industries has not opted out of the statute.

Control Share Acquisition Statute

The KGCC also has a statute known as a "control share acquisition statute." This statute provides that any person must obtain stockholder approval before acquiring any shares of stock of a publicly traded Kansas corporation, if after the acquisition he or she would have the power to exercise certain levels of voting power set forth in the statute. If the acquiring person fails to obtain stockholder approval, the acquiring person's shares lose their voting rights. The voting rights may be retained or restored only if certain disclosure requirements are met and upon the approval by both a majority of the outstanding voting stock and a majority of the outstanding voting stock after exclusion of "interested shares." For this purpose, "interested shares" means

all shares owned by the acquiring person, by directors of the corporation who are also its employees, and by officers of the corporation.

A Kansas corporation may opt out of coverage by the control share acquisition statute by including a provision to that effect in its governing corporate documents. Westar Industries has not opted out of the statute.

Listing

Application has been made to list our common stock on the NYSE. In the event we do not qualify for listing on the NYSE, we have made application to have our common stock listed for quotation on The Nasdaq National Market.

Transfer Agent and Registrar

The transfer agent and registrar for our common stock is the Western Resources Shareholder Services Department at P.O. Box 750320, Topeka, Kansas 66675-0320. Its telephone number is 800-527-2495.

PLAN OF DISTRIBUTION

Westar Industries is distributing non-transferable rights, at no charge, to the holders of Western Resources common stock, stock options and restricted share units outstanding as of the record date. See "The Rights Offering--The Rights." You will receive one right for every six shares of Western Resources common stock, or each share of common stock underlying stock options and restricted share units, held as of the record date, provided that you will receive at least one right. Each right will entitle the holder thereof to receive, upon payment of the subscription price, one share of our common stock. Each share of common stock will have associated with it one right to purchase one one-hundredth of a share of Westar Industries preferred stock at a stipulated price in certain circumstances relating to changes in ownership of our stock under our shareholder rights agreement. Persons who fully exercise all rights distributed to them will also be entitled to subscribe at the subscription price for shares of common stock that are not otherwise purchased pursuant to the exercise of rights, subject to allocation by us as described in this prospectus under "The Rights Offering--Subscription Privileges."

We will pay to brokers who deliver subscriptions for beneficial owners of up to 5,000 shares of Western Resources common stock on the record date, \$.10 per share for each share purchased upon the exercise of the holder's rights (including shares purchased pursuant to the over-subscription privilege).

We have retained Georgeson Shareholders Securities Corporation to act as Solicitation Agent for the rights offering. We have agreed to indemnify the Solicitation Agent (as well as the Subscription Agent and Information Agent), for certain liabilities each may incur in connection with the rights offering, including liabilities under the securities acts.

89

CERTAIN FEDERAL INCOME TAX CONSEQUENCES

The following summary briefly describes certain federal income tax consequences of the rights offering. This summary is based upon laws, regulations, rulings and decisions now in effect, all of which are subject to change. This summary assumes that you hold your Western Resources stock as a capital asset and does not discuss all aspects of federal income taxation that may be relevant to you, particularly if you are a type of investor that is subject to special treatment under the federal income tax laws (such as life insurance companies and foreign taxpayers), and does not discuss any aspect of state, local or foreign tax laws.

The distribution of rights to stockholders (other than the Western Resources, Inc. Employees' 401(k) Savings Plan or Protection One 401(k) Plan and employees or former employees of Western Resources receiving rights in the rights offering by reason of holding outstanding stock options or restricted share units) will be treated as a taxable dividend in an amount equal to the fair market value of the rights which we currently estimate to be \$0.04 per right.

Upon exercise of the rights, you will not recognize income, gain or loss. The basis of the common stock acquired upon such exercise will equal the value of the rights on the date of distribution plus the subscription price paid.

If your rights expire unexercised, you will have a capital loss equal to the value of the rights on the date of distribution. Because utilization of capital losses against ordinary income is strictly limited, you may suffer a net tax related to receipt of rights that expire unexercised.

In the case of employees and former employees of Western Resources who receive rights in the rights offering by reason of holding outstanding stock options or restricted share units, the receipt of such rights will not be a taxable event but the exercise of such rights will result in taxable income at the time of exercise in an amount equal to the difference between the then fair market value of the stock and the cash subscription price. Our shares that such employees or former employees receive from the exercise of those rights will have a basis equal to the value of those shares on the date of exercise. The expiration of such rights unexercised would have no tax consequences for such employees or former employees.

Participants in the Western Resources, Inc. Employees' 401(k) Savings Plan or Protection One 401(k) Plan who have any portion of their accounts invested in the Western Resources Company Stock Fund will receive an allocation of rights in the rights offering to their respective plan accounts based on the number of shares of Western Resources common stock allocated to their respective accounts. Neither the receipt of such rights nor the exercise of such rights within the plan accounts will be a taxable event. The participant will not be taxed on amounts held in his or her account until the participant receives distributions from the plan.

THE PRECEDING DISCUSSION DOES NOT PURPORT TO BE A COMPLETE ANALYSIS OR DISCUSSION OF ALL POTENTIAL TAX EFFECTS RELEVANT TO THE RIGHTS OFFERING. THUS, WESTERN RESOURCES STOCKHOLDERS, OPTION HOLDERS, HOLDERS OF RESTRICTED SHARE UNITS AND PARTICIPANTS IN THE WESTERN RESOURCES OR PROTECTION ONE 401(K) PLAN ARE URGED TO CONSULT THEIR OWN TAX ADVISORS AS TO THE SPECIFIC TAX CONSEQUENCES TO THEM OF THE RIGHTS OFFERING, INCLUDING TAX RETURN REPORTING REQUIREMENTS, THE APPLICABILITY AND EFFECT OF FEDERAL, STATE, LOCAL, AND OTHER APPLICABLE TAX LAWS AND THE EFFECT OF ANY PROPOSED CHANGES IN THE TAX LAWS.

LEGAL MATTERS

The validity of the securities offered hereby will be passed upon for us by Richard D. Terrill, Executive Vice President and General Counsel of Western Resources. Mr. Terrill beneficially owns 8,524 shares of Western Resources' common stock and 101,604 restricted share units. Immediately after the rights offering, Mr. Terrill will beneficially own 18,354 shares of our common stock assuming full exercise of all rights received by him in the rights offering and no shares available through the over-subscription privilege.

90

EXPERTS

The consolidated financial statements of Westar Industries included in this registration statement to the extent and for the periods indicated in their

reports have been audited by Arthur Andersen LLP, independent public accountants, and are included herein in reliance upon the authority of said firm as experts in giving said reports. Reference is made to said report, which includes an explanatory paragraph with respect to the change in method of amortization for customer accounts in 1999 as discussed in Note 2 to the consolidated financial statements.

The consolidated financial statements of ONEOK and its subsidiaries as of December 31, 2000, December 31, 1999 and August 31, 1999, and for the year ended December 31, 2000, the years ended August 31, 1999 and 1998 and the four months ended December 31, 1999 have been included herein in Exhibit A in reliance upon the report of KPMG LLP, independent certified public accountants, included herein in Exhibit A, and upon the authority of said firm as experts in accounting and auditing. The report of KPMG LLP covering the December 31, 2000 consolidated financial statements refers to a change in accounting for energy trading contracts in 2000.

AVAILABLE INFORMATION

We have filed with the SEC a registration statement on Form S-1 with respect to the common stock offered hereby and certain rights to purchase one one-hundredth of a share of our preferred stock at a stipulated price in certain circumstances. This prospectus, which constitutes a part of the registration statement, does not contain all of the information set forth in the registration statement or the exhibits and schedules which are part of the registration statement. For further information with respect to us and our common stock and the attached rights, reference is made to the registration statement and the exhibits and schedules thereto. You may read and copy any document we, Western Resources, Protection One and ONEOK periodically file at the SEC's public reference room in Washington, DC. Please call the SEC at 1-800-SEC-0330 for further information on the public reference room. These SEC filings are also available to the public from the SEC's website at <http://www.sec.gov>.

Upon completion of the rights offering, we will become subject to the information and periodic reporting requirements of the Securities Exchange Act and, in accordance therewith, will file periodic reports, proxy statements and other information with the SEC. Such periodic reports, proxy statements and other information will be available for inspection and copying at the SEC's public reference rooms and the website of the SEC referred to above.

WESTAR INDUSTRIES, INC.

INDEX TO FINANCIAL STATEMENTS

	Page

Unaudited Financial Statements	
Consolidated Balance Sheet as of March 31, 2001.....	F-2
Consolidated Statements of Operations for the three months ended March 31, 2001 and 2000.....	F-3
Consolidated Statements of Comprehensive Income for the three months ended March 31, 2001 and 2000.....	F-4
Consolidated Statements of Cash Flows for the three months ended March 31, 2001 and 2000.....	F-5
Audited Financial Statements	
Report of Independent Public Accountants.....	F-6
Consolidated Balance Sheets as of December 31, 2000 and 1999.....	F-7
Consolidated Statements of Operations for the years ended December 31, 2000, 1999 and 1998.....	F-8
Consolidated Statements of Comprehensive Income for the years ended December 31, 2000, 1999 and 1998.....	F-9
Consolidated Statements of Shareholder's Equity for the years ended December 31, 2000, 1999 and 1998.....	F-10
Consolidated Statements of Cash Flows for the years ended December 31, 2000, 1999 and 1998.....	F-11
Notes to Consolidated Financial Statements (includes notes to unaudited interim financial statements as of March 31, 2001 and for the three months ended March 31, 2001 and 2000).....	F-12

F-1

WESTAR INDUSTRIES, INC.

CONSOLIDATED BALANCE SHEET

(In Thousands)

(Unaudited)

	March 31, 2001

ASSETS	
CURRENT ASSETS:	
Cash and cash equivalents.....	\$ 10,995
Restricted cash.....	13,482
Accounts receivable, net.....	57,813
Inventories and supplies, net.....	15,616
Marketable securities.....	875
Deferred tax asset, current.....	32,261
Prepaid expenses and other.....	31,632

Total Current Assets.....	162,674

PROPERTY AND PLANT EQUIPMENT, NET.....	58,435

OTHER ASSETS:	

Goodwill, net.....	959,610
Customer accounts, net.....	971,011
Investment in ONEOK.....	596,097
Investment in Western Resources.....	349,178
Receivable from Western Resources.....	117,623
Deferred tax asset.....	36,374
Other.....	59,748

Total Other Assets.....	3,089,641

TOTAL ASSETS.....	\$3,310,750
	=====

LIABILITIES AND SHAREHOLDER'S EQUITY

CURRENT LIABILITIES:

Current maturities of long-term debt.....	\$ 24,950
Accounts payable.....	30,672
Accrued liabilities.....	53,257
Purchase holdbacks.....	3,411
Accrued income taxes.....	42,934
Amounts due Western Resources.....	1,882
Deferred security revenues.....	77,672
Tax payable due Western Resources.....	17,684
Other.....	7,859

Total Current Liabilities..... 260,321

LONG-TERM LIABILITIES:

Long-term debt, net.....	527,039
Minority interests.....	181,343
Other liabilities.....	10,360

Total Long-Term Liabilities..... 718,742

COMMITMENTS AND CONTINGENCIES (Notes 16 and 19)

SHAREHOLDER'S EQUITY:

Common stock.....	732
Paid-in capital.....	2,055,701
Retained earnings.....	285,478
Accumulated other comprehensive loss.....	(10,224)

Total Shareholder's Equity..... 2,331,687

TOTAL LIABILITIES AND SHAREHOLDER'S EQUITY..... \$3,310,750

The accompanying notes are an integral part of these consolidated financial statements.

F-2

WESTAR INDUSTRIES, INC

CONSOLIDATED STATEMENTS OF OPERATIONS

(Dollars in Thousands, Except Per Share Amounts)

(Unaudited)

Three Months Ended
March 31,

2001

2000

REVENUES:		
Monitoring and related services.....	\$ 108,816	\$ 123,456
Other.....	5,906	23,931
Total Revenues.....	114,722	147,387
COST OF REVENUES:		
Monitoring and related services.....	35,458	35,927
Other.....	5,366	11,633
Total Cost of Revenues.....	40,824	47,560
Gross Profit.....	73,898	99,827
OPERATING EXPENSES:		
Selling, general and administrative.....	44,364	54,921
Depreciation and amortization.....	57,760	64,622
Severance and relocation costs.....	419	3,050
Total Operating Expenses.....	102,543	122,593
LOSS FROM OPERATIONS.....	(28,645)	(22,766)
OTHER INCOME:		
Investment earnings.....	16,658	118,016
Minority interests.....	1,271	(383)
Other.....	115	269
Total Other Income.....	18,044	117,902
EARNINGS (LOSS) BEFORE INTEREST AND TAXES	(10,601)	95,136
Interest expense.....	11,714	15,200
EARNINGS (LOSS) BEFORE INCOME TAXES.....	(22,315)	79,936
Income tax (benefit) expense.....	(4,551)	35,417
EARNINGS (LOSS) BEFORE EXTRAORDINARY GAIN AND ACCOUNTING CHANGE.....	(17,764)	44,519
Extraordinary gain, net of tax of \$2,662 and \$9,958, respectively.....	4,943	18,493
Cumulative effect of accounting change, net of tax of \$1,097.....	--	(3,810)
NET INCOME (LOSS).....	\$ (12,821)	\$ 59,202
Average common shares outstanding (see notes 1 and 2).....	73,197,115	73,197,115
EARNINGS (LOSS) PER COMMON SHARE--BASIC AND DILUTED:		
Before extraordinary gain and accounting change....	\$ (0.25)	\$ 0.61
Extraordinary gain, net of tax.....	0.07	0.25
Accounting change, net of tax.....	--	(0.05)
After extraordinary gain and accounting change.....	\$ (0.18)	\$ 0.81

The accompanying notes are an integral part of these consolidated financial statements.

F-3

WESTAR INDUSTRIES, INC.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(In Thousands)

(Unaudited)

	Three Months Ended March 31,	
	2001	2000
NET INCOME (LOSS).....	\$ (12,821)	\$59,202
OTHER COMPREHENSIVE INCOME (LOSS), BEFORE TAX:		
Unrealized holding (losses)/gains on marketable securities arising during the period.....	(243)	46,217
Adjustment for losses/(gains) included in net income.....	1,861	(98,260)
Net change in unrealized gain/(loss) on marketable securities.....	1,618	(52,043)
Foreign currency translation adjustment.....	(2,745)	714
Income tax (expense) benefit.....	(693)	20,352
Total other comprehensive loss, net of tax.....	(1,820)	(30,977)
COMPREHENSIVE INCOME.....	\$ (14,641)	\$28,225
	=====	=====

The accompanying notes are an integral part of these consolidated financial

statements.

F-4

WESTAR INDUSTRIES, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In Thousands)

(Unaudited)

	Three Months Ended March 31,	
	2001	2000
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income (loss).....	\$ (12,821)	\$ 59,202
Extraordinary gain.....	(4,943)	(18,493)
Depreciation and amortization.....	57,760	64,622
Equity in earnings from investments.....	(3,335)	(4,068)
Cumulative effect of accounting change.....	--	3,810
Minority interests.....	(2,692)	5,059
(Gain) loss on sale marketable securities.....	1,861	(98,260)
Accretion of debt premium.....	(352)	(5,085)
Net deferred taxes.....	1,285	60,262
Changes in other working capital:		
Restricted cash.....	(204)	(9,798)
Accounts receivable, net.....	2,254	28,656
Inventories and supplies.....	(497)	(1,362)
Accounts payable.....	10,147	3,619
Accrued liabilities.....	(26,684)	(3,075)
Accrued income taxes.....	(236)	(5,872)
Deferred security revenue.....	4,087	(2,381)
Prepaid expenses and other.....	(11,440)	(267)
Changes in other assets and liabilities.....	(2,855)	(24,997)
Cash flows provided by (used in) operating activities.....	11,335	51,572
CASH FLOWS USED IN INVESTING ACTIVITIES:		
Additions to property, plant and equipment, net.....	(1,395)	(5,089)
Customer account acquisitions.....	(8,906)	--
Monitored security company acquisitions, net of cash acquired.....	--	(13,180)
Proceeds from the sale of marketable securities.....	2,829	194,149
Other investments, net.....	(821)	4,917
Cash flows provided by (used in) investing activities.....	(8,293)	180,797
CASH FLOWS FROM FINANCING ACTIVITIES:		
Contributions from parent.....	98,234	--
Advances to parent.....	(87,691)	(208,153)
Payments on long-term debt.....	(13,962)	(38,283)
Proceeds from long-term debt.....	8,632	6,087
Cash flows (used in) provided by financing activities.....	5,213	(240,349)
NET DECREASE IN CASH AND CASH EQUIVALENTS		
CASH AND CASH EQUIVALENTS:		
Beginning of period.....	8,255	(7,980)
End of period.....	2,740	9,694

\$ 10,995	\$ 1,714
=====	=====

Supplemental Disclosures of Cash Flow Information

Cash Paid For:

Interest.....	\$ 26,203	\$ 27,253
Income taxes.....	--	--

The accompanying notes are an integral part of these consolidated financial statements.

F-5

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To the Shareholder and Board of Directors of
Westar Industries, Inc.:

We have audited the accompanying consolidated balance sheets of Westar Industries, Inc. (a wholly owned subsidiary of Western Resources, Inc.) and subsidiaries (see Note 1) as of December 31, 2000 and 1999, and the related consolidated statements of operations, comprehensive income, cash flows, and shareholder's equity for each of the three years in the period ended December 31, 2000. These financial statements are the responsibility of the company's

management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Westar Industries, Inc. and subsidiaries as of December 31, 2000 and 1999, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2000, in conformity with accounting principles generally accepted in the United States.

As explained in Note 2 to the financial statements, effective September 1, 1999, the company changed its method of customer account amortization for most of its North American segment and for its entire European segment from the straight-line method to a declining balance (accelerated) method.

Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. Schedule II -- Valuation and Qualifying Accounts is presented for purposes of complying with the Securities and Exchange Commission rules and is not part of the basic financial statements. The schedule has been subjected to the auditing procedures applied in the audit of the basic financial statements and in our opinion, fairly states in all material respects the financial data required to be set forth therein in relation to the basic financial statements taken as a whole.

Arthur Andersen LLP

Kansas City, Missouri,
April 12, 2001

F-6

WESTAR INDUSTRIES, INC.

CONSOLIDATED BALANCE SHEETS
(In Thousands)

	December 31,	
	2000	1999
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents.....	\$ 2,740	\$ 9,694
Restricted cash.....	13,278	15,069
Accounts receivable, net.....	60,067	72,061
Inventories and supplies, net.....	15,119	12,955
Marketable securities.....	3,946	177,128
Deferred tax asset, current.....	35,909	28,400
Tax receivable from Western Resources.....	--	31,056
Prepaid expenses and other.....	24,565	24,615
Total Current Assets.....	155,624	370,978
PROPERTY, PLANT & EQUIPMENT, NET	59,735	62,777
OTHER ASSETS:		
Goodwill, net.....	976,102	1,057,041
Customer accounts, net.....	1,005,505	1,122,585
Investment in ONEOK.....	591,173	590,109
Receivable from Western Resources.....	379,932	--
Deferred tax asset.....	41,267	79,537
Other.....	59,104	136,659
Total Other Assets.....	3,053,083	2,985,931
TOTAL ASSETS.....	\$ 3,268,442	\$ 3,419,686
	=====	=====
LIABILITIES AND SHAREHOLDER'S EQUITY		
CURRENT LIABILITIES:		
Current maturities of long-term debt.....	\$ 26,456	\$ 35,955
Accounts payable.....	20,525	26,237
Accrued liabilities.....	79,941	79,606
Purchase holdbacks.....	3,845	20,213
Accrued income taxes.....	43,170	22,362
Amounts due Western Resources.....	2,026	--
Deferred security revenues.....	73,585	61,149
Tax payable due Western Resources.....	26,033	--
Other.....	7,597	14,074
Total Current Liabilities.....	283,178	259,596
LONG-TERM LIABILITIES:		
Long-term debt, net.....	543,167	771,047
Minority interests.....	184,035	192,734
Other liabilities.....	9,968	44,451
Total Long-Term Liabilities.....	737,170	1,008,232
COMMITMENTS AND CONTINGENCIES (Notes 16 and 19)		
SHAREHOLDER'S EQUITY:		
Common stock.....	732	732
Paid-in capital.....	1,957,467	1,869,163
Retained earnings.....	298,299	244,175
Accumulated other comprehensive income.....	(8,404)	37,788
Total Shareholder's Equity.....	2,248,094	2,151,858
TOTAL LIABILITIES AND SHAREHOLDER'S EQUITY.....	\$ 3,268,442	\$ 3,419,686
	=====	=====

The accompanying notes are an integral part of these consolidated financial statements.

F-7

WESTAR INDUSTRIES, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS
(Dollars in Thousands, Except Per Share Amounts)

	Year Ended December 31,		
	2000	1999	1998
REVENUES:			
Monitoring and related services.....	\$ 470,509	\$ 508,994	\$ 375,840
Other.....	58,834	91,395	46,597
Total Revenues.....	539,343	600,389	422,437
COST OF REVENUES:			
Monitoring and related services.....	145,671	132,877	103,521
Other.....	40,143	47,231	25,727
Total Cost of Revenues.....	185,814	180,108	129,248
Gross Profit.....	353,529	420,281	293,189
OPERATING EXPENSES:			
Selling, general and administrative..	212,048	225,978	172,005
Depreciation and amortization.....	250,530	235,353	128,336
Other charges:			
Severance and relocation costs.....	4,380	5,809	3,400
International power development costs.....	--	5,632	98,916
Total Operating Expenses.....	466,958	461,508	402,657
LOSS FROM OPERATIONS.....	113,429	41,227	109,468
OTHER INCOME (EXPENSE):			
Investment earnings.....	195,723	25,152	25,540
Impairment of marketable securities..	--	(76,155)	--
Gain on sale of Mobile Services Group.....	--	17,249	--
Minority interests.....	3,525	12,500	2,752
Non-recurring gain on contract repurchase.....	--	--	1,511
Other.....	74	6,761	5,711
Total Other Income (Expense).....	204,422	14,407	35,514
EARNINGS (LOSS) BEFORE INTEREST AND TAXES.....	90,993	(55,531)	(73,944)
Interest expense.....	55,459	95,164	52,914
EARNINGS (LOSS) BEFORE INCOME TAXES....	35,534	(140,795)	(126,858)
Income tax expense (benefit).....	26,841	(58,074)	(43,167)
EARNINGS (LOSS) BEFORE EXTRAORDINARY GAIN AND ACCOUNTING CHANGE.....	8,693	(82,721)	(83,691)
Extraordinary gain, net of tax effect of \$26,514, \$6,323 and \$2,730.....	49,241	11,743	1,591
Cumulative effect of accounting change, net of tax of \$1,097.....	(3,810)	--	--
NET INCOME (LOSS).....	\$ 54,124	\$ (70,978)	\$ (82,100)
Average common shares outstanding (Notes 1 and 2).....	73,197,115	73,197,115	73,197,115
EARNINGS (LOSS) PER AVERAGE COMMON SHARE OUTSTANDING--BASIC AND DILUTED:			
Before extraordinary gain and accounting change.....	\$ 0.12	\$ (1.13)	\$ (1.14)
Extraordinary gain, net of tax.....	0.67	0.16	0.02
Accounting change, net of tax.....	(0.05)	--	--
After extraordinary gain and accounting change.....	\$ 0.74	\$ (0.97)	\$ (1.12)

The accompanying notes are an integral part of these consolidated financial statements.

F-8

WESTAR INDUSTRIES, INC.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(In Thousands)

	Year Ended December 31,		
	2000	1999	1998
NET INCOME (LOSS).....	\$ 54,124	\$ (70,978)	\$ (82,100)
OTHER COMPREHENSIVE INCOME (LOSS), NET OF TAX:			
Unrealized holding gains/(losses) on marketable securities arising during the year.....	43,174	(55,420)	(17,244)
Reclassification adjustment for (gains)/losses included in net income.....	(114,948)	102,417	14,029
Net change in unrealized gain (loss) on marketable securities.....	(71,774)	46,997	(3,215)
Foreign currency translation adjustment.....	(6,364)	(115)	(1,026)
Income tax benefit (expense).....	31,946	(18,602)	1,630
Total other comprehensive income (loss), net of tax.....	(46,192)	28,280	(2,611)
COMPREHENSIVE INCOME (LOSS).....	\$ 7,932	\$ (42,698)	\$ (84,711)

The accompanying notes are an integral part of these consolidated financial statements.

F-9

WESTAR INDUSTRIES, INC.

CONSOLIDATED STATEMENTS OF SHAREHOLDER'S EQUITY
(In Thousands)

	Year Ended December 31,		
	2000	1999	1998
COMMON STOCK:			
Beginning balance.....	\$ 732	\$ 732	\$ 732
Ending balance.....	732	732	732
PAID-IN CAPITAL:			
Beginning balance.....	1,869,163	911,902	888,131
Contributions.....	88,304	957,261	23,771
Ending balance.....	1,957,467	1,869,163	911,902
RETAINED EARNINGS:			
Beginning balance.....	244,175	315,153	397,253
Net income (loss).....	54,124	(70,978)	(82,100)
Ending balance.....	298,299	244,175	315,153
ACCUMULATED OTHER COMPREHENSIVE INCOME:			
Beginning balance.....	37,738	9,508	12,119
Unrealized (loss) gain on marketable securities.....	(71,774)	46,997	(3,215)
Unrealized (loss) on currency translation.....	(6,364)	(115)	(1,026)
Income tax benefit (expense).....	31,946	(18,602)	1,630
Ending balance.....	(8,404)	37,788	9,508
TOTAL SHAREHOLDER'S EQUITY.....	\$2,248,094	\$2,151,858	\$1,237,295
	=====	=====	=====

The accompanying notes are an integral part of these consolidated financial statements.

F-10

WESTAR INDUSTRIES, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS
(In Thousands)

	Year Ended December 31,		
	2000	1999	1998
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income (loss)	\$ 54,124	\$ 70,978	\$ 82,100
Extraordinary gain	49,241	11,743	1,591
Depreciation and amortization	250,530	235,353	125,336
Equity in earnings from investments	11,219	8,199	6,064
Cumulative effect of accounting change	3,813	--	--
Minority interests	8,625	12,600	2,762
(Gain) loss on sale of marketable securities	114,948	26,251	13,643
Impairment of marketable securities	--	76,166	--
Accretion of debt premium	6,237	6,799	3,334
Gain on sale of investments	9,562	17,249	--
International power development costs	--	5,632	98,916
Net deferred taxes	54,854	25,825	53,449
Changes in other working capital net of effects from acquisitions and dispositions:			
Restricted cash	1,791	3,348	5,430
Accounts receivable, net	12,832	11,494	19,244
Inventories and supplies	971	3,275	3,769
Accounts payable	5,773	7,399	337
Accrued liabilities	335	1,485	9,553
Accrued income taxes	20,808	3,762	693
Deferred security revenue	2,466	3,479	2,237
Prepaid expenses and other	41,958	37,711	14,699
Changes in other assets and liabilities	37,664	64,657	11,789
Cash flows provided by (used in) operating activities	204,735	103,575	548
CASH FLOWS USED IN INVESTING ACTIVITIES:			
Additions to property, plant and equipment, net	22,567	32,644	32,711
Customer account acquisitions	44,059	242,667	277,667
Monitored security company acquisitions, net of cash acquired	11,748	27,407	549,196
Purchases of marketable securities	--	12,003	261,036
Proceeds from sale of marketable securities	218,609	73,456	30,479
Other investments, net	53,260	4,115	53,374
Cash flows provided by (used in) investing activities	193,495	245,380	1,143,505
CASH FLOWS FROM FINANCING ACTIVITIES:			
Funding received from (advanced to):			
Western Resources	(289,602)	40,568	562,990
Payments on long-term debt	(121,820)	(31,743)	(118,430)
Proceeds from long-term debt	6,237	213,809	645,767
Cash flows (used in) provided by financing activities	(405,185)	141,498	1,090,317
NET DECREASE IN CASH AND CASH EQUIVALENTS	(6,954)	307	53,736
CASH AND CASH EQUIVALENTS:			
Beginning of period	9,694	10,001	63,737
End of period	\$ 2,740	\$ 9,694	\$ 10,001
Supplemental Disclosures of Cash Flow Information			
Cash Paid For:			
Interest	\$ 59,416	\$ 69,012	\$ 18,695
Income taxes	--	783	311

The accompanying notes are an integral part of these consolidated financial

statements.

F-11

WESTAR INDUSTRIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. BUSINESS AND ORGANIZATION

Business

Westar Industries, Inc. (hereinafter referred to as "Westar Industries," the "Company," "we," "us" or "our"), a wholly owned subsidiary of Western Resources, is principally engaged in the monitored security business through Protection One and Protection One Europe, which provided monitored security services to approximately 1.5 million customers in North America and Europe at March 31, 2001. We also have interests in a natural gas company and international power generation facilities.

Description of Transaction

As described in the prospectus of which these consolidated financial statements are a part, we intend to distribute, at no charge, non-transferable rights to holders of Western Resources common stock, stock options and restricted share units. The rights will enable these persons to acquire our common stock for a fixed price for a specified time period. Each share of our common stock has associated with it one right to purchase one one-hundredth of a share of our preferred stock at a stipulated price in certain circumstances relating to changes in our ownership. Proceeds from the rights offering will be advanced by us to Western Resources.

Organization

We have four primary business segments, three of which relate to our alarm monitoring business and one of which relates to our other holdings. The four segments are:

- . Protection One North America--our core North America alarm monitoring business.
- . Network Multifamily, Inc.--our North America alarm monitoring business servicing apartments, condominiums and other multifamily dwellings.
- . Protection One Europe--our alarm monitoring business in continental Europe and the United Kingdom.
- . Other--our other investments and operations, including (i) ONEOK, Inc., (ii) a receivable due from Western Resources in the amount of approximately \$117.6 million at March 31, 2001, (iii) an investment in Western Resources of \$349.2 million at March 31, 2001, (iv) Paradigm Direct LLC ("Paradigm") (until December 15, 2000) and (v) ownership interests in international power plants.

Basis of Presentation

The consolidated financial statements of Westar Industries reflect our results of operations, financial position, changes in net worth and cash flows as if we were a separate entity for all periods presented. For purposes of these financial statements, our subsidiaries are included from the date of acquisition and the ONEOK investment is included from the date the investment was made by Western Resources. The financial information included herein may not necessarily reflect our consolidated results of operations, financial

position, changes in net worth and cash flows as if we had been a separate, stand-alone entity during the periods presented.

These consolidated financial statements were prepared in accordance with generally accepted accounting principles ("GAAP") for purposes of this filing. The consolidated financial statements reflect certain assets, liabilities, revenues and expenses directly attributable to us as well as allocations deemed reasonable by management to present the financial position, results of operations and cash flows on a stand-alone basis. The allocation methodologies have been described within the notes to these consolidated financial statements.

F-12

WESTAR INDUSTRIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-- (Continued)

Management considers the allocation methodologies adopted to be reasonable; however, the costs of these services charged to us may not necessarily be indicative of costs that would have been incurred if we had performed these functions entirely as a stand-alone entity.

The accompanying audited financial statements as of December 31, 2000 and 1999, and for the three years in the period ended December 31, 2000 and the unaudited balance sheet as of March 31, 2001 and the unaudited statements of operations for the three month periods ended March 31, 2001 and 2000 have been presented on a consolidated basis to reflect the operations of Westar Industries and subsidiaries after elimination of all material accounts and transactions between all affiliated entities.

Interim Financial Data

The consolidated financial statements as of March 31, 2001 and for the three months ended March 31, 2001 and 2000 and the related amounts and disclosures in these notes to consolidated financial statements are unaudited but, in the opinion of management, reflect all normal and recurring adjustments necessary for a fair presentation of the results of those periods. Operating results for the three months ended March 31, 2001 are not necessarily an indication of the results that may be expected for the year ended December 31, 2001.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, as well as the reported amounts of revenue and expenses during the reporting period. Significant estimates made in preparing the consolidated financial statements include amortization periods, allowance for doubtful accounts, income tax valuation allowances, and the allocation of certain general and administrative expenses. Actual amounts and results could differ from those estimates.

Cash and Cash Equivalents

All highly liquid investments purchased with a remaining maturity of three months or less at the date acquired are considered cash equivalents. These investments, consisting of money market funds, are stated at cost, which approximates market.

Restricted Cash

Restricted cash consists of cash used to collateralize letters of credit and cash held in escrow.

Accounts Receivable

Gross receivables, which consist primarily of trade accounts receivable, of \$105.9 million at December 31, 2000 and \$102.9 million at December 31, 1999 have been reduced by allowances for doubtful accounts of \$45.8 million and \$30.8 million respectively.

Marketable Securities

Management classifies our marketable securities as "Available-for-Sale" in accordance with Statement of Financial Accounting Standards ("SFAS") No. 115, "Accounting for Certain Investments in Debt and Equity

F-13

WESTAR INDUSTRIES, INC.**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)**

Securities." These securities are reported at fair value based on quoted market prices. Cumulative, temporary unrealized gains and losses, net of the related tax effect, are reported as a separate component of shareholder's equity until realized. Current temporary changes in unrealized gains and losses are reported as a component of other comprehensive income. Realized gains and losses are included in earnings and are derived using the specific identification method.

Inventories

Inventories, primarily comprised of alarm systems and parts, are stated at the lower of average cost or market.

Property and Equipment

Property and equipment are stated at cost and depreciated using the straight-line method over estimated useful lives. Gains or losses from retirements and dispositions of property and equipment are recognized in income in the period realized. Repair and maintenance costs are expensed as incurred.

Estimated useful lives of property and equipment are as follows:

Furniture, fixtures and equipment.....	5-10 years
Data processing and telecommunications.....	8 months-7 years
Leasehold improvements.....	5-10 years
Vehicles.....	5 years
Buildings.....	40 years

Customer Accounts

Customer accounts are stated at cost. Cost includes amounts paid to dealers and the estimated fair value of accounts acquired in business acquisitions. Internal costs incurred in support of acquiring customer accounts are expensed as incurred.

Protection One and Protection One Europe historically amortized most

customer accounts by using the straight-line method over a ten-year life except for accounts acquired from Westinghouse for which an eight year 120% declining balance has been applied. The choice of an amortization life was based on estimates and judgments about the amounts and timing of expected future revenues from these assets and average customer account life. Selected periods were determined because, in Protection One's and Protection One Europe's opinion, they would adequately match amortization cost with anticipated revenue.

Protection One and Protection One Europe conducted a comprehensive review of their amortization policies during the third quarter of 1999. This review was performed specifically to evaluate the historic amortization policies in light of the inherent declining revenue curve over the life of a pool of customer accounts and Protection One's historical attrition experience. After completing the review, Protection One identified three distinct pools, each of which has distinct attributes that affect differing attrition characteristics. The pools correspond to Protection One's North America, Multifamily and Europe business segments. For the North America and Europe pools, the analyzed data indicated that Protection One can expect attrition to be greatest in years one through five of asset life and that a change from a straight-line to a declining balance (accelerated) method would more closely match future amortization cost with the estimated revenue stream from these assets. Protection One elected to change to that method except for accounts acquired in the Westinghouse acquisition which use an accelerated method. No change was made in the method used for the Multifamily pool.

F-14

WESTAR INDUSTRIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-- (Continued)

Our amortization rates consider the average estimated remaining life and historical and projected attrition rates. The amortization method for each customer pool is as follows:

Pool	Method
-----	-----
North America:	
Acquired Westinghouse customers.....	Eight-year 120% declining balance
Other customers.....	Ten-year 130% declining balance
Protection One Europe.....	Ten-year 125% declining balance
Multifamily.....	Ten-year straight-line

Adoption of the declining balance method effectively shortens the estimated expected average customer life for these customer pools, and does so in a way that does not make it possible to distinguish the effect of a change in method (straight-line to declining balance) from the change in estimated lives. In such cases, generally accepted accounting principles require that the effect of such a change be recognized in operations in the period of the change, rather than as a cumulative effect of a change in accounting principle. Protection One changed to the declining balance method in the third quarter of 1999 for Protection One Europe customers and North America customers which had been amortized on a straight-line basis. Accordingly, the effect of the change in accounting principle increased Protection One's amortization expense reported in the third quarter of 1999 by approximately \$40 million. Accumulated amortization would have been approximately \$34 million higher through the end

of the second quarter of 1999 if the declining balance method had historically been used.

In accordance with SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of," long-lived assets held and used by us are evaluated for recoverability on a periodic basis or as circumstances warrant. An impairment would be recognized when the undiscounted expected future operating cash flows by customer pool is less than the carrying value of capitalized customer accounts and related goodwill.

Goodwill has been recorded in business acquisitions where the principal asset acquired was the recurring revenues from the acquired customer base. For purposes of the impairment analysis, goodwill was considered to be directly related to the acquired customers.

Due to the high level of customer attrition experienced in 2000 and 1999, the decline in market value of Protection One's publicly traded equity and debt securities and because of recurring losses, Protection One and Protection One Europe performed an impairment test on their customer account assets and goodwill in both 2000 and 1999. This test indicated that future estimated undiscounted cash flows exceeded the sum of the recorded balances for customer accounts and goodwill.

Customer account accumulated amortization was \$530.7 million, \$493.4 million and \$328.8 million as of March 31, 2001, December 31, 2000 and 1999, respectively. Customer account amortization expense was \$38.7 million and \$40.8 million for the three months ended March 31, 2001 and 2000, respectively, and \$163.3 million, \$186.0 million and \$96.7 million for the years ended December 31, 2000, 1999 and 1998, respectively.

Goodwill

Goodwill represents the excess of the purchase price over the fair value of net assets acquired. Protection One and Protection One Europe changed their estimated goodwill life from 40 years to 20 years on January 1, 2000. After that date, remaining goodwill, net of accumulated amortization is being amortized over its remaining useful life based on a 20-year life. The change in estimate resulted in additional goodwill amortization for the year ended December 31, 2000 of \$33 million. The resulting reduction to net income for the year was \$26.1 million or a decrease in earnings per share of \$0.36.

F-15

WESTAR INDUSTRIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)

The carrying value of goodwill was included in Protection One's and Protection One Europe's evaluations of recoverability of customer accounts. No reduction in the carrying value was necessary at December 31, 2000.

The Financial Accounting Standards Board (FASB) issued an exposure draft on February 14, 2001, which, if adopted as proposed, would establish a new accounting standard for the treatment of goodwill in a business combination. The new standard would continue to require recognition of goodwill as an asset in a business combination, but would not permit amortization as currently required by Accounting Principals Board ("APB") Opinion No. 17, "Intangible Assets." The new standard would require that goodwill be separately tested for impairment using a fair-value based approach as opposed to an undiscounted cash flow approach which is required under current accounting standards. If goodwill is found to be impaired, we would be required to record a non-cash charge against income. The impairment charge would be equal to the amount by which the

carrying amount of the goodwill exceeds the fair value. Goodwill would no longer be amortized on a current basis as is required under current accounting standards. The exposure draft contemplates this standard to become effective on July 1, 2001, although this effective date is not certain. New information from the FASB indicates the new rule is now expected to become effective on January 1, 2002. Furthermore, the proposed standard could be modified prior to its adoption.

If the new standard is adopted, any subsequent impairment test on our customer accounts would be performed on the customer accounts alone rather than in conjunction with goodwill, utilizing an undiscounted cash flow test pursuant to SFAS No. 121.

At March 31, 2001 we had \$959.6 million in goodwill assets attributable to acquisitions of businesses and \$971.0 million in customer accounts. Together these intangible assets represent 58.3% of the book value of our total assets. If the new standard became effective July 1, 2001 as proposed, we believe it is probable that we would be required to record a non-cash impairment charge. We cannot determine the amount at this time, but we believe the amount would be material and could be a substantial portion of our intangible assets. We would no longer record goodwill amortization expense. This impairment charge would have a material adverse effect on our results of operations and could have a material adverse effect on our business and financial condition.

Goodwill accumulated amortization was \$133.1 million as of March 31, 2001 and \$118.6 million and \$59.3 million as of December 31, 2000 and 1999, respectively. Goodwill amortization expense is \$14.5 million and \$15.4 million for the three months ended March 31, 2001 and 2000, respectively, and \$51.3 million, \$29.8 million and \$23.7 million for the years ended December 31, 2000, 1999 and 1998, respectively.

Income Taxes

We recognize a liability or asset for the deferred tax consequences of temporary differences between the tax basis of assets and liabilities and their reported amounts in the financial statements. These temporary differences will result in taxable or deductible amounts in future years when reported amounts of the assets or liabilities are recovered or settled. The deferred tax assets are periodically reviewed for recoverability.

We pay for tax payments made and are reimbursed for tax benefits utilized by Western Resources in its consolidated tax return pursuant to a tax sharing arrangement. The income tax provision has been calculated as if we filed on a stand-alone basis. If Western Resources completes its proposed transaction with Public Service Company of New Mexico, including the split-off of Westar Industries, we would no longer be able to file taxes on a consolidated basis with Western Resources. As a result, deferred tax assets of \$80.1 million at March 31, 2001 would not be realizable and we would not be in a position to record a tax benefit for losses incurred. We would be required to record a non-cash charge against income for the portion of our deferred tax assets determined not to be realized, which could be material.

F-16

WESTAR INDUSTRIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)

Revenues

Monitored security service revenues are recognized when security services are provided. Installation revenues, sales revenues on equipment upgrades and

direct costs of installations and sales are deferred for residential customers with service contracts. For commercial customers and our national account customers, revenue is dependent upon each specific customer contract. In instances when we sell the equipment outright, revenues and costs are recognized in the period incurred. In cases where there is no outright sale, revenues and direct costs are deferred and amortized.

Deferred installation revenues and system sales revenue will be recognized over the expected useful life of the customer. Deferred costs in excess of deferred revenue will be recognized over the contract life, utilizing a straight-line method. To the extent deferred costs are less than deferred revenues, such costs are recognized over the customer's estimated useful life.

Deferred revenues result from customers who are billed for monitoring, extended service protection and patrol and response services in advance of the period in which such services are provided, on a monthly, quarterly or annual basis.

We adopted Staff Accounting Bulletin ("SAB") No. 101, "Revenue Recognition" in the fourth quarter of 2000 which had a retroactive effective date of January 1, 2000. The impact of this accounting change generally requires deferral of certain monitored security services sales for installation revenues and direct sales-related expenses. Deferral of these revenues and costs is generally necessary when installation revenues have been received and a monitoring contract to provide future service is obtained. Historically, Protection One acquired a majority of its customers by acquisition or through an independent dealer program for its North American operations. Dealers billed and retained any installation revenues. In 2000, Protection One began an internal sales program. Because of these factors, the impact of adopting SAB No. 101 for Protection One was not significant. Protection One Europe has a larger concentration of commercial customers where installation revenues and related costs had previously been recognized.

The cumulative effect of the change in accounting principle was approximately \$3.8 million, net of tax benefits of \$1.1 million and is related to changes in revenue recognition at Protection One Europe. Prior to the adoption of SAB No. 101, Protection One Europe recognized installation revenues and related expenses upon completion of the installation. Pro forma amounts and amounts per share, assuming the change in accounting principle was applied retroactively, are as follows:

		SAB No. 101					
As Reported		Effect		Pro Forma			
Amount	Per share	Amount	Per share	Amount	Per share	Amount	Per share
(in thousands, except per share amounts)							
Earnings (loss) before extraordinary gain and accounting change:							
For the Years Ended							
December 31, 2000.....	\$ 8,693	\$0.12	\$ --	\$ --	\$ 8,693	\$0.12	
December 31, 1999.....	(82,721)	(1.13)	(2,800)	(0.04)	(85,521)	(1.17)	
December 31, 1998.....	(83,691)	(1.14)	(1,010)	(0.02)	(84,701)	(1.16)	
Net Income (loss):							
For the Years Ended							
December 31, 2000.....	\$ 54,124	\$0.74	\$ 3,810	\$0.05	\$ 57,934	\$0.79	
December 31, 1999.....	(70,978)	(0.97)	(2,800)	(0.04)	(73,778)	(1.01)	
December 31, 1998.....	(82,100)	(1.12)	(1,010)	(0.02)	(83,110)	(1.14)	

F-17

WESTAR INDUSTRIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)

Advertising Costs

Printed materials are generally expensed as incurred. Broadcast advertising costs are expensed upon the first broadcast of the respective advertisement. Total advertising expense was \$1.4 million, \$3.0 million, and \$3.7 million during the years ended December 31, 2000, 1999 and 1998, respectively.

Earnings (Loss) Per Share

Earnings (loss) per share as reflected on the consolidated statement of operations, has been computed and presented in accordance with SFAS No. 128, "Earnings Per Share." The weighted average common shares outstanding used in the computation of earnings (loss) per share for each period presented was the number of shares outstanding giving effect to the stock split described in Note 1. The number of shares outstanding after this stock split was 73,197,115 shares of our common stock.

Concentrations of Credit Risk

Financial instruments which potentially subject us to concentrations of credit risk consist principally of trade receivables from a large number of customers, including both residential and commercial, dispersed across a wide geographic base. We extend credit to our customers in the normal course of business, perform periodic credit evaluations and maintain allowances for potential credit losses. We have customers located throughout the United States, Canada and Europe. We do not believe a significant loss from a concentration of credit risk exists.

Minority Interests

Minority interests represent the minority shareholders' proportionate share of the shareholders' equity and net loss of Protection One.

Reclassifications

Certain amounts in prior periods have been reclassified to conform with classifications used in the current year presentation.

3. RELATED PARTY TRANSACTIONS

Cash Management

Protection One and Protection One Europe maintain their own cash management functions. Historically, Westar Industries, exclusive of Protection One and Protection One Europe, utilized the central cash management system of Western Resources. Following completion of the rights offering, we intend to utilize the cash management systems of Western Resources.

Financing Arrangements and Liquidity

We have historically relied on Western Resources for our capital needs. Liquidity available through amounts due from Western Resources combined with cash flows of Protection One and Protection One Europe, proceeds of asset sales, dividends from ONEOK and from other investments and our existing cash balances are expected to be adequate and provide for our liquidity requirements.

General and Administrative

Our direct operating costs are charged directly to us. Other costs are allocated by Western Resources and include the estimated costs of information systems services, payroll and benefits administration, purchasing and certain other accounting and administrative services. These costs were allocated based upon headcount, square

F-18

WESTAR INDUSTRIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)

footage, revenue and other factors that management believes to be reasonable. Allocated costs do not include those incurred by Protection One under its shared services agreement. Allocated costs are as follows (in thousands):

Year Ended December 31,

2000.....	\$10,735
1999.....	3,628
1998.....	4,894

For the three months ended March 31,

2001.....	\$ 424
2000.....	550

Management believes that the allocation methodologies applied are reasonable. However, management believes it is not practicable to determine whether the allocated amounts represent amounts that would have been incurred on a stand-alone basis.

Shared Corporate Services

We will enter into a shared services agreement with Western Resources prior to completion of the rights offering. Under this agreement, a portion of Western Resources' shared corporate services (such as human resources, legal, accounting and auditing, tax, treasury, strategic planning, investor relations and corporate technology) will be allocated to us based upon specific identification of such services used by us. Where determinations based on use alone are impracticable, other methods and criteria will be used that management believes provide a reasonable estimate of the cost attributable to us.

Protection One has entered into a shared services agreement with Western Resources. Pursuant to this agreement, Western Resources provides administrative services including accounting, human resources, legal, facilities and technology. Since entering into the agreement, Protection One incurred charges of approximately \$2.4 million and \$0.7 million for the three months ended March 31, 2001 and 2000, respectively, and \$7.3 million and \$2.0 million in December 31, 2000 and 1999, respectively. These charges were based upon various hourly charges, negotiated fees and out of pocket expenses. At March 31, 2001 and December 31, 2000, Protection One had a net intercompany balance due to Western Resources of \$1.0 million and \$1.2 million, respectively, primarily for these services.

Receivable from Western Resources

We have a receivable from Western Resources for approximately \$117.6 million at March 31, 2001. The receivable will be increased or decreased by additional advances or payments between us and Western Resources, including the advance to Western Resources of the net proceeds of the rights offering. The receivable currently bears interest at 8.5% per annum. Prior to the effective time of the PNM merger, pursuant to the allocation agreement with Western Resources, we will convert any amounts then outstanding under the receivable into (1) shares of our common stock owned by Western Resources at a price based on the average market prices for the 20 trading days preceding conversion but not less than the subscription price in the rights offering, (2) shares of Western Resources common stock based on the average market prices for the 20 trading days preceding conversion, or (3) shares of Western Resources convertible preference stock. We have the right to choose the time of conversion and the security to be received subject to certain restrictions in the PNM merger agreement. At the effective time of the PNM merger and the split-off, any Western Resources common stock owned by us will be converted into PNM Holdings common stock based on the merger exchange ratio, and any Western Resources convertible preference stock owned by us will be converted into PNM Holdings convertible preferred stock.

F-19

WESTAR INDUSTRIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)

Asset Allocation and Separation Agreement

On May 2, 2001, we entered into an amendment to the allocation agreement. Until the earlier of the closing of the PNM merger or an investment grade rating is received on the secured debt of Western Resources utility operations, the amendment requires us to pay to Western Resources the net cash proceeds received from the rights offering, any sale of the stock of ONEOK or Western Resources held by us, or any borrowings by us secured by either of these investments. These payments would increase the balance of the receivable owed to us by Western Resources.

Investment in Western Resources

On February 28, 2001, we converted \$350 million of the receivable due from Western Resources into approximately 14.4 million shares of Western Resources common stock pursuant to the allocation agreement. These shares represented approximately 16.9% of Western Resources' common stock, including these shares. There are no voting rights with respect to these shares as long as we are a majority owned subsidiary. These shares were recorded at cost. We will account for our investment in Western Resources using the equity method of accounting. During the first quarter, we recognized a loss of \$0.8 million in equity earnings from this investment after elimination of the effect of our losses on Western Resources. In April 2001, we received dividends of \$4.3 million on this investment, which were reinvested in additional common stock of Western Resources.

Summary financial information for Western Resources as of and for the quarter ended March 31, 2001 is as follows:

Balance Sheet

Current assets.....	\$ 358,501
Non-current assets.....	7,217,617
Current liabilities.....	646,873
Non-current liabilities.....	5,003,569
Equity.....	1,925,676

Income Statement

Sales.....	\$ 560,741
Gross profit.....	290,162
Earnings available for common stock.....	4,168

Interest Income

Investment earnings include interest income accrued from Western Resources of \$5.8 million for the first quarter of 2001 and \$6.1 million in 2000, from the receivable from Western Resources. There was no interest income from Western Resources in the first quarter of 2000.

Western Resources Contributions

Our paid in capital at December 31, 2000 includes approximately \$957.3 million of contributions recorded in an intercompany account in prior periods. During the quarter ended March 31, 2001, we provided \$91.0 million to Protection One under a senior credit facility between us and Protection One. We obtained approximately \$98 million from Western Resources to fund this payment and for other operating needs. Protection One also paid us \$45.2 million for its debt obligations. No gain or loss was recorded for this related party transaction.

F-20

WESTAR INDUSTRIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)

Marketing Agreement

Protection One entered into a three-year marketing agreement with Paradigm Direct LLC ("Paradigm") during 1999. We had a 40% ownership interest in Paradigm which we sold on December 15, 2000. Under the arrangement, Protection One was to purchase a targeted number of accounts from Paradigm during each year of the agreement following an initial pilot program. Protection One expensed \$4.3 million for 2000 for marketing services provided by Paradigm pursuant to the marketing agreement. During 1999, Protection One expensed \$1.0 million paid to Paradigm in the third quarter in connection with startup costs relative to this program. Subsequent to year-end, Protection One converted this program from an account acquisition program to a lead generation program. The pilot program Protection One had with Paradigm, which utilized direct marketing to produce customer accounts, was concluded on June 30, 2000 and the marketing agreement was terminated on September 30, 2000.

ONEOK Stock Repurchase

In 1999, Western Resources and Westar Industries sold a total of 984,000 shares of ONEOK stock to ONEOK as a result of ONEOK's repurchase program. We reduced our investment in ONEOK for proceeds received from this sale. All such shares were required to be sold to ONEOK in accordance with a shareholder agreement between Western Resources and ONEOK. Our ownership interest remains

at approximately 45% as of March 31, 2001.

Protection One Stock Repurchase

In 2000, Protection One purchased a total of 6,926,813 shares of its outstanding common stock for \$5.3 million. Of those shares, 5,152,113 were purchased from us for \$3.4 million. The purchases from us maintained our proportionate ownership of Protection One's outstanding common stock.

In the three months ended March 31, 2001, Protection One purchased 13,712,704 shares of its outstanding common stock for approximately \$15.0 million, of which 11,532,104 shares were purchased from us for approximately \$12.6 million. The purchases from us maintained our proportionate ownership of Protection One's outstanding stock. We or Protection One may continue to acquire additional shares of Protection One's common stock based on market conditions and other factors.

Interest Expense

Interest expense for 1998 includes interest expense paid to Western Resources of \$11.5 million.

4. ACQUISITION TRANSACTIONS

Protection One acquired a significant number of security companies in 1998. All companies acquired have been accounted for using the purchase method. The principal assets acquired in the acquisitions are customer accounts. The excess of the purchase price over the estimated fair value of the net assets acquired is recorded as goodwill. The results of operations have been included in our consolidated results of operations from the date of the acquisition.

F-21

WESTAR INDUSTRIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-- (Continued)

The following unaudited pro forma consolidated results of operations for the year ended December 31, 1998 assume all material business combinations occurred at January 1 of the year acquired.

	Year Ended December 31, 1998 (a)	
	Amount	Per Share
	(in thousands, except per share amounts)	
Revenues.....	\$563,472	\$7.70
Loss before extraordinary items.....	(92,712)	(1.27)
Net loss.....	(91,121)	(1.25)

(a) Excludes other charges of \$3.4 million and nonrecurring gains of \$5.7 million.

The unaudited pro forma financial information is not necessarily indicative of the results of operations had the entities been consolidated for the entire period nor do they purport to be indicative of results which will be obtained in the future.

5. MARKETABLE SECURITIES

Marketable securities are valued as follows:

	As of December 31,			As of March 31,
	2000	1999	1998	2001
	(in thousands)			
Equity Securities:				
Cost.....	\$ 6,690	\$ 43,124	\$ 94,369	\$ 2,000
Gross unrealized gain....	--	70,407	45,685	--
Gross unrealized loss....	(2,744)	(1,628)	(10,182)	(1,125)
Aggregate fair value.....	\$ 3,946	\$111,903	\$129,872	\$ 875
	=====	=====	=====	=====
Sales proceeds.....	\$128,502	\$ 48,473	\$ 27,904	\$ 2,829
	=====	=====	=====	=====
Realized gain (loss) from sales, net.....	\$ 90,067	\$ (15,043)	\$ (13,943)	\$ (1,861)
	=====	=====	=====	=====
Debt Securities:				
Cost.....	\$ --	\$ 65,225	\$172,129	\$ --
Gross unrealized gain....	--	--	--	--
Gross unrealized loss....	--	--	(13,924)	--
Aggregate fair value.....	\$ --	\$ 65,225	\$158,205	\$ --
	=====	=====	=====	=====
Sales proceeds.....	\$ 90,107	\$ 24,983	\$ 2,575	\$ --
	=====	=====	=====	=====
Realized gain (loss) from sales, net.....	\$ 24,881	\$ (11,208)	\$ 100	\$ --
	=====	=====	=====	=====

During the three-month period ended March 31, 2001, we recorded investment income of \$16.7 million. This income was primarily attributable to income from the ONEOK investment. A summary of investment income is as follows (in thousands):

ONEOK income.....	\$13,432
Other.....	3,226

Total.....	\$16,658
	=====

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)

During the fourth quarter of 1999, we decided to sell our remaining marketable security investments in paging industry companies. These securities were classified as available-for-sale; therefore, changes in market value were historically reported as a component of other comprehensive income.

The market value for these securities declined during the last six to nine months of 1999. We determined that the decline in value of these securities was other than temporary and a charge to earnings for the decline in value was required at December 31, 1999. Therefore, a non-cash pre-tax charge of \$76.2 million was recorded in the fourth quarter of 1999. This charge to earnings is presented separately in the accompanying Consolidated Statements of Operations.

In February 2000, a paging company whose securities were included in the securities discussed in the paragraph above at December 31, 1999, made an announcement that significantly increased the market value of paging company securities generally in the public markets. During the first quarter of 2000, the remainder of our paging securities were sold and a gain of \$24.9 million was realized.

During 2000, we sold our equity investment in a gas compression company and realized a pre-tax gain of \$91.1 million.

6. PROPERTY AND EQUIPMENT

Property and equipment are summarized as follows:

	As of December 31,		As of
	2000	1999	March 31, 2001

	(in thousands)		
Furniture, fixtures and equipment.....	\$ 10,656	\$ 19,126	\$10,367
Data processing and telecommunication.....	78,943	60,548	79,575
Leasehold improvements.....	7,581	2,219	7,415
Vehicles.....	12,139	7,019	11,939
Buildings and other.....	3,642	3,731	6,328
	112,961	92,643	115,624
Less accumulated depreciation.....	53,226	29,866	57,189
Property and equipment, net.....	\$ 59,735	\$ 62,777	\$58,435
	=====	=====	=====

Depreciation expense was \$4.6 million and \$8.4 million for the three months ended March 31, 2001 and 2000, respectively, and \$26.0 million, \$19.5 million and \$8.0 million for the years ended December 31, 2000, 1999 and 1998, respectively.

7. CUSTOMER ACCOUNTS

The following is a rollforward of the investment in customer accounts (at cost):

	December 31,		Three months ending
	2000	1999	March 31, 2001
	(in thousands)		
Beginning customer accounts, net..	\$1,122,585	\$1,009,084	\$1,005,505
Acquisition of customer accounts..	54,993	337,464	6,508
Amortization of customer accounts.....	(163,297)	(185,974)	(38,692)
Non-cash charges against purchase holdbacks and other.....	(8,776)	(37,989)	(2,310)
Ending customer accounts, net.....	\$1,005,505	\$1,122,585	\$ 971,011
	=====	=====	=====

F-23

WESTAR INDUSTRIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)

Accumulated amortization of the investment in customer accounts at March 31, 2001 was \$530.7 million and was \$493.4 million and \$328.8 million at December 31, 2000 and 1999 respectively.

8.EQUITY METHOD INVESTMENTS

Our investments which are accounted for by the equity method are as follows:

	Ownership at December 31,	Investment at December 31,		Equity Earnings for the Year Ended December 31,	
	2000	2000	1999	2000	1999
	(dollars in thousands)				
ONEOK (a).....	45%	\$591,173	\$590,109	\$8,213	\$6,945
Paradigm (b).....	--	--	35,385	3,006	1,254
International companies and joint ventures (c).....	9% to 50%	13,514	18,724	4,799	--

-
- (a) We also received preferred and common dividends of approximately \$39.8 million and \$41.2 million in 2000 and 1999, respectively.
- (b) This investment was sold on December 15, 2000.
- (c) Investment is aggregated. Individual investments are not material.

Investment in ONEOK

The following summarized financial information for our investment in ONEOK is as follows:

As of December 31,

2000	1999
------	------

(in thousands)

Balance Sheet:

Current assets.....	\$3,324,959	\$ 595,386
Non-current assets.....	4,044,177	2,645,854
Current liabilities.....	3,535,352	786,713
Non-current liabilities.....	2,608,827	1,303,003
Equity.....	1,224,957	1,151,524

For the Year Ended
December 31,

2000	1999
------	------

(in thousands)

Income Statement:

Revenues.....	\$6,642,858	\$2,064,726
Net revenues.....	797,132	648,249
Net income.....	145,607	106,873

At December 31, 2000, our ownership interest in ONEOK was comprised of approximately 2.2 million common shares and approximately 19.9 million convertible preferred shares. If all the preferred shares were converted, we would own approximately 45% of ONEOK's common shares then outstanding.

F-24

WESTAR INDUSTRIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)

9. LONG-TERM DEBT

Long-term debt and the fixed or weighted average interest rates are as follows:

	December 31,		March 31,
	2000	1999	2001
	(in thousands)		
Senior Subordinated Notes, maturing January 2009, fixed rate of 8.125% (a).....	\$255,740	\$341,415	\$238,240
Senior Unsecured Notes, maturing August 2005, fixed rate of 7.375%.....	204,650	250,000	204,650
Senior Subordinated Discount Notes, maturing June 2005, effective rate of 11.8%.....	42,887	87,038	42,150
Convertible Senior Subordinated Notes, maturing September 2003, fixed rate of 6.75%.....	23,785	53,950	23,785
Other debt obligations, including capital leases.....	42,561	74,599	43,164
Total long term debt.....	569,623	807,002	551,989
Less current portion.....	(26,456)	(35,955)	(24,950)
Long-term debt, net.....	\$543,167	\$771,047	\$527,039
	=====	=====	=====

(a) The rate is currently 8.625% and will continue at that rate until the exchange offer related to the offering is completed, which is scheduled for May 30, 2001.

Senior Subordinated Notes

In 1998, Protection One issued \$350 million of unsecured 8.125% Senior Subordinated Notes due 2009. The notes are redeemable at Protection One's option, in whole or in part, at a predefined price.

On April 27, 2001, Protection One commenced a registered offer to exchange a new series of 8.125% Series B Senior Subordinated Notes for a like amount of its 8.125% Senior Subordinated Notes originally issued in December 1998. Because the exchange offer was not completed within six months of the issuance date, Protection One has been paying an additional 0.5% interest penalty since June 1999. Upon completion of the exchange offer, which Protection One anticipates to be on May 30, 2001, the interest rate on all of the notes whether exchanged or not will be reduced from 8.625% to 8.125%. The resulting annual interest savings will be \$1.2 million.

Senior Unsecured Notes

In 1998, Protection One issued \$250 million of Senior Unsecured Notes. Interest is payable semi-annually on February 15 and August 15. The notes are redeemable at Protection One's option, in whole or in part, at a predefined price.

Senior Subordinated Discount Notes

In 1995, Protection One issued \$166 million of unsecured Senior Subordinated Discount Notes with a fixed interest rate of 13.625%. Interest payments began in 1999 and are payable semi-annually on June 30 and December 31. In connection with the acquisition of Protection One in 1997, these notes were restated to fair value reflecting a current market yield of approximately 6.4% through June

30, 2000, the first full call date of the notes. Since the notes were not called on that date the current market yield was adjusted to 11.8% as of July 1, 2000. The 1997 revaluation resulted in bond premium being recorded to reflect the increase in value of the notes as a result of the decline in interest rates since the note issuance. The revaluation had no impact on the expected cash flow to existing noteholders. As of June 30, 2000 the notes became redeemable, at Protection One's option, at a specified redemption price.

F-25

WESTAR INDUSTRIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)

Convertible Senior Subordinated Notes

In 1996, Protection One issued \$103.5 million of Convertible Senior Subordinated Notes. Interest is payable semi-annually on March 15 and September 15. The notes are convertible at any time at a conversion price of \$11.19 per share. As of September 19, 1999 the notes became redeemable, at Protection One's option, at a specified redemption price.

Other

Represents debt obligations assumed from an acquisition of a French security company in 1998, debt related to international power projects and capital leases. Interest rates on these obligations range from 8.5% to 18%.

Extinguishments of Debt

We recorded extraordinary gains (losses) on the extinguishment of debt instruments as follows:

- . During the first quarter of 2001, Protection One purchased \$17.5 million face value of its bonds on the open market. An extraordinary gain of \$4.9 million, net of tax of \$2.7 million was recognized at March 31, 2001, on the retirement of these bonds.
- . During 2000, we purchased \$170.0 million face value of Protection One bonds on the open market. In exchange for cash and the settlement of certain intercompany payables and receivables, \$103.9 million of these debt securities were transferred to Protection One. Protection One also purchased \$30.5 million face value of its bonds on the open market during 2000. An extraordinary gain of \$49.2 million, net of tax of \$26.5 million was recognized at December 31, 2000 on these retirements.
- . In the fourth quarter of 1999, we purchased Protection One bonds on the open market at amounts less than the carrying amount of the debt. We recognized an extraordinary gain of \$13.4 million, net of tax, at December 31, 1999 related to the retirement of this debt.
- . During 1999, we acquired Protection One's Senior Credit Facility from Protection One's lenders. We recognized an extraordinary loss of \$1.7 million, net of tax on this transaction.
- . In 1998, Protection One redeemed senior subordinated discount notes with a book value of \$69 million and recorded an extraordinary gain on the extinguishment of \$1.6 million, net of tax. The remaining notes are redeemable at Protection One's option, in whole or in part, at any time on or after June 30, 2000, at a predefined price.

Debt Maturities

Debt maturities over the next five years are as follows (in thousands):

Year	Principal Amount
-----	-----
2001.....	\$ 26,456
2002.....	8,967
2003.....	27,207
2004.....	617
2005.....	248,007
Thereafter.....	258,369

Total long-term debt at December 31, 2000.....	\$569,623
	=====

F-26

WESTAR INDUSTRIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)

Financial and Operating Covenants

Most of these debt instruments contain restrictions based on "EBITDA." The definition of EBITDA varies among the various indentures. EBITDA is generally derived by adding to income (loss) before income taxes, the sum of interest expense and depreciation and amortization expense. However, under the varying definitions of the indentures, various and numerous additional adjustments are sometimes required.

Protection One's credit facilities contain financial and operating covenants which may restrict its ability to incur additional debt, pay dividends, make loans or advances and sell assets. The financial covenants are based on Protection One's stand-alone financial results. These covenants as of December 31, 2000, unless noted otherwise, are summarized as follows:

Debt Instrument	Financial Covenant
-----	-----
Senior Subordinated Notes.....	Current fiscal quarter EBITDA/current fiscal quarter interest expense greater than 2.25 to 1.0
Senior Subordinated Discount Notes.....	Total debt/annualized current quarter EBITDA less than 6.0 to 1.0
	Senior debt/annualized current quarter EBITDA less than 4.0 to 1.0

At March 31, 2001, Protection One was in compliance with the covenants under the indentures relating to Protection One's public debt.

Protection One's ability to comply with the ratios and the tests will be affected by events outside its control and there can be no assurance that it will meet those tests. Failure to meet the tests would place additional restrictions on Protection One's ability to incur indebtedness. A violation of

these restrictions would result in an event of default which would allow the lenders to declare all amounts outstanding immediately due and payable.

The indentures governing all of Protection One's debt securities require that Protection One offer to repurchase the securities in certain circumstances following a change of control.

10. SALE OF MOBILE SERVICES GROUP

In 1999, Protection One sold the assets which comprised its Mobile Services Group. Cash proceeds of this sale approximated \$20 million and Protection One recorded a pre-tax gain of approximately \$17 million.

11. STOCK WARRANTS AND OPTIONS

We account for employee stock options in accordance with APB No. 25, "Accounting for Stock Issued to Employees." Under APB No. 25, we recognize no compensation expense related to employee stock options, as no options are granted at a price below the market price on the day of grant.

F-27

WESTAR INDUSTRIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-- (Continued)

Protection One is the only Westar Industries company which has issued stock warrants and options. A summary of warrant and option activity for Protection One's common stock from December 31, 1997 through December 31, 2000 is as follows:

	Warrants And Options	Weighted Average Exercise Price
Outstanding and exercisable at December 31, 1997.....	2,366,435	\$ 5.805
Granted.....	1,246,500	11.033
Exercised.....	(109,595)	5.564
Surrendered.....	(117,438)	10.770
Adjustment to May 1995 warrants.....	36,837	--
Outstanding at December 31, 1998.....	3,422,739	\$ 7.494
Granted.....	1,092,908	7.905
Exercised.....	--	--
Surrendered.....	(727,529)	10.125
Outstanding at December 31, 1999.....	3,788,118	\$ 7.232
Granted.....	922,500	1.436
Exercised.....	(5,440)	3.89
Surrendered.....	(300,645)	6.698
Outstanding at December 31, 2000.....	4,404,533	\$ 6.058
Exercisable at December 31, 2000.....	2,860,624	\$ 6.893

The table below summarizes stock options and warrants for Protection One

common stock outstanding as of December 31, 2000:

	Range of Exercise Price	Number of Shares of Common Stock	Weighted Average Remaining Contractual Life in Years	Weighted Average Exercise Price

Exercisable				
Fiscal 1995.....	\$6.375 - \$6.50	100,800	4 years	\$6.491
Fiscal 1996.....	8.00 - 10.313	248,400	5 years	8.022
Fiscal 1996.....	13.750 - 15.5	99,000	5 years	14.947
Fiscal 1997.....	9.500	110,500	6 years	9.500
Fiscal 1997.....	15.000	37,500	6 years	15.000
Fiscal 1997.....	14.268	50,000	1 year	14.268
Fiscal 1998.....	11.000	671,835	7 years	11.000
Fiscal 1998.....	8.5625	23,833	7 years	8.5625
Fiscal 1999.....	8.9275	248,297	8 years	8.9275
Fiscal 1999.....	5.250 - 6.125	56,222	8 years	6.028
Fiscal 2000.....	1.438	5,000	9 years	1.438
1993 Warrants.....	0.167	428,400	3 years	0.167
1995 Note Warrants....	3.890	780,837	4 years	3.990

		2,860,624		

F-28

WESTAR INDUSTRIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-- (Continued)

	Range of Exercise Price	Number of Shares of Common Stock	Weighted Average Remaining Contractual Life in Years	Weighted Average Exercise Price

Not exercisable				
1998 options.....	\$ 11.000	112,165	7 years	\$11.000
1998 options.....	8.5625	11,917	7 years	8.5625
1999 options.....	8.9275	410,403	8 years	8.9275
1999 options.....	5.250 - 6.125	112,444	8 years	6.028
2000 options.....	1.313 - 1.438	896,980	9 years	1.436

		1,543,909		

Outstanding.....		4,404,533		
		=====		

On July 9, 1997, Protection One granted an option to purchase an aggregate of 50,000 shares of its common stock in connection with an acquisition. The option has a term of four years. The purchase price of the shares issuable pursuant to the option is greater than the fair market value of the common

stock of Protection One at the date of the option grant.

1994 Stock Option Plan

The 1994 Stock Option Plan (the "Plan"), approved by the Protection One stockholders in June 1994, provides for the award of incentive stock options to directors, officers and key employees. Under the Plan, 1,300,000 shares of Protection One's common stock are reserved for issuance, subject to such adjustment as may be necessary to reflect changes in the number or kinds of shares of common stock or other securities of Protection One. The Plan provides for the granting of options that qualify as incentive stock options under the Internal Revenue Code and options that do not so qualify.

The purchase price of the Protection One shares issuable pursuant to the options is equal to (or greater than) the fair market value of common stock at the date of option grant. The vesting period was accelerated on November 24, 1997 and all remaining options are currently exercisable.

1997 Long-Term Incentive Plan

The 1997 Long-Term Incentive Plan (the "LTIP"), approved by the Protection One stockholders on November 24, 1997, provides for the award of incentive stock options for Protection One shares of common stock to directors, officers and key employees. Under the LTIP, 4,200,000 shares are reserved for issuance, subject to such adjustment as may be necessary to reflect changes in the number or kinds of shares of common stock or other securities of Protection One. The LTIP provides for the granting of options that qualify as incentive stock options under the Internal Revenue Code and options that do not so qualify.

Each option has a term of 10 years and vests ratably over 3 years. The purchase price of the shares issuable pursuant to the options is equal to (or greater than) the fair market value of the common stock at the date of the option grant.

F-29

WESTAR INDUSTRIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)

The weighted average fair value of options granted by Protection One during 2000, 1999 and 1998, estimated on the date of grant was \$1.13, \$5.41 and \$6.87 per share, respectively. The fair value was calculated for the respective year using the following assumptions:

	Year Ended December 31,		
	2000	1999	1998
Dividend yield.....	0.00%	0.00%	0.00%
Expected stock price volatility.....	92.97%	64.06%	61.72%
Risk free interest rate.....	4.87%	6.76%	5.50%
Expected option life.....	6 years	6 years	6 years

No compensation cost has been recognized for issuance under the plans in 2000, 1999 and 1998. Had compensation cost for the plan been determined based on the fair value at the grant date consistent with SFAS No. 123, "Accounting for Stock-Based Compensation," our net income (loss) and income (loss) per share would have been as follows:

	Year Ended December 31,		
	2000	1999	1998
	(in thousands, except per share amounts)		
Net income (loss):			
As reported.....	\$54,124	\$(70,978)	\$(82,100)
Pro forma.....	53,281	(72,812)	(83,350)
Net income (loss) per common share (basic and diluted):			
As reported.....	\$ 0.74	\$ (0.97)	\$ (1.12)
Pro forma.....	\$ 0.73	\$ (0.99)	\$ (1.14)

12. INCOME TAXES

Components of income tax expense (benefit) are as follows:

	Year Ended December 31,		
	2000	1999	1998
	(in thousands)		
Federal:			
Current.....	\$22,329	\$(20,541)	\$(25,309)
Deferred.....	18,111	(27,170)	(11,911)
State:			
Current.....	3,698	(1,403)	(6,458)
Deferred.....	8,374	(4,069)	589
Foreign tax expense, current.....	843	1,432	2,652
	53,355	(51,751)	(40,437)
Less tax on extraordinary item.....	26,514	6,323	2,730
Total.....	\$26,841	\$(58,074)	\$(43,167)
	=====	=====	=====

WESTAR INDUSTRIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)

Deferred income tax assets and liabilities were composed of the following:

	December 31,	
	2000	1999
	(in thousands)	
Deferred tax asset, current:		
Accrued liabilities.....	\$ 6,266	\$ 3,009
Accounts receivable, allowance.....	6,587	8,167
Acquisition and dealer.....	22,020	15,023
Other.....	936	2,201
	\$ 35,909	\$ 28,400
	=====	=====
Deferred tax asset, noncurrent:		
Net operating loss carryforward.....	\$ 2,021	\$ 22,208
Recourse financing contracts.....	--	25,908
Customer accounts.....	57,858	13,346
Property and equipment.....	(10,392)	(10,756)
OID amortization.....	8,941	7,742
Valuation allowance.....	(2,021)	(22,208)
Other.....	(15,140)	43,297
	\$ 41,267	\$ 79,537
	=====	=====

13. EMPLOYEE BENEFIT PLANS

With the exception of Protection One and Protection One Europe, which are staffed by their own employees, we had 19 employees as of March 31, 2001. Protection One maintains employee benefit plans for its employees. These plans of Protection One, Inc. are as follows:

Protection One 401(k) Plan

Protection One maintains a tax-qualified, defined contribution plan that meets the requirements of Section 401(k) of the Internal Revenue Code (the "Protection One 401(k) Plan"). For the year ended December 31, 2000 Protection One, at its election, made contributions to the Protection One 401(k) Plan, which were allocated among participants based upon the respective contributions made by the participants through salary reductions during the applicable plan year. Protection One's matching contribution may be made in Protection One, common stock, in cash or in a combination of both stock and cash. For the years ended December 31, 2000, 1999 and 1998, Protection One made a matching cash contribution to the plan of \$0.7 million, \$0.9 million and \$1.0 million, respectively. The funds of the plan are deposited with a trustee and at each participant's option in one or more investment funds, including a company stock fund. The plan was amended effective January 1, 2001 requiring Protection One to match employees' contributions up to specified maximum limits.

Protection One Employee Stock Purchase Plan

Protection One maintains a qualified "Employee Stock Purchase Plan" within the meaning of Section 423 of the Internal Revenue Code, which allows eligible

employees to acquire shares of common stock at periodic intervals through their accumulated payroll deductions. A total of 1,650,000 shares of Protection One common stock have been reserved for issuance under the Protection One Employee Stock Purchase Plan and a total of 422,395 shares have been issued including the issuance of 145,523 in January 2001.

F-32

WESTAR INDUSTRIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)

The purchase price of shares of Protection One common stock purchased under the Employee Stock Purchase Plan during any purchase period will be the lower of 85% of the fair market value of the Protection One common stock on the first day of that purchase period and 85% of the fair market value of the Protection One common stock on the purchase date.

Termination of a participant's employment for any reason (including death, disability or retirement) cancels participation in the Employee Stock Purchase Plan immediately. The Employee Stock Purchase Plan will in all events terminate upon the earliest to occur of:

- . the last business day in September 2005,
- . the date on which all shares available for issuance under the plan have been sold, or
- . the date on which all purchase rights are exercised in connection with an acquisition of Protection One or of all or substantially all of its assets.

14. LEASES

We lease office facilities for lease terms maturing through 2012. Future minimum lease payments under non-cancelable operating leases are as follows (in thousands):

Year ended December 31,

2001.....	\$14,228
2002.....	13,909
2003.....	8,351
2004.....	6,266
2005.....	4,327
Thereafter.....	10,539

	\$57,620
	=====

Total rent expense for the years ended December 31, 2000, 1999 and 1998 was \$13.9 million, \$12.4 million and \$8.8 million, respectively.

15. FAIR MARKET VALUE OF FINANCIAL INSTRUMENTS

For certain of the our financial instruments, including cash and cash equivalents, accounts receivable, accounts payable and other accrued

liabilities, the carrying amounts approximate fair market value due to their short maturities.

The fair value of our publicly traded debt and our other long-term debt is estimated based on quoted market prices for the issues. Fair value of other long-term debt is estimated at carrying value. At December 31, 2000, the fair value and carrying amount of our long-term debt was as follows:

	Fair Value	Carrying Value
	-----	-----
	(in thousands)	
Publicly Traded Debt:		
Senior Subordinated Notes (8.125%)	\$147,051	\$255,740
Senior Unsecured Notes (7.375%)	135,069	204,650
Senior Subordinated Discount Notes (13.625%)	29,863	42,887
Convertible Senior Subordinated Notes (6.75%)	14,390	23,785
	-----	-----
Total Publicly Traded Debt	326,373	\$27,062
	-----	-----
Other Long-Term Debt	16,105	16,105
	-----	-----
	\$342,478	\$543,167
	=====	=====

F-33

WESTAR INDUSTRIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)

At December 31, 1999, the fair value of our long-term debt was estimated at \$472.8 million compared to a carrying value of \$771.0 million. The estimated fair values may not be representative of actual values of the financial instruments that could have been realized at year-end or may be realized in the future.

16.COMMITMENTS AND CONTINGENCIES

Legal Proceedings

Westar Industries, Western Resources, Protection One, Protection One Alarm Monitoring, Inc. ("Monitoring"), and certain present and former officers and directors of Protection One are defendants in a purported class action litigation pending in the United States District Court for the Central District of California, Alec Garbini, et al. v. Protection One, Inc., et al., No. CV 993755 DT (RCx). Pursuant to an Order dated August 2, 1999, four pending purported class actions were consolidated into a single action. On February 27, 2001, plaintiffs filed a Third Consolidated Amended Class Action Complaint ("Amended Complaint"). Plaintiffs purport to bring the action on behalf of a class consisting of all purchasers of publicly traded securities of Protection One, including common stock and notes, during the period of February 10, 1998 through February 2, 2001. The Amended Complaint asserts claims under Section 11 of the Securities Act of 1933 and Section 10(b) of the Securities Exchange Act of 1934 against Protection One, Monitoring, and certain present and former officers and directors of Protection One based on allegations that various statements concerning Protection One's financial results and operations for

Inc. Protection One has filed claims alleging fraud, willful misconduct and breach of contract against Crimebusters, et al. in the United States District Court for the District of Connecticut, Protection One Alarm Monitoring, Inc. v. Crimebusters, Inc., First Federal Security Systems, Inc. and Anthony Perrotti, Jr., Civil Action No. 300CV-1 932DJS, and in addition has demanded that Crimebusters withdraw the demand for arbitration, and requested of the American Arbitration Association that the arbitration action be dismissed or indefinitely stayed pending resolution of the District Court litigation. The ultimate outcome cannot presently be determined and Protection One cannot currently predict the impact of this litigation, which could be material.

Westar Industries is a party to claims and matters of litigation incidental to the normal course of its business. Additionally, Westar Industries receives notices of consumer complaints filed with various state agencies. Protection One has developed a dispute resolution process for addressing these administrative complaints. The ultimate outcome of such matters cannot presently be determined; however, in the opinion of the management of Protection One, the resolution of such matters will not have a material adverse effect upon our consolidated financial position or results of operations.

Other

The SEC commenced a private investigation in 1997 with Western Resources relating to, among other things, the timeliness and adequacy of disclosure filings with the SEC by Western Resources with respect to securities of ADT Ltd. Western Resources has cooperated with the SEC staff in this investigation. Under the allocation agreement, we have agreed to indemnify Western Resources with respect to this matter.

We may extend loans, or guarantee payment of loans being extended by a bank or other lender, in an aggregate amount not to exceed \$20 million for the purchase of shares of our common stock upon the exercise of rights by our officers and directors and certain of the officers and directors of Western Resources.

17. INTERNATIONAL POWER DEVELOPMENT COSTS

During the fourth quarter of 1998, management decided to exit the international power development business. This business had been conducted by our wholly owned subsidiary, The Wing Group, Limited Co. We recorded a \$98.9 million charge to income in the fourth quarter of 1998 as a result of exiting this business.

During 1999, we terminated the employment of all employees, closed offices, discontinued all development activities, and terminated all other matters related to the activity of The Wing Group, Limited Co. in accordance with the terms of the exit plan. These activities were substantially completed by December 31, 1999. The actual costs incurred during 1999 to complete the exit plan approximated \$16.9 million, which was \$5.6 million less than the amount estimated at December 31, 1998. This was accounted for as a change in estimate in 1999.

F-35

WESTAR INDUSTRIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)

At December 31, 1999, approximately \$0.4 million of accrued exit fees and shut-down costs were included in other current liabilities on the accompanying Consolidated Balance Sheet. This amount represented employee settlement and severance costs. There were no significant charges to the remaining accrued

exit costs during 2000.

The detailed components of the 1999 activity to exit this business are as follows (in thousands):

Accrued exit fees, shut-down and severance costs, balance at December 31, 1998.....	\$ 22,900
Actual costs incurred.....	(16,888)
Change in estimates.....	(5,632)

Remaining accrued exit costs at December 31, 1999.....	\$ 380
	=====

18.SEGMENT REPORTING

We have adopted SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information." This statement requires us to define and report our business segments based on how management currently evaluates our business.

We separate our business into four reportable segments, three of which relate to the alarm monitoring business (North America, Multifamily and Protection One Europe), and one of which relates to other holdings (Other). North America provides residential, commercial and wholesale security alarm monitoring services, which include sales, installation and related servicing of security alarm systems for residential and business customers in the United States and Canada. Multifamily provides security alarm services to apartments, condominiums and other multifamily dwellings. Protection One Europe provides security alarm monitoring services primarily to business customers in Europe. Other includes a 45% interest in ONEOK, a receivable due from Western Resources, investments in international power generation facilities and other investments, which in the aggregate are not material to our business or results of operations.

The accounting policies of the operating segments are the same as those described in the summary of significant accounting policies. We manage our business segments based on earnings before interest, income taxes, depreciation and amortization (EBITDA).

Reportable segments:

For the year ended December 31, 2000					
	North America	Multi- family	Protection One Europe	Other	Total
	(in thousands)				
Revenue.....	\$ 364,494	\$ 39,366	\$133,999	\$ 1,484	\$ 539,343
EBITDA.....	121,078	17,613	21,223	181,609	341,523
Amortization of intangibles and depreciation expense...	201,976	15,596	30,842	2,116	250,530
Income (loss) from operations.....	(85,277)	2,016	(9,619)	(20,549)	(113,429)
Segment assets.....	1,712,838	217,565	309,896	1,028,143	3,268,442
Expenditures for property, net.....	17,589	655	4,323	--	22,567
Expenditures for customer accounts, net.....	26,928	6,273	10,858	--	44,059
Expenditures for acquisitions, net.....	11,748	--	--	--	11,748

F-36

WESTAR INDUSTRIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)

For the year ended December 31, 1999

	North America	Multi- family	Protection One Europe	Other	Total
(in thousands)					
Revenue.....	\$ 197,198	\$ 38,901	\$163,006	\$ 1,284	\$ 600,389
EBITDA.....	148,861	16,236	42,633	(28,008)	179,722
Amortization of intangibles and depreciation expense...	194,927	9,507	29,472	1,447	235,353
Income (loss) from operations.....	(51,875)	6,729	13,161	(9,242)	(41,227)
Segment assets.....	1,945,534	225,550	341,474	907,128	3,419,686
Expenditures for property, net.....	27,008	826	4,810	--	32,644
Expenditures for customer accounts, net.....	226,522	9,715	6,430	--	242,667
Expenditures for acquisitions, net.....	--	--	27,407	--	27,407

For the year ended December 31, 1998

	North America	Multi- family	Protection One Europe	Other	Total
(in thousands)					
Revenue.....	\$ 343,954	\$ 33,417	\$ 43,724	\$ 1,342	\$ 422,437
EBITDA.....	139,237	13,978	13,993	(102,816)	64,392
Amortization of intangibles and depreciation expense...	114,998	7,721	3,945	1,672	128,336
Income (loss) from operations.....	10,839	6,257	10,048	(36,612)	(109,468)
Segment assets.....	1,938,849	222,657	301,064	1,021,276	3,483,866
Expenditures for property, net.....	29,092	950	2,659	--	32,711
Expenditures for customer accounts, net.....	171,399	4,365	1,903	--	277,667

For the three months ended March 31, 2001

	North America	Multi- family	Protection One Europe	Other	Total
(in thousands)					
Revenue.....	\$ 82,997	\$ 8,832	\$ 22,541	\$ 352	\$ 114,722
EBITDA.....	24,198	4,329	520	18,112	47,159
Amortization of intangibles and depreciation expense...	46,473	4,000	7,168	119	57,760
Income (loss) from operations.....	(22,694)	329	(6,648)	368	(28,645)

For the three months ended March 31, 2000

	North America	Multi- family	Protection One Europe	Other	Total
(in thousands)					
Revenue.....	\$ 96,678	\$ 10,141	\$ 40,051	\$ 517	\$ 147,387
EBITDA.....	34,923	4,122	8,106	112,607	159,758
Amortization of intangibles and depreciation expense...	52,254	3,834	8,006	528	64,622
Income (loss) from operations.....	(20,381)	288	100	(2,773)	(22,766)

WESTAR INDUSTRIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)

We currently have international operations. International data for these locations for 2000 and 1999, respectively, are as follows:

	2000		1999	
	Europe	Canada	Europe	Canada
	(in thousands)			
Total revenues.....	\$133,999	\$ 8,275	\$163,006	\$ 9,073
Total assets.....	309,896	24,997	341,474	26,854

19. SUBSEQUENT EVENTS

In April 2001, we increased the number of authorized shares of common stock from 1,000 shares to 500,000,000 shares of common stock, par value \$.01 per share and effected a stock split increasing the number of our outstanding shares to 73,197,115. We also authorized 50,000,000 shares of preferred stock, no par value, of which 5,000,000 shares are designated as Series A Junior Participating Preferred Stock and 45,000,000 shares are undesignated. All references to retained earnings, common stock, common shares outstanding, average number of shares outstanding and per share amounts in these consolidated financial statements and notes to consolidated financial statements prior to the record date of the stock split have been restated to reflect this stock split.

Prior to the effective date of the rights offering, we adopted a shareholder rights plan in which each shareholder will be granted one preferred stock purchase right for each outstanding share of common stock. Each right entitles shareholders to purchase Series A Preferred Stock at a prescribed ratio and price. The rights are exercisable if an entity other than Western Resources acquires or attempts to acquire over 20% of the outstanding common shares.

On May 8, 2001, the KCC opened an investigation of the separation of Western Resources' electric utility businesses from us and other aspects of Western Resources' unregulated businesses. The order opening the investigation indicated the investigation would focus on whether the separation and other transactions involving us are consistent with Western Resources' obligation to provide efficient and sufficient electric service at just and reasonable rates to its electric utility customers. The KCC staff was directed to investigate, among other matters, the basis for and the effect of the allocation agreement and the receivable owed by Western Resources to us, our spin-off from Western Resources, the effect of business difficulties faced by our operations and whether we should continue to be affiliated with the electric utility business, and Western Resources' present and prospective capital structures. The order directed the KCC staff to complete the investigation and submit a report to the KCC no later than October 8, 2001, unless extended by the KCC. We are unable to predict the outcome of this investigation or its impact on our strategic plans, financial position or results of operations.

By letter written to the SEC on May 11, 2001, the KCC informed the SEC of its investigation and the "possibility of subsequent regulatory actions" indicating that "it is the {KCC's} position that any or all of the rights offering, Split-off or Merger are subject to its regulatory jurisdiction and may be modified or prohibited by the order of the Commission". The KCC stated

that the purpose of the investigation is "to determine, among other things, whether or not the consummation of the rights offering, the Merger and the Split-off would leave the Western Resources portion of the resulting utility company which would be merged into PNM with negative equity (that is, more debt on its balance sheet than it has in assets). This would immediately impair the resulting utility's ability to raise capital for necessary construction projects (e.g., build power plants) and might even cause short-term financial hardship for the utility."

On April 17, 2001, Protection One announced plans to consolidate its Beaverton, Oregon customer service center into its Wichita, Kansas customer center by June 30, 2001 in an effort to further integrate operations and improve efficiencies. Protection One believes costs incurred for severance and other closure costs in the second quarter from this consolidation process will be approximately \$2.0 million.

F-38

ONEOK, INC.

INDEX TO FINANCIAL STATEMENTS

Exhibit

Independent Auditors' Report together with the audited consolidated balance sheets as of December 31, 2000, December 31, 1999 and August 31, 1999 and the related consolidated statements of income, shareholders' equity, and cash flows for the year ended December 31, 2000, the years ended August 31, 1999 and 1998 and the four months ended December 31, 1999..... A

The unaudited consolidated balance sheets as of March 31, 2001 and March 31, 2000 and the related consolidated statements of income and cash flows for the three months ended March 31, 2001 and 2000..... B

All financial information concerning ONEOK was excerpted from the reports it files with the SEC pursuant to the Securities Exchange Act. We have not independently verified the information concerning ONEOK contained in this prospectus and we do not make any representation or warranty concerning the accuracy thereof.

EXHIBIT A

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors and Shareholders
ONEOK, Inc.:

We have audited the accompanying consolidated balance sheets of ONEOK, Inc. and subsidiaries as of December 31, 2000, December 31, 1999 and August 31, 1999, and the related consolidated statements of income, shareholders' equity, and cash flows for the year ended December 31, 2000, the years ended August 31, 1999 and 1998, and the four months ended December 31, 1999. These consolidated

financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of ONEOK, Inc. and subsidiaries as of December 31, 2000, December 31, 1999, and August 31, 1999, and the results of their operations and their cash flows for the year ended December 31, 2000, the years ended August 31, 1999 and 1998, and the four months ended December 31, 1999, in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note A to the Consolidated Financial Statements, the Company adopted the provisions of Emerging Issues Task Force 98-10, Accounting for Contracts Involved in Energy Trading and Risk Management Activities, in 2000.

KPMG LLP

Tulsa, Oklahoma
February 7, 2001

ONEOK, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME

	Year Ended December 31, 2000	Four Months Ended December 31, 1999	Year Ended August 31, 1999	Year Ended August 31, 1998
(Thousands of Dollars, except per share amounts)				
OPERATING REVENUES (NOTE A)....	\$6,642,858	\$806,478	\$1,838,949	\$1,820,758
Cost of gas.....	5,845,726	587,681	1,213,478	1,275,119
Net Revenues.....	797,132	218,797	625,471	545,639
OPERATING EXPENSES				
Operations and maintenance.....	266,545	77,247	240,330	221,958
Depreciation, depletion, and amortization.....	143,351	43,227	129,704	101,653
General taxes.....	53,303	14,755	39,715	33,217
Total Operating Expenses.....	463,199	135,229	409,749	356,828
Operating Income.....	333,933	83,568	215,722	188,811
Other income, net.....	18,475	2,396	10,500	14,644
Interest expense.....	118,630	27,883	52,809	35,075
Income taxes.....	90,286	22,737	67,056	66,585
Income before cumulative effect of a change in accounting principle.....	143,492	35,344	106,357	101,795
Cumulative effect of a change in accounting principle, net of tax (Note A).....	2,115	--	--	--
NET INCOME.....	145,607	35,344	106,357	101,795
Preferred stock dividends.....	37,100	12,367	37,247	26,979
Income Available for Common Stock.....	\$ 108,507	\$ 22,977	\$ 69,110	\$ 74,816
Earnings Per Share of Common Stock (Note P)				
Basic.....	\$ 3.71	\$ 0.76	\$ 2.19	\$ 2.44
Diluted.....	\$ 2.96	\$ 0.70	\$ 2.06	\$ 2.23
Average Shares of Common Stock (Thousands)				
Basic.....	29,224	30,425	31,498	30,674
Diluted.....	49,194	50,384	51,571	45,729

See accompanying Notes to Consolidated Financial Statements.

A-2

ONEOK, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

December 31, December 31, August 31,
2000 1999 1999

(Thousands of Dollars)

ASSETS			
CURRENT ASSETS			
Cash and cash equivalents.....	\$ 249	\$ 72	\$ 4,402
Trade accounts and notes receivable.....	1,627,714	371,313	228,336
Materials and supplies.....	18,119	10,360	10,792
Gas in storage.....	57,800	124,511	108,159
Deferred income taxes.....	10,425	8,383	9,702
Purchased gas cost adjustment.....	1,578	8,105	4,552
Assets from price risk management activ- ities (Note A).....	1,416,368	--	--
Customer deposits.....	120,900	40,928	56,062
Other current assets.....	71,906	31,714	17,262
Total Current Assets.....	3,324,959	595,386	439,267
PROPERTY, PLANT AND EQUIPMENT			
Marketing and Trading.....	78,686	19,240	5,786
Gathering and processing.....	1,000,708	385,260	358,439
Transportation and Storage.....	773,797	526,537	483,983
Distribution.....	1,960,181	1,766,057	1,771,400
Production.....	428,701	405,298	399,613
Other.....	64,056	41,301	38,405
Total Property, Plant and Equipment...	4,206,129	3,143,693	3,057,626
Accumulated depreciation, depletion, and amortization.....	1,110,616	1,021,915	982,797
Net Property.....	3,095,513	2,121,778	2,068,829
DEFERRED CHARGES AND OTHER ASSETS			
Regulatory assets, net (Note D).....	238,605	247,486	246,658
Goodwill.....	93,409	80,743	81,560
Assets from price risk management activ- ities (Note A).....	405,666	--	--
Investments and other.....	210,984	195,847	188,631
Total Deferred Charges and Other As- sets.....	948,664	524,076	516,849
Total Assets.....	\$7,369,136	\$3,241,240	\$3,024,945
	=====	=====	=====

See accompanying Notes to Consolidated Financial Statements.

A-3

ONEOK, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

	December 31, 2000	December 31, 1999	August 31, 1999
	(Thousands of Dollars)		
LIABILITIES AND SHAREHOLDERS' EQUITY			
CURRENT LIABILITIES			
Current maturities of long-term debt...	\$ 10,767	\$ 21,767	\$ 22,817
Notes payable.....	824,106	462,242	263,747
Accounts payable.....	1,256,310	237,653	183,759
Accrued taxes.....	8,735	359	11,196
Accrued interest.....	24,161	16,628	7,042
Customers' deposits.....	18,319	18,212	17,139
Liabilities from price risk management activities (Note A).....	1,296,041	--	--
Other.....	96,913	29,852	37,892
Total Current Liabilities.....	3,535,352	786,713	543,582
LONG-TERM DEBT, EXCLUDING CURRENT MATURITIES.....			
	1,336,082	775,074	810,087
DEFERRED CREDITS AND OTHER LIABILITIES			
Deferred income taxes.....	382,363	349,883	323,624
Liabilities from price risk management activities (Note A).....	543,278	--	--
Lease obligation.....	137,131	--	--
Other deferred credits.....	209,973	178,046	173,193
Total Deferred Credits and Other Liabilities.....	1,272,745	527,929	496,817
Total Liabilities.....	6,144,179	2,089,716	1,950,486
COMMITMENTS AND CONTINGENCIES (NOTE J)			
SHAREHOLDERS' EQUITY			
Convertible Preferred Stock, \$0.01 par value:			
Series A authorized 20,000,000 shares; issued and outstanding 19,946,448 shares at December 31, 2000, December 31, 1999, and August 31, 1999.....	199	199	199
Common stock, \$0.01 par value: authorized 100,000,000 shares; issued 31,599,305 shares and outstanding 29,588,275 shares at December 31, 2000; issued 31,599,305 shares and outstanding 29,554,623 shares at December 31, 1999; issued 31,599,305 shares and outstanding 30,844,225 shares at August 31, 1999.....	316	316	316
Paid in capital (Note F).....	895,668	894,976	894,978
Unearned compensation.....	(1,128)	(1,846)	--
Retained earnings.....	387,789	317,985	301,536
Treasury stock at cost: 2,011,030 shares at December 31, 2000; 2,044,682 shares at December 31, 1999 and 715,080 shares at August 31, 1999.....	(57,887)	(60,106)	(22,570)
Total Shareholders' Equity.....	1,224,957	1,151,524	1,174,459
Total Liabilities and Shareholders' Equity.....	\$7,369,136	\$3,241,240	\$3,024,945

A-4

ONEOK, INC. AND SUBSIDIARIES
CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS

	Year Ended December 31, 2000	Four Months Ended December 31, 1999	Year Ended August 31, 1999	Year Ended August 31, 1998
	(Thousands of Dollars)			
OPERATING ACTIVITIES				
Net income.....	\$ 145,607	\$ 35,344	\$ 106,357	\$101,795
Depreciation, depletion, and amortization.....	143,351	43,227	129,704	101,653
Gain on sale of assets.....	(27,050)	--	(6,639)	(14,644)
Net income from equity investments.....	(4,025)	(1,063)	(1,560)	--
Deferred income taxes.....	26,143	28,317	14,925	(7,623)
Price risk management activities.....	(64,574)	--	--	--
Amortization of restricted stock.....	632	108	--	--
Other.....	692	--	293	(2,401)
Changes in assets and liabilities				
(Increase) decrease in accounts and notes receivable.....	(1,256,401)	(142,977)	(50,687)	53,400
(Increase) decrease in inventories.....	(41,669)	(15,920)	19,429	1,232
(Increase) decrease in other assets.....	(106,193)	(5,457)	(88,930)	13,472
Increase in regulatory assets.....	(6,303)	(3,841)	(6,261)	--
(Increase) decrease in purchased gas cost adjustment.....	6,527	(3,553)	(16,720)	54,257
Increase in accounts payable and accrued liabilities.....	1,009,517	61,928	41,320	51,957
Increase (decrease) in deferred credits and other liabilities.....	78,559	(1,812)	(7,034)	(6,396)
Cash Provided by (Used in) Operating Activities.....	(95,187)	(5,699)	134,197	346,702
INVESTING ACTIVITIES				
Changes in other investments, net.....	68	994	(59,422)	(3,778)
Acquisitions.....	(494,904)	(17,482)	(344,494)	(185,049)
Capital expenditures.....	(311,403)	(76,016)	(164,170)	(140,887)
Proceeds from sale of property.....	60,659	--	16,500	30,000
Cash Used in Investing Activities.....	(745,580)	(92,504)	(551,586)	(299,714)
FINANCING ACTIVITIES				
Borrowing of notes payable, net.....	361,864	198,495	51,747	5,302
Issuance of debt.....	590,000	--	695,888	--
Payment of debt.....	(39,992)	(36,952)	(224,868)	(17,859)
Issuance of common stock.....	--	--	1,087	6,081
Acquisition of treasury stock, net.....	(453)	(39,610)	(22,570)	--
Dividends paid.....	(70,475)	(28,060)	(76,281)	(54,803)
Acquisition and cancellation of preferred stock.....	--	--	(3,298)	--
Cash Provided by (Used in) Financing Activities.....	840,944	93,873	421,705	(61,279)
Change in Cash and Cash Equivalents.....	177	(4,330)	4,316	(14,291)
Cash and Cash Equivalents at Beginning of Period.....	72	4,402	86	14,377
Cash and Cash Equivalents at End of Period.....	\$ 249	\$ 72	\$ 4,402	\$ 86

See accompanying Notes to Consolidated Financial Statements.

A-5

ONEOK, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

	Preferred Stock	Common Stock	Paid-in Capital	Unearned Compensation	Retained Earnings	Treasury Stock	Total
	(Thousands of Dollars)						
AUGUST 31, 1997.....	\$--	\$281	\$229,522	\$--	\$232,823	\$--	\$ 462,626
Net income.....	--	--	--	--	101,795	--	101,795
Issuance of common stock							
Acquisitions.....	--	33	93,648	--	--	--	93,681
Stock Purchase Plans.....	--	2	6,255	--	--	--	6,257
Convertible preferred stock dividends-- \$1.80 and \$1.50 per share for Series A and Series B, respectively.....	--	--	--	--	(26,979)	--	(26,979)
Issuance of Series A and Series B Convertible Preferred Stock.....	200	--	568,122	--	--	--	568,322
Common stock dividends --\$1.20 per share.....	--	--	--	--	(36,831)	--	(36,831)
AUGUST 31, 1998.....	200	316	897,547	--	270,808	--	1,168,871
Net income.....	--	--	--	--	106,357	--	106,357
Issuance of common stock							
Stock Purchase Plans...	--	--	1,380	--	--	--	1,380
Convertible preferred stock dividends-- \$1.86 and \$1.55 per share for Series A and Series B, respectively.....	--	--	--	--	(37,247)	--	(37,247)
Acquisition and Cancellation of Series B Convertible Preferred Stock.....	(1)	--	(3,949)	--	652	--	(3,298)
Acquisition of Treasury Stock.....	--	--	--	--	--	(22,570)	(22,570)
Common stock dividends --\$1.24 per share.....	--	--	--	--	(39,034)	--	(39,034)
AUGUST 31, 1999.....	199	316	894,978	--	301,536	(22,570)	1,174,459
Net income.....	--	--	--	--	35,344	--	35,344
Issuance of treasury stock.....	--	--	(2)	--	(131)	141	8
Convertible preferred stock dividends-- \$.465 per share for							

Series A.....	--	--	--	--	(9,275)	--	(9,275)
Acquisition of treasury stock.....	--	--	--	--	--	(39,610)	(39,610)
Issuance of restricted stock.....	--	--	--	(1,933)	--	1,933	--
Amortization of restricted stock.....	--	--	--	108	--	--	108
Common stock dividends --\$0.31 per share.....	--	--	--	(21)	(9,489)	--	(9,510)
DECEMBER 31, 1999.....	199	316	894,976	(1,846)	317,985	(60,106)	1,151,524
Net income.....	--	--	--	--	145,607	--	145,607
Issuance of treasury stock.....	--	--	--	--	(2,572)	14,196	11,624
Issuance of common stock							
Stock purchase plans...	--	--	692	--	--	--	692
Convertible preferred stock dividends-- \$1.86 per share for Series A.....	--	--	--	--	(37,100)	--	(37,100)
Acquisition of treasury stock.....	--	--	--	--	--	(11,812)	(11,812)
Issuance of restricted stock.....	--	--	--	(137)	--	137	--
Amortization of restricted stock.....	--	--	--	632	--	--	632
Forfeitures of restricted stock.....	--	--	--	302	--	(302)	--
Common stock dividends --\$1.24 per share.....	--	--	--	(79)	(36,131)	--	(36,210)
DECEMBER 31, 2000.....	\$199	\$316	\$895,668	\$(1,128)	\$387,789	\$(57,887)	\$1,224,957

See accompanying Notes to Consolidated Financial Statements.

A-6

ONEOK, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(A) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations--ONEOK, Inc. and subsidiaries (collectively, the "Company" or "ONEOK") is a diversified energy company engaged in the production, processing, gathering, storage, transportation, distribution, and marketing of natural gas, electricity and natural gas liquids. The Company manages its business in six segments: Marketing and Trading, Gathering and Processing, Transportation and Storage, Distribution, Production, and Other.

The Marketing and Trading segment purchases and markets natural gas, primarily in the Mid Continent region of the United States, and began trading electricity on a limited basis in 1999. The Company owns and operates gas processing plants as well as gathering pipelines in Oklahoma, Kansas and Texas through its Gathering and Processing segment. The Transportation and Storage segment owns and leases natural gas storage facilities and transports gas in Oklahoma, Kansas and Texas. The Company's Distribution segment provides natural gas distribution services in Oklahoma and Kansas through its divisions Oklahoma Natural Gas Company (ONG) and Kansas Gas Service (KGS) Company. The Production segment produces natural gas and oil and owns natural gas and oil reserves. The Company's Other segment, whose results of operations are not material, operates

and leases the Company's headquarters building and parking facility.

Consolidation--The consolidated financial statements include the accounts of ONEOK, Inc. and its wholly-owned subsidiaries. All significant intercompany accounts and transactions have been eliminated in consolidation. Investments in twenty percent to 50 percent-owned affiliates are accounted for on the equity method. Investments in less than twenty percent owned affiliates are accounted for on the cost method.

Cash and Cash Equivalents--Cash equivalents consist of highly liquid investments, which are readily convertible into cash and have original maturities of three months or less.

Inventories--Materials and supplies are valued at average cost. Noncurrent gas in storage is classified as property and is valued at cost. The Marketing and Trading segment's gas in storage is carried at fair value. Cost of current gas in storage for ONG is determined under the last-in, first-out, (lifo) methodology. The estimated replacement cost of current gas in storage valued under the lifo method was \$12.3 million, \$7.3 million and \$23.1 million at December 31, 2000 and 1999, and August 31, 1999 respectively, compared to its value under the lifo method of \$4.6 million, \$5.7 million and \$18.1 million at December 31, 2000 and 1999, and August 31, 1999, respectively. Current gas in storage for all other companies is determined using the weighted average cost of gas method.

Energy Trading and Risk Management Activities--The Company engages in price risk management activities for both trading and non-trading purposes. On January 1, 2000, the Company adopted Emerging Issues Task Force Issue No. 98-10, "Accounting for Energy Trading and Risk Management Activities" (EITF 98-10) for its energy trading contracts. EITF 98-10 requires entities involved in energy trading activities to account for energy trading contracts using mark-to-market accounting. Prior to the adoption of EITF 98-10, the Company accounted for its trading activities on the accrual method based on settlement of physical positions. The adoption of EITF 98-10 was accounted for as a change in accounting principle and the cumulative effect at January 1, 2000 of \$2.1 million, net of tax, was recognized. Forwards, swaps, options, and energy transportation and storage contracts utilized for trading activities are reflected at fair value as assets and liabilities from price risk management activities in the consolidated balance sheets. The fair value of these assets and liabilities are affected by the actual timing of settlements related to these contracts and current period changes resulting primarily from newly originated transactions and the impact of price movements. Changes in fair value are recognized in net revenues in the consolidated statement of income. Market prices used to fair value these assets and liabilities reflect management's best estimate considering various factors including closing exchange and over-the-counter quotations, time value and volatility underlying the commitments.

A-7

ONEOK, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)

Market prices are adjusted for the potential impact of liquidating the Company's position in an orderly manner over a reasonable period of time under present market conditions.

See Note C of Notes to Consolidated Financial Statements.

Commodity Price Risk Management--To minimize the risk from market fluctuations in the price of natural gas and crude oil, the Company's non-trading segments enter into futures transactions, swaps, and options in order

to hedge natural gas and crude oil production anticipated sales, fuel requirements and inventories in its natural gas liquids business to hedge the impact of market fluctuations. In order to qualify as a hedge, the price movements in the underlying commodity derivatives must be sufficiently correlated with the hedged transaction. Changes in the market value of these financial instruments utilized as hedges are included in the measurement of the subsequent transaction. Energy contracts held by the Company's non-trading segments are not considered energy trading contracts under EITF 98-10.

See Note C of Notes to Consolidated Financial Statements.

Regulated Property--Regulated properties are stated at cost, which includes an allowance for funds used during construction. The allowance for funds used during construction represents the capitalization of the estimated average cost of borrowed funds (6.9 percent, 6.8 percent, 7.8 percent, and 8.6 percent, in fiscal year 2000, the four months ended December 31, 1999, and the years ended August 31, 1999 and 1998, respectively) used during the construction of major projects and is recorded as a credit to interest expense.

Depreciation is calculated using the straight-line method based upon rates prescribed for ratemaking purposes. The average depreciation rate for property that is regulated by the OCC approximated 3.0 percent in fiscal year 2000, 4.1 percent in the four months ended December 31, 1999, and 3.8 and 3.7 percent in the years ended December 31, 1999 and 1998, respectively. The average depreciation rates for properties regulated by the KCC were approximately 3.3 percent in fiscal year 2000, 3.4 percent in the four months ended December 31, 1999, and 3.2 percent and 3.3 percent in the years ended August 31, 1999 and 1998, respectively. The average depreciation rates for MCMC properties were 3.3 percent in fiscal year 2000, 3.1 percent in the four months ended December 31, 1999, and 3.1 percent and 3.4 percent in the years ended August 31, 1999 and 1998, respectively.

Maintenance and repairs are charged directly to expense. Generally, the cost of property retired or sold, plus removal costs, less salvage, is charged to accumulated depreciation. Gains and losses from sales or transfers of operating units or systems are recognized in income.

	Remaining Service Life (Years)	

Distribution property.....	22-25	40
Transmission property.....	18-33	47
Other property.....	6-24	40

Production Property--The Company uses the successful-efforts method to account for costs incurred in the acquisition and exploration of natural gas and oil reserves. Costs to acquire mineral interests in proved reserves and to drill and equip development wells are capitalized. Geological and geophysical costs and costs to drill exploratory wells which do not find proved reserves are expensed. Unproved oil and gas properties, which are individually significant, are periodically assessed for impairment. The remaining unproved oil and gas properties are aggregated and amortized based upon remaining lease terms and exploratory and developmental drilling experience. Depreciation and depletion are calculated using the unit-of-production method based upon periodic estimates of proved oil and gas reserves.

ONEOK, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)

Other Property--Gas processing plants and all other properties are stated at cost. Gas processing plants are depreciated using various rates based on estimated lives of available gas reserves. All other property and equipment is depreciated using the straight-line method over its estimated useful life.

Impairments--The Company accounts for the impairment of long-lived assets to be recognized when indicators of impairment are present and the undiscounted cash flows are not sufficient to recover the assets carrying amount. The impairment loss is measured by comparing the fair value of the asset to its carrying amount. Fair values are based on discounted future cash flows or information provided by sales and purchases of similar assets. The Company evaluates impairment of production assets on the lowest possible level (a field by field basis).

Regulation--The intrastate transmission pipelines are subject to the rate regulation and accounting requirements of the OCC and KCC. The Company's distribution operations are subject to the rate regulation and accounting requirements of the OCC and the KCC. Certain other transportation activities of the Company are subject to regulation by the FERC. ONG and KGS follow the accounting and reporting guidance contained in Statement of Financial Accounting Standards No. 71, "Accounting for the Effects of Certain Types of Regulation". Allocation of costs and revenues to accounting periods for ratemaking and regulatory purposes may differ from bases generally applied by nonregulated operations. Such allocations to meet regulatory accounting requirements are considered to be generally accepted accounting principles for regulated utilities provided that there is a demonstrable ability to recover any deferred costs in future rates.

During the rate-making process, regulatory commissions may require a utility to defer recognition of certain costs to be recovered through rates over time as opposed to expensing such costs as incurred. This allows the utility to stabilize rates over time rather than passing such costs on to the customer for immediate recovery. This causes certain expenses to be deferred as a regulatory asset and amortized to expense as it is recovered through rates. Total regulatory assets resulting from this deferral process are approximately \$238.6 million, \$247.5 million, and \$246.7 million at December 31, 2000 and 1999, and August 31, 1999, respectively. As the Company continues to unbundle its services, certain of these assets may no longer meet the criteria for following SFAS No. 71, and accordingly, a write-off of regulatory assets and stranded costs may be required. However, the Company does not anticipate that these costs, if any, will be significant. See Note D of Notes to Consolidated Financial Statements.

KGS has a two-year rate moratorium. This rate moratorium expires in November 2002. ONG is not subject to a rate moratorium.

Goodwill--Goodwill, which represents the excess of purchase price over fair value of net assets acquired, is amortized over a period of 30 to 40 years. The Company assesses the recoverability of this intangible asset by determining whether the amortization of the goodwill balance over its remaining life can be recovered through undiscounted future operating cash flows of the acquired operation. The amount of goodwill impairment, if any, is measured based on projected discounted future operating cash flows using a discount rate reflecting the Company's average cost of funds. The assessment of the recoverability of goodwill will be impacted if estimated future operating cash flows are not achieved.

Environmental Expenditures--The Company accrues for losses associated with environmental remediation obligations when such losses are probable and

reasonably estimable. Accruals for estimated losses from environmental remediation obligations generally are recognized no later than completion of the remedial feasibility study. Such accruals are adjusted as further information develops or circumstances change. Recoveries of environmental remediation costs from other parties are recorded as assets when their receipt is deemed probable.

A-9

ONEOK, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)

Revenue Recognition--The Company's Marketing and Trading, Gathering and Processing, Transportation and Storage and Distribution segments recognize revenue when services are rendered or product is delivered. Major industrial and commercial gas distribution customers are invoiced as of the end of each month. Certain gas distribution customers, primarily residential and some commercial, are invoiced on a cycle basis throughout the month, and the Company accrues unbilled revenues at the end of each month. ONG's and KGS's tariff rates for residential and commercial customers contain a temperature normalization clause that provides for billing adjustments from actual volumes to normalized volumes during the winter heating season.

Revenues from the Production segment are recognized on the sales method.

Income Taxes--Deferred income taxes are recognized for the tax consequences of "temporary differences" by applying enacted statutory tax rates applicable to future years to differences between the financial statement carrying amounts and the tax bases of existing assets and liabilities. The effect on deferred taxes of a change in tax rates is deferred and amortized for operations regulated by the OCC and for all other operations, is recognized in income in the period that includes the enactment date. The Company continues to amortize previously deferred investment tax credits over the period prescribed by the OCC and KCC for ratemaking purposes.

Common Stock Options and Awards--The Company follows SFAS No. 123, "Accounting for Stock-Based Compensation" (SFAS 123) which permits, but does not require, a fair value based method of accounting for stock-based employee compensation. Alternatively, SFAS 123 allows companies to continue applying the provisions of Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" ("APB 25"), however, such companies are required to disclose pro forma net income and earnings per share as if the fair value based method had been applied. The Company has elected to continue to apply the provisions of APB 25 for purposes of computing compensation expense and has provided the pro forma disclosure provisions of SFAS 123 in Note O of Notes to Consolidated Financial Statements.

Earnings Per Common Share--Basic earnings per share are calculated based on the weighted average number of shares of common stock outstanding during the period. Diluted earnings per share are calculated based on the weighted average number of shares of common stock outstanding plus potentially dilutive securities.

Reclassification--Certain amounts in prior period consolidated financial statements have been reclassified to conform to the 2000 presentation.

Use of Estimates--Management has made a number of estimates and assumptions relating to reporting of assets and liabilities and the disclosure of contingent assets and liabilities to prepare these financial statements in conformity with generally accepted accounting principles. Actual results could differ from these estimates.

(B) ACQUISITIONS AND DISPOSITIONS

Kinder Morgan, Inc.

On April 5, 2000, the Company acquired certain natural gas gathering and processing assets located in Oklahoma, Kansas and West Texas from KMI. The Company also acquired KMI's marketing and trading operations, as well as some storage and transmission pipelines in the mid-continent region. The Company paid approximately \$109 million for these assets plus working capital of approximately \$53 million, which was subject to adjustment. The working capital adjustment was made in the first quarter 2001, resulting in the Company receiving approximately \$4.0 million. The Company also assumed certain liabilities including those related to an operating lease for a processing plant for which the Company established a liability for an

A-10

ONEOK, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)

uneconomic lease obligation and some firm capacity lease obligations to third parties for which the Company established a reserve for out-of-market terms of those obligations. The acquisition was accounted for as a purchase. The results of operations of this acquisition are included in the consolidated statement of income subsequent to the purchase date.

The table of unaudited pro forma information set forth below, presents a summary of consolidated results of operations of the Company as if the acquisition of the businesses acquired from KMI had occurred at the beginning of the periods presented. The results do not necessarily reflect the results that would have been obtained if the acquisition had actually occurred on the dates indicated or the results that may be expected in the future.

	Pro Forma Years Ended	
	December 31, 2000	August 31, 1999
Operating revenues.....	\$7,596,667	\$5,623,102
Net income.....	\$ 153,087	\$ 107,271
Income available for common shareholders.....	\$ 115,987	\$ 70,024
Earnings Per Share of Common Stock--Diluted.....	\$ 3.11	\$ 2.08

In March 2000, the Company completed the sale of its 42.4 percent interest in Indian Basin Gas Processing Plant and gathering system for \$55 million.

In March 2000, the Company completed the acquisition of assets located in Oklahoma, Kansas, and the Texas panhandle from Dynegy, Inc. for \$305 million in cash, which included a \$3 million adjustment for working capital. The assets include gathering systems, gas processing facilities, and transmission pipelines.

On January 20, 2000, the Board of Directors of the Company voted unanimously to terminate the merger agreement with Southwest Gas Corporation (Southwest) in accordance with the terms of the merger agreement. The Company charged \$13.7 million of previously deferred transaction and ongoing litigation costs to Other income, net for the year ended December 31, 2000. See Note J of Notes to

Consolidated Financial Statements.

(C) PRICE RISK MANAGEMENT ACTIVITIES AND FINANCIAL INSTRUMENTS

Market risks are monitored by a risk control group which operates independently from the operating segments that create or actively manage these risk exposures. The risk control group ensures compliance with the Company's risk management policies.

Trading Activities

The Company's operating results are impacted by commodity price fluctuations. The Company routinely enters into derivative financial instruments in order to minimize the risk of commodity price fluctuations related to its purchase and sale commitments, fuel requirements, transportation and storage contracts and inventories in its natural gas marketing and trading business.

The Marketing and Trading segment includes the Company's wholesale and retail natural gas marketing and trading operations. Marketing and Trading generally attempts to balance its fixed-price physical and financial purchase and sales commitments in terms of contract volumes and the timing of performance and delivery obligations. To the extent a net open position exists, fluctuating commodity market prices can impact the Company's financial position and results of operations, either favorably or unfavorably. The net open

A-11

ONEOK, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)

positions are actively managed and the impact of the changing prices on the Company's financial condition at a point in time is not necessarily indicative of the impact of price movements throughout the year.

Fair Value--The fair value and the average fair value of derivative financial instruments, purchase and sale commitments, fuel requirements, transportation and storage contracts and inventories related to trading price risk management activities held during 2000 are set forth as follows:

Fair Value		Average Fair Value(a)	
December 31, 2000		December 31, 2000	
Assets	Liabilities	Assets	Liabilities
(Thousands of Dollars)			
Natural gas commodities.....	\$1,822,034	\$1,839,319	\$1,254,446
			\$1,394,605

(a) Computed using the ending balance at the end of each quarter.

The Company did not hold any other commodity type contracts for trading price risk management purposes at December 31, 2000.

Notional Value--The notional contractual quantities associated with trading price risk management activities are set forth as follows:

	Volumes Purchased	Volumes Sold
	-----	-----
	(Volumes in MMcf)	
December 31, 2000		
Natural Gas Options.....	75,320	65,666
Natural Gas Swaps.....	683,591	733,783
Natural Gas Futures.....	114,310	112,740

Notional amounts reflect the volume and indicated activity of transactions but do not represent the amounts exchanged by the parties or cash requirements associated with these financial instruments. Accordingly, notional amounts do not accurately measure the Company's exposure to market or credit risk.

Credit Risk--In conjunction with the market valuation of its energy commodity contracts, the Company provides reserves for risks associated with its contract commitments, including credit risk. Credit risk relates to the risk of loss that the Company would incur as a result of nonperformance by counterparties pursuant to the terms of their contractual obligations. The Company maintains credit policies with regard to its counterparties that management believes significantly minimize overall credit risk. These policies include an evaluation of potential counterparties' financial condition (including credit ratings), collateral requirements under certain circumstances and the use of standardized agreements which allow for netting of positive and negative exposures associated with a single counterparty.

Counterparties in its trading portfolio consist primarily of financial institutions, major energy companies, and local distribution companies. This concentration of counterparties may impact the Company's overall exposure to credit risk, either positively or negatively in that the counterparties may be similarly affected by changes in economic, regulatory or other conditions. Based on the Company's policies, its exposures and its credit and other reserves, the Company does not anticipate a material adverse effect on financial position or results of operations as a result of counterparty nonperformance. The Company's credit exposure to California utilities at December 31, 2000, is less than \$5 million.

A-12

ONEOK, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-- (Continued)

Non-Trading Activities

Financial instruments are also utilized for non-trading purposes to hedge natural gas and crude oil production anticipated sales, fuel requirements and inventories in its natural gas liquids business to hedge the impact of market fluctuations. Interest rate swaps are used to manage interest rate risk. Gains and losses from hedging transactions are recognized in income and are reflected as cash flows from operating activities in the periods for which the underlying commodity or interest rate transactions were hedged. If the necessary correlation to the commodity or interest rate transaction being hedged is not maintained, the Company ceases to account for the contract as a hedge and recognizes a gain or loss in current earnings to the extent the contract results have not been offset by the effects of the price or interest rate changes on the hedged item. If the underlying being hedged by the commodity or

interest rate is disposed of or otherwise terminated, the gain or loss associated with such contract(s) is no longer deferred and is recognized in the period the underlying is eliminated.

Operating margins associated with the Gathering and Processing segment's natural gas gathering, processing and fractionation activities are sensitive to changes in natural gas liquids prices, principally as a result of contractual terms under which natural gas is processed and products are sold and the availability of inlet volumes. Also, certain processing plant assets are impacted by changes in, and the relationship between, natural gas and natural gas liquids prices, which, in turn influences the volumes of gas processed.

Fair Value--The following table represents the estimated fair values of derivative instruments related to the Company's non-trading price risk management activities. These instruments have no carrying value.

	Approximate Fair Value ----- (Thousands of Dollars)
December 31, 2000	
Natural gas commodities.....	\$(41,623)
August 31, 1999	
Natural gas commodities.....	\$(11,540)

Notional Value--At December 31, 2000, the Company was a party to natural gas commodity derivative instruments including swaps and options covering 32.9 Bcf of natural gas for the year 2001.

The Company utilized derivative contracts to mitigate its risk associated with weather for the month of November 2000 to reduce the impact of degree day deviations from normal weather. The Company did not have any weather hedges in place at December 31, 2000.

Credit Risk--The Company maintains credit policies with regard to its counterparties that management believes significantly minimize overall credit risk. These policies include an evaluation of potential counterparties' financial condition (including credit ratings), collateral requirements under certain circumstances and the use of standardized agreements which allow for netting of positive and negative exposures associated with a single counterparty.

The counterparties to the non-trading instruments include affiliates and large integrated energy companies. Accordingly, the Company does not anticipate a material adverse effect on financial position or results of operations as a result of counterparty nonperformance.

A-13

ONEOK, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)

Financial Instruments

The following table represents the carrying amounts and estimated fair

values of the Company's financial instruments, excluding trading activities, which are marked to market, and non-trading commodity instruments, which are listed in the table above.

	Book Value	Approximate Fair Value
	-----	-----
	(Thousands of Dollars)	
December 31, 2000		
Cash and cash equivalents.....	\$ 249	\$ 249
Accounts and notes receivable.....	\$1,627,714	\$1,627,714
Notes payable.....	\$ 824,106	\$ 824,106
Long-term debt.....	\$1,350,689	\$1,302,104

	Book Value	Approximate Fair Value
	-----	-----
	(Thousands of Dollars)	
December 31, 1999		
Cash and cash equivalents.....	\$ 72	\$ 72
Accounts and notes receivable.....	\$ 371,313	\$ 371,313
Notes payable.....	\$ 462,242	\$ 462,242
Long-term debt.....	\$ 800,731	\$ 753,298

	Book Value	Approximate Fair Value
	-----	-----
	(Thousands of Dollars)	
August 31, 1999		
Cash and cash equivalents.....	\$ 4,402	\$ 4,402
Accounts and notes receivable.....	\$228,336	\$228,336
Notes payable.....	\$263,747	\$263,747
Long-term debt.....	\$836,975	\$790,961

The fair value of cash and cash equivalents, accounts and notes receivable and notes payable approximate book value due to their short term nature. The estimated fair value of long-term debt has been determined using quoted market prices of the same or similar issues, discounted cash flows, and/or rates currently available to the Company for debt with similar terms and remaining maturities.

(D) REGULATORY ASSETS

The table presents a summary of regulatory assets, net of amortization, at December 31, 2000 and 1999 and August 31, 1999.

	December 31, 2000	December 31, 1999	August 31, 1999

	(Thousands of Dollars)		
Recoupable take-or-pay.....	\$ 79,324	\$ 84,343	\$ 85,996
Pension costs.....	15,306	19,487	20,881
Postretirement costs other than pension...	61,069	62,207	61,830
Transition costs.....	22,199	22,746	22,903
Reacquired debt costs.....	23,209	24,068	22,413
Income taxes.....	30,727	23,337	24,114
Other.....	6,771	11,298	8,521

Regulatory assets, net.....	\$238,605	\$247,486	\$246,658
	=====	=====	=====

A-14

ONEOK, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)

The remaining recovery period for these assets that the Company is not earning a return on is set forth in the table below.

	Remaining Recovery Period (Months)

Postretirement costs other than pension--Oklahoma.....	153
Income taxes--Oklahoma.....	126-142
Transition costs.....	443

The OCC directed ONG to assume responsibility for, and ownership of, customer service lines and has authorized the Company to defer as regulatory assets the depreciation and operation and maintenance expenses incurred in connection with this plan. The recovery methodology, amount, and calculation of these deferrals will be addressed in ONG's next rate case filing. Through December 2000, the Company has deferred approximately \$200,000 associated with this Commission directive. These deferred costs are included in the caption "Other" in the table of regulatory assets, above.

The OCC has authorized ONG to defer the incremental costs associated with a five-year cathodic protection program to be implemented to comply with the OCC's Pipeline Safety Department inspection reports. The recovery methodology and amount of these deferred expenses will be addressed in ONG's next rate case filing. Through December 2000, the Company has deferred approximately \$700,000 associated with this program. These deferred costs are included in the caption "Other" in the table of regulatory assets, above.

The OCC has authorized recovery of the take-or-pay settlement, pension and postretirement benefit costs over a 10 to 20 year period. KGS has been deferring and recording postretirement benefits in excess of pay-as-you-go as a regulatory asset as authorized by the KCC. See Note I of Notes to Consolidated

Financial Statements.

The KCC has allowed certain transition costs to be amortized and recovered in rates over a 40-year period with no rate of return on the unrecovered balance. Management believes that all transition costs recorded as a regulatory asset will be recovered through rates based on the accounting orders received and regulatory precedents established by the KCC.

The Company amortizes reacquired debt costs, which includes unamortized debt costs, in accordance with the accounting rules prescribed by the OCC and KCC. These costs have been included in recent rate filings with the OCC and will be included in future rate filings with the KCC as a component of interest.

In accordance with various rate orders received from the KCC and the OCC, KGS has not yet collected through rates the amounts necessary to pay a significant portion of the net deferred income tax liabilities. As management believes it is probable that the net future increases in income taxes payable will be recovered from customers, it has recorded a regulatory asset for these amounts.

Amortization expense related to regulatory assets was approximately \$10.6 million for the year ended December 31, 2000, \$3.1 million for the four months ended December 31, 1999, and \$13.7 million and \$11.4 million for the years ended August 31, 1999 and 1998, respectively.

(E) CAPITAL STOCK

The Company has approximately 42 million shares of unrestricted common stock available for issue. The Company issued Series A Convertible Preferred Stock, par value \$0.01 per share, at the time of the transaction with Western Resources, Inc. The holders of Series A Convertible Preferred Stock are entitled to receive a dividend payment, with respect to each dividend period of the common stock, equal to 1.5 times the dividend

A-15

ONEOK, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-- (Continued)

amount declared in respect of each share of common stock for the first five years of the agreement. After five years, the rate will be 1.25 times the dividend amount declared in respect of each share of common stock, and at no time, will the dividend be less than \$1.80 per share.

The terms of Series B Convertible Preferred Stock were the same as Series A Convertible Preferred Stock, except that the dividend amount was equal to the greater of 1.25 times the common stock dividend or \$1.50 per share. In 1999, the Company acquired and canceled all of the Series B Convertible Preferred Stock it had issued in 1998 and 1999.

Series C Preferred Stock is designed to protect ONEOK, Inc. shareholders from coercive or unfair takeover tactics. Holders of Series C Preferred Stock are entitled to receive, in preference to the holders of ONEOK common stock, quarterly dividends in an amount per share equal to the greater of \$1 or subject to adjustment, 100 times the aggregate per share amount of all cash dividends, and 100 times the aggregate per share amount of all non-cash dividends. No Series C Preferred Stock has been issued.

The Series A Convertible Preferred Stock is convertible, subject to certain restrictions, at the option of the holder, into ONEOK, Inc., Common Stock at the rate of one share for each share of Series A Convertible Preferred Stock.

During 1999, the Company initiated a stock buyback plan for up to 15 percent of its capital stock. The program authorizes the Company to make purchases of its common stock on the open market with the timing and terms of purchases and the number of shares purchased to be determined by management based on market conditions and other factors. Through December 31, 2000, the shares purchased totaled 2.6 million. The purchased shares are held in treasury and available for general corporate purposes, funding of stock-based compensation plans, resale at a future date, or retirement. Purchases are financed with short-term debt or are made from available funds.

The Board of Directors has reserved three million shares of ONEOK, Inc.'s common stock for the Direct Stock Purchase and Dividend Reinvestment Plan, of which 95,000 shares were issued in fiscal year 2000, 28,000 shares were issued in the four months ended December 31, 1999, and 127,000 and 142,000 shares were issued in the years ended August 31, 1999 and 1998, respectively. In January 2001, the Company amended and restated, in entirety, the existing Direct Stock Purchase and Dividend Reinvestment Plan. The Company reserved three million shares of ONEOK Inc.'s common stock for this amended and restated plan and may utilize any shares remaining under the original Direct Stock Purchase and Dividend Reinvestment Plan, resulting in a total of 5.7 million shares available for this plan. The Company has reserved approximately 6.6 million shares for the Thrift Plan for Employees of ONEOK, Inc. and Subsidiaries.

Under the most restrictive covenants of the Company's loan agreements, \$186.0 million (48 percent) of retained earnings were available to pay dividends at December 31, 2000.

(F) PAID IN CAPITAL

Paid in capital was \$331.5 million and \$330.8 million for common stock at December 31, 2000 and 1999, respectively. Paid in capital at August 31, 1999, was \$330.8 million for common stock. Paid in capital for convertible preferred stock was \$564.2 million at December 31, 2000 and 1999, and August 31, 1999.

(G) LINES OF CREDIT AND SHORT-TERM NOTES PAYABLE

Commercial paper and short-term notes payable totaling \$824.1 million, \$462.2 million and \$263.7 million were outstanding at December 31, 2000 and 1999, and at August 31, 1999, respectively. The commercial paper and notes carried average interest rates of 6.53 percent, 6.47 percent, and 5.42 percent at December 31, 2000

A-16

ONEOK, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)

and 1999, and August 31, 1999, respectively. The Company has an \$800 million and \$100 million short-term unsecured revolving credit facilities, which provide a back-up line of credit for commercial paper in addition to providing short-term funds. Interest rates and facility fees are based on prevailing market rates and the Company's credit ratings. No compensating balance requirements existed at December 31, 2000. Maximum short-term debt from all sources as approved by the Company's Board of Directors is \$1.2 billion.

(H) LONG-TERM DEBT

The aggregate maturities of long-term debt outstanding at December 31, 2000, are \$10.8 million; \$250 million; \$10 million; \$50 million; and \$360 million for 2001 through 2005, respectively, including \$6 million, which is callable at the option of the holder in each of those years. All long-term notes payable at December 31, 2000, are unsecured.

The Company issued \$240 million of two-year floating rate notes in April 2000. The interest rate for these notes resets quarterly at a 0.65 percent spread over the three month London InterBank Offered Rate (LIBOR). The proceeds from the notes were used to fund acquisitions. In March 2000, the Company issued \$350 million of five year, 7.75 percent, fixed rate notes to refinance short-term debt and finance acquisitions.

	December 31, 2000	December 31, 1999	August 31, 1999
	(Thousands of Dollars)		
Long-term Notes Payable			
6.43% due 2000.....	\$ --	\$ 5,000	\$ 5,000
7.25% due 2001.....	767	1,535	1,534
6.403% due 2002.....	240,000	--	--
8.44% due 2004.....	40,000	40,000	40,000
7.75% due 2005.....	350,000	--	--
7.75% due 2006.....	300,000	300,000	300,000
8.32% due 2007.....	28,000	32,000	32,000
6.00% due 2009.....	100,000	100,000	100,000
6.40% due 2019.....	96,502	99,308	99,794
9.70% due 2019.....	--	8,826	8,826
9.75% due 2020.....	--	15,305	15,305
9.70% due 2021.....	--	--	34,871
6.50% due 2028.....	95,420	93,757	99,645
6.875% due 2028.....	100,000	100,000	100,000
	-----	-----	-----
Total Long-term Notes Payable.....	1,350,689	800,731	836,975
Unamortized debt discount.....	3,840	3,890	4,071
Current maturities.....	10,767	21,767	22,817
	-----	-----	-----
Long-term debt.....	\$1,336,082	\$775,074	\$810,087
	-----	-----	-----

(I) EMPLOYEE BENEFIT PLANS

Retirement Plans--The Company has defined benefit retirement plans covering substantially all employees. Company officers and certain key employees are also eligible to participate in supplemental retirement plans. The Company generally funds pension costs at a level equal to the minimum amount required under the Employee Retirement Income Security Act of 1974.

A-17

ONEOK, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)

Other Postretirement Benefit Plans--The Company sponsors welfare care plans that provide postretirement medical benefits and life and accidental death and dismemberment benefits to substantially all employees who retire under the Retirement Plans at age 55 or older with at least five years of service. The plans are contributory, with retiree contributions adjusted periodically, and contain other cost-sharing features such as deductibles and coinsurance.

The Company elected to delay recognition of the accumulated postretirement benefit obligation (APBO) and amortize it over 20 years as a component of net

periodic postretirement benefit cost.

The following tables set forth the Company's pension and other postretirement benefit plans benefit obligations, fair value of plan assets, and funded status at December 31, 2000 and 1999, and August 31, 1999.

	Pension Benefits			Postretirement Benefits		
	December 31, 2000	1999	August 31, 1999	December 31, 2000	1999	August 31, 1999
	(Thousands of Dollars)					
CHANGE IN BENEFIT OBLIGATION						
Benefit obligation, beginning of period....	\$495,061	\$504,865	\$500,327	\$ 146,589	\$ 160,371	\$ 153,326
Service cost.....	9,365	2,829	9,282	3,566	1,297	4,036
Interest cost.....	34,806	11,431	32,832	10,312	3,636	10,055
Participant contributions.....	--	--	--	1,173	334	2,260
Plan amendments.....	--	--	7,600	(7,816)	(10,893)	1,956
Actuarial gain.....	(25,965)	(13,973)	(15,501)	(5,228)	(4,786)	(4,081)
Benefits paid.....	(31,388)	(10,091)	(29,675)	(12,439)	(3,370)	(7,181)
Benefit obligation, end of period.....	\$481,879	\$495,061	\$504,865	\$ 136,157	\$ 146,589	\$ 160,371
	=====	=====	=====	=====	=====	=====
CHANGE IN PLAN ASSETS						
Fair value of assets, beginning of period....	\$640,330	\$660,386	\$595,308	\$ 17,837	\$ 17,500	\$ 14,075
Actual return on assets.....	137,791	(10,198)	93,854	1,941	(674)	(111)
Employer contributions..	902	233	899	4,332	1,011	3,536
Benefits paid.....	(31,388)	(10,091)	(29,675)	--	--	--
Fair value of assets, end of period.....	\$747,635	\$640,330	\$660,386	\$ 24,110	\$ 17,837	\$ 17,500
	=====	=====	=====	=====	=====	=====
Funded status--over (under).....	\$265,756	\$145,269	\$155,521	\$ (112,048)	\$ (128,752)	\$ (142,871)
Unrecognized net asset..	(1,715)	(2,182)	(2,338)	--	--	--
Unrecognized transition obligation.....	--	--	--	24,758	34,332	43,048
Unrecognized prior service cost.....	6,934	7,756	8,030	--	877	4,195
Unrecognized net (gain) loss.....	(188,392)	(79,969)	(93,683)	9,689	16,356	18,379
Activity subsequent to measurement date.....	--	--	--	(793)	(998)	(1,306)
(Accrued) prepaid pension cost.....	\$ 82,583	\$ 70,874	\$ 67,530	\$ (78,394)	\$ (78,185)	\$ (78,555)
	=====	=====	=====	=====	=====	=====
ACTUARIAL ASSUMPTIONS						
Discount rate.....	7.75%	7.25%	7.00%	7.75%	7.25%	7.00%
Expected rate of return.....	9.25%	9.25%	9.00%	9.25%	9.25%	8.00%
Compensation increase rate.....	4.50%	4.50%	4.50%	4.50%	4.50%	4.50%

Pension Benefits				
	Year Ended December 31, 2000	Four Months Ended December 31, 1999	Year Ended August 31, 1999	Year Ended August 31, 1998
COMPONENTS OF NET PERIODIC BENEFIT COST				
Service cost.....	\$ 9,365	\$ 2,829	\$ 9,282	\$ 7,221
Interest cost.....	34,806	11,431	32,832	30,875
Expected return on assets.....	(55,566)	(17,581)	(46,846)	(38,686)
Amortization of unrecognized net asset at adoption.....	(467)	(156)	(467)	(467)
Amortization of unrecognized prior service cost.....	522	274	177	177
Amortization of loss.....	233	92	786	146
Net periodic benefit cost.....	\$(10,807)	\$ (3,111)	\$ (4,236)	\$ (734)
	=====	=====	=====	=====

A-18

ONEOK, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)

Postretirement Benefits				
	Year Ended December 31, 2000	Four Months Ended December 31, 1999	Year Ended August 31, 1999	Year Ended August 31, 1998
COMPONENTS OF NET PERIODIC BENEFIT COST				
Service cost.....	\$ 3,566	\$1,297	\$ 4,036	\$ 2,570
Interest cost.....	10,312	3,636	10,055	8,224
Expected return on assets.....	(1,792)	(616)	(1,325)	(739)
Amortization of unrecognized net transition obligation at adoption.....	2,512	1,025	3,235	3,235
Amortization of unrecognized prior service cost.....	--	66	--	(212)
Amortization of loss.....	430	154	688	--
Net periodic benefit cost.....	\$15,028	\$5,562	\$16,689	\$13,078
	=====	=====	=====	=====

For measurement purposes, a 6.65 percent annual rate of increase in the per capita cost of covered medical benefits (i.e., medical cost trend rate) was assumed for 2000, the rate was assumed to decrease gradually to 5 percent by

the year 2003 and remain at that level thereafter. The medical cost trend rate assumption has a significant effect on the amounts reported. For example, increasing the assumed medical cost trend by one percentage point in each year would increase the accumulated postretirement benefit obligation as of December 31, 2000, by \$10.1 million and the aggregate of the service and interest cost components of net periodic postretirement benefit cost for the year ended December 31, 2000, by \$1.5 million. Decreasing the assumed medical cost trend by one percentage point in each year would decrease the accumulated postretirement benefit obligation as of December 31, 2000, by \$8.5 million and the aggregate of the service and interest cost components of net periodic postretirement benefit cost for the year ended December 31, 2000, by \$1.2 million.

Employee Thrift Plan--The Company has a Thrift Plan covering substantially all employees. Employee contributions are discretionary. Subject to certain limits, employee contributions are matched by the Company. The cost of the plan was \$6.7 million in fiscal year 2000; \$2.3 million for the four months ended December 31, 1999; and \$6.3 million and \$4.7 million for the years ended August 31, 1999 and 1998, respectively.

Postemployment Benefits--The Company pays postemployment benefits to former or inactive employees after employment but before normal retirement.

Regulatory Treatment--The OCC has approved the recovery of ONG pension costs and other postretirement benefit costs through rates. The costs recovered through rates are based on current funding requirements and the net periodic postretirement benefit cost for pension and postretirement costs, respectively. Differences, if any, between the expense and the amount ordered through rates are charged to earnings.

Prior to the acquisition of the assets regulated by the KCC in fiscal 1998, Western had established a corporate-owned life insurance ("COLI") program which it believed in the long term would offset the expenses of its postretirement and postemployment benefit plans. Accordingly, the KCC issued an order permitting the deferral of postretirement and postemployment benefit expenses in excess of amounts recognized on a pay-as-you-go basis. The Company did not acquire the COLI program. In connection with the KCC's approval of the acquisition, the KCC granted the Company the benefit of all previous accounting orders issued to Western and requested that the Company submit a plan of recovery either through a general rate increase or through specific cost savings or revenue increases. Based on regulatory precedents established by the KCC and the accounting order, which permits the Company to seek recovery through rates, management believes that it is probable that accrued postretirement and postemployment benefits can be recovered in rates. The Company plans to file for recovery of these costs when the rate moratorium expires and anticipates that recovery will be allowed over a period not to exceed approximately 10 years. If these costs cannot be recovered in rates charged

A-19

ONEOK, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)

to customers, the Company would be required to record a one-time charge to expense the regulatory asset established for postretirement and postemployment benefit costs totaling approximately \$52.5 million at December 31, 2000.

(J) COMMITMENTS AND CONTINGENCIES

Leases--The initial term of the Company's headquarters building, ONEOK Plaza, is for 25 years, expiring in 2009, with six five-year renewal options.

At the end of the initial term or any renewal period, the Company can purchase the property at its fair market value. Annual rent expense for the lease will be approximately \$6.8 million until 2009. Rent payments were \$9.3 million for fiscal year 2000, \$2.9 million for the four months ended December 31, 1999, and \$5.8 million for the years ended August 31, 1999 and 1998. Estimated future minimum rental payments for the lease are \$9.3 million for each of the years ending December 31, 2001 through 2009.

The Company has the right to sublet excess office space in ONEOK Plaza. The Company received rental revenue of \$3.5 million in fiscal year 2000, \$1.0 million for the four months ended December 31, 1999, and \$2.8 million for the years ended August 31, 1999 and 1998, for various subleases. Estimated minimum future rental payments to be received under existing contracts for subleases are \$3.4 million in 2001, \$3.1 million in 2002, \$2.6 million in 2003, \$1.9 million in 2004, \$1.2 million in 2005, and a total of \$1.9 million thereafter.

Other operating leases include a gas processing plant, office buildings, and equipment. Future minimum lease payments under noncancelable operating leases (with initial or remaining lease terms in excess of one year) as of December 31, 2000 are \$26.5 million in 2001, \$22.1 million in 2002, \$16.8 million in 2003, \$21.3 million in 2004 and \$24.6 million in 2005. The above amounts include the following minimum lease payments relating to the lease of a gas processing plant: \$25.5 million in 2001, \$21.3 million in 2002, \$16.2 million in 2003, \$20.9 million in 2004, and \$24.2 million in 2005. The Company has a liability for uneconomic lease terms relating to the gas processing plant. Accordingly, the liability is amortized to rent expense in the amount of \$13.0 million per year over the term of the lease.

Southwest Gas Corporation--In connection with the now terminated proposed acquisition of Southwest, the Company is party to various lawsuits. The Company and certain of its officers as well as Southwest and certain of its officers and others have been named as defendants in a lawsuit brought by Southern Union Company (Southern Union). The Southern Union allegations include, but are not limited to, Racketeer, Influenced and Corrupt Organizations Act violations and improper interference in a contractual relationship between Southwest and Southern Union. The complaint asks for \$750 million damages to be trebled for racketeering and unlawful violations, compensatory damages of not less than \$750 million and rescission of the Confidentiality and Standstill Agreement.

The Company, as third party beneficiary, has filed a lawsuit against Southern Union for, among other things, breach of a confidentiality agreement with Southern Union and Southwest and tortious interference with the Southwest Gas merger agreement. The Company filed suit against Southwest seeking a declaratory judgment determining that it had properly terminated the merger agreement. In response to this suit, Southwest brought a suit against the Company and Southern Union alleging, among other things, fraud and breach of contract. Southwest is seeking damages in excess of \$75,000.

Two substantially identical derivative actions were filed by shareholders against the members of the Board of Directors of the Company for alleged violation of their fiduciary duties to the Company by causing or allowing the Company to engage in certain fraudulent and improper schemes relating to the planned merger with Southwest and waste of corporate assets. These two cases were consolidated into one case. Such conduct allegedly caused the Company to be sued by both Southwest and Southern Union which exposed the Company

A-20

ONEOK, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)

to million of dollars of potential liabilities. The plaintiffs seek an award of

compensatory and punitive damages and costs, disbursements and reasonable attorney fees. The Company and its Independent Directors and officers, named as defendants, filed Motions to Dismiss the actions for failures of the plaintiffs to make a pre-suit demand on ONEOK's Board of Directors. Additionally, the Independent Directors and certain officers named as defendants, filed Motions to Dismiss the actions for failure to state a claim.

If any of the plaintiffs should be successful in any of their claims against the Company and substantial damages are awarded, it could have a material adverse effect on the Company's operations, cash flow, and financial position. The Company is defending itself vigorously against all claims asserted by Southern and Southwest and all other matters relating to the now terminated merger with Southwest.

Environmental--The Company has responsibility for 12 manufactured gas sites located in Kansas, which may contain coal tar and other potentially harmful materials that are classified as hazardous material. Hazardous materials are subject to control or remediation under various environmental laws and regulations. A consent agreement with the KDHE presently governs all future work at these sites. The terms of the consent agreement allow the Company to investigate these sites and set remediation priorities based upon the results of the investigations and risk analysis. The prioritized sites will be investigated over a ten year period. At December 31, 2000, the costs of the investigations and risk analysis have been immaterial. Limited information is available about the sites and no testing has been performed. Management's best estimate of the cost of remediation ranges from \$100 thousand to \$10 million per site based on a limited comparison of costs incurred to remediate comparable sites. These estimates do not give effect to potential insurance recoveries, recoveries through rates or from third parties. The KCC has permitted others to recover their remediation costs through rates. It should be noted that additional information and testing could result in costs significantly below or in excess of the amounts estimated above. To the extent that such remediation costs are not recovered, the costs could be material to the Company's results of operations and cash flows depending on the degree of remediation required and number of years over which the remediation must be completed.

Other--The Company is a party to other litigation matters and claims, which are normal in the course of its operations, and while the results of litigation and claims cannot be predicted with certainty, management believes the final outcome of such matters will not have a materially adverse effect on consolidated results of operations, financial position, or liquidity.

(K) INCOME TAXES

The provisions for income taxes are as follows:

	Year Ended December 31, 2000	Four Months Ended December 31, 1999	Year Ended August 31, 1999	Year Ended August 31, 1998
(Thousands of Dollars)				
Current income taxes				
Federal.....	\$55,764	\$(6,345)	\$48,760	\$62,462
State.....	8,379	765	3,371	11,746
Total current income taxes.....	64,143	(5,580)	52,131	74,208
Deferred income taxes				
Federal.....	23,947	25,938	13,671	(6,325)
State.....	2,196	2,379	1,254	(1,298)
Total deferred income taxes.....	26,143	28,317	14,925	(7,623)
Total provision for income taxes.....	\$90,286	\$22,737	\$67,056	\$66,585
	=====	=====	=====	=====

A-21

ONEOK, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-- (Continued)

Following is a reconciliation of the provision for income taxes.

	Year Ended December 31, 2000	Four Months Ended December 31, 1999	Year Ended August 31, 1999	Year Ended August 31, 1998
(Thousands of Dollars)				
Pretax income.....	\$233,778	\$58,081	\$173,413	\$168,380
Federal statutory income tax rate.....	35%	35%	35%	35%
Provision for federal income taxes.....	81,822	20,328	60,695	58,933
Amortization of distribution property investment tax credit.....	(807)	(302)	(1,103)	(938)
State income taxes, net of federal tax benefit.....	6,874	2,044	5,737	6,253
Other, net.....	2,397	667	1,727	2,337
Actual income tax expense.....	\$ 90,286	\$22,737	\$ 67,056	\$ 66,585
	=====	=====	=====	=====

The tax effects of temporary differences that gave rise to significant portions of the deferred tax assets and liabilities are shown in the accompanying table.

	December 31, 2000	December 31, 1999	August 31, 1999
(Thousands of Dollars)			
Deferred tax assets			
Accrued liabilities not deductible until paid.....	\$ 10,425	\$ 8,383	\$ 16,856
Net operating loss carryforward.....	1,665	1,317	1,315
Regulatory assets.....	4,734	3,750	8,723
Other.....	4,277	1,982	3,444
Total deferred tax assets.....	21,101	15,442	30,343
Valuation allowance for net operating loss carryforward expected to expire prior to utilization.....	1,230	882	880
Net deferred tax assets.....	19,871	14,560	29,463
Deferred tax liabilities			
Excess of tax over book depreciation and depletion.....	298,492	262,515	265,493
Investment in joint ventures.....	11,280	11,414	7,458
Regulatory assets.....	78,186	75,407	66,932
Other.....	3,851	6,724	3,502
Total deferred tax liabilities.....	391,809	356,060	343,385
Net deferred tax liabilities.....	\$371,938	\$341,500	\$313,922
	=====	=====	=====

The Company has remaining net operating loss carry-forwards for income tax purposes of approximately \$22.9 million at December 31, 2000, which expire, unless previously utilized, at various dates through the year 2010. At December 31, 2000, the Company had \$7.4 million in deferred investment tax credits recorded in other deferred credits, which will be amortized over the next 15 years.

A-22

ONEOK, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)

(L) SEGMENT INFORMATION

Management has divided its operations into the following reportable segments based on similarities in economic characteristics, products and services, types of customers, methods of distribution and regulatory environment.

The Company conducts its operations through six segments: (1) the Marketing and Trading segment markets natural gas to wholesale and retail customers and markets electricity to wholesale customers; (2) the Gathering and Processing segment gathers and processes natural gas and fractionates, stores and markets

natural gas liquids; (3) the Transportation and Storage segment transports and stores natural gas for others; (4) the Distribution segment distributes natural gas to residential, commercial and industrial customers and leases pipeline capacity to others; (5) the Production segment produces natural gas and oil; and (6) the Other segment primarily operates and leases the Company's headquarters building and a related parking facility.

The accounting policies of the segments are substantially the same as those described in the summary of significant accounting policies. Intersegment sales are recorded on the same basis as sales to unaffiliated customers. All corporate overhead costs relating to a reportable segment have been allocated for the purpose of calculating operating income. The Company's equity method investments do not represent operating segments of the Company. The Company has no single external customer from which it receives ten percent or more of its revenues.

A-23

ONEOK, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-- (Continued)

Year Ended December 31, 2000	Marketing and Trading	Gathering and Processing	Transportation and Storage	Distribution	Production	Other and Eliminations	Total
	Thousands of Dollars						
Sales to unaffiliated customers.....	\$4,362,024	\$ 939,389	\$111,644	\$1,270,369	\$ 50,686	\$ 9,747	\$6,642,858
Intersegment sales.....	299,657	197,325	56,814	3,569	19,669	577,033	\$ --
Total Revenues.....	\$4,661,681	\$1,036,713	\$168,459	\$1,273,937	\$ 70,355	\$ 568,266	\$6,642,858
Net revenues.....	\$ 56,482	\$ 224,012	\$125,582	\$ 377,277	\$ 70,355	\$ 66,576	\$ 797,132
Operating costs.....	\$ 14,321	\$ 90,501	\$ 44,785	\$ 211,629	\$ 24,228	\$ 65,616	\$ 319,346
Depreciation, depletion and amortization..	\$ 887	\$ 23,692	\$ 18,639	\$ 67,717	\$ 30,384	\$ 2,532	\$ 143,381
Operating income.....	\$ 51,274	\$ 110,819	\$ 62,158	\$ 97,931	\$ 15,243	\$ 3,492	\$ 333,933
Cumulative effect of a change in accounting principle, net of tax...	\$ 2,115	\$ --	\$ --	\$ --	\$ --	\$ --	\$ 2,115
Income from equity investments.....	\$ --	\$ --	\$ 3,240	\$ --	\$ 785	\$ --	\$ 4,025
Total assets.....	\$3,112,653	\$1,507,346	\$661,894	\$2,007,351	\$364,248	\$ 284,556	\$7,369,136
Capital expenditures.....	\$ 59,512	\$ 32,383	\$ 37,701	\$ 124,983	\$ 34,935	\$ 22,789	\$ 311,403

Four Months Ended December 31, 1999	Marketing and Trading	Gathering and Processing	Transportation and Storage	Distribution	Production	Other and Eliminations	Total
	Thousands of Dollars:						
Sales to unaffiliated customers.....	\$ 365,224	\$ 63,869	\$ 13,283	\$ 337,890	\$ 18,692	\$ 7,520	\$ 806,478
Intersegment sales.....	17,825	15,032	25,868	1,334	4,779	(64,838)	\$ --
Total Revenues.....	\$ 383,049	\$ 78,901	\$ 39,151	\$ 339,224	\$ 23,471	\$ (57,318)	\$ 806,478
Net revenues.....	\$ 11,493	\$ 19,413	\$ 34,491	\$ 129,870	\$ 23,471	\$ 59	\$ 218,797
Operating costs.....	\$ 3,344	\$ 8,588	\$ 10,184	\$ 69,455	\$ 7,245	\$ (6,814)	\$ 92,002
Depreciation, depletion and amortization.....	\$ 242	\$ 2,513	\$ 5,124	\$ 24,815	\$ 9,715	\$ 818	\$ 43,227
Operating income.....	\$ 7,907	\$ 8,312	\$ 19,183	\$ 35,600	\$ 6,511	\$ 6,055	\$ 83,568
Income (loss) from equity investments.....	\$ --	\$ --	\$ 1,074	\$ --	\$ (11)	\$ --	\$ 1,063
Total assets.....	\$ 306,705	\$ 368,904	\$437,561	\$1,776,273	\$352,912	\$ (1,115)	\$3,241,240
Capital expenditures.....	\$ 13,454	\$ 14,613	\$ 5,837	\$ 34,167	\$ 6,411	\$ 1,534	\$ 76,016

Year Ended August 31, 1999	Marketing and Trading	Gathering and Processing	Transportation and Storage	Distribution	Production	Other and Eliminations	Total
	Thousands of Dollars:						

Sales to unaffiliated customers.....	\$ 772,331	\$ 72,277	\$ 27,892	\$ 915,792	\$ 44,026	\$ 6,641	\$1,838,949
Intersegment sales.....	53,067	11,513	79,993	8,168	22,562	175,609	\$ --
Total Revenues.....	\$ 825,398	\$ 83,790	\$107,885	\$ 923,950	\$ 66,588	\$ 168,969	\$1,938,949
Net revenues.....	\$ 15,443	\$ 31,311	\$102,913	\$ 393,461	\$ 66,894	\$ 4,548	\$ 608,471
Operating costs.....	\$ 3,069	\$ 11,207	\$ 28,919	\$ 219,948	\$ 19,128	\$ 3,223	\$ 280,245
Depreciation, depletion and amortization.....	\$ 503	\$ 3,562	\$ 13,852	\$ 75,443	\$ 34,073	\$ 2,271	\$ 129,704
Operating income.....	\$ 25,871	\$ 16,542	\$ 60,139	\$ 98,073	\$ 13,693	\$ 1,404	\$ 218,722
Income from equity investments.....	\$ --	\$ --	\$ 1,501	\$ --	\$ 59	\$ --	\$ 1,560
Total assets.....	\$ 273,491	\$ 343,133	\$373,742	\$1,722,381	\$361,806	\$ 49,608	\$3,024,945
Capital expenditures.....	\$ 4,196	\$ 3,557	\$ 32,619	\$ 98,685	\$ 16,046	\$ 4,068	\$ 164,170

Year Ended August 31, 1999	Marketing and Trading	Gathering and Processing	Transportation and Storage	Distribution	Production	Other and Eliminations	Total
	Thousands of Dollars						
Sales to unaffiliated customers.....	\$ 746,744	\$ 61,248	\$ 17,399	\$ 956,044	\$ 31,570	\$ 5,783	\$1,820,758
Intersegment sales.....	11,870	15,309	73,392	7,784	12,312	140,577	\$ --
Total Revenues.....	\$ 778,614	\$ 76,557	\$ 90,791	\$ 963,828	\$ 43,882	\$ 134,824	\$1,820,758
Net revenues.....	\$ 19,927	\$ 15,395	\$ 88,753	\$ 167,453	\$ 43,882	\$ 229	\$ 545,639
Operating costs.....	\$ 7,024	\$ 7,725	\$ 39,104	\$ 197,590	\$ 14,312	\$ 580	\$ 255,175
Depreciation, depletion and amortization.....	\$ 561	\$ 2,249	\$ 12,813	\$ 66,214	\$ 13,972	\$ 939	\$ 101,653
Operating income.....	\$ 12,342	\$ 15,421	\$ 46,931	\$ 103,649	\$ 10,698	\$ 100	\$ 188,911
Total assets.....	\$ 120,100	\$ 86,955	\$181,692	\$1,771,999	\$280,765	\$ 201,104	\$2,422,487
Capital expenditures.....	\$ --	\$ 2,335	\$ 35,171	\$ 77,128	\$ 16,650	\$ 6,533	\$ 140,887

A-24

ONEOK, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)

(M) QUARTERLY FINANCIAL DATA (UNAUDITED)

Total operating revenues are consistently greater during the heating season from November through March due to the large volume of natural gas sold to customers for heating. A summary of the unaudited quarterly results of operations for the years ended December 31, 2000 and August 31, 1999 follows:

Year Ended December 31, 2000	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
(Thousands of dollars, except per share amounts)				
Operating revenues.....	\$ 822,713	\$ 1,385,565	\$ 1,754,234	\$ 2,680,346
Operating income.....	\$ 105,821	\$ 76,067	\$ 48,525	\$ 103,520
Other income (expense)...	\$ 15,517	\$ (952)	\$ (1,073)	\$ 4,983
Income taxes.....	\$ 38,446	\$ 19,610	\$ 5,029	\$ 27,201
Net Income.....	\$ 63,022	\$ 27,162	\$ 10,086	\$ 45,337
Earnings per share of common stock				
Basic.....	\$ 1.84	\$ 0.61	\$ 0.03	\$ 1.23
Diluted.....	\$ 1.28	\$ 0.55	\$ 0.03	\$ 0.92
Dividends per share of common stock.....	\$ 0.31	\$ 0.31	\$ 0.31	\$ 0.31
Average shares of common stock outstanding				
Basic.....	29,242	29,196	29,200	29,258
Diluted.....	49,189	49,146	29,204	49,376
Year Ended August 31, 1999	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
(Thousands of dollars, except per share amounts)				
Operating revenues.....	\$ 374,494	\$ 591,626	\$ 417,052	\$ 455,777
Operating income.....	\$ 29,557	\$ 124,099	\$ 44,138	\$ 17,928
Other income.....	\$ 5,435	\$ 1,038	\$ 1,023	\$ 2,999
Income taxes.....	\$ 9,387	\$ 44,596	\$ 10,985	\$ 2,088
Net Income.....	\$ 14,250	\$ 68,532	\$ 21,196	\$ 2,379
Earnings (loss) per share of common stock				
Basic.....	\$ 0.16	\$ 1.87	\$ 0.38	\$ (0.22)
Diluted.....	\$ 0.16	\$ 1.33	\$ 0.38	\$ (0.22)
Dividends per share of common stock.....	\$ 0.31	\$ 0.31	\$ 0.31	\$ 0.31
Average shares of common stock outstanding				
Basic.....	31,535	31,594	31,634	31,233
Diluted.....	31,578	51,687	31,640	31,233

A-25

ONEOK, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)

(N) SUPPLEMENTAL CASH FLOW INFORMATION

The table presents supplemental information relative to the Company's cash flows for the year ended December 31, 2000, the four months ended December 31, 1999, and the years ended August 31, 1999 and 1998.

	Year Ended December 31, 2000	Four Months Ended December 31, 1999	Year Ended August 31, 1999	Year Ended August 31, 1998
(Thousands of Dollars)				
Cash paid during the year				
Interest (including amounts capitalized).....	\$ 111,097	\$16,605	\$ 50,498	\$ 34,637
Income taxes.....	\$ 57,579	\$--	\$ 59,466	\$ 73,772
Noncash transactions				
Treasury stock transferred to compensation plan.....	\$ --	\$ 2,071	\$ --	\$ --
Gas received as payment in kind.....	\$ --	\$ --	\$ 135	\$ 280
Acquisitions				
Property, plant, and equipment.....	\$ 832,849	\$17,482	\$338,138	\$ 803,370
Current assets.....	74,012	--	--	232,738
Current liabilities.....	(20,996)	--	--	(42,575)
Debt assumed.....	--	--	--	(161,698)
Regulatory assets and goodwill.....	17,663	--	10,817	169,983
Lease obligation.....	(157,651)	--	--	--
Price risk management activities.....	(239,660)	--	--	--
Deferred debits.....	--	--	--	62,633
Deferred credits.....	(11,313)	--	--	(89,655)
Deferred income taxes.....	--	--	(4,461)	(127,744)
Capital stock.....	--	--	--	(662,003)
Cash paid.....	\$ 494,904	\$17,482	\$344,494	\$ 185,049
	=====	=====	=====	=====

(O) STOCK BASED COMPENSATION

Long-Term Incentive Plan--The Long-term Incentive Plan (Plan) provides for the granting of incentive stock options, fixed stock options, stock bonus awards, and restricted stock awards to key employees. The Company has reserved 2.4 million shares of common stock for the Plan.

Under the Plan, options may be granted by the Executive Compensation Committee (the Committee) at any time within ten years expiring August 17, 2005. Options may be granted which are not exercisable until a fixed future date or in installments. The Plan also provides for restored options in the event that the optionee surrenders shares of common stock which the optionee already owns in full or partial payment of the options price under this option and/or surrenders shares of common stock to satisfy withholding tax obligations incident to the exercise of this option. A restored option has an option price equal to the fair market value of the common stock on the date on which the exercise of the option resulted in the grant of the restored option.

A-26

ONEOK, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-- (Continued)

Options issued to date become void upon voluntary termination of employment other than retirement. In the event of retirement or involuntary termination, the optionee may exercise the option within three months. In the event of death, the option may be exercised by the personal representative of the optionee within a period to be determined by the Committee and stated in the option. A portion of the options issued to date can be exercised after one year from grant date and must be exercised no later than ten years after grant date. Activity to date has been as follows:

	Number of Shares	Weighted Average Exercise Price
Outstanding August 31, 1997.....	189,347	\$25.54
Granted.....	262,576	\$33.39
Exercised.....	(96,047)	\$25.55
Expired.....	(4,900)	\$33.94
Outstanding August 31, 1998.....	350,976	\$31.30
Granted.....	265,724	\$35.22
Exercised.....	(27,950)	\$26.88
Expired.....	(2,500)	\$34.90
Restored.....	35,845	\$35.95
Outstanding August 31, 1999.....	622,095	\$33.09
Granted.....	308,700	\$29.16
Exercised.....	(1,000)	\$23.69
Expired.....	(3,000)	\$35.22
Restored.....	863	\$27.38
Outstanding December 31, 1999.....	927,658	\$31.78
Granted.....	4,000	\$26.31
Exercised.....	(171,411)	\$30.76
Expired.....	(37,100)	\$32.01
Restored.....	27,531	\$42.91
Outstanding December 31, 2000.....	750,678	\$32.38
Options Exercisable		
August 31, 1998.....	94,469	25.78
August 31, 1999.....	354,995	31.49
December 31, 1999.....	420,770	32.10
December 31, 2000.....	406,947	32.53

At December 31, 2000, the Company had 662,776 outstanding options with exercise prices ranging between \$23.69 to \$35.22 and a weighted average remaining life of 7.92 years. Of these options, 346,576 were exercisable at December 31, 2000 with a weighted average exercise price of \$31.89.

The Company also had 87,902 options outstanding at December 31, 2000 with exercise prices ranging between \$35.75 and \$49.56 and a weighted average remaining life of 6.35 years. Of these options, 60,371 were exercisable at December 31, 2000 at a weighted average exercise price of \$37.19.

Under the Plans, restricted stock awards also may be granted to key officers and employees. Ownership of the common stock vests over a three year period. Shares awarded may not be sold during the vesting period. The fair market value of the shares associated with the restricted stock awards is recorded as unearned compensation in stockholders' equity and is amortized to compensation

expense over the vesting period. The

A-27

ONEOK, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)

dividends on the restricted stock awards are reinvested in common stock. These shares fully vest three years after the grant date of the restricted stock awards. The average price of shares granted was \$29.16 and \$26.31 for the four months ended December 31, 1999, and the year ended December 31, 2000, respectively.

Restricted stock information for 2000 and 1999 is as follows:

	Number of Shares -----
Outstanding August 31, 1999.....	--
Granted.....	66,300
Released to participants.....	--
Forfeited.....	--
Dividends.....	697
-----	-----
Outstanding December 31, 1999.....	66,997
Granted.....	2,000
Released to participants.....	(3,924)
Forfeited.....	(10,390)
Dividends.....	2,724
-----	-----
Outstanding December 31, 2000.....	57,407
	=====

Employee Stock Purchase Plan--In 1995, the Company authorized the Employee Stock Purchase Plan and reserved 350,000 shares of common stock for it. In January 2000, the Company reserved an additional 800,000 shares for the plan. Almost all full-time employees are eligible to participate. Under the terms of the plan, employees can choose to have up to ten percent of their annual earnings withheld to purchase the Company's common stock. The Committee may allow contributions to be made by other means provided that in no event will contributions from all means exceed ten percent of the employee's annual earnings. The purchase price of the stock is 85 percent of the lower of its beginning-of-year or end-of-year market price. Approximately 56 percent, 54 percent and 60 percent of eligible employees participated in the plan in fiscal year 2000, and the years ended August 31, 1999 and 1998, respectively. Under the plan, the Company sold 261,522 shares in 2000, 88,029 shares in 1999 and 97,091 shares in 1998.

Accounting Treatment--The Company continues to apply APB 25 in accounting for both plans. Accordingly, no compensation has been recognized in the consolidated financial statements for the Company's options and the Employee Stock Purchase Plan. Had the Company applied the provisions of SFAS 123 to determine the compensation cost under these plans, the Company's pro forma net income and diluted earnings per share would have been as follows:

	Year Ended December 31, 2000	Four Months Ended December 31, 1999	Year Ended August 31, 1999	Year Ended August 31, 1998
----- (Thousands of dollars, except per share amounts) -----				
Net Income				
As reported.....	\$145,607	\$35,344	\$106,357	\$101,795
Pro Forma.....	\$135,893	\$27,066	\$ 99,887	\$ 98,592
Earnings per share--Diluted				
As reported.....	\$ 2.96	\$ 0.70	\$ 2.06	\$ 2.23
Pro Forma.....	\$ 2.76	\$ 0.54	\$ 1.94	\$ 2.16
	=====	=====	=====	=====

The fair market value of each option granted is estimated based on the Black-Scholes model. Based on previous stock performance, volatility is estimated to be 0.2406 for fiscal year 2000, 0.2414 for the four months ended December 31, 1999, 0.2151 for the year ended August 31, 1999 and 0.2720 for the year ended

A-28

ONEOK, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)

August 31, 1998. Dividend yield is estimated to be 2.6 percent for fiscal year 2000, 1.2 percent for the four months ended December 31, 1999, 4.0 percent for the year ended August 31, 1999 and 3.9 percent for the year ended August 31, 1998, with a risk-free interest rate of 5.665 percent for fiscal year 2000, 5.664 percent for the four months ended December 31, 1999, and 5.983 percent and 6.590 percent for the years ended December 31, 1999 and 1998, respectively.

Expected life ranged from 1 to 10 years based upon experience to date and the make-up of the optionees. Fair value of options granted under the Plan were \$13.29 for the year ended December 31, 2000, \$11.52 for the four months ended December 31, 1999, and \$13.86 and \$8.75 for the years ended August 31, 1999 and 1998, respectively.

(P) EARNINGS PER SHARE INFORMATION

The following is a reconciliation of the numerators and denominators of the basic and diluted EPS computations.

Year Ended December 31, 2000	Income	Shares	Per Share Amount

	(Thousands, except per share amounts)		

Basic EPS

Income available for common stock.....	\$109,507	29,224	\$3.71
Effect of Dilutive Securities			
Options.....	--	24	
Convertible preferred stock.....	37,100	19,946	

Diluted EPS

Income available for common stock + assumed conversion.....	\$145,607	49,194	\$2.96
	=====	=====	=====

Four Months Ended December 31, 1999	Income	Shares	Per Share Amount

	(Thousands, except per share amounts)		

Basic EPS

Income available for common stock.....	\$ 32,977	30,425	\$0.76
Effect of Dilutive Securities			
Options.....	--	13	
Convertible preferred stock.....	12,367	19,946	

Diluted EPS

Income available for common stock + assumed conversion.....	\$ 35,344	50,384	\$0.70
	=====	=====	=====

Year Ended August 31, 1999	Income	Shares	Per Share Amount

	(Thousands, except per share amounts)		

Basic EPS

Income available for common stock.....	\$ 69,110	31,498	\$2.19
Effect of Dilutive Securities			
Options.....	--	20	
Convertible preferred stock.....	37,247	20,053	

Diluted EPS

Income available for common stock + assumed conversion.....	\$106,357	51,571	\$2.06
	=====	=====	=====

A-29

ONEOK, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)

Year Ended August 31, 1998	Income	Shares	Amount
	(Thousands, except per share amounts)		
Basic EPS			
Income available for common stock.....	\$ 74,816	30,674	\$ 2.44
Effect of Dilutive Securities			
Options.....	--	53	
Convertible preferred stock.....	26,979	15,002	
Diluted EPS			
Income available for common stock			
+ assumed conversion.....	\$ 101,795	45,729	\$ 2.23
	=====	=====	=====

There were 322,380, 103,800, 104,800 and 306,300 option shares excluded from the calculation of Diluted Earnings per Share for the year ended December 31, 2000, the four months ended December 31, 1999, and the years ended August 31, 1999 and 1998, respectively, due to being antidilutive for the periods.

The following is a reconciliation of the basic and diluted EPS computations on income before the cumulative effect of a change in accounting principle to net income.

	Year Ended December 31, 2000	Four Months Ended December 31, 1999	Year Ended August 31, 1999	Year Ended August 31, 1998
	(Per share amounts)			
Basic EPS				
Income available for common stock before cumulative effect of a change in accounting principle.....	\$3.64	\$0.76	\$2.19	\$2.44
Cumulative effect of a change in accounting principle, net of tax....	0.07	--	--	--
	-----	-----	-----	-----
Income available for common stock.....	\$3.71	\$0.76	\$2.19	\$2.44
	=====	=====	=====	=====
Diluted EPS				
Income available for common stock before cumulative effect of a change in accounting principle.....	\$2.92	\$0.70	\$2.06	\$2.23
Cumulative effect of a change in accounting principle, net of tax....	0.04	--	--	--
	-----	-----	-----	-----
Income available for common stock.....	\$2.96	\$0.70	\$2.06	\$2.23

(Q) SUBSEQUENT EVENTS

On January 18, 2001, the Board of Directors declared a two-for-one common stock split of one additional share of common stock for each share of common stock outstanding to holders of record on May 23, 2001, with distribution of the split shares expected to follow on June 11, 2001. The common stock split is subject to shareholder approval at the 2001 annual shareholders' meeting, and accordingly, earnings per share calculations in this report have not been restated to reflect this stock split.

Two separate class action lawsuits have been filed against the Company in connection with the natural gas explosions and eruptions of natural gas geysers that occurred in Hutchinson, Kansas in January 2001. Although no assurances can be given, management believes that the ultimate resolution of these matters will not have a material adverse effect on its financial position or results of operations. The Company is vigorously defending itself against all claims.

A-30

ONEOK, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)

(R) OIL AND GAS PRODUCING ACTIVITIES

The following is historical cost information relating to the Company's production operations:

	Year Ended December 31, 2000	Four Months Ended December 31, 1999	Year Ended August 31, 1999	Year Ended August 31, 1998
(Thousands of dollars)				
Capitalized costs at end of year				
Unproved properties.....	\$ 2,210	\$ 4,224	\$ 4,245	\$ 3,505
Proved properties.....	423,824	398,749	393,096	320,055
Total capitalized costs.....	426,034	402,972	397,341	323,560
Accumulated depreciation, depletion and amortization.....	146,749	128,220	120,109	100,601
Net capitalized costs..	\$279,285	\$274,752	\$277,232	\$222,959
Costs incurred during the year				
Property acquisition costs (unproved).....	\$ 879	\$ 103	\$ 948	\$ 601
Exploitation costs.....	\$ 10	\$ 6	\$ 17	\$ 6
Development costs.....	\$ 32,817	\$ 6,254	\$ 13,659	\$ 15,315
Purchase of minerals in place.....	\$ 4,751	\$ --	\$ 79,385	\$151,019

The accompanying schedule presents the results of operations of the Company's oil and gas producing activities. The results exclude general office overhead and interest expense attributable to oil and gas production.

	Year Ended December 31, 2000	Four Months Ended December 31, 1999	Year Ended August 31, 1999	Year Ended August 31, 1998
(Thousands of dollars)				
Net revenues				
Sales to unaffiliated customers.....	\$ 49,868	\$ 18,623	\$ 42,077	\$ 30,003
Gas sold to affiliates...	19,669	4,779	22,868	12,312
Net revenues from production.....	69,537	23,402	64,945	42,315
Production costs.....	17,575	5,465	14,516	9,478
Exploitation costs.....	10	6	17	351
Depreciation, depletion and amortization.....	30,465	9,588	33,771	18,210
Income taxes.....	8,311	3,226	6,359	5,522
Total expenses.....	56,361	18,285	54,663	33,561
Results of operations from producing activities.....	\$ 13,176	\$ 5,117	\$ 10,282	\$ 8,754

(S) OIL AND GAS RESERVES (UNAUDITED)

Following are estimates of the Company's proved oil and gas reserves, net of royalty interests and changes herein, for the fiscal year 2000, the four months ended December 31, 1999, and the years ended August 31, 1999 and 1998.

A-31

ONEOK, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)

The Company emphasizes that the volumes of reserves shown are estimates, which, by their nature, are subject to later revision. The estimates are made by the Company utilizing all available geological and reservoir data as well as production performance data. These estimates are reviewed annually and revised, either upward or downward, as warranted by additional performance data.

	Oil (MBbls)	Gas (MMcf)
August 31, 1997.....	2,014	83,319
Revisions in prior estimates.....	(223)	(1,255)
Extensions, discoveries and other additions.....	157	23,251
Purchases of minerals in place.....	1,645	89,724
Sales of minerals in place.....	(1)	(174)
Production.....	(330)	(16,818)
August 31, 1998.....	3,272	178,047
Revisions in prior estimates.....	300	8,397
Extensions, discoveries and other additions.....	376	37,202
Purchases of minerals in place.....	884	61,286
Sales of minerals in place.....	(175)	(3,057)
Production.....	(460)	(27,773)
August 31, 1999.....	4,197	254,102
Revisions in prior estimates.....	18	(8,086)
Extensions, discoveries and other additions.....	84	9,276
Purchases of minerals in place.....	--	--
Sales of minerals in place.....	(1)	(7)
Production.....	(138)	(8,306)
December 31, 1999.....	4,160	246,979
Revisions in prior estimates.....	221	9,134
Extensions, discoveries and other additions.....	661	29,193
Purchases of minerals in place.....	215	945
Sales of minerals in place.....	(518)	(4,784)
Production.....	(400)	(26,746)
December 31, 2000.....	4,339	254,721
Proved developed reserves	=====	=====
August 31, 1998.....	2,228	134,346
August 31, 1999.....	2,540	175,771
December 31, 1999.....	2,451	169,060
December 31, 2000.....	2,495	182,052

A-32

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-- (Continued)

Estimates of the standard measure of discounted future cash flows from proved reserves of oil and natural gas shown in the accompanying table.

	Year Ended December 31, 2000	Four Months Ended December 31, 1999	Year Ended August 31, 1999	Year Ended August 31, 1998
	-----	-----	-----	-----
	(Thousands of Dollars)			
Future cash inflows.....	\$2,498,525	\$632,751	\$639,721	\$423,331
Future production and development costs.....	400,767	194,332	194,077	129,128
Future income taxes.....	742,505	62,533	53,442	32,025
	-----	-----	-----	-----
Future net cash flows.....	1,355,253	375,886	392,202	262,178
10 percent annual discount for estimated timing of cash flows.....	599,370	149,527	161,156	99,549
	-----	-----	-----	-----
Standardized measure of discounted future net cash flows relating to oil and gas reserves.....	\$ 755,883	\$226,359	\$231,046	\$162,629
	-----	-----	-----	-----

These estimated future cash flows are reduced by estimated future development and production costs based on year end cost levels, assuming continuation of existing economic conditions, and by estimated future income tax expense. The tax expense is calculated by applying the current year end, statutory tax rates to pretax net cash flows (net of tax depreciation, depletion, and lease amortization allowances) applicable to oil and gas production.

ONEOK, INC. AND SUBSIDIARIES

Disclosure Page 200

The changes in standardized measure of discounted future net cash flow relating to proved oil and gas reserves are as follows:

	Year Ended December 31, 2000	Four Months Ended December 31, 1999	Year Ended August 31, 1999	Year Ended August 31, 1998
	(Thousands of Dollars)			
Beginning of period.....	\$226,359	\$231,046	\$162,629	\$ 76,611
Changes resulting from:				
Sales of oil and gas produced, net of production costs.....	(51,692)	(17,938)	(50,120)	(32,837)
Net changes in price, development, and production costs.....	783,763	3,523	13,269	(6,269)
Extensions, discoveries, additions, and improved recovery, less related costs.....	102,607	9,981	37,379	26,217
Purchases of minerals in place.....	4,751	--	67,120	94,031
Sales of minerals in place.....	(5,761)	(24)	(9,326)	(142)
Revisions of previous quantity estimates.....	43,318	(8,454)	10,477	(2,750)
Accretion of discount....	25,825	8,750	17,317	9,655
Net change in income taxes.....	(376,438)	(6,174)	(11,518)	3,055
Other, net.....	3,420	5,649	(6,081)	(5,152)
End of period.....	\$755,883	\$226,359	\$231,046	\$162,629
	=====	=====	=====	=====

A-34

EXHIBIT B

ONEOK, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME

(Thousands of Dollars, except per share amounts)

(Unaudited)

	Three Months Ended March 31,	
	2001	2000
OPERATING REVENUES.....	\$2,956,256	\$821,819
Cost of gas.....	2,688,661	619,275
Net Revenues.....	267,595	202,544
OPERATING EXPENSES		
Operations and maintenance.....	72,197	51,052
Depreciation, depletion, and amortization.....	36,955	34,327
General taxes.....	16,065	12,239
Total Operating Expenses.....	125,217	97,618
Operating Income.....	142,378	104,926
Other income, net.....	3,967	16,412
Interest expense.....	37,535	21,985
Income taxes.....	41,800	38,446
Income before cumulative effect of a change in accounting principle.....	67,010	60,907
Cumulative effect of a change in accounting principle, net of tax (Notes H and J).....	(2,151)	2,115
NET INCOME.....	64,859	63,022
Preferred stock dividends.....	9,275	9,275
Income Available for Common Stock.....	\$ 55,584	\$ 53,747
Earnings Per Share of Common Stock (Note D)		
Basic.....	\$ 1.09	\$ 1.07
Diluted.....	\$ 1.08	\$ 1.07
Average Shares of Common Stock (Thousands)		
Basic.....	49,607	49,188
Diluted.....	49,798	49,189

See accompanying Notes to Consolidated Financial Statements.

B-1

ONEOK, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
(Thousands of Dollars)
(Unaudited)

	March 31, 2001	December 31, 2000
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents.....	\$ 249	\$ 249
Trade accounts and notes receivable.....	1,354,772	1,627,714
Materials and supplies.....	18,176	18,119
Gas in storage.....	33,773	72,979
Deferred income taxes.....	10,425	10,425
Unrecovered purchased gas costs.....	86,639	1,578
Assets from price risk management activities.....	721,762	1,416,368
Deposits.....	12,990	120,800
Other current assets.....	32,631	71,906
Total Current Assets.....	2,271,417	3,340,138
PROPERTY, PLANT AND EQUIPMENT		
Marketing and Trading.....	2,817	2,795
Gathering and Processing.....	1,000,020	1,000,708
Transportation and Storage.....	767,673	758,618
Distribution.....	1,886,372	1,860,181
Production.....	440,278	428,701
Power.....	104,251	75,891
Other.....	68,374	64,056
Total Property, Plant and Equipment.....	4,269,785	4,190,950
Accumulated depreciation, depletion, and amortization.....	1,138,306	1,110,616
Net Property.....	3,131,479	3,080,334
DEFERRED CHARGES AND OTHER ASSETS		
Regulatory assets, net (Note B).....	234,454	238,605
Goodwill.....	97,038	93,409
Assets from price risk management activities.....	342,923	405,666
Investments and other.....	215,904	202,193
Total Deferred Charges and Other Assets.....	890,319	939,873
Total Assets.....	\$6,293,215	\$7,360,345

See accompanying Notes to Consolidated Financial Statements.

B-2

ONEOK, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
(Thousands of Dollars)
(Unaudited)

	March 31, 2001	December 31, 2000
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES		
Current maturities of long-term debt.....	\$ 10,000	\$ 10,767
Notes payable.....	189,558	824,106
Accounts payable.....	1,062,885	1,247,519
Accrued taxes.....	35,994	8,735
Accrued interest.....	13,377	24,161
Customers' deposits.....	19,040	18,319
Liabilities from price risk management activities...	667,590	1,296,041
Other.....	93,200	96,913
Total Current Liabilities.....	2,091,644	3,526,561
LONG-TERM DEBT, EXCLUDING CURRENT MATURITIES.....	1,732,329	1,336,082
DEFERRED CREDITS AND OTHER LIABILITIES		
Deferred income taxes.....	383,833	382,363
Liabilities from price risk management activities...	481,538	543,278
Lease obligation.....	131,731	137,131
Other deferred credits.....	203,779	209,973
Total Deferred Credits and Other Liabilities.....	1,200,881	1,272,745
Total Liabilities.....	5,024,854	6,135,388
COMMITMENTS AND CONTINGENCIES (Note E)		
SHAREHOLDERS' EQUITY		
Convertible preferred stock, \$0.01 par value:		
Series A authorized 20,000,000 shares; issued and outstanding 19,946,448 shares at March 31, 2001, and December 31, 2000.....	199	199
Common stock, \$0.01 par value:		
authorized 100,000,000 shares; issued 31,685,557 shares and outstanding 29,737,219 shares at March 31, 2001; issued 31,599,305 shares and outstanding 29,588,275 shares at December 31, 2000.....	317	316
Paid in capital (Note G).....	900,184	895,668
Unearned compensation.....	(2,743)	(1,128)
Accumulated other comprehensive loss (Note I).....	(7,538)	--
Retained earnings.....	434,117	387,789
Treasury stock at cost: 1,948,338 shares at March 31, 2001; and 2,011,030 shares at December 31, 2000.....	(56,175)	(57,887)
Total Shareholders' Equity.....	1,268,361	1,224,957
Total Liabilities and Shareholders' Equity.....	\$6,293,215	\$7,360,345
	=====	=====

See accompanying Notes to Consolidated Financial Statements.

B-3

ONEOK, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
(Thousands of Dollars)

(Unaudited)

	Three Months Ended March 31,	
	2001	2000
OPERATING ACTIVITIES		
Net income.....	\$ 64,859	\$ 63,022
Depreciation, depletion, and amortization.....	36,955	34,327
Gain on sale of assets.....	(363)	(26,852)
Net income from equity investments.....	(5,407)	(1,236)
Deferred income taxes.....	4,936	5,765
Amortization of restricted stock.....	332	161
Changes in assets and liabilities:		
Accounts and notes receivable.....	270,442	(23,131)
Inventories.....	39,149	73,526
Unrecovered purchased gas costs.....	(95,061)	8,105
Deposits.....	107,810	11,026
Accounts payable and accrued liabilities.....	(152,170)	101,331
Price risk management assets and liabilities.....	59,513	(317)
Other assets and liabilities.....	18,416	23,001
Cash Provided by Operating Activities.....	359,411	268,728
INVESTING ACTIVITIES		
Changes in other investments, net.....	399	(1,102)
Acquisitions.....	(626)	(305,497)
Capital expenditures.....	(91,013)	(53,644)
Proceeds from sale of property.....	486	55,169
Cash Used in Investing Activities.....	(90,754)	(305,074)
FINANCING ACTIVITIES		
Payments of notes payable, net.....	(237,500)	(207,141)
Change in bank overdraft.....	(15,268)	(22,664)
Issuance of debt.....	--	349,429
Payment of debt.....	(1,568)	(4,928)
Issuance of common stock.....	3,734	--
Issuance (acquisition) of treasury stock, net.....	377	(10,117)
Dividends paid.....	(18,432)	(18,304)
Cash Provided by (Used in) Financing Activities.....	(268,657)	86,275
Change in Cash and Cash Equivalents.....	--	49,929
Cash and Cash Equivalents at Beginning of Period....	249	72
Cash and Cash Equivalents at End of Period.....	\$ 249	\$ 50,001
	=====	=====

See accompanying Notes to Consolidated Financial Statements.

B-4

ONEOK, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

A. Summary of Significant Accounting Policies

Interim Reporting--The accompanying unaudited consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information. The interim consolidated financial statements reflect all adjustments which, in the opinion of management, are necessary for a fair presentation of the results for the interim periods presented. All such adjustments are of a normal recurring nature. Due to the seasonal nature of the business, the results of operations for the three months ended March 31, 2001, are not necessarily indicative of the results that may be expected for a twelve-month period. For further information, refer to the consolidated financial statements and footnotes thereto included in the Company's Form 10-K for the year ended December 31, 2000.

Derivative Instruments and Hedging Activities--On January 1, 2001, the Company adopted Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities" (Statement 133), as amended by Statements 137 and 138. See Note H in the Notes to Consolidated Financial Statements.

Reclassifications--Certain amounts in the consolidated financial statements have been reclassified to conform to the current presentation.

B. Regulatory Assets

The following table is a summary of the Company's regulatory assets, net of amortization.

	March 31, 2001	December 31, 2000
	(Thousands of Dollars)	
Recoupable take-or-pay.....	\$ 78,051	\$ 79,324
Pension costs.....	14,260	15,306
Postretirement costs other than pension.....	60,711	61,069
Transition costs.....	22,049	22,199
Reacquired debt costs.....	22,979	23,209
Income taxes.....	29,960	30,727
Other.....	6,444	6,771
	-----	-----
Regulatory assets, net.....	\$234,454	\$238,605
	=====	=====

C. Supplemental Cash Flow Information

The following table is supplemental information relative to the Company's cash flows.

	Three Months Ended March 31,	
	2001	2000
	(Thousands of Dollars)	
Cash paid during the period		
Interest (including amounts capitalized).....	\$ 48,318	\$25,275
Noncash transactions		
Treasury stock transferred to compensation plans.....	\$ 131	\$ 61
Notes payable reclassified to long-term debt based upon subsequent refinancing.....	\$397,048	\$ --

The assets acquired in the Dynegy, Inc. acquisition in the first quarter of 2000 consisted primarily of property, plant and equipment.

B-5

ONEOK, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)

D. Earnings per Share Information

In accordance with an announcement of the Financial Accounting Standards Board's Staff at the Emerging Issues Task Force meeting in April 2001, codified as EITF Topic No. D-95 (Topic D-95), the Company revised its computation of earnings per common share (EPS). In accordance with Topic D-95, the dilutive effect of the Company's Series A Convertible Preferred Stock is now considered in the computation of basic EPS, utilizing the "if-converted" method. Under the Company's "if-converted" method, the dilutive effect of the Series A Convertible Preferred Stock on EPS cannot be less than the amount that would result from the application of the "two-class" method of computing EPS. The "two-class" method is an earnings allocation formula that determines EPS for the common stock and the participating Series A Convertible Preferred Stock according to dividends declared and participating rights in the undistributed earnings. The Series A Convertible Preferred Stock is a participating instrument with the Company's common stock with respect to the payment of dividends. For both periods presented, the "two-class" method resulted in additional dilution. Accordingly, EPS for such periods reflects this further dilution. The Company restated the EPS amounts for the quarter ended March 31, 2000 to be consistent with the revised methodology.

The following is a reconciliation of the basic and diluted EPS computations.

Three Months Ended March 31, 2001		
		Per Share
Income	Shares	Amount
(Thousands, except per share amounts)		
Basic EPS		
Income available for common stock.....	\$55,584 29,661	
Convertible preferred stock.....	9,275 19,946	
Income available for common stock + assumed conversion of preferred stock.....		
	\$64,859 49,607	\$ 1.31
Further dilution from applying the "two-class" method.....		
		(0.22)
Basic earnings per share.....		\$ 1.09
Effect of Other Dilutive Securities Options.....		
	-- 191	
Diluted EPS		
Income available for common stock + assumed exercise of stock options.....	\$64,859 49,798	\$ 1.30
Further dilution from applying the "two-class" method.....		
		(0.22)
Diluted earnings per share.....		\$ 1.08

B-6

ONEOK, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)

Three Months Ended March 31, 2000			
	Income	Shares	Per Share Amount
(Thousands, except per share amounts)			
Basic EPS			
Income available for common stock.....	\$ 53,747	29,242	
Convertible preferred stock.....	9,275	19,946	

Income available for common stock + assumed conversion of preferred stock.....	\$ 63,022	49,188	\$ 1.28
=====			
Further dilution from applying the "two- class" method.....			(0.21)

Basic earnings per share.....			\$ 1.07
=====			
Effect of Other Dilutive Securities Options..	--	1	

Diluted EPS			
Income available for common stock + assumed exercise of stock options.....	\$ 63,022	49,189	\$ 1.28
=====			
Further dilution from applying the "two- class" method.....			(0.21)

Diluted earnings per share.....			\$ 1.07
=====			

There were 9,596 and 262,505 option shares excluded from the calculation of Diluted EPS for the three months ended March 31, 2001 and 2000, respectively, due to being antidilutive for the periods.

The following is a reconciliation of the basic and diluted EPS computations on income before the cumulative effect of a change in accounting principle to net income.

	Three Months Ended March 31,			
	Basic		Diluted	
	2001	2000	2001	2000
Income available for common stock before cumulative effect of a change in accounting principle...	\$ 1.13	\$1.03	\$ 1.12	\$1.03
Cumulative effect of a change in accounting principle, net of tax.....	(0.04)	0.04	(0.04)	0.04
Income available for common stock.....	\$ 1.09	\$1.07	\$ 1.08	\$1.07

E. Commitments and Contingencies

In connection with the now terminated proposed acquisition of Southwest Gas Corporation (Southwest), the Company is party to various lawsuits. These lawsuits contain allegations that include, but are not limited to, federal and state Racketeer Influenced and Corrupt Organizations (RICO) Act violations and improper interference in a contractual or other business relationship between Southwest and Southern Union Corporation (Southern Union). Southern Union's complaint asks for \$750 million damages to be trebled for alleged RICO violations, compensatory damages of not less than \$750 million, punitive damages, and rescission of the Confidentiality and Standstill Agreement. The federal RICO claims have been dismissed. However, Southern Union has filed a motion requesting reconsideration of these claims.

B-7

ONEOK, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)

The Company, as third party beneficiary, has filed a lawsuit against Southern Union for, among other things, breach of a confidentiality agreement with Southern Union and Southwest and tortious interference with the Southwest merger agreement. The Company filed suit against Southwest seeking a declaratory judgment determining that it had properly terminated the merger agreement. In response to this suit, Southwest brought a suit against the Company and Southern Union alleging, among other things, fraud and breach of contract. Southwest is seeking damages in excess of \$75,000.

The lawsuits discussed above may be consolidated into one case. The court has entered an order setting the cases for trial on November 5, 2001.

Two substantially identical derivative actions were filed by shareholders against the members of the Board of Directors of the Company for alleged violation of their fiduciary duties to the Company by causing or allowing the Company to engage in certain fraudulent and improper schemes relating to the planned merger with Southwest and waste of corporate assets. These two cases were consolidated into one case. Such conduct allegedly caused the Company to be sued by both Southwest and Southern Union which exposed the Company to millions of dollars of potential liabilities. The plaintiffs seek an award of compensatory and punitive damages and costs, disbursements and reasonable attorney fees. The Company and its Independent Directors and officers, named as defendants, filed motions to dismiss the action for failures of the plaintiffs to make a pre-suit demand on ONEOK's Board of Directors. Additionally, the Independent Directors and certain officers named as defendants, filed motions to dismiss the action for failure to state a claim.

If any of the plaintiffs should be successful in any of their claims against the Company and substantial damages are awarded, it could have a material adverse effect on the Company's operations, cash flow, and financial position. At the present time, the Company is unable to estimate the possible loss, if any, associated with these matters. The Company is defending itself vigorously against all claims asserted by Southern Union and Southwest and all other matters relating to the now terminated proposed acquisition with Southwest.

The Company has responsibility for 12 manufactured gas sites located in Kansas, which may contain coal tar and other potentially harmful materials that are classified as hazardous material. Hazardous materials are subject to control or remediation under various environmental laws and regulations. A consent agreement with the Kansas Department of Health and Environment (KDHE) presently governs all future work at these sites. The terms of the consent agreement allow the Company to investigate these sites and set remediation

priorities based upon the results of the investigations and risk analysis. The prioritized sites will be investigated over a ten year period. At March 31, 2001, the costs of the investigations and risk analysis have been immaterial. Limited information is available about the sites and no testing has been performed. Management's best estimate of the cost of remediation ranges from \$100 thousand to \$10 million per site based on a limited comparison of costs incurred to remediate comparable sites. These estimates do not give effect to potential insurance recoveries, recoveries through rates or from third parties. The Kansas Corporation Commission (KCC) has permitted others to recover their remediation costs through rates. It should be noted that additional information and testing could result in costs significantly below or in excess of the amounts estimated above. To the extent that such remediation costs are not recovered, the costs could be material to the Company's results of operations and cash flows depending on the degree of remediation required and number of years over which the remediation must be completed.

The Company is a party to other litigation matters and claims, which are normal in the course of its operations, and while the results of litigation and claims cannot be predicted with certainty, management believes the final outcome of such matters will not have a materially adverse effect on consolidated results of operations, financial position, or liquidity.

B-9

ONEOK, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)

F. Segments

The Company conducts its operations through seven segments: (1) the Marketing and Trading segment markets natural gas to wholesale and retail customers and markets electricity to wholesale customers; (2) the Gathering and Processing segment gathers and processes natural gas and fractionates, stores and markets natural gas liquids; (3) the Transportation and Storage segment transports and stores natural gas for others and buys and sells natural gas; (4) the Distribution segment distributes natural gas to residential, commercial and industrial customers, leases pipeline capacity to others and provides transportation services for end-use customers; (5) the Production segment develops and produces natural gas and oil; (6) the Power segment produces and sells electricity during peak periods to wholesale customers; and (7) the Other segment primarily operates and leases the Company's headquarters building and a related parking facility. The Company anticipates the peak electric generating plant to be operational in mid-May 2001. Accordingly, for the three months ended March 31, 2001, the Power segment did not generate revenues and had minimal expenses. These expenses are reflected in the Other and Eliminations column.

Intersegment sales are recorded on the same basis as sales to unaffiliated customers. All corporate overhead costs relating to a reportable segment have been allocated for the purpose of calculating operating income. The Company's equity method investments do not represent operating segments of the Company. The Company has no single external customer from which it receives ten percent or more of its revenues.

Three Months Ended March 31, 2001	Marketing and Trading	Gathering and Processing	Transportation and Storage	Distribution	Production	Power	Other and Elimination	Total
(Thousands of Dollars)								
Sales to unaffiliated customers.....	\$1,867,452	\$ 273,687	\$ 34,840	\$ 761,175	\$ 16,939	\$ --	\$ 2,263	\$2,956,256
Intersegment sales.....	420,038	202,905	18,363	733	12,447	--	(654,486)	--
Total Revenues.....	\$2,287,490	\$ 476,592	\$ 53,203	\$ 761,908	\$ 29,386	\$ --	\$ (652,223)	\$2,956,256
Net revenues.....	\$ 28,613	\$ 49,225	\$ 37,561	\$ 140,772	\$ 29,286	\$ --	\$ (17,862)	\$ 267,595
Operating costs.....	\$ 4,353	\$ 29,177	\$ 12,889	\$ 58,065	\$ 7,805	\$ --	\$ (24,027)	\$ 88,262
Depreciation, depletion and amortization	\$ 137	\$ 6,811	\$ 4,750	\$ 16,977	\$ 7,585	\$ --	\$ 695	\$ 36,955
Operating income.....	\$ 24,123	\$ 13,237	\$ 19,922	\$ 65,730	\$ 13,696	\$ --	\$ 5,470	\$ 142,378
Cumulative effect of a change in accounting principle, net of tax.....	\$ --	\$ --	\$ --	\$ --	\$ (2,151)	\$ --	\$ --	\$ (2,151)
Income from equity investments.....	\$ --	\$ --	\$ 659	\$ --	\$ 4,748	\$ --	\$ --	\$ 5,407
Total assets.....	\$1,735,203	\$1,499,077	\$636,633	\$2,004,305	\$366,122	\$106,589	\$ (54,714)	\$6,293,215
Capital expenditures.....	\$ 22	\$ 7,151	\$ 10,814	\$ 27,173	\$ 11,261	\$ 28,361	\$ 6,226	\$ 91,013

B-9

ONEOK, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-- (Continued)

Three Months Ended March 31, 2000	Marketing and Trading	Gathering and Processing	Transportation and Storage	Distribution	Production	Power	Other and Elimination	Total
(Thousands of Dollars)								
Sales to unaffiliated customers.....	\$356,124	\$ 50,049	\$ 13,829	\$ 379,710	\$ 13,515	\$ --	\$ 8,592	\$ 821,819
Intersegment sales.....	92,716	18,396	14,364	912	5,316	--	(131,704)	--
Total Revenues.....	\$448,840	\$ 68,445	\$ 28,193	\$ 380,622	\$ 18,831	\$ --	\$ (123,112)	\$ 821,819
Net revenues.....	\$ 15,810	\$ 16,040	\$ 24,852	\$ 135,431	\$ 18,831	\$ --	\$ (8,420)	\$ 202,544
Operating costs.....	\$ 2,539	\$ 6,527	\$ 8,078	\$ 49,754	\$ 5,646	\$ --	\$ (9,253)	\$ 63,291
Depreciation, depletion and amortization	\$ 191	\$ 2,289	\$ 4,193	\$ 18,571	\$ 8,462	\$ --	\$ 621	\$ 34,327
Operating income.....	\$ 13,080	\$ 7,224	\$ 12,581	\$ 67,106	\$ 4,723	\$ --	\$ 212	\$ 104,926
Cumulative effect of a change in accounting principle, net of tax.....	\$ 2,115	\$ --	\$ --	\$ --	\$ --	\$ --	\$ --	\$ 2,115
Income from equity investments.....	\$ --	\$ --	\$ 1,229	\$ --	\$ 7	\$ --	\$ --	\$ 1,236
Total assets.....	\$331,285	\$624,524	\$407,322	\$1,761,383	\$354,947	\$28,283	\$ 66,804	\$3,574,548
Capital expenditures.....	\$ 45	\$ 4,831	\$ 7,603	\$ 22,069	\$ 8,212	\$ 9,455	\$ 1,429	\$ 53,644

G. Paid in Capital

Paid in capital was \$336.0 million and \$331.5 million for common stock at March 31, 2001, and December 31, 2000, respectively. Paid in capital for convertible preferred stock was \$564.2 million at March 31, 2001 and December

31, 2000.

H. Derivative Instruments and Hedging Activities

On January 1, 2001, the Company adopted the provisions of Statement of Financial Accounting Standards No.133, "Accounting for Derivative Instruments and Hedging Activities" (Statement 133), amended by Statement No. 137 and Statement No.138. Statement 137 delayed the implementation of Statement 133 until fiscal years beginning after June 15, 2000. Statement 138 amended the accounting and reporting standards of Statement 133 for certain derivative instruments and hedging activities. Statement 138 also amends Statement 133 for decisions made by the Financial Accounting Standards Board (FASB) relating to the Derivatives Implementation Group (DIG) process. The FASB DIG is addressing Statement 133 implementation issues the ultimate resolution of which may impact the application of Statement 133.

Under Statement 133, entities are required to record all derivative instruments in the balance sheet at fair value. The accounting for changes in the fair value of a derivative instrument depends on whether it has been designated and qualifies as part of a hedging relationship and, if so, on the reason for holding it. If certain conditions are met, entities may elect to designate a derivative instrument as a hedge of exposures to changes in fair values, cash flows, or foreign currencies. If the hedged exposure is a fair value exposure, the gain or loss on the derivative instrument is recognized in earnings in the period of change together with the offsetting loss or gain on the hedged item attributable to the risk being hedged. If the hedged exposure is a cash flow exposure, the effective portion of the gain or loss on the derivative instrument is reported initially as a component of other comprehensive income (outside earnings) and subsequently reclassified into earnings when the forecasted transaction affects earnings. Any amounts excluded from the assessment of hedge effectiveness as well as the ineffective portion of the gain or loss is reported in earnings immediately.

In 2000, the Company entered into derivative instruments related to the production of natural gas, most of which will expire by the end of 2001. These derivative instruments are designed to hedge the Production segment's exposure to changes in the price of natural gas. Changes in the fair value of the derivative

B-10

ONEOK, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)

instruments are reflected initially in other comprehensive income (loss) and subsequently realized in earnings when the forecasted transaction affects earnings. The Company recorded a cumulative effect charge of \$2.2 million, net of tax, in the income statement and \$28 million, net of tax, in accumulated other comprehensive loss to recognize at fair value the ineffective and effective portions, respectively, of the losses on all derivative instruments that are designated as cash flow hedging instruments, which primarily consist of costless option collars and swaps on natural gas production.

The Company recognized \$1.0 million in earnings, representing the change in the ineffective portion of the cash flow hedges for the three months ended March 31, 2001. The Company realized a \$20.8 million loss in earnings that was reclassified from accumulated other comprehensive loss resulting from the settlement of contracts when the natural gas was sold. These gains and losses are reported in Operating Revenues. Other comprehensive loss of \$7.5 million at March 31, 2001 is related to a cash flow exposure and will be realized in earnings within the next ten months.

I. Comprehensive Income

	Three Months Ended March 31, 2001 -----
Net Income.....	\$ 64,859
Other comprehensive income (loss):	
Cumulative effect of a change in accounting principle.....	\$ (45,556)
Unrealized gains on derivative instruments.....	12,426
Realized losses in net income.....	20,836

Other comprehensive loss before taxes.....	(12,294)
Income tax benefit on other comprehensive loss.....	4,756

Other comprehensive loss.....	\$ (7,538)

Comprehensive income.....	\$ 57,321
	=====

J. Energy Trading and Risk Management Activities

The Company engages in price risk management activities for both trading and non-trading purposes. On January 1, 2000, the Company adopted Emerging Issues Task Force Issue No. 98-10, "Accounting for Energy Trading and Risk Management Activities" (EITF 98-10) for its energy trading contracts. EITF 98-10 requires entities involved in energy trading activities to account for energy trading contracts using mark-to-market accounting. Prior to the adoption of EITF 98-10, the Company accounted for its trading activities on the accrual method based on settlement of physical positions. The adoption of EITF 98-10 was accounted for as a change in accounting principle and the cumulative effect at January 1, 2000 of \$2.1 million, net of tax, was recognized. Forwards, swaps, options, and energy transportation and storage contracts utilized for trading activities are reflected at fair value as assets and liabilities from price risk management activities in the consolidated balance sheets. The fair value of these assets and liabilities are affected by the actual timing of settlements related to these contracts and current period changes resulting primarily from newly originated transactions and the impact of price movements. Changes in fair value are recognized in net revenues in the consolidated statement of income. Market prices used to fair value these assets and liabilities reflect management's best estimate considering various factors including closing exchange and over-the-counter quotations, time value and volatility underlying the commitments. Market prices are adjusted for the potential impact of liquidating the Company's position in an orderly manner over a reasonable period of time under present market conditions.

B-11

ONEOK, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)

K. Subsequent Event

On May 11, 2001, the Oklahoma Corporation Commission (OCC) staff recommended to the OCC that ONG's unrecovered purchased gas cost (UPGC) clause be suspended

because ONG allegedly failed to "act prudently" in acquiring its gas supply for the 2000/2001 heating season resulting in an alleged \$72.1 million in excess charges to ratepayers through March 31, 2001. If the OCC staff is successful, the Company would not be allowed to recover approximately \$72.1 million in UPGC. At the present time, the Company is unable to estimate the possible loss, if any, associated with this matter. The Company believes that the OCC staff's recommendation is without merit and is defending itself vigorously against this recommendation.

B-12

 12,250,000 Shares

Westar Industries, Inc.

Common Stock

The Solicitation Agent for the rights offering is:

{LOGO}
 Georgeson Shareholder Securities

Prospectus dated May . . , 2001

PART II

INFORMATION NOT REQUIRED IN PROSPECTUS

Item 13. Other Expenses of Issuance and Distribution.

An estimate of expenses*, which will be paid by Western Resources, follows:

Securities and Exchange Commission registration fee.....	\$ 32,025
NYSE listing fee.....	112,600
Printing and engraving expenses.....	500,000
Transfer agent's fees.....	25,000
Legal fees and expenses.....	750,000
Accountants' fees and expenses.....	500,000
Information agent, subscription agent and solicitation agent fees.....	300,000
Miscellaneous expenses.....	30,375
Total.....	\$2,250,000
	=====

*All expenses, except the SEC registration fee, are estimated. These expenses do not include investment banking fees incurred in connection with the PNM merger and split-off, a portion of which will become due

upon the consummation of the rights offering.

Item 14. Indemnification of Directors and Officers.

Article VIII(A) of the registrant's Amended and Restated Articles of Incorporation, as amended, provides that a director shall not be personally liable to the corporation or its stockholders for monetary damages for breach of fiduciary duty as a director except for liability which may not be limited or eliminated under Section 17-6002 of the Kansas General Corporation Law.

The Company will enter into indemnification agreements with its directors and officers providing for indemnification to the fullest extent authorized by Kansas law and for the advancement and payment of expenses in connection therewith.

Section 17-6305 of the Kansas General Corporation Law (the "Indemnification Statute") provides for indemnification by a corporation of its corporate officers, directors, employees and agents. The Indemnification Statute provides that a corporation may indemnify such persons who have been, are, or may become a party to an action, suit or proceeding due to his or her status as a director, officer, employee or agent of the corporation. Further, the Indemnification Statute grants authority to a corporation to implement its own broader indemnification policy. Article VIII of the registrant's Amended and Restated Articles of Incorporation requires the corporation to indemnify its directors and officers to the fullest extent provided by Kansas law.

Item 15. Recent Sales of Unregistered Securities.

None.

Item 16. Exhibits.

The Exhibits to this Registration Statement are listed in the Exhibit Index to this Registration Statement, which Index is incorporated herein by reference.

II-1

Item 17. Undertakings.

Insofar as indemnification for liabilities arising under the Securities Act of 1933 may be permitted to directors, officers and controlling persons of the registrant pursuant to the provisions described under Item 14 above, or otherwise, the registrant has been advised that in the opinion of the Securities and Exchange Commission such indemnification is against public policy as expressed in the Act and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by the registrant of expenses incurred or paid by a director, officer or controlling person of the registrant in the successful defense of any action, suit or proceeding) is asserted by such director, officer or controlling person in connection with the securities being registered, the registrant will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by it is against public policy as expressed in the Act and will be governed by the final adjudication of such issue.

The undersigned registrant hereby undertakes that:

(1) For purposes of determining any liability under the Securities Act of 1933, the information omitted from the form of prospectus filed as part of this registration statement in reliance upon Rule 430A and contained in a form of prospectus filed by the registrant to Rule 424(b)(1) or (4) or 497(h) under the

Securities Act shall be deemed to be part of this registration statement as of the time it was declared effective.

(2) For the purpose of determining any liability under the Securities Act of 1933, each post-effective amendment that contains a form of prospectus shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof.

II-2

SIGNATURES

Pursuant to the requirements of the Securities Act of 1933, the Registrant has duly caused this amendment to the Registration Statement to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Topeka, State of Kansas on May 18th, 2001.

Westar Industries, Inc.
(Registrant)

By: /s/ Paul R. Geist
Paul R. Geist
President

Pursuant to the requirements of the Securities Act of 1933, this amendment to the Registration Statement has been signed below by the following persons, in the capacities and on the dates indicated.

Signature -----	Title -----	Date ----
<u>/s/ Paul R. Geist</u> Paul R. Geist	Director and President (Principal Executive Officer)	May 18, 2001
<u>/s/ Greg A. Greenwood*</u> Greg A. Greenwood	Treasurer and Secretary (Principal Financial Officer and Principal Accounting Officer)	May 18, 2001
<u>/s/ Carl M. Koupal*</u> Carl M. Koupal	Director	May 18, 2001
<u>/s/ Douglas T. Lake*</u> Douglas T. Lake	Director	May 18, 2001
<u>/s/ David C. Wittig*</u> David C. Wittig	Director	May 18, 2001
<u>/s/ Paul R. Geist</u>		

*By: Attorney-in-Fact

II-3

WESTAR INDUSTRIES, INC.

SCHEDULE II--VALUATION AND QUALIFYING ACCOUNTS

Description	Balance at beginning of period	Charged to costs and expenses	Charged to other accounts	Deductions	Balance at end of period
-----	-----	-----	-----	-----	-----
Year ended December 31, 1998					
Allowances deducted from assets for doubtful accounts.....	\$5,230	\$13,934	\$2,289	\$(1,310)	\$20,143
Monitored services special charge (a)...	3,856	--	--	(2,831)	1,025
Accrued exit fees, change in shut-down and severance costs (b)...	--	22,900	--	--	22,900
Year ended December 31, 1999					
Allowances deducted from assets for doubtful accounts.....	20,143	21,706	--	(11,035)	30,814
Monitored services special charge (a)...	1,025	--	--	(1,025)	--
Accrued exit fees, shut-down and sever- ance costs (b).....	22,900	(5,632)	--	(16,888)	380
Year ended December 31, 2000					
Allowances deducted from assets for doubtful accounts.....	30,814	23,691	--	(8,688)	45,817
Accrued exit fees, shut-down and sever- ance costs (b).....	380	--	--	--	380

(a) Consists of costs to close duplicate facilities and severance and compensation benefits.

(b) See Note 17 of Notes to Consolidated Financial Statements for further information.

INDEX TO EXHIBITS

Exhibit
Number
-----Exhibit

- 3.1 Amended and Restated Articles of Incorporation.**
- 3.1.1 Certificate of Correction to Amended and Restated Articles of Incorporation.**
- 3.1.2 Certificate of Correction to Amended and Restated Articles of Incorporation.*
- 3.2 Amended and Restated Bylaws.**
- 4.1 Form of specimen Common Stock certificate.**
- 4.2 Form of Rights Agreement between Westar Industries and BNY Midwest Trust Company, as rights agent.**
- 4.3 Indenture dated as of May 17, 1995, among Monitoring, as issuer, Protection One and certain subsidiaries, as guarantors, and The First National Bank of Boston ("FNBB"), as trustee (incorporated by reference to Exhibit 4.1 to the Registration Statement on Form S-4 (Registration No. 33-94684) originally filed by Protection One on July 18, 1995).
- 4.4 First Supplemental Indenture dated as of July 26, 1996, among Monitoring, as issuer, Protection One and certain subsidiaries, as guarantors, and State Street Bank and Trust Company ("SSBTC"), as successor to FNBB, as trustee (incorporated by reference to Exhibit 4.2 to the Annual Report on Form 10-K filed by Protection One and Monitoring for the year ended September 30, 1996 (File No. 0-24780) (the "Protection One 1996 Form 10-K")).
- 4.5 Second Supplemental Indenture dated as of October 28, 1996, among Monitoring, as issuer, Protection One and another subsidiary, as guarantors, and SSBTC, as trustee (incorporated by reference to Exhibit 4.3 to the Protection One 1996 Form 10-K).
- 4.6 Third Supplemental Indenture dated as of February 14, 2000, among Monitoring, as issuer, Protection One and certain of its subsidiaries, as guarantors, and SSBTC, as trustee (incorporated by reference to Exhibit 4.4 to the Annual Report on Form 10-K filed by Protection One and Monitoring for the year ended December 31, 2000 (File No. 0-24780) (the "Protection One 2000 Form 10-K")).
- 4.7 Subordinated Debt Shelf Indenture dated as of August 29, 1996, among Monitoring, as issuer, Protection One, as guarantor, and SSBTC, as trustee (incorporated by reference to Exhibit 4.3 to the Registration Statement on Form S-3 (File No. 333-09401) originally filed by Monitoring and, inter alia, Protection One on August 1, 1996).
- 4.8 Supplemental Indenture No. 1 dated as of September 20, 1996, among Monitoring, as issuer, Protection One, as guarantor, and SSBTC, as trustee (incorporated by reference to Exhibit 4.1 to the Current Report on Form 8-K filed by Protection One and Monitoring and dated September 20, 1996 (File No. 0-24780)).
- 4.9 Supplemental Indenture No. 2 dated as of October 28, 1996, among Monitoring, as issuer, Protection One, inter alia, as guarantor, and SSBTC, as trustee (incorporated by reference to Exhibit 4.6 to the Protection One 1996 Form 10-K).
- 4.10 Supplemental Indenture No. 3 dated as of February 14, 2000, among Monitoring, as issuer, and certain of its subsidiaries, as guarantors, and SSBTC, as trustee (incorporated by reference to Exhibit 4.8 to the Protection One 2000 Form 10-K).
- 4.11 Indenture, dated as of August 17, 1998, among Monitoring, as issuer, Protection One and certain subsidiaries, as guarantors, and The Bank of New York, as trustee (incorporated by reference to Exhibit 4.1 to the Registration Statement on Form S-4 (File No. 333-64021) filed by Protection One and Monitoring on September 22, 1998).
- 4.12 Supplemental Indenture dated as of January 25, 1999, among Monitoring, as issuer, certain subsidiaries of Monitoring, as guarantors, and The Bank of New York, as trustee.**

Exhibit
Number
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- 4.13 Indenture, dated as of December 21, 1998, among Monitoring, as issuer, Protection One, as guarantor, and The Bank of New York, as trustee (incorporated by reference to Exhibit 4.8 to the Annual Report on Form 10-K filed by Protection One and Monitoring for the year ended December 31, 1998 (File No. 0-24780) (the "Protection One 1998 Form 10-K")).
- 5 Opinion of Richard D. Terrill, Esq.**
- 10.1 Westar Industries 2001 Long Term Incentive Compensation and Share Award Plan.**
- 10.2 Westar Industries Employee Stock Purchase Plan.**
- 10.3 Westar Industries Short Term Incentive Plan.**
- 10.4 Asset Allocation and Separation Agreement between Westar Industries and Western Resources (incorporated by reference to Exhibit 99.2 to the Current Report on Form 8-K filed by Western Resources on November 17, 2000 (the "Western Resources 8-K")).
- 10.5 Form of Service Agreement between Westar Industries and Western Resources.**
- 10.6 Form of Tax Disaffiliation Agreement between Westar Industries and Western Resources.**
- 10.7 Form of Stock Purchase Option Agreement between Westar Industries and Western Resources.**
- 10.8 Form of Stockholder Agreement between Westar Industries and HVOLT Enterprises Inc.**
- 10.9 Form of Registration Rights Agreement between Westar Industries, Inc. and HVOLT Enterprises, Inc.**
- 10.10 Shareholder Agreement dated as of November 26, 1997 between ONEOK (formerly known as WAI, Inc.) and Western Resources.*
- 10.11 Contribution Agreement dated as of July 30, 1997 (the "Contribution Agreement"), between Western Resources and Protection One (incorporated by reference to Exhibit 2.1 to the Current Report on Form 8-K filed by Protection One and Monitoring dated July 30, 1997 (File No. 0-24780)).
- 10.12 Amendment No. 1 dated October 2, 1997 to the Contribution Agreement (incorporated by reference to Exhibit 99.1 to the Current Report of Form 8-K filed by Protection One and Monitoring dated October 2, 1997 (File No. 0-24780)).
- 10.13 Amendment No. 2 dated February 29, 2000 to the Contribution Agreement (incorporated by reference to Exhibit 10.2 to the Current Report on Form 8-K filed by Protection One and Monitoring dated February 29, 2000 (File No. 0-24780)).
- 10.14 Revolving Credit Agreement among Monitoring, as borrower, NationsBank, N.A., administrative agent, First Union National Bank, as syndication agent, Toronto Dominion (Texas), Inc., as documentation agent, and the Lenders named therein, dated December 21, 1998 (the "Revolving Credit Agreement") (incorporated by reference to Exhibit 10.11 to the Protection One 1998 Form 10K).
- 10.15 First Amendment to the Revolving Credit Agreement, dated as of February 26, 1999 (incorporated by reference to Exhibit 10.12 to the Protection One 1998 Form 10-K).
- 10.16 Agreement, dated as of February 29, 2000, by and among Protection One, Monitoring, and Westar Industries (incorporated by reference to Exhibit 10.1 to the Current Report on Form 8-K filed by Protection One and Monitoring dated February 29, 2000 (File No. 0-24780)).
- 10.17 Second Amendment to the Revolving Credit Agreement, effective as of February 29, 2000, between Monitoring and Westar Industries, as Administrative Agent and a Lender (incorporated by reference to Exhibit 10.3 to the Current Report on Form 8-K filed by Protection One and Monitoring dated February 29, 2000 (File No. 0-24780)).
- 10.18 Third Amendment to the Revolving Credit Agreement, dated as of January 2, 2001, between Monitoring and Westar Industries, Inc., as Administrative Agent and a Lender. (incorporated by reference to Exhibit 10.15 to the Protection One 2000 10-K).

E-2

Exhibit
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- 10.19 Fourth Amendment to the Revolving Credit Agreement, dated as of February 28, 2001, between Monitoring and Westar Industries, Inc., as Administrative Agent and a Lender. (incorporated by reference to Exhibit 10.16 to the Protection One 2000 10-K).
- 10.20 Service Agreement between Protection One and Western Resources.**
- 10.21 Tax Sharing Agreement between Protection One and Western Resources.**
- 10.22 Amendment No. 1 dated May 2, 2001 to the Asset Allocation and Separation Agreement between Westar Industries and Western Resources.*
- 21.1 Subsidiaries of Westar Industries.**
- 23.1 Consent of Richard D. Terrill, Esq. (contained in Exhibit 5).**
- 23.2 Consent of Arthur Andersen LLP.*
- 23.3 Consent of KPMG LLP.*
- 24 Power of Attorney.**
- 24.1 Power of Attorney for David C. Wittig.**
- 99.1 Form of Letter to Western Resources Shareholders.*
- 99.2 Form of Instructions to Westar Industries as to use of Rights Certificates.*
- 99.3 Form of Notice of Guaranteed Delivery for Rights Certificates.*
- 99.4 Form of Letter to Securities Dealers, Commercial Banks, Brokers, Trust Companies and Other Nominees.*
- 99.5 Form of Broker Letter to Clients.*
- 99.6 Omitted.
- 99.7 Form of Nominee Holder Certification Form.*
- 99.8 Form of Specimen Rights Certificate.*
- 99.9 Consent of Howard A. Christensen, a Director nominee.**
- 99.10 Consent of R.A. Edwards, a Director nominee.**
- 99.11 Consent of Pack St. Clair, a Director nominee.**
- 99.12 Form of Instructions for 401(k) Subscription Forms.*
- 99.13 Form of Notice to Participants in the Western Resources, Inc. Employees' 401(k) Savings Plan and Protection One 401(k) Plan.*
- 99.14 Form of 401(k) Subscription Form.*
- 99.15 Order of the Kansas Corporation Commission dated May 8, 2001.*

* Filed herewith.

** Previously filed.

E-3

EXHIBIT 3.1.2

CERTIFICATE OF CORRECTION
OF THE
AMENDMENT AND RESTATED ARTICLES OF INCORPORATION
OF
WESTAR INDUSTRIES, INC.

Westar Industries, Inc., a Kansas corporation (the "Corporation"), by its President and Secretary, acting pursuant to Section 17-6003(f) of the General Corporation Code of the State of Kansas, does hereby certify as follows:

1. Amended and Restated Articles of Incorporation of the Corporation were filed with the Secretary of State of Kansas on April 11, 2001. The third introductory paragraph of the Amended and Restated Articles of Incorporation contains an error in that the reference to "Section 17-6601" of the General Corporation Code of the State of Kansas ("KGCC") should instead be a reference to Section 17-6602 of the KGCC. Accordingly, the third introductory paragraph of the Amended and Restated Articles is hereby corrected to read as follows:

Pursuant to and in accordance with Sections 17-6602 and 17-6605 of the General Corporation Code of the State of Kansas, the original Articles of Incorporation of the Corporation are hereby amended and restated by the unanimous consents of the directors and sole stockholder of the Corporation dated as of April 11, 2001, to read in its entirety as follows:

IN WITNESS WHEREOF, the Corporation has caused this Certificate of Correction to be executed by the President of the Corporation and attested by the Secretary of the Corporation as of the 16th day of April, 2001.

/s/ Paul R. Geist

Paul R. Geist
President

/s/ Greg. A. Greenwood

Greg. A. Greenwood
Secretary

EXHIBIT 10.10

SHAREHOLDER AGREEMENT. dated as of November 26, 1997 (this "Agreement"), between WAI, Inc., an Oklahoma corporation (the "Company") and Western Resources, Inc., a Kansas corporation (the "Shareholder").

W I T N E S S E T H:

WHEREAS, the Shareholder, the Company, and ONEOK, Inc., a Delaware corporation ("ONEOK") have entered into an Agreement, dated as of December 12, 1996, amended and restated as of May 19, 1997 (the "Merger Agreement"), pursuant to which ONEOK has been merged with and into the Company (the "Merger") and the Shareholder has acquired pursuant to the transactions contemplated thereby Beneficial Ownership (as defined in Article I hereof) of 2,996,702 shares of common stock of the Company, par value \$.01 per share (the "Common Stock") and 19,317,584 shares of Series A Convertible Preferred Stock of the Company, par value \$.01. per share (together with the Company's Series B Convertible Preferred Stock, the "Convertible Preferred Stock");

WHEREAS, prior to the consummation of the Merger (the "Closing"), the Company and the Shareholder desire to establish in this Agreement certain terms and conditions concerning the acquisition and disposition of securities of the Company by the Shareholder, and related provisions concerning the Shareholder's relationship with and investment in the Company; and

WHEREAS, concurrently with the execution and delivery hereof, the Company and the Shareholder are entering into a Registration Rights Agreement, dated as of the date hereof (the "Registration Rights Agreement"), in the form attached hereto as Exhibit A.

NOW, THEREFORE, in consideration of the mutual covenants and agreements set forth herein and for other good and valuable consideration, receipt and sufficiency of which is hereby acknowledged, the parties hereto hereby agree as

follows:

ARTICLE I

Certain Definitions

Section 1.1.

In addition to other terms defined elsewhere in this Agreement, as used in this Agreement, the following terms shall have the meanings ascribed to them below:

"Adjusted Maximum Ownership Percentage" shall mean the Maximum Ownership Percentage minus 10.0%.

-2-

"Affiliate" shall mean, with respect to any person, any other person that directly or indirectly through one or more intermediaries controls or is controlled by or is under common control with such person. For the purposes of this definition, "control," when used with respect to any particular person, means the power to direct the management and policies of such person, directly or indirectly, whether through the ownership of voting securities, by contract or otherwise; and the terms "controlling" and "controlled" have meanings correlative to the foregoing.

"Agreement" shall have the meaning assigned to such term in the introduction hereto.

"Beneficial Owner" (and, with correlative meanings, "Beneficially Own" and "Beneficial Ownership") of any interest means a Person who, together with his or its Affiliates, is or may be deemed a beneficial owner of such interest for purposes of Rule 13d-3 or 13d-5 under the Exchange Act, or who, together with his or its Affiliates, has the right to become such a beneficial owner of such interest (whether such right is exercisable immediately or only after the passage of time) pursuant to any agreement, arrangement or understanding, or upon the exercise, conversion or exchange of any warrant, right or other instrument, or otherwise.

"Board" shall mean the Board of Directors of the Company in office at the applicable time, as elected in accordance with the By-laws of the Company and with the provisions of this Agreement.

"Buy-Back Offer" shall have the meaning assigned to such term in Section 3.5(a) hereof.

"Buyout Tender Offer" shall have the meaning assigned to such term in Section 3.6(b) hereof.

"Buy/Sell Notice" shall have the meaning assigned to such term in Section 3.6(a) hereof.

"Buy/Sell Option" shall have the meaning assigned to such term in Section 3.6(a) hereof.

"Buy/Sell Price" shall have the meaning assigned to such term in Section 3.6(a) hereof.

"By-laws" shall mean the by-laws of the Company, in the form specified in the Merger Agreement, as they may be amended from time to time.

"Change in Control" shall mean the occurrence of any one of the following events:

(1) any Person (other than the Shareholder Group) becoming the Beneficial Owner, directly or indirectly, of Voting Securities, pursuant to the consummation of a

-3-

merger, consolidation, sale of all or substantially all of the Company's assets, share exchange or similar form of corporate transaction involving the Company or any of its subsidiaries that requires the approval of the Company's shareholders, whether for such transaction or the issuance of securities in such transaction, so as to cause such Person's Voting Ownership Percentage to exceed the Control Percentage (as defined below); provided, however, that the event described in this paragraph (1) shall not be deemed to be a Change in Control if it occurs as the result of any of the following acquisitions: (A) by any employee benefit plan sponsored or maintained by the Company or any Affiliate, or (B) by any underwriter temporarily holding securities pursuant to an offering of such securities;

(2) the consummation of a merger, consolidation, sale of all or substantially all of the Company's assets, share exchange or similar form of corporate transaction involving the Company or any of its subsidiaries that requires the approval of the Company's shareholders, whether for such transaction or the issuance of securities in such transaction, unless immediately following such transaction more than 50% of the total voting power of (x) the corporation resulting from such transaction, or (y) if applicable, the ultimate parent corporation that directly or indirectly has Beneficial Ownership of 100% of the voting securities eligible to elect directors of such resulting corporation, is represented by Voting Securities that were outstanding immediately prior to such transaction (or, if applicable, shares into which such Voting Securities were converted pursuant to such transaction), and such voting power among the holders of such Voting Securities that were outstanding immediately prior to such transaction is in substantially the same proportion as the voting power of such Voting Securities among the holders thereof immediately prior to such transaction; or

(3) the consummation of a plan of complete liquidation or dissolution of the Company.

"Charter" shall mean the Certificate of Incorporation of the Company, in the form specified in the Merger Agreement, as it may be amended from time to time.

"Clearly Credible Tender Offer" shall mean any bona fide offer, tender offer or exchange offer that is subject to Section 14 of the Exchange Act, other than any such offer with respect to which (i) the Board of Directors of the Company is advised in writing by outside counsel of recognized standing that the consummation of such offer would be in violation of applicable law, or (ii) the party making such offer has not obtained as of the date of the commencement of such offer definitive commitment letters from reputable financial institutions in customary form with respect to the financing of such offer.

"Closing" shall have the meaning assigned in the second recital of this Agreement.

-4-

"Commission" shall mean the United States Securities and Exchange Commission.

"Common Stock" shall have the meaning assigned in the first recital of this Agreement.

"Company" shall have the meaning assigned in the introduction of this Agreement.

"Company Decision Period" shall have the meaning assigned in Section 3.6(c)(i) hereof.

"Company Repurchase Notice" shall have the meaning assigned to such term in Section 3.5(b) hereof.

"Control Percentage" shall mean a Voting Ownership Percentage of 15%, during the period prior to a Regulatory Change, and a Voting Ownership Percentage of 35% thereafter.

"Conversion" shall mean the conversion of shares of Convertible Preferred Stock into shares of Common Stock pursuant to the Charter.

"Convertible Preferred Stock" shall have the meaning assigned in the first recital of this Agreement.

"Dilutive Issuance" shall have the meaning assigned in Section 3.3(a)(iii) of this Agreement.

"Dilutive Issuance Right" shall have the meaning assigned in Section 3.3(a)(iii) of this Agreement

"Director" shall mean any member of the Board of Directors of the Company in office at the applicable time, as elected in accordance with the provisions of the By-laws of the Company.

"Dividend Premium" with respect to any share of Series A Convertible Preferred Stock calculated at any time, shall be equal to the aggregate of the present values as of the date of the Closing (assuming a discount rate of 9.25%) of the excess of (x) each quarterly dividend actually paid by the Company to the Shareholder Group with respect to such share of Series A Convertible Preferred Stock over (y) \$0.45.

"Excess Buy-Back Shares" shall have the meaning assigned to such term in Section 3.5(a) hereof.

"Exchange Act" shall mean the Securities Exchange Act of 1934, as amended.

-5-

"Independent Director" shall mean any person who is not a Shareholder Nominee and is independent of and otherwise unaffiliated with any member of the Shareholder Group, and who is not a director, officer, employee, consultant or advisor (financial, legal or other) of any member of the Shareholder Group and has not served in any such capacity in the previous three (3) years.

"Initial Shareholder Nominees Notice" shall have the meaning assigned in Section 4.1(b) of this Agreement.

"Initial Shareholder Nominees" shall have the meaning assigned in Section 4.1(b) of this Agreement.

"Market Price" for a Security of the Company shall mean the average of the closing prices for such Security for the twenty (20) Trading Days immediately prior to the date on which the Market Price is being determined; provided, however, that in the event that the current per share market price of such security is determined during a period following the announcement by the Company

of (a) a dividend or distribution on such security payable in shares of such security or securities convertible into such shares, or (b) any subdivision, combination or reclassification of such security and prior to the expiration of 20 Trading Days after the ex-dividend date for such dividend or dissolution, or the record date for such subdivision, combination or reclassification, then, and in each such case, the current per share market price shall be appropriately adjusted to take into account ex-dividend trading or the effects of such subdivision, combination or reclassification. The closing price for each day shall be the last sale price, regular way, or, in case no such sale takes place on such day, the average of the closing bid and asked prices, regular way, in either case as reported in the principal consolidated transaction reporting system with respect to securities listed or admitted to trading on the New York Stock Exchange or, if such security is not listed or admitted to trading on the New York Stock Exchange, as reported in the principal consolidated transaction reporting system with respect to securities listed on the principal national securities exchange on which such security is listed or admitted to trading or, if such security is not listed or admitted to trading on any national securities exchange, the last quoted price or, if not so quoted, the average of the high bid and low asked prices in the over-the-counter market, as reported by the National Association of Securities Dealers, Inc. Automated Quotations System or such other system then in use, or, if on any such date such security is not quoted by any such organization, the average of the closing bid and asked prices as furnished by a professional market maker making a market in such security selected by a majority of the Board or, if on any such date no market maker is making a market in such security, the fair value as determined in good faith by a majority of the Board based upon the opinion of an independent investment banking firm of recognized standing.

-6-

"Make Whole Payment" shall have the meaning assigned to such term in Section 3.11 hereof.

"Maximum Ownership Percentage" shall mean, calculated at a particular point in time, a Total Ownership Percentage of 45.0%, less the Voting Power represented by all Voting Securities Transferred by the Shareholder Group during the term of this Agreement (including the Voting Power represented by any shares of Convertible Preferred Stock which were converted into shares of Common Stock contemporaneously with such Transfer pursuant to the terms of this Agreement).

"Merger" shall have the meaning set forth in the first recital of this Agreement.

"Merger Agreement" shall have the meaning set forth in the first recital of this Agreement.

"1935 Act" shall mean the Public Utility Holding Act of 1935, as amended.

"NYSE" shall mean the New York Stock Exchange.

"ONEOK" shall have the meaning assigned in the first recital of this Agreement.

"Opt-out Amendment" shall have the meaning assigned in Section 4.3(c) hereof.

"Person" shall mean any individual, partnership, joint venture, corporation, trust, unincorporated organization, government or department or agency of a government

"Quarterly Pay Down Amount" shall mean the Total Per Share Pay Down Amount divided by 20.

"Registration Rights" shall mean the rights and obligations of the Shareholder Group and the corresponding rights and obligations of the Company set forth in the Registration Rights Agreement.

"Registration Rights Agreement" shall have the meaning assigned in the third recital of this Agreement.

A "Regulatory Change" will be deemed to have occurred, with respect to all or any one of the provisions of this Agreement, upon the receipt by the Shareholder of an opinion of the Shareholder's counsel (which counsel must be reasonably acceptable to the Company) to the effect that either (1) the 1935 Act has been repealed, modified, amended or otherwise changed or (2) the Shareholder has received an exemption, or, in the unqualified opinion of such counsel, is entitled without any regulatory approval to claim an exemption, or has received an approval or no-action letter from the Securities and Exchange Commission or its

-7-

staff under the 1935 Act or has registered under the 1935 Act or any combination of the foregoing, and as a consequence of (1) and/or (2) the Shareholder may fully and legally exercise the rights set forth in such provision(s) of this Agreement which take effect in the period after a Regulatory Change has occurred.

"Repurchase" shall have the meaning assigned in Section 3.5(a) of this Agreement

"Rights Agreement" means the Shareholder Protection Rights Agreement, dated as of the date hereof, attached hereto as Exhibit B.

"Sale Notice" shall have the meaning assigned in Section 3.4(b)(i) of this Agreement.

"Sale Option" shall have the meaning assigned in Section 3.4(b) of this Agreement.

"Sale Period" shall have the meaning assigned in Section 3.4(b)(ii) of this Agreement.

"Sale Securities" shall have the meaning assigned in Section 3.4.(b)(i) of this Agreement.

"Securities" shall mean any equity securities of the Company.

"Securities Act" shall mean the Securities Act of 1993, as amended.

"Seller" shall have the meaning assigned in Section 3.4 of this Agreement.

"Series A Convertible Preferred Stock" shall mean the Series A Convertible Preferred Stock, par value \$.01 per share, of the Company.

"Series B Convertible Preferred Stock" shall mean the Series B Convertible Preferred Stock, par value \$.01 per share, of the Company.

"Shareholder" shall have the meaning assigned in the introduction to this Agreement.

"Shareholder Affiliate" shall mean any Affiliate of the Shareholder.

"Shareholder Group" shall mean the Shareholder, any Shareholder Affiliate and any Person with whom any Shareholder or any Affiliate of any Shareholder is part of a 13D Group.

"Shareholder Nominees" shall have the meaning set forth in Section 4.1(d) of this Agreement.

"Successor Shareholder Nominee Notice" shall have the meaning assigned in Section 4.1(d) of this Agreement.

- 8 -

"Successor Shareholder Nominees" shall have the meaning assigned in Section 4.1(d) of this Agreement.

"13D Group" shall mean any group of Persons acquiring, holding, voting or disposing of any Voting Security which would be required under Section 13(d) of the Exchange Act and the rules and regulations thereunder to file a statement on Schedule 13D with the Commission as a "person within the meaning of Section 13(d)(3) of the Exchange Act."

"Total Make Whole Amount" shall mean, with respect to any share of Series A Convertible Preferred Stock calculated at any time, an amount equal to the Total Per Share Pay Down Amount minus the sum of (I) the product of (x) the Quarterly Pay Down Amount and (y) the number of quarters since the date of the Closing in which the Company has paid a dividend on the Series A Convertible Preferred Stock of at least \$0.45 per share plus (II) the Dividend Premium with respect to such share through such time.

"Total Ownership Percentage" shall mean, calculated at a particular point in time, the Voting Power which would be represented by the Securities Beneficially Owned by the Person whose Total Ownership Percentage is being determined if all shares of Convertible Preferred Stock (or other Securities convertible into Voting Securities) Beneficially Owned by such Person were converted into shares of Common Stock (or other Voting Security).

"Total Per Share Paydown Amount" shall mean the product of (i) \$35,000,000 divided by (ii) the total number of shares of Series A Convertible Preferred Stock issued at the Closing.

"Total Voting Power" shall mean, calculated at a particular point in time, the aggregate Votes represented by all then outstanding Voting Securities.

"Trading Day", with respect to a Voting Security, shall mean a day on which the principal national securities exchange on which such Voting Security is listed or admitted to trading is open for the transaction of business or, if such security is not listed or admitted to trading on any national securities exchange, any day other than a Saturday, Sunday or a day on which banking institutions in the City of New York are authorized or obligated to close.

"Transfer" shall mean any sale, transfer, pledge, encumbrance or other disposition to any Person, and to "Transfer" shall mean to sell, transfer, pledge, encumber or otherwise dispose of to any Person.

"Unrestricted Ownership Percentage" shall mean a Voting Ownership Percentage of 9.9%.

"Votes" shall mean votes entitled to be cast generally in the election of Directors, not including the votes that would be able to be cast by holders of shares of Convertible Preferred

- 9 -

Stock upon Conversion to shares of Common Stock unless such Conversion shall occur or be deemed to occur.

"Voting Ownership Percentage" shall mean, calculated at a particular point in time, the Voting Power represented by the Voting Securities Beneficially Owned by the Person whose Voting Ownership Percentage is being determined.

"Voting Power" shall mean, calculated at a particular point in time, the ratio, expressed as a percentage, of (a) the Votes represented by the Voting Securities with respect to which the Voting Power is being determined to (b) Total Voting Power.

"Voting Securities" shall mean the Common Stock and shares of any other class of capital stock of the Company then entitled to vote generally in the election of Directors, and shall not include Convertible Preferred Stock (or other Securities convertible into Voting Securities) prior to Conversion into Common Stock (or other Voting Security).

ARTICLE II

Representations and Warranties

Section 2.1. Representations and Warranties of the Company.

The Company represents and warrants to the Shareholder as of the date hereof as follows:

(a) The Company has been duly incorporated and is validly existing as a corporation in good standing under the laws of the State of Oklahoma and has all necessary corporate power and authority to enter into this Agreement and to carry out its obligations hereunder.

(b) This Agreement has been duly and validly authorized by the Company and all necessary and appropriate action has been taken by the Company to execute and deliver this Agreement and to perform its obligations hereunder.

(c) This Agreement has been duly executed and delivered by the Company and assuming due authorization and valid execution and delivery by the Shareholder, this Agreement is a valid and binding obligation of the Company, enforceable in accordance with its terms.

Section 2.2. Representations and Warranties of the Shareholder.

The Shareholder represents and warrants to the Company as of the date hereof as follows:

-10-

(a) The Shareholder has been duly incorporated and is validly existing as a corporation in good standing under the laws of the State of Kansas and has all necessary corporate power and authority to enter into this Agreement and to carry out its obligations hereunder.

(b) This Agreement has been duly and validly authorized by the Shareholder and all necessary and appropriate action has been taken by the Shareholder to execute and deliver this Agreement and to perform its obligations hereunder.

(c) This Agreement has been duly executed and delivered by the Shareholder and assuming due authorization and valid execution and delivery by the Company, this Agreement is a valid and binding obligation of the Shareholder, enforceable in accordance with its terms.

(d) As of the effectiveness of this Agreement the Shareholder Group Beneficially Owns 2,996,702 shares of Common Stock and 19,317,584 shares of Series A Convertible Preferred Stock and does not Beneficially Own any other Voting Security, warrant option, convertible security or other similar right to acquire Common Stock or shares of any other class of capital stock of the Company which are entitled to vote generally in the election of directors.

ARTICLE III

Shareholder and Company Conduct

Section 3.1. Standstill Provision.

Subject to the provisions of this Agreement during the term of this Agreement, the Shareholder agrees with the Company that without the prior approval of a majority of the Board, the Shareholder will not, and will cause each Shareholder Affiliate not to, take any of the following actions:

(a) prior to the occurrence of a Regulatory Change, but not thereafter, singly or as part of a partnership, limited partnership, syndicate or other 13D Group, directly or indirectly, acquire Beneficial Ownership of any Voting Security so as to cause the Shareholder Group's Voting Ownership Percentage to exceed the Unrestricted Ownership Percentage;

(b) singly or as part of a partnership, limited partnership, syndicate or other 13D Group, directly or indirectly, acquire, propose to acquire, or publicly announce or otherwise disclose an intention to propose to acquire, or offer or agree to acquire, by purchase or otherwise, Beneficial Ownership of any Security so as to cause the Share-

-11-

holder Group's Total Ownership Percentage to exceed the Maximum Ownership Percentage;

(c) deposit (either before or after the date of the execution of this Agreement) any Security in a voting trust or subject any Security to any similar arrangement or proxy with respect to the voting of such Security;

(d) make, or in any way participate, directly or indirectly, in any "solicitation" of "proxies", or become a "Participant" in a "solicitation" (as such terms are used in Regulation 14A under the Exchange Act) to seek to advise or influence any person to vote against any proposal or director nominee recommended to the shareholders of the Company or any of its subsidiaries by at least a majority of the Board of Directors;

(e) form, join or in any way participate, in a 13D Group with respect to any Security of the Company or any securities at its subsidiaries;

(f) commence (including by means of proposing or publicly announcing or otherwise disclosing an intention to propose, solicit, offer, seek to effect or negotiate) a merger, acquisition or other business combination transaction relating to the Company;

(g) initiate a "proposal," as such term is used in Rule 14a-8 under the Exchange Act, "propose", or otherwise solicit the approval of, one or more stockholders for a "proposal" or induce or attempt to induce any other person to initiate a "proposal";

(h) otherwise act, alone or in concert with others, to seek to control

or influence the management, the Board or policies of the Company;

(i) take any other action to seek or effect control of the Company other than in a manner consistent with the terms of this Agreement

This Section 3.1 shall not be interpreted to restrict the Shareholder or any Shareholder Affiliate from taking any action or exercising any right consistent with the terms of this Agreement, including engaging in private and confidential discussions with the Board or the management of the Company. In addition, this section shall not be deemed to restrict the Shareholder Nominees from participating as board members in the direction of the Company.

Section 3.2. Required Reduction of Ownership Percentage.

If at any time the Shareholder becomes aware that the Shareholder Group's Total Ownership Percentage (excluding Excess Buy-Back Securities) exceeds the Maximum Ownership Percentage and/or, prior to the occurrence of a Regulatory Change and not thereafter, that

-12-

the Shareholder Group's Voting Ownership Percentage (excluding Excess Buy-Back Securities) exceeds the Unrestricted Ownership Percentage, in each case other than as permitted pursuant to the terms of this Agreement, then the Shareholder shall, or shall cause the Shareholder Affiliates to, consistent with the provisions of Section 3.4 of this Agreement, promptly take all action necessary to reduce the amount of Securities or Voting Securities, as the case may be, Beneficially Owned by the Shareholder Group such that the Shareholder Group's Total Ownership Percentage (excluding Excess Buy-Back Securities) is not greater than the Maximum Ownership Percentage and that the Shareholder Group's Voting Ownership Percentage (excluding Excess Buy-Back Securities) is not greater than the Unrestricted Ownership Percentage, as the case may be.

Section 3.3. Top-Up Rights; Dilutive Issuance Right

(a) During the term of this Agreement and prior to the occurrence of a Regulatory Change, but not thereafter:

(i) if the Shareholder Group's Voting Ownership Percentage falls below the Unrestricted Ownership Percentage, the Shareholder may at its option (A) purchase Voting Securities from time to time in the open market or otherwise or (B) convert shares of Convertible Preferred Stock into shares of Common Stock pursuant to the terms of the Charter, in each case in an amount sufficient in order to restore the Shareholder Group's Voting Ownership Percentage to the Unrestricted Ownership Percentage.

(ii) If the Shareholder Group's Total Ownership Percentage falls below the Maximum Ownership Percentage, the Shareholder may at its option purchase Voting Securities from time to time in the open market or otherwise in an amount sufficient in order to restore the Shareholder Group's Total Ownership Percentage to the Maximum Ownership Percentage; provided, however, that the Shareholder shall present for exchange, and the Company shall exchange at no cost to the Shareholder, Common Stock purchased pursuant to this paragraph for shares of Series B Convertible Preferred Stock (at a ratio of one share of Series B Convertible Preferred Stock in exchange for each share of Common Stock (as appropriately adjusted to reflect any stock split, stock dividend, reverse stock split, reclassification or any other transaction with a comparable effect)) in an amount sufficient to ensure that the Shareholder Group is in compliance with its obligations under Section 3.1 (a) hereof.

(iii) If the Shareholder Group's Total Ownership Percentage would fall below the Maximum Ownership Percentage as a result of any security issuance (a "Dilutive Issuance") by the Company, except as provided in paragraph 13(a)(y) below, the Shareholder shall have the right (the "Dilutive Issuance Right") to require the Company to issue to the Shareholder (A) additional Common Stock, up to the maximum

-13-

number of such shares that would permit the Shareholder Group to remain in compliance with Section 3.1(a) hereof, and (B) additional shares of Series B Convertible Preferred Stock, up to an amount of such shares of Common Stock and Series B Preferred Stock as may be necessary to restore the Shareholder Group's Total Ownership Percentage to the Maximum Ownership Percentage. Shares of Common Stock or Series B Preferred Stock issued pursuant to the exercise of a Dilutive Issuance Right shall be issued for cash concurrently with the closing of the Dilutive Issuance. The issue price per share for shares of Common Stock and shares of Series B Convertible Preferred Stock issued pursuant to the Dilutive Issuance Right shall be equal to the issue price per share of the Dilutive Issuance. Such issue price shall in turn be equal to the aggregate amount of cash plus the fair market value of any other property received by the Company in consideration of the Dilutive Issuance, divided by the number of shares being issued in such Dilutive Issuance, with such fair market value being determined in good faith by the Board of Directors of the Company, provided that if the Shareholder shall object to such valuation within 30 days of its receipt of notice thereof, then the fair market value of such property shall be determined at the Company's sole expense by an independent nationally recognized financial advisor mutually acceptable to the Shareholder and the Company.

(iv) The Shareholder must provide the Company with notice of its intention to exercise the Dilutive Issuance Right sixty (60) days prior to the expected closing of the Dilutive Issuance, which expected closing date will be provided to the Shareholder by or on behalf of the Company not less than ninety (90) days prior to such expected closing date.

(v) The Company shall not be obligated to provide the Shareholder with a Dilutive Issuance Right (I) in connection with issuances of securities pursuant to employee benefit plans and programs of the Company in the ordinary course of business or (II) which would require the issuance of fewer than 25,000 shares of Series B Convertible Preferred Stock; provided, however, that any share issuances not required to be made pursuant to this clause (II) shall be carried forward and taken into account in determining whether the Company must provide the Shareholder with a subsequent Dilutive Issuance Right. In addition, in the case of any Dilutive Issuance in connection with any acquisition or other business combination transaction, by merger or otherwise, by the Company, the Company shall be required to provide the Shareholder with a Dilutive Issuance Right only to the extent of restoring the Shareholder Group's Total Ownership Percentage to the Adjusted Maximum Ownership Percentage.

(vi) At the Closing, the Shareholder shall be entitled to require the Company to issue to the Shareholder, at a price per share equal to the Market Price as of the date of the Closing, additional Common Stock up to the maximum number of shares that

-14-

would permit the Shareholder Group to remain in compliance with Section 3.1(a) and additional shares of Series A Convertible Preferred Stock so as to restore the Shareholder Group's Total Ownership Percentage to the

Maximum Ownership Percentage.

(b) From time to time following a Regulatory Change and during the term of this Agreement:

(i) If the Shareholder Group's Total Ownership Percentage falls below the Maximum Ownership Percentage, the Shareholder may at its option purchase Voting Securities from time to time in the open market or otherwise in an amount sufficient in order to restore the Shareholder Group's Total Ownership Percentage to the Maximum Ownership Percentage.

(ii) If the Shareholder Group's Total Ownership Percentage would fall below the Adjusted Maximum Ownership Percentage as a result of a Dilutive Issuance by the Company pursuant to primary or secondary offerings, mergers, acquisitions or otherwise, the Shareholder shall have a Dilutive Issuance Right (for the issuance of Common Stock only and not Series B Convertible Preferred Stock) to the extent of restoring the Shareholder Group's Total Ownership Percentage to the Adjusted Maximum Ownership Percentage.

(iii) The Shareholder must provide the Company with notice of its intention to exercise the Dilutive Issuance Right sixty (60) days prior to the expected closing of the Dilutive Issuance, which expected closing date will be provided to the Shareholder by or on behalf of the Company not less than ninety (90) days prior to such expected closing date.

(c) All Securities acquired by purchase or conversion pursuant to this Section 3.3 shall be subject to the terms of this Agreement. In no event shall the Shareholder Group's exercise of the Dilutive Issuance Right be interpreted to be a waiver by the Shareholder of its right to make purchases of Securities pursuant to this Section.

Section 3.4. Restrictions on Transfer.

None of the members of the Shareholder Group shall directly or indirectly Transfer any Securities without the prior written consent of a majority of the Independent Directors, except the following Transfers:

(a) Transfers of Securities representing upon Transfer Voting Power of less than 5.0% to any Transferee, without prior notice to the Company, so long as such Transferee and any Affiliate of such Transferee and any such person who is a member

-15-

of a 13D Group with such Transferee does not have a Voting Ownership Percentage of 5.0% or more immediately prior to giving effect to at the time of each such Transfer.

(b) Transfers of Securities representing upon Transfer Voting Power of 5.0% or more pursuant to the following procedure (the "Sale Option"):

(i) The Seller must provide written notice (a "Sale Notice") of its intention to sell to the Company Securities representing, upon Transfer, Voting Power of 5.00/6 or more (the "Sale Securities"). The Sale Notice shall specify the number of Sale Securities and the cash price per share at which the Company or its designee may purchase the Sale Securities, which cash price shall equal 98.5% of the Market Price of such Sale Securities determined as of the date of the Sale Notice; provided, however, that the cash price per share at which the Company or its designee shall purchase shares of Convertible Preferred Stock pursuant to this subsection shall equal 98.5% of the Market

Price of the Common Stock determined as of the date of the Sale Notice.

(ii) The Company shall have a period ending on the later of ninety (90) days after the date of the Sale Notice and thirty (30) days from the date of receipt of all necessary regulatory approvals (the "Sale Period") (provided, that in no event shall the Sale Period exceed one hundred eighty (180) days) within which to effect a closing of the Company's or its designee's purchase of all, but not less than all, of the Sale Securities.

(iii) If the Company or its designee shall for any reason fail to effect a closing of the purchase of all, but not less than all, of the Sale Securities within the Sale Period, the Company shall at its option inform the Seller in writing that it shall reimburse the Seller for the aggregate difference between the Market Price of the Sale Securities as of the date of the Sale Notice and the Market Price of the Sale Securities as of the date that the Seller completes its transfer of the Sale Securities, in which event such transfer by the Seller must be completed within the later of 180 days from the date of the Sale Notice or 30 days from the receipt of all necessary regulatory approvals. Otherwise, if the Company shall not have so informed the Seller, the Seller shall have 16 months from the date of the Sale Notice to complete such transfer. In the event that such transfer by the Seller is not so completed within the applicable period, the Sale Securities shall thenceforth again be subject to this Section 3.4.

(c) Transfers of Securities to the public in a bona fide underwritten offering pursuant to the Registration Rights Agreement; provided, however, that the Seller and the representative or representatives of the underwriters previously agree in writing with the Company that all reasonable efforts will be made to achieve a wide distribution

-16-

of the Voting Securities in such offering and to ensure that no Transferee in such offering acquires for its own account Beneficial Ownership of Securities representing upon Transfer Voting Power of 5.0% or more.

(d) Transfers of all or part of the Shareholder Group's Securities pursuant to a pro rata distribution of Securities among the shareholders of the Shareholder.

(e) Transfers of Securities among members of the Shareholder Group; provided, however, that any such transferee shall agree with the Company in writing prior to each such transfer to be bound by the terms of this Agreement with respect to its Beneficial Ownership of Securities.

(f) If a Clearly Credible Tender Offer for the Company has been commenced, at the Shareholder's option Transfers of Securities by means of tenders into such Clearly Credible Tender Offer in an amount not exceeding the percentage (on the basis of total Votes and assuming the conversion of all shares of Convertible Preferred Stock into shares of Common Stock) of the Voting Securities of which it is the Beneficial Owner equal to the highest percentage (on the basis of total Votes) of the aggregate of all Voting Securities not Beneficially Owned by any member of the Shareholder Group which has ever been announced to have been tendered into such Clearly Credible Tender Offer.

Section 3.5. Buy-Back Options.

(a) During the term of this Agreement, if the Company purchases Securities from the public, whether by tender offer, open market purchase or otherwise (a "Repurchase"), the Company shall contemporaneously with the Repurchase offer to repurchase from the Shareholder on the same terms and conditions, including price, as in the Repurchase, a percentage (on the basis of total Votes and assuming the conversion of all shares of Convertible Preferred Stock into shares of Common Stock) of those Securities Beneficially Owned by the Shareholder equal to the percentage (on the basis of total Votes and assuming the conversion of all shares of Convertible Preferred Stock into shares of Common Stock) of Securities to be Repurchased from the Beneficial Owners of Securities other than the Shareholder or any Shareholder Affiliate (the "Buy-Back Offer"). The Shareholder may accept such Buy-Back Offer in its sole discretion; provided, however, that in the event of a Repurchase the Shareholder, shall be required to sell Securities or Voting Securities of which it is the Beneficial Owner to the Company in an amount sufficient to ensure that its Total Ownership Percentage does not exceed the Maximum Ownership Percentage and/or, prior to the occurrence of a Regulatory Change and not thereafter, that the Shareholder Group's Voting Ownership Percentage does not exceed the Unrestricted Ownership Percentage, in each case other than as permitted pursuant to the terms of this Agreement; and provided, further that the Shareholder shall not be required to comply with the preceding mandatory sale requirement (i) during any period when

-17-

doing so would cause the Shareholder to incur any liability under Section 16(b) of the Exchange Act or the rules and regulations promulgated thereunder, and (ii) to the extent that compliance with such mandatory sale requirement would have an adverse effect on the availability of pooling-of-interests accounting treatment with respect to any business combination involving the Shareholder or any of the Shareholders subsidiaries that has either been announced or is under bona fide consideration by the Shareholder at the time of such Repurchase, but the Shareholder shall be required to comply with such mandatory sale requirement immediately upon the conditions set forth in (i) and (ii) above no longer being applicable. Any Securities Beneficially Owned by the Shareholder Group as permitted by the preceding sentence which cause the Shareholder Group's Total Ownership Percentage to exceed the Maximum Ownership Percentage and/or, prior to the occurrence of a Regulatory Change and not thereafter, the Shareholder Group's Voting Ownership Percentage to exceed the Unrestricted Ownership Percentage shall be referred to in this Agreement as "Excess Buy-Back Securities."

(b) The Company shall provide notice to the Shareholder of its intention to engage in a Repurchase not less than 30 days in advance of the date on which the Repurchase is to begin (the "Company Repurchase Notice"). The Shareholder must provide notice to the Company within ten (10) days of receipt of the Company Repurchase Notice of (i) whether the Shareholder intends to accept the Buy-Back Offer and (ii) in good faith whether the Shareholder is aware that the Shareholder would be subject to any of the conditions set forth in (i) or (ii) above as a result of such Repurchase.

Section 3.6. Buy/Sell Option.

(a) At the fifteenth and at each succeeding anniversary of the date hereof, if at such times this Agreement remains in force, each of the Shareholder and the Company may at its option (the "Buy/Sell Option") provide notice (the "Buy/Sell Notice") to the other party of a price (the "Buy/Sell Price") at which such notifying party intends in good faith either to sell to the receiving party all, but not less than all, of the Securities Beneficially Owned by the notifying party or to buy from the receiving party all, but not less than all, of the Securities Beneficially Owned by the receiving party; provided, however, that the Buy/Sell Price shall apply equally to shares of Convertible Preferred Stock and shares of Common Stock and provided, further, that all references in

this Section 3.8 to Securities Beneficially Owned by the Company shall be deemed to refer only to outstanding Securities Beneficially Owned by shareholders of the Company other than the Shareholder Group.

(b) Upon receipt by the Shareholder of a Buy/Sell Notice from the Company, the Shareholder Group shall have ninety (90) days (the "Shareholder Decision Period") within which either to (i) agree to sell for cash all, but not less than all, of the Securities Beneficially Owned by the Shareholder Group to the Company at the Buy/Sell Price or (ii) make a bona fide Clearly Credible Tender Offer (a "Buyout Tender Offer") at the Buy/Sell Price for any and

-18-

all Securities Beneficially Owned by the Company, which Buyout Tender Offer the Company hereby agrees not to oppose. A non-waivable condition to the consummation of the Buyout Tender Offer shall be the valid tender into such offer, on or prior to the 20th day following the receipt of all regulatory approvals required for the consummation of such offer, of Voting Securities representing in the aggregate two-thirds (2/3) of the Voting Power represented by all Voting Securities held by shareholders of the Company other than the Shareholder Group.

(c) (i) Upon receipt by the Company of a Buy/Sell Notice from the Shareholder, the Company shall have ninety (90) days (the "Company Decision Period") within which to (A) agree to purchase for cash all but not less than all of the Securities Beneficially Owned by the Shareholder Group at the Buy/Sell Price or (B) agree to seek an opinion from an independent, internationally recognized investment banking firm relating to the fairness to the Company's shareholders of the Offer Price in the Buyout Tender Offer with respect to the acquisition by the Shareholder of all Securities Beneficially Owned by the Company at the Buy/Sell Price.

(ii) If the Company shall not agree to repurchase the Voting Securities Beneficially Owned by the Shareholder Group pursuant to Section 3.6(c)(i) above, the Company shall have the right within ninety (90) days following the end of the Company Decision Period, to obtain the fairness opinion and execute a merger agreement between the Company and any member of the Shareholder Group pursuant to which the Shareholder or a Shareholder Affiliate shall acquire Beneficial Ownership of all remaining Securities at the Buy/Sell Price. The terms of such merger agreement shall include customary provisions regarding the non-solicitation of alternative transactions by the Company and the recommendation of the Merger to the Company's shareholders, if required.

(iii) If the Company fails to satisfy the condition pursuant to Section 3.6(c)(ii) above by the end of such ninety (90) day period, or if the Company cannot obtain a fairness opinion by the end of such ninety (90) day period, this Agreement shall immediately terminate.

(d) If the Shareholder and the Company each provide a Buy/Sell Notice to the other party on the same day, the Buy/Sell Notice containing the higher valued Buy/Sell Price shall be the effective and controlling Buy/Sell Notice. In the event that (i) the Buy/Sell Price set forth in either or both of the Buy/Sell Notices consists of consideration other than cash, and (ii) the parties are unable to reach agreement as to which of the Buy/Sell Prices is higher valued for purposes of this subsection (d), an independent, internationally recognized investment banking firm mutually agreeable to both parties shall conclusively make such determination.

(e) Any purchase by the Company of the Shareholder Group's Securities pursuant to this Section shall be closed within a period ending ninety (90) days after the end of the

-19-

Shareholder Decision Period or the Company Decision Period, as the case may be, or thirty (30) days after the date of receipt of all necessary regulatory approvals, whichever is later.

Section 3.7. Charter and By-laws.

During the term of this Agreement the Company shall not amend, alter or repeal, or propose the amendment, alteration or repeal of, any provision of the Charter or the By-laws in any manner which is inconsistent with the terms of this Agreement and which adversely affects the rights of the Shareholder Group under the terms of this Agreement if at any time during the term of this Agreement the provisions of this Agreement shall conflict with the provisions of the Charter and the By-Laws, the provisions of this Agreement shall be controlling.

Section 3.8. Rights Agreement

During the term of this Agreement, the Company hereby agrees not to amend any provision of the Rights Agreement in any manner which is inconsistent with the terms of this Agreement or the Merger Agreement and which adversely affects the rights of the Shareholder Group under the terms of this Agreement.

Section 3.9. Agreement Not to Convert.

During the term of this Agreement and prior to the occurrence of a Regulatory Change, the Shareholder agrees that it shall not, and shall cause each Shareholder Affiliate not to, Convert shares of Convertible Preferred Stock Beneficially Owned by the Shareholder or any Affiliate into shares of Common Stock except to the extent any such shares of Convertible Preferred Stock are Converted (a) concurrently with the Transfer of such shares to any Person other than the Shareholder or any Shareholder Affiliate or (b) pursuant to the Shareholder's top-up rights as set forth in Section 3.3(a)(i)(B).

Section 3.10. Taxes Upon Conversion or Exchange.

The Company hereby agrees to pay any and all stock transfer and documentary stamp taxes that may be payable in respect of any issuance or delivery of (i) any shares of Convertible Preferred Stock, (ii) any shares of Common Stock issued in a Conversion of shares of Convertible Preferred Stock or (iii) any exchange of shares of Common Stock for shares of Convertible Preferred Stock, or certificates or instruments evidencing any of such shares or securities. The Company shall not, however, be required to pay any such tax which may be payable in respect of any transfer involved in the issuance or delivery of shares of Common Stock in a Conversion of shares of Convertible Preferred Stock in a name other than that in which the shares of such Convertible Preferred Stock were registered.

-20-

Section 3.11. Make Whole Payment.

Immediately upon the Conversion of any share of Series A Preferred Stock, the Company shall pay to the Shareholder an amount (a "Make Whole Payment") with respect to such share equal to the Total Make Whole Amount for such share as of the date of such Conversion; provided, however, that the Company shall not be required to make a Make Whole Payment in respect of the Conversion of fewer than

25,000 shares of Series A Convertible Preferred Stock; provided, further, that any Make Whole Payments not required to be made pursuant to this sentence shall be carried forward and taken into account in determining whether the Company must provide the Shareholder with a subsequent Make Whole Payment.

Section 3.12. Prohibition on Senior Securities.

During the term of this Agreement, the Company hereby agrees that it shall not create, authorize or reclassify any authorized stock of the Company into (x) any class or series of the Company's capital stock ranking prior to the Convertible Preferred Stock as to dividends or as to distributions of assets upon liquidation, dissolution or winding up of the Company, whether voluntary or involuntary, or (y) any class or series of the Company's capital stock entitled to vote separately as a class on any matter whatsoever, other than an amendment to the Charter which would have the effect of modifying the voting powers, designations, preferences, rights and qualifications, limitations or restrictions of such class or series so as to affect the holders thereof adversely, or (z) any security convertible into shares of any class or series described in (x) or (y) above.

ARTICLE IV

Board Representation and Voting

Section 4.1. Directors Designated by the Shareholder.

(a) Immediately following the Closing, the Board shall expand the size of the Board by two (2) Directors and shall appoint as additional Directors the two (2) Initial Shareholder Nominees (as defined in Section 4.1(b) below) who have been designated by the Shareholder in the Initial Shareholder Nominee Notice (as defined in Section 4.1(b) below) attached as Exhibit C hereto. One Initial Shareholder Nominee shall be placed in the class of Directors next standing for election, and the remaining Initial Shareholder Nominee shall be placed in the class of Directors next but one standing for election. Immediately following the occurrence of a Regulatory Change, the Board shall expand the Board as may be necessary and shall appoint additional Initial Shareholder Nominees as designated by the Shareholder in an additional Initial Shareholder Nominee Notice in a number sufficient to ensure that Shareholder Nominees comprise a number of Directors which is (x) 4 Directors if the total size of the Board is 14 or fewer Directors (excluding any Shareholder Nominees) or (y) one-third (rounding down to the

-21-

nearest whole Director) of the Board if the total size of the Board is more than 14 Directors (excluding any Shareholder Nominees). Such additional Initial Shareholder Nominees shall be distributed among the classes of Directors as evenly as possible. In the event of a vacancy caused by the disqualification, removal, resignation or other cessation of service of any Initial Shareholder Nominee from the Board, the Board shall elect as a Director (to serve until the Company's immediately succeeding annual meeting of shareholders) a new Initial Shareholder Nominee who has been designated by the Shareholder in an additional Initial Shareholder Nominee Notice that has been provided to the Company at least seven (7) days prior to the date of a regular meeting of the Board.

(b) The Shareholder shall provide notice to the Company (the "Initial Shareholder Nominee Notice") as required by Section 4.1 (a) above, which notice shall contain the following information: (i) the name of the person(s) it has designated to become Director(s) (the "Initial Shareholder Nominees"), and (ii) all information required by Regulation 14A and Schedule 14A under the Exchange Act with respect to each such Initial Shareholder Nominee.

(c) Following the occurrence of a Regulatory Change and during the term of this Agreement, until such time as the Initial Shareholder Nominees and the Successor Shareholder Nominees (as defined in Section 4.1(d) below) together comprise a number of Directors which is one-third (rounding down to the nearest whole Director) of the Board, at the first annual meeting of shareholders of the Company following the occurrence of a Regulatory Change and at each subsequent annual meeting of shareholders of the Company at which (i) the term of any Director is to expire or (ii) a vacancy is caused by the removal, resignation, retirement, death, disability or disqualification or other cessation of service of any Director, the Company shall at its option (i) cause such directorship to remain vacant, with the size of the Board correspondingly being reduced, or (ii) designate as a replacement Director a Successor Shareholder Nominee to be included in the slate of nominees recommended by the Board to the Company's shareholders for election as Directors and use its best efforts to cause the election of each such Successor Shareholder Nominee to the Board, including soliciting proxies in favor of the election of such persons. The Successor Shareholder Nominees shall be divided as nearly equally as possible among all the classes of Directors, as specified in the Successor Shareholder Nominee Notice (as defined in Section 4.1 (d) below).

(d) Following the occurrence of a Regulatory Change and during the term of this Agreement, until such time as the Initial Shareholder Nominees and the Successor Shareholder Nominees together comprise a number of Directors which is one-third (rounding down to the nearest whole Director) of the Board, the Shareholder shall provide notice to the Company in writing sixty (60) days prior to each annual meeting of the Company's shareholders ("Successor Shareholder Nominee Notice"), indicating (i) the name of the person(s) it has designated to become Director(s) ("Successor Shareholder Nominees" and together with Initial Shareholder Nominees, "Shareholder Nominees"), if any, (ii) the class of Directors to which each such

-22-

Successor Shareholder Nominee shall be assigned, and (iii) all information required by Regulation 14A and Schedule 14A under the Exchange Act with respect to each such Successor Shareholder Nominee.

(e) The Shareholder shall consult with the Company in connection with the identity of any proposed Shareholder Nominee. In the event the Company is advised in writing by its outside counsel that a proposed Shareholder Nominee would not be qualified under the Company's Charter or By-laws or any applicable statutory or regulatory standards to serve as a Director, or if the Company otherwise reasonably objects to a proposed Shareholder Nominee, including without limitation because such Shareholder Nominee either (i) is a director or officer of a direct competitor of the Company or (ii) has engaged in any adverse conduct that would require disclosure under Item 7 of Schedule 14A promulgated under the Exchange Act the Shareholder agrees to withdraw such proposed Shareholder Nominee and nominate a replacement therefor (which replacement would be subject to the requirements of this Section 4.1(e)). Any such objection by the Company must be made no later than one (1) month after the Shareholder first informs the Company of the identity of the proposed Shareholder Nominee; provided, however, that the Company shall in all cases notify the Shareholder of any such objection sufficiently in advance of the date on which proxy materials are mailed by the Company in connection with such election of directors to enable the Shareholder to propose an alternate Shareholder Nominee pursuant to and in accordance with the terms of this Agreement. Prior to the occurrence of a Regulatory Change, no more than one Shareholder Nominee may be a director, officer or employee of the Shareholder. Following the occurrence of a Regulatory Change, no more than two (2) Shareholder Nominees may be directors, officers or employees of the Shareholder.

(f) During the term of this Agreement the Company agrees to include each Shareholder Nominee to be added to or retained on the Board pursuant to this

Agreement in the slate of nominees recommended by the Board to the Company's shareholders for election as Directors and shall use its best efforts to cause the election or reelection of each such Shareholder Nominee to the Board, including soliciting proxies in favor of the election of such persons.

(g) During the term of this Agreement and prior to the occurrence of a Regulatory Change, but not thereafter, no Shareholder Nominee shall chair a committee of the Board and no Shareholder Nominee shall serve on the Nominating Committee of the Board. Following the occurrence of a Regulatory Change and during the term of this Agreement, the Shareholder shall be entitled to designate Shareholder Nominees to be members of each committee of the Board (including without limitation the executive committee, the audit committee, the nominating committee and the executive compensation committee), and to fill any vacancies caused by the departure of Shareholder Nominees from any such committees if no other Shareholder Nominee is a member of such committee, for so long as Shareholder Nominees are not repre-

-23-

sented pro rata, based on the number of Directors who are Shareholder Nominees (rounding down to the nearest whole Director), with respect to each committee of the Board.

Section 4.2. Resignation of Shareholder Nominees.

Unless otherwise agreed by the Company, the Shareholder shall cause each of the Shareholder Nominees then serving on the Board to offer their resignations from the Board immediately upon the earlier to occur of the following:

- (a) The termination of this Agreement pursuant to and in accordance with Section 5.2 hereof; and
- (b) The Shareholder Group's Total Ownership Percentage falling below 10.0%.

Section 4.3. Voting.

During the term of this Agreement the Shareholder, as a holder of shares of Voting Securities, agrees that:

(a) The Shareholder shall, and shall cause each Shareholder Affiliate to, be present, in person or by proxy, at all meetings of shareholders of the Company so that all Voting Securities having voting rights which are Beneficially Owned by the Shareholder and the Shareholder Affiliates may be counted for the purpose of determining the presence of a quorum at such meetings.

(b) (i) With respect to the election of Directors, the Shareholder shall, and shall cause each Shareholder Affiliate to, vote all Voting Securities Beneficially Owned by the Shareholder and any Shareholder Affiliate in favor of the election of all candidates for Director nominated by the Company's Board (including the Shareholder Nominees); and (ii) with respect to any proposal initiated by a shareholder of the Company relating to the redemption of the rights issued pursuant to the Rights Agreement or any modification of the Rights Agreement (other than nonbinding precatory resolutions with respect to which subsection (c) hereof shall apply), the Shareholder shall, and shall cause each member of the Shareholder Group to, vote all Voting Securities Beneficially Owned by the Shareholder or any member of the Shareholder Group in accordance with the recommendation of the Board.

(c) (i) With respect to the Opt-out Amendment (as defined in the Merger Agreement), the Shareholder and any member of the Shareholder Group may vote any or all of the Securities Beneficially Owned by them in their sole discretion; and (ii) with respect to any proposed amendment to the Charter or By-laws which would reasonably

-24-

have the effect of modifying in any way the Opt-out Amendment or would reasonably cause the Company to become subject to (a) the Control Share Acquisition Statute (as defined in the Merger Agreement) or (b) any other provisions which are substantially similar to the Control Share Acquisition Statute, the Shareholder Group shall have the right to abstain or vote against such amendment.

(d) With respect to all other matters submitted to a vote of the Company's shareholders, prior to the occurrence of a Regulatory Change, but not thereafter, and during the term of this Agreement, the Shareholder and any member of the Shareholder Group may vote any or all of the Voting Securities Beneficially Owned by them, in their sole discretion. Following the occurrence of a Regulatory Change and during the term of this Agreement, (i) the Shareholder and each member of the Shareholder Group may vote in their sole discretion a number of Voting Securities Beneficially Owned by the Shareholder Group having voting rights with respect to such other matters representing in the aggregate a Voting Ownership Percentage not in excess of the Unrestricted Ownership Percentage, and (ii) the Shareholder shall, and shall cause each member of the Shareholder Group to, vote all Voting Securities Beneficially-Owned by the Shareholder Group having voting rights with respect to such other matters representing in the aggregate a Voting Ownership Percentage in excess of the Unrestricted Ownership Percentage in the same proportion (based on total Votes) as all Voting Securities voted on any such other matter are voted by the shareholders of the Company other than the Shareholder or any member of the Shareholder Group, provided, however, that the Shareholder and any member of the Shareholder Group may vote any or all of the Voting Securities Beneficially Owned by them in their sole discretion with respect to a vote of the Company's shareholders on any transaction or series of transactions which would, if consummated, constitute a Change in Control of the Company. Notwithstanding the foregoing, at all times prior to or following the occurrence of a Regulatory Change, the Shareholder shall, and shall cause each member of the Shareholder Group to, vote all Excess Buy-Back Securities having voting rights with respect to any matter (including the election of Directors) in the same proportion (based on total Votes) as all Voting Securities voted on such matter are voted by the shareholders of the Company, other than the Shareholder or any member of the Shareholder Group.

(e) At all times the Shareholder Group may exercise in its sole discretion such voting rights as the Convertible Preferred Stock may have from time to time pursuant to the Charter and with respect to an amendment to the Charter which would have the effect of modifying the voting powers, designations, preferences, rights and qualifications, limitations or restrictions of such class or series so as to affect the holders thereof adversely.

-25-

ARTICLE V

Effectiveness and Termination

Section 5.1. Effectiveness.

This Agreement shall take effect immediately upon the Closing and shall remain in effect until it is terminated pursuant to Section 5.2 hereof.

Section 5.2. Termination.

Unless otherwise agreed in writing by the Shareholder, this Agreement shall terminate upon the earliest to occur of the following:

(a) The Company's quarterly dividend on its Common Stock falling below \$0.30 per share (as appropriately adjusted to reflect any stock split, stock dividend, reverse stock split, reclassification or any other transaction with a comparable effect) in any five (5) quarters during the term of this Agreement.

(b) The Company's failure to pay the stated quarterly dividend on any series of Convertible Preferred Stock in any five (5) quarters during the term of this Agreement.

(c) The election to the Board of a majority of Directors other than those nominated by the Nominating Committee of the Board.

(d) The size of the Board being increased to more than 21 directors.

(e) The Shareholder Group's Total Ownership Percentage falling below 9.9% at any time.

(f) The Shareholder Group's Total Ownership Percentage falling below 30.0% at any time following the fifteenth (15th) anniversary of the date hereof.

(g) The material breach of this Agreement or the Merger Agreement by the Company, provided that the Company has not cured the breach within thirty (30) days after receiving notice of such breach, or if cure within such time is not possible, the Company has not made reasonable efforts to cure such breach, provided, further, that in no event shall such cure period extend longer than ninety (90) days from the date of first notice of such breach.

-26-

(h) Mutual written agreement of the Company and the Shareholder at any time to terminate this Agreement, which termination shall occur at a time to be fixed in such mutual agreement.

(i) The entry by a court having jurisdiction in the premises of (i) a decree or order for relief in respect of the Company in an involuntary case or proceeding under any applicable Federal or State bankruptcy, insolvency, reorganization or other similar law or (ii) a decree or order adjudging the Company a bankrupt or insolvent, or approving as properly filed a petition seeking reorganization, arrangement adjustment or composition of or in respect of the Company under any applicable Federal or State law, or appointing a custodian, receiver, liquidator, assignee, trustee, sequestrator or other similar official of the Company or of any substantial part of the Company's property, or ordering the winding up or liquidation of the Company's affairs; and the continuance of any such decree or order for relief or any such other decree or order unstayed and in effect for a period of sixty (60) consecutive days.

(j) The commencement by the Company of a voluntary case or proceeding under any applicable Federal or State bankruptcy, insolvency, reorganization or other similar law or of any other case or proceeding to be adjudicated a bankrupt or insolvent, or the consent by the Company to

the entry of a decree or order for relief in respect of the Company in an involuntary case or proceeding under any applicable Federal or State bankruptcy, insolvency, reorganization or other similar law or to the commencement of any bankruptcy or insolvency case or proceeding against the Company, or the filing by the Company of a petition or answer or consent seeking reorganization or relief under any applicable Federal or State law, or the consent by the Company the filing of such petition or to the appointment of or taking possession by a custodian, receiver, liquidator, assignee, trustee, sequestrator or other similar official of the Company or of any substantial part of the Company's property, or the making by the Company of an assignment for the benefit of creditors, or the admission by the Company in writing of the Company's inability to pay its debts generally as they become due, or the taking of corporate action by the Company in furtherance of any such action.

ARTICLE VI

Miscellaneous

Section 6.1. Compliance With Law. -----

Notwithstanding anything to the contrary in this Agreement, no Transfer of Securities shall be deemed to be required or permitted pursuant to this Agreement if such Transfer would (a) result in an adverse effect on the exemptions from the 1935 Act of the Shareholder of any

-27-

Shareholder Affiliate or the Company or any subsidiary of the Company, or (b) require regulatory approvals which, individually or in the aggregate with respect to such Transfer, would have a material adverse impact on the Company or any of its subsidiaries or the Shareholder or any Shareholder Affiliate.

Section 6.2. Regulatory Matters. -----

During the term of this Agreement the Company agrees to take all commercially reasonable steps to assist the Shareholder in (a) with respect to each provision of this Agreement, causing a Regulatory Change which would not reasonably be expected to have an adverse effect on the Company to occur as soon as reasonably practicable, and (b) securing such regulatory approvals as would not reasonably be expected to have a material adverse effect on the Company and as may be necessary to allow the Shareholder to exercise its rights under the Agreement at all times, including without limitation the right of the Shareholder to Transfer Securities free of the restrictions and limitations imposed by Section 6.1. Following the occurrence of a Regulatory Change, if the Company believes in good faith that the Shareholders regulatory status as modified by such Regulatory Change would place an unreasonable restriction on the Company's implementation of the Company's strategic business plan, then the Company shall have an immediate right to exercise its Buy-Sell Option as provided in Section 3.6 hereof, without regard to whether Section 3.6 would otherwise then be applicable.

Section 6.3. Injunctive Relief. -----

Each party hereto acknowledges that it would be impossible to determine the amount of damages that would result from any breach of any of the provisions of this Agreement and that the remedy at law for any breach, or threatened breach, of any of such provisions would likely be inadequate and, accordingly, agrees that each other party shall, in addition to any other rights or remedies which it may have, be entitled to seek such equitable and injunctive relief as may be

available from any court of competent jurisdiction to compel specific performance of, or restrain any party from violating, any of such provisions. In connection with any action or proceeding for injunctive relief, each party hereto hereby waives the claim or defense that a remedy at law alone is adequate and agrees, to the maximum extent permitted by law, to have each provision of this Agreement specifically enforced against him or it without the necessity of posting bond or other security against him or it, and consents to the entry of injunctive relief against him or it enjoining or restraining any breach or threatened breach of such provisions of this Agreement.

Section 6.4. Successors and Assigns.

This Agreement shall be binding upon, shall inure to the benefit of and shall be enforceable by the Company and by the Shareholder and their respective successors and permitted as-

-28-

signs, and no such term or provision is for the benefit of, or intended to create any obligations to, any other Person.

Section 6.5. Amendments; Waiver.

(a) This Agreement may be amended only by an agreement in writing executed by the parties hereto. Any approval of an amendment of this Agreement upon the part of the Company shall require the approval of a majority of the Independent Directors at a duly convened meeting thereof or all of the Company's directors by written consent thereto.

(b) Either party may waive in whole or in part any benefit or right provided to it under this Agreement, such waiver being effective only if contained in a writing executed by the waiving party. No failure by any party to insist upon the strict performance of any covenant, duty, agreement or condition of this Agreement or to exercise any right or remedy consequent upon breach thereof shall constitute a waiver of any such breach or of any other covenant, duty, agreement or condition, nor shall any delay or omission of either party to exercise any right hereunder in any manner impair the exercise of any such right accruing to it thereafter. Any waiver of any benefit or right provided to the Company under this Agreement shall require the approval of a majority of the Board and a majority of the Independent Directors at a duly convened meeting thereof or all of the Company's directors by written consent thereto.

Section 6.6. Notices.

Except as otherwise provided in this Agreement, all notices, requests, claims, demands, waivers and other communications hereunder shall be in writing and shall be deemed to have been duly given when delivered by hand, when delivered personally or by courier, three days after being deposited in the mail (registered or certified mail, postage prepaid, return receipt requested), or when received by facsimile transmission if promptly confirmed by one of the foregoing means, as follows:

If to the Company:

WAI, Inc.
100 W. Fifth Street
Tulsa, Oklahoma
Attention: President
Fax: (918) 588-7960

with a copy to:

Gable Gotwals Mock Schwabe Kihle
100 W. Fifth Street, Suite 1000

-29-

Tulsa, Oklahoma 74103
Attention: Donald A. Kihle, Esq.
Fax: (918) 588-7873

If to the Shareholder:

Western Resources, Inc.
818 Kansas Avenue
Topeka, Kansas 66612
Attention: President
Fax: (913) 575-8061

with a copy to:

Western Resources, Inc.
818 Kansas Avenue
Topeka, Kansas 66612
Attention: General Counsel
Fax: (913) 575-1788

or to such other address or facsimile number as either party may, from time to time, designate in a written notice given in a like manner.

Section 6.7. APPLICABLE LAW.

THIS AGREEMENT SHALL BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE INTERNAL LAWS OF THE STATE OF OKLAHOMA WITHOUT GIVING EFFECT TO PRINCIPLES OF CONFLICTS OF LAW.

Section 6.8. Headings.

The descriptive headings of the several sections in this Agreement are for convenience only and do not constitute a part of this Agreement and shall not be deemed to limit or affect in any way the meaning or interpretation of this Agreement.

Section 6.9. Integration.

This Agreement and the other writings referred to herein or delivered pursuant hereto which form a part hereof contain the entire understanding of the parties with respect to its subject matter. This Agreement supersedes all prior agreements and understandings between the parties with respect to its subject matter. There are no restrictions, agreements, promises,

-30-

representations, warranties, covenants or undertakings with respect to its subject matter other than those expressly set forth or referred to herein.

Section 6.10. Severability.

If any term or provision of this Agreement or any application thereof shall be declared or held invalid, illegal or unenforceable, in whole or in part, whether generally or in any particular jurisdiction, such provision shall be deemed amended to the extent, but only to the extent necessary to cure such invalidity, illegality or unenforceability, and the validity, legality and enforceability of the remaining provisions, both generally and in every other jurisdiction, shall not in any way be affected or impaired thereby.

Section 6.11. Consent to Jurisdiction.

In connection with any suit, claim, action or proceeding arising out of this Agreement, the Shareholder and the Company each hereby consent to the in personam jurisdiction of the United States federal courts and state courts located in Tulsa, Oklahoma; the Shareholder and the Company each agree that service in the manner set forth in Section 6.5 hereof shall be valid and sufficient for all purposes; and the Shareholder and the Company each agree to, and irrevocably waive any objection based on forum non conveniens or venue not to, appear in any United States federal court state court located in Tulsa, Oklahoma.

Section 6.12. Counterparts.

This Agreement may be executed by the parties hereto in two or more counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument.

-31-

IN WITNESS WHEREOF, the Company and the Shareholder have caused this Agreement to be duly executed by their respective authorized officers as of the date set forth at the head of this Agreement.

WAI, INC.

By: /s/ John K. Rosenberg

Name: John K. Rosenberg
Title: President

WESTERN RESOURCES, INC.

By: /s/ Steven L. Kitchen

Name: Steven L. Kitchen
Title: Executive Vice President
and Chief Financial Officer

EXHIBIT 10.22

AMENDMENT NO. 1 TO
ASSET ALLOCATION AND SEPARATION AGREEMENT

THIS AMENDMENT NO. 1 dated as of May 2, 2001 (this "Amendment") to the

Asset Allocation and Separation Agreement, dated as of November 8, 2000 (the
"Allocation Agreement"), by and between Western Resources, Inc., a Kansas

corporation ("Western"), and Westar Industries, Inc., a Kansas corporation

("Westar").

Capitalized terms used but not defined in this Amendment shall have the meaning given such terms in the Allocation Agreement.

W I T N E S S E T H :

WHEREAS, Western and Westar desire to amend certain terms of the Allocation Agreement as provided herein;

NOW, THEREFORE, in consideration of the premises and of the mutual agreements herein contained, the parties hereto agree as follows:

Section 1. Amendment to the Allocation Agreement. Section 2.02 of the Allocation Agreement is hereby amended by deleting the first sentence of the first paragraph of such section in its entirety and substituting the following sentences in its place:

Section 2.02. Intercompany Transfers and Settlement of Intercompany Debt. After the date hereof and until the earlier of the Cut Off Date or the secured debt of Western's electric utility operations receiving an investment grade rating from Moody's and Standard & Poor's Westar shall (a) pay to Western the net cash proceeds of any sale by Westar of its ownership interest in ONEOK, Inc. and Western Resources, whether presently owned or hereafter acquired (including common stock or preference stock of Western Resources issued to Westar after the date hereof as a result of the conversion of the Intercompany Receivable as provided herein), (b) pay to Western the net cash proceeds of any borrowings by Westar secured by a

-2-

pledge of or security interest in any of the assets described in the foregoing clause (a), and (c) pay to Western the net cash proceeds of the Rights Offering. All such payments shall be for the purposes and subject to the limits provided in Section 3.2(a)(i) of the Merger Agreement, or to acquire indebtedness of Western. Net cash proceeds as used herein shall mean cash proceeds of a sale transaction received by Westar after deduction of expenses, commission, etc., tax payments for local, federal or state entities, and any debt owed on the asset sold. Westar may convert any outstanding amount of the Intercompany Receivable as provided in Section 3.2(a)(ii) of the Merger Agreement, provided any remaining balance of the Intercompany Receivable that has not been converted on or before the Merger Effective Time shall be so converted at the Effective Time, and Westar shall provide written notice to Western of its choice of conversion options on or prior to the Cut Off Date. Western shall use all proceeds received from Westar as provided above or from the exercise by Westar of its rights under the Westar Option to reduce or minimize its debt. This amendment may be terminated if (x) the Kansas Corporation Commission (the "Commission") issues an order with respect to the restructuring of Western's assets, debt or the matters covered by this Section 2.02 which is inconsistent with this amendment, or (y) the Commission staff (the "Staff") on its own or others initiate a docket with respect to the restructuring of Western's assets, debt or the matters covered by this Section 2.02 which is inconsistent with this amendment and which causes the Rights Offering to be terminated prior to the successful completion of said Rights Offering or Western and Westar do not issue the rights contemplated by the Rights Offering or the Rights

Offering is not successfully completed. This amendment may also be terminated if after successful completion of the Rights Offering, the Kansas Corporation Commission issues an Order or Orders attempting to set aside or materially alter this Agreement or the Rights Offering. If this amendment is terminated, the terms of this Section 2.02 as in effect prior to this amendment shall automatically be reinstated and be in full force and effect.

-3-

If the Merger is terminated, Western will meet with the Staff within 60 days following such termination to discuss the appropriate level of debt for Western. If agreement cannot be reached, Western or the Staff may submit the matter to the Commission for a hearing and an order. If the Merger is terminated, Western will reduce its total debt by at least \$100 million per year, until its debt level reaches the agreed upon debt level, or until it reaches the debt level established by a final, non-appealable Commission order. Western will raise the funds needed to make this debt reduction by the following options, including, but not be limited to, (i) selling Westar stock, (ii) selling Western stock, (iii) converting the outstanding balance of the Intercompany Receivable (expected to be approximately \$291 million at the Cut Off Date) to common stock or preference stock of Western, (iv) selling assets of Westar presently owned or hereafter acquired by Westar, or (v) taking other actions providing for an orderly reduction of such debt. The parties acknowledge that multiple methodologies may be appropriate to achieve such reduction in debt and the methodologies utilized will be governed by the events existing at the time of the discussions.

Western and Westar further agree that prior to the Merger, Western will not sell more than 19.9% of the stock of Westar, and if the Merger is terminated Western will continue as owner of at least 80.1% of Westar's stock, unless Western first provides not less than 30 days advance notice to the Commission. Western agrees that other than as allowed in the Merger Agreement, it will not dividend Westar Industries, Inc. to Western's shareholders until Western or the Staff will have resolved their issues as herein provided or will have submitted their issues to the Commission as provided in this Agreement, or the Commission and the Parties hereto shall have otherwise agreed.

Western agrees that from the date of this Amendment, excluding the existing credit facilities between Westar and Protection One (\$155 Million Dollar credit facility), it will not incur additional indebtedness or pledge utility assets for additional indebtedness, for its unregulated business entities until the issues set forth herein are resolved pursuant to the Agreement.

-4-

Section 2. Representations and Warranties. Each party hereto hereby represents and warrants that (i) it has the power and authority and the legal right to make, deliver and perform this Amendment, (ii) it has taken all necessary actions to authorize the execution, delivery and performance of this Amendment, and (iii) this Amendment is legal, valid and binding on, and enforceable against, such party.

Section 3. Continuing Effect. Except as expressly waived or otherwise agreed hereby, the Allocation Agreement shall continue to be and shall remain in full force and effect in accordance with its terms. This Amendment shall not constitute a waiver or amendment of any other term, condition or provision of the Allocation Agreement.

Section 4. Governing Law. This Amendment shall be governed by, and construed and interpreted in accordance with, the laws of the State of New York.

Section 5. Counterparts. This Amendment may be executed by the parties hereto on any number of separate counterparts, and all of said counterparts taken together shall be deemed to constitute one and the same instrument.

Section 6. Successors and Assigns. The provisions of this Agreement shall be binding upon and inure to the benefit of the parties hereto and their respective successors and assigns; provided that neither party may assign, delegate or otherwise transfer any of its rights or obligations under this Agreement without the prior written consent of the other party, which consent shall not be unreasonably withheld, and unless the Merger Agreement shall have been terminated in accordance with its terms, any such assignment shall require the written consent of Parent. If any party or any of its successors or assigns (i) shall consolidate with or merge into any other Person and shall not be the continuing or surviving corporation or entity of such consolidation or merger or (ii) shall transfer all or substantially all of its properties and assets to any Person, then, and in each such case, proper provisions shall be made so that the successors and assigns of such party shall assume all of the obligations of such party under each of the Split-Off Documents.

-5-

IN WITNESS WHEREOF, the parties hereto have executed this instrument as of the date and year first above written.

WESTERN RESOURCES, INC.

By: /s/ David C. Wittig

Name: David C. Wittig
Title: Chairman, Chief
Executive Officer
and President

WESTAR INDUSTRIES, INC.

By: /s/ Paul R. Geist

Name: Paul R. Geist
Title: President

Exhibit 23.2

CONSENT OF INDEPENDENT PUBLIC ACCOUNTANTS

As independent public accountants, we hereby consent to the use of our report and to all references to our Firm included in this Registration Statement.

ARTHUR ANDERSEN LLP

Kansas City, Missouri
May 17, 2001

Exhibit 23.3

Independent Auditors' Consent

We consent to the use of our report dated February 7, 2001, with respect to the consolidated balance sheets of ONEOK, Inc. and subsidiaries as of December 31, 2000, December 31, 1999 and August 31, 1999, and the related consolidated statements of income, shareholders' equity, and cash flows for the year ended December 31, 2000, the years ended August 31, 1999 and 1998, and the four months ended December 31, 1999, which report has been included in this registration statement of Westar Industries, Inc. and to the reference to our firm under the heading "Experts" in the prospectus. Our report refers to a change in accounting for energy trading contracts in 2000.

KPMG LLP

Tulsa Oklahoma
May 17, 2001

Exhibit 99.1

LETTER TO WESTERN SHAREHOLDERS

Westar Industries, Inc.

818 South Kansas Avenue

Topeka, Kansas 66612

May __, 2001

To: Shareholders of Western Resources, Inc. on May 9, 2001

Dear Shareholders:

I am pleased to send you the attached prospectus (and rights instructions) concerning a rights offering that will result in the creation of a public market for the common stock of Westar Industries, Inc., par value \$.01 per share. As a holder of Western Resources, Inc. common stock, stock options or restricted share units you will receive non-transferable rights to purchase shares of Westar Industries common stock. Each right entitles the holder to purchase one share of our common stock (the "Basic Subscription Privilege") at \$10 per share (the "Subscription Price"). Each right also entitles the holder to "over-subscribe" at the Subscription Price per share for common stock (the "Over-Subscription Privilege") that is not otherwise purchased pursuant to the exercise of rights. The number of shares of additional common stock for which each holder may subscribe pursuant to the Over-Subscription Privilege is the higher of (1) five times the number of rights such holder received in the rights offering and (2) 100 shares of common stock.

Each holder of Western Resources common stock, stock options and restricted share units, other than Westar Industries and foreign stockholders which we call "Eligible Holders", at the close of business on May 9, 2001 (the record date for the distribution of the rights) will receive one right for every six shares of Western Resources common stock, or every six shares underlying stock options or restricted share units, he or she owns on that date, provided that each such Eligible Holder will receive at least one right (for example, if you own 600 shares of Western Resources common stock, you will receive 100 rights to purchase up to 100 shares of Westar Industries common stock pursuant to your Basic Subscription Privilege).

-2-

Prior to the rights offering, there has been no public market for the rights or common stock. The rights are not transferable, and therefore there will be no public market for the rights. Application has been made to list our common stock on the NYSE. In the event our common stock does not qualify for listing on the NYSE, we have made an application to have our common stock listed for quotation on The Nasdaq National Market.

The rights are set to expire at 5:00 P.M., New York City time, on July 13, 2001 (the "Expiration Date"), unless we extend the Expiration Date. Accordingly, if you wish to take advantage of your rights, you will need to exercise them before that time.

Once you have exercised your rights by subscribing for our common stock pursuant to your Basic Subscription Privilege or your Over-Subscription Privilege, your exercise may not be revoked unless the Expiration Date is extended for more than thirty days or a material change in the terms of the rights offering is made.

Westar Industries is principally engaged in the monitored security business through Protection One, Inc. ("Protection One") and Protection One International, Inc. and Protection One (UK) plc (which we refer to together as "Protection One Europe"), which provide monitored security services to over 1.4 million customers in North America, the United Kingdom and continental Europe at December 31, 2000. Westar Industries owns approximately 85% of Protection One and 100% of Protection One Europe. Westar Industries also owns approximately 45% of ONEOK, Inc., an Oklahoma based company that purchases, gathers, processes, transports, stores, distributes and markets natural gas, an approximately 17% common stock interest in Western Resources and a receivable owed to us by Western Resources in the amount of approximately \$116.6 million at April 30, 2001. Following the rights offering, assuming full exercise of the rights, Western Resources will continue to own approximately 85.7% of the Westar Industries common stock. By conducting the rights offering, Westar Industries will become a separate publicly traded company. Western Resources may sell additional common shares of our stock. Prior to the planned merger of Western Resources and the Public Service Company of New Mexico. Western Resources plans to split off the balance of our Common Stock to its shareholders.

The attached prospectus contains important information about the rights offering and our business. We encourage you to read it carefully. You are not required to exercise your rights.

For United States federal income tax purposes, the receipt of rights in the rights offering by holders of Western Resources common stock (other than the Western Resources Employees' 401(k) Savings Plan, the Protection One 401(k) Plan and employees or former employees of Western Resources receiving rights in the rights offering by reason of holding outstanding stock options or restricted share units) generally will be treated as a taxable divi-

-3-

dend in an amount equal to the fair market value of the rights, which we currently estimate to be \$0.04 per right. The exercise of the rights will not cause you to recognize taxable income, gain or loss, and shares of our common stock you receive from the exercise of those rights will have a basis equal to the value of the rights on the date of distribution plus the Subscription Price paid. In general, if your rights expire unexercised, you will have a capital loss equal to the value of the rights on the date of distribution. Utilization of such capital loss is subject to limitations.

In the case of employees and former employees of Western Resources who

receive rights in the rights offering by reason of holding outstanding stock options or restricted share units, the receipt of such rights will not be a taxable event but the exercise of such rights will result in taxable income at the time of exercise in an amount equal to the difference between the then fair market value of the stock and the cash Subscription Price. The shares that such employees or former employees receive from the exercise of these rights will have a basis equal to the value of those shares on the date of exercise. The expiration of such rights unexercised would have no tax consequences for such employees or former employees.

Participants in the Western Resources Employees' 401(k) Savings Plan or Protection One 401(k) Plan who have any portion of their accounts invested in the Western Resources Company stock Fund will receive an allocation of rights in the rights offering to their respective plan accounts based on the number of shares of Western Resources common stock allocated to their respective accounts. Neither the receipt of such rights nor the exercise of such rights within the plan accounts will be a taxable event. The participant will not be taxed on amounts held in his or her account until the participant receives distributions from the plan. Please read the information set forth under the caption "Certain Federal Income Tax Consequences" in the attached prospectus and consult your own tax adviser with respect to the income tax consequences to holders of rights in the rights offering.

If you have any questions concerning the rights offering, you should contact the

Information Agent :
Georgeson Shareholder Communications Inc.:
For registered holders
Toll free (888) 388-2251
For Banks and Brokers (212) 440-9800

-4-

Thank you for your consideration.

Sincerely,

WESTAR INDUSTRIES, INC.

BY: _____

Name: Paul R. Geist
Title: President

EXHIBIT 99.2

May __, 2001

INSTRUCTIONS AS TO USE OF RIGHTS CERTIFICATES FOR

WESTAR INDUSTRIES, INC. SHARES OF COMMON STOCK

CONSULT THE SUBSCRIPTION AGENT, INFORMATION AGENT, YOUR BANK

OR YOUR BROKER AS TO ANY QUESTIONS

The following instructions relate to the distribution (the "Rights Offering") by Westar Industries, Inc. ("Westar Industries"), a Kansas corporation, a wholly-owned subsidiary of Western Resources, Inc. ("Western Resources") of non-transferable rights ("Rights") to purchase from Westar Industries shares of common stock, par value \$.01 per share, of Westar Industries as described in Westar Industries' prospectus dated May { }, 2001

(the "Prospectus"). Each holder of Western Resources common stock, stock options, and restricted share units, other than Westar Industries and foreign stockholders (the "Eligible Holders"), as of May 9, 2001 (the "Record Date"), will receive one Right for every six shares of Western Resources common stock, or every six shares underlying a stock option or restricted share unit, held on the Record Date, provided that each Eligible Holder will receive at least one Right. Each Right carries a basic subscription privilege (the "Basic Subscription Privilege") which entitles the Eligible Holders to purchase one Common Share at the subscription price of \$10 per share (the "Subscription Price"). In addition, subject to the allocation described below, each Right carries an over-subscription privilege (the "Over-Subscription Privilege") which entitles Eligible Holders to purchase additional shares of common stock at the Subscription Price per share. No fractional Rights, fractional shares of common stock or cash in lieu thereof will be distributed or paid by Westar Industries, but rather Westar Industries will round down the number of Rights distributed to each Eligible Holder to the nearest whole number, provided that each Eligible Holder will receive at least one Right. An aggregate of up to 12,250,000 shares of common stock will be distributed in connection with the Rights Offering.

The Rights will expire at 5:00 p.m., New York City time, on July 13, 2001, unless extended by Westar Industries (as it may be extended, the "Expiration Date"). The number of Rights to which you are entitled is printed on the face of your rights certificate (the "Rights Certificate"). You should indicate your wishes with regard to the exercise of your Rights by completing the appropriate section on the back of your Rights Certificate and returning the Rights Certificate along with an appropriate subscription payment to the Subscription Agent in the envelope provided.

YOUR SUBSCRIPTION CERTIFICATE MUST BE RECEIVED BY THE SUBSCRIPTION AGENT, OR GUARANTEED DELIVERY REQUIREMENTS WITH RESPECT TO YOUR SUBSCRIPTION CERTIFICATES MUST BE COMPLIED WITH,

-2-

AND PAYMENT OF THE RIGHTS PRICE FOR EACH COMMON SHARE SUBSCRIBED FOR PURSUANT TO THE BASIC SUBSCRIPTION PRIVILEGE AND THE OVER-SUBSCRIPTION PRIVILEGE, INCLUDING FINAL CLEARANCE OF ANY CHECKS, MUST BE RECEIVED BY THE SUBSCRIPTION AGENT, ON OR PRIOR TO THE EXPIRATION DATE. YOU MAY NOT REVOKE ANY EXERCISE OF A RIGHT UNLESS THE EXPIRATION DATE IS EXTENDED BY MORE THAN THIRTY DAYS OR A MATERIAL CHANGE IN THE TERMS OF THE RIGHTS OFFERING IS MADE.

Shares of common stock will be available for purchase pursuant to the Over-Subscription Privilege only upon the Eligible Holder having fully subscribed for shares of common stock pursuant to the Basic Subscription Privilege and only to the extent that all the shares of common stock are not subscribed for through the exercise of the Basic Subscription Privilege by the Expiration Date (as defined below). The amount of additional shares of common stock for which each Eligible Holder may over-subscribe is the higher of (1) five times the number of Rights received in the Rights Offering and (2) 100 shares of common stock. Eligible Holders may only exercise their Over-Subscription Privilege if they exercised their Basic Subscription Privilege in full. If the shares of common stock available are not sufficient to satisfy all subscriptions (the "Excess Shares") pursuant to the Over-Subscription Privilege, Westar Industries will allocate the Excess Shares among the Eligible Holders who exercised their Over-Subscription Privilege. The allocation will be made first to the holders of less than 100 Rights so that those holders may subscribe for 100 shares of common stock (or the next higher multiple of 10 shares) and thereafter pro rata among all Eligible Holders exercising the Over-Subscription Privilege. If an Eligible Holder exercised his or her Over-Subscription Privilege and is allocated less than all of the shares of common stock which he or she wished to subscribe for, the excess payment for shares of common stock

that were not allocated to such Eligible Holder will be returned by mail without interest or deduction as soon as practicable after the Expiration Date.

Westar Industries will not have any liability to you as a Rights holder if your Subscription Certificate (together with all required payments and documents) is not received by the Subscription Agent in time for exercise prior to the Expiration Date.

1. SUBSCRIPTION PRIVILEGES; EXERCISE.

To exercise Rights, complete the reverse side of your Rights Certificate and send your properly completed and executed Rights Certificate, together with payment in full of the Subscription Payment for all shares of common stock subscribed for pursuant to the Basic Subscription Privilege and the Over-Subscription Privilege, to the Subscription Agent. FACSIMILE DELIVERY OF THE RIGHTS CERTIFICATE WILL NOT CONSTITUTE VALID DELIVERY. The Subscription Payment must be made in U.S. dollars for the full number of shares of common stock being subscribed for by either (a) check or bank draft drawn upon a U.S. bank or of any postal, telegraphic or express money order payable in U.S. dollars payable to Alpine Fiduciary Services, Inc., as Subscription Agent; or

-3-

(b) wire transfer of immediately available funds to the subscription account maintained by Alpine Fiduciary Services, Inc., the Subscription Agent, for such purpose at the Provident Bank, One East Fourth Street, Cincinnati, OH 45202 ABA No. #042000424 Account No. #0767-618 for further credit to Alpine Fiduciary Services, Inc. as Agent for Westar Industries, Inc.

ACCEPTANCE OF PAYMENTS.

The Subscription Payment will be deemed to have been received by the Subscription Agent only upon the (a) clearance of any uncertified check, (b) receipt by the Subscription Agent of any certified check or bank draft drawn upon a U.S. bank or of any postal, telegraphic or express money order payable in U.S. dollars, or (c) receipt of collected funds in the Subscription Agent's account designated above. IF PAYING BY UNCERTIFIED PERSONAL CHECK, PLEASE NOTE THAT UNCERTIFIED CHECKS MAY TAKE AT LEAST FIVE (5) BUSINESS DAYS TO CLEAR AND THAT SUCH CHECKS MUST CLEAR ON OR PRIOR TO THE EXPIRATION DATE FOR YOU TO HAVE VALIDLY EXERCISED YOUR RIGHTS. ACCORDINGLY, RIGHTS HOLDERS WHO WISH TO PAY THE SUBSCRIPTION PRICE BY MEANS OF AN UNCERTIFIED PERSONAL CHECK ARE URGED TO MAKE PAYMENT SUFFICIENTLY IN ADVANCE OF THE EXPIRATION DATE TO ENSURE THAT SUCH PAYMENT IS RECEIVED AND CLEARED BY SUCH TIME AND ARE URGED, IN THE ALTERNATIVE, TO CONSIDER PAYMENT BY MEANS OF A CERTIFIED OR CASHIER'S CHECK, MONEY ORDER OR WIRE TRANSFER OF FUNDS TO AVOID MISSING THE OPPORTUNITY TO EXERCISE THEIR RIGHTS.

EXERCISE THROUGH BANK OR BROKER; PROCEDURES FOR GUARANTEED DELIVERY.

You may make arrangements for the delivery of funds on your behalf and request a bank or broker to exercise the Rights represented by the Rights Certificate on your behalf.

Alternatively, if you wish to exercise Rights, but time will not permit you to deliver your Rights Certificate(s) to the Subscription Agent on or prior to the Expiration Date, you may cause a written guarantee substantially in the form attached to these instructions (the "Notice of Guaranteed Delivery") from a member firm of a registered national securities exchange or a member of the National Association of Securities Dealers, Inc. or a commercial bank or trust company having an office or correspondent in the United States, to be delivered to the Subscription Agent at or prior to the Expiration Date, guaranteeing delivery of your properly completed and executed Rights Certificate

within three business days following the date of the Notice of Guaranteed Delivery, together with payment in full of the applicable Subscription Payment. If this procedure is followed, your Rights Certificates and the related Nominee Holder Certification, if applicable, must be received by the Subscription Agent within three (3) business days of the Notice of Guaranteed Delivery. Ad-

-4-

ditional copies of the Notice of Guaranteed Delivery may be obtained upon request from the Information Agent at the address, or by calling the telephone number, indicated below.

Bankers, brokers and other nominee holders of Rights who exercise the Basic Subscription Privilege and the Over-Subscription Privilege on behalf of beneficial owners of Rights will be required to certify to the Subscription Agent and Westar Industries, as to: (1) the names of the beneficial owners on whose behalf they are acting; (2) the nominee holder's authority to so act; (3) the aggregate number of Rights being exercised on behalf of each beneficial owner; and (4) the aggregate number of shares of common stock that are being subscribed for pursuant to the Basic Subscription Privilege and the Over-Subscription Privilege of each beneficial owner of Rights on whose behalf such nominee holder is acting.

Westar Industries will pay to brokers 10 cents for each Common Share purchased upon the exercise of Rights (including shares of common stock purchased pursuant to the Over-Subscription Privilege) by a beneficial owner of up to 5,000 shares of Western Resources common stock on the Record Date.

CONTACTING THE SUBSCRIPTION AGENT OR THE INFORMATION AGENT.

The address, telephone and facsimile numbers of the Subscription Agent are as follows:

Alpine Fiduciary Services, Inc.
c/o Georgeson Shareholder Communications Inc.
By Mail: P.O. Box 2065, South Hackensack, NJ 07606-9974
By Overnight Courier: 111 Commerce Road, Carlstadt, NJ 07022
By Hand: 110 Wall Street, 11th floor, New York, NY 10005
Attn: Will Richard
Toll free (888) 388-2251
Facsimile: (201) 460-2889

The telephone numbers of the Information Agent are as follows:

Georgeson Shareholder Communications Inc.:
For registered holders
Toll free (888) 388-2251
For Banks and Brokers (212) 440-9800

PARTIAL EXERCISES; EFFECT OF OVERPAYMENT AND UNDERPAYMENT.

If you exercise less than all of the Rights printed on your Rights Certificate, the Subscription Agent will, upon request, issue to you a new Rights Certificate evidencing the unexercised Rights. If you choose to have a new Rights Certificate sent

-5-

to you, however, you may not receive any such new Rights Certificate in sufficient time to permit you to exercise the Rights evidenced thereby.

If you have not specified the number of shares of common stock being subscribed for pursuant to the Basic Subscription Privilege, or do not forward full payment of the Total Subscription Payment for the number of shares of common stock that you indicate are being exercised, you will be deemed to have exercised such Basic Subscription Privilege with respect to the maximum whole number of Rights that may be exercised with the Subscription Payment delivered to the Subscription Agent. If the Total Subscription Payment forwarded to the Subscription Agent is greater than the amount owed for the number of shares of common stock to be purchased pursuant to the Basic Subscription Privilege (the "Subscription Excess"), you will be deemed to have exercised your Over-Subscription Privilege to purchase, to the extent available and subject to limitations on allocation of shares of common stock previously discussed, the maximum number of shares of common stock with the Subscription Excess. If your full Subscription Payment is not applied to your purchase of shares of common stock, you will be refunded the amount of any overpayment, sent via mail, without interest or deduction, as soon as practicable after the Expiration Date.

2. DELIVERY OF STOCK CERTIFICATES, ETC.

It is anticipated that the closing of the sale of shares issuable upon exercise of the Rights (the "Closing") will occur as soon as practicable following the Expiration Date (the "Closing Date"). The following delivery and payment will be made to the address shown on the face of your Rights Certificate:

(A) BASIC SUBSCRIPTION PRIVILEGE AND OVER-SUBSCRIPTION PRIVILEGE. As soon as practical after the Expiration Date, we will deliver to each Eligible Holder who validly exercises their Basic Subscription Privilege and the Over-Subscription Privilege, if any, shares of common stock purchased pursuant to the Basic Subscription Privilege and the Over-Subscription Privilege.

(B) CASH PAYMENTS. As soon as practicable after the Closing Date, the Subscription Agent will mail to each Rights holder any excess funds received in payment of the Subscription Payment for shares of common stock that are subscribed for by such Rights holder but not allocated to such Rights holder pursuant to the Over-Subscription Privilege.

3. EXECUTION.

(A) EXECUTION BY REGISTERED HOLDER. The signature on the Rights Certificate must correspond with the name of the registered Eligible Holder exactly as it appears on the face of the Rights Certificate without any alteration or

-6-

change whatsoever. Persons who sign the Rights Certificate in a representative or other fiduciary capacity must indicate their capacity when signing and, unless waived by the Subscription Agent in its sole and absolute discretion, must certify to the Subscription Agent and Westar Industries as to their authority to so act.

(B) EXECUTION BY PERSON OTHER THAN REGISTERED HOLDER. If the Rights Certificate is executed by a person other than the Eligible Holder named on the face of the Rights Certificate, proper evidence of authority of the person executing the Rights Certificate must accompany the same unless, for good cause, the Subscription Agent dispenses with proof of authority.

4. METHOD OF DELIVERY.

The method of delivery of Rights Certificates and payment of the Subscription Payment to the Subscription Agent will be at the election and risk of the Eligible Holder, but, if sent by mail, it is recommended that they be

sent by registered mail, properly insured, with return receipt requested, and that a sufficient number of days be allowed to ensure delivery to the Subscription Agent and the clearance of any uncertified personal checks sent in payment of the Subscription Payment prior to the Expiration Date.

Exhibit 99.3

NOTICE OF GUARANTEED DELIVERY FOR SHARES
OF COMMON STOCK OF
WESTAR INDUSTRIES, INC. SUBSCRIBED FOR UNDER
THE BASIC SUBSCRIPTION PRIVILEGE
AND THE OVER-SUBSCRIPTION PRIVILEGE

As set forth in the Prospectus under "The Rights Offering -- Guaranteed Delivery Procedures," this form or one substantially equivalent hereto may be used as a means of effecting subscription and payment for all shares of Westar Industries, Inc.'s common stock. Such form may be delivered by hand or sent by facsimile transmission, overnight courier or mail to the Subscription Agent.

The Subscription Agent is:
Alpine Fiduciary Services, Inc.

BY MAIL, BY HAND OR BY OVERNIGHT COURIER:

Alpine Fiduciary Services, Inc.
c/o Georgeson Shareholder Communications Inc.
By Mail: P.O. Box 2065, South Hackensack, NJ 07606-9974
By Overnight Courier: 111 Commerce Road, Carlstadt, NJ 07072
By Hand: 110 Wall Street, 11th floor, New York, NY 10005
Attn: Will Richard

ANY QUESTIONS OR REQUESTS FOR ASSISTANCE CONCERNING THE RIGHTS OFFERING SHOULD
BE DIRECTED TO THE INFORMATION AGENT,

Georgeson Shareholder Communications Inc.:
For registered holders
Toll free (888) 388-2251
For Banks and Brokers (212) 440-9800

DELIVERY OF THIS GUARANTEE OF DELIVERY TO AN ADDRESS OTHER THAN AS SET FORTH
ABOVE OR TRANSMISSION OF INSTRUCTIONS VIA FACSIMILE OTHER THAN AS SET FORTH
ABOVE DOES NOT CONSTITUTE A VALID DELIVERY.

Prior to 5:00 p.m., New York City time, on July 13, 2001 (the "Expiration Date"), the member firm of a registered national securities exchange or member of the National Association of Securities Dealers, Inc. or commercial bank or trust company having an

-2-

office or correspondent in the United States which completes this form must communicate the guarantee, the name of the exercising Rights holder, the number of Rights represented by the Rights Certificate(s) held by such exercising holder and the number of shares of common stock subscribed for (under both the Basic Subscription Privilege and the Over-Subscription Privilege) to the Subscription Agent and must deliver this Notice of Guaranteed Delivery, together with payment in full pursuant to the Basic Subscription Privilege and the Over-Subscription Privilege, guaranteeing delivery of a properly completed and signed copy of the Rights Certificate to the Subscription Agent. Failure to do so

will result in a forfeiture of the Rights.

GUARANTEE OF DELIVERY

The undersigned, a member firm of a registered national securities exchange or member of the National Association of Securities Dealers, Inc. or a commercial bank or trust company having an office or correspondent in the United States, guarantees delivery to the Subscription Agent by the close of business on the third business day following the date the Subscription Agent receives this Notice of Guaranteed Delivery, of a properly completed and duly executed Rights Certificate and evidencing the Rights being exercised as indicated herein.

Name of exercising Rights holder: _____

Number of Rights represented by the Rights Certificate(s)

to be delivered: _____

Method of delivery: Direct to Subscription Agent

Number of Shares of Common Stock Subscribed
for Pursuant to Basic Subscription Privilege

Number of Shares of Common Stock Subscribed
for Pursuant to Over-Subscription Privilege

Name of Firm

Authorized Signature

Address

Title

-3-

Zip Code

Name (Please Type or Print)

Contact Name

Phone Number

The institution which completes this form must communicate the guarantee to the Subscription Agent and must deliver the Rights Certificate(s) to the Subscription Agent within the time period shown herein. Failure to do so could result in a financial loss to such institution.

Exhibit 99.4

LETTER TO SECURITIES DEALERS, COMMERCIAL BANKS, BROKERS,
TRUST COMPANIES AND OTHER NOMINEES

WESTAR INDUSTRIES, INC.

May __, 2001

To Securities Dealers, Commercial Banks, Brokers, Trust Companies and Other Nominees:

We are sending you this letter in connection with the distribution (the "Rights Offering") of non-transferable rights ("Rights") to purchase shares of Westar Industries, Inc. ("Westar Industries") common stock, par value \$.01 per share (the "Common Shares"). We have described the Rights and the Rights Offering in the enclosed prospectus and evidenced the Rights by a Rights Certificate registered in your name or the name of your nominee.

Each holder of common stock, stock options and restricted share units, other than ourself and foreign stockholders, ("Eligible Holder") of Western Resources, Inc. ("Western Resources") as of May 9, 2001 will receive one Right for every six shares of Western Resources common stock or every six shares of underlying stock options and restricted share units held on the record date, provided that each such eligible shareholder will receive at least one right. Each Right carries a basic subscription privilege (the "Basic Subscription Privilege") which entitles the Eligible Holder to purchase one Share of Common Stock at the subscription price of \$10 per share (the "Subscription Price"). In addition to the Basic Subscription Privilege, an Eligible Holder may subscribe for additional Shares of Common Stock at the Subscription Price per share (the "Over-Subscription Privilege"). The amount of additional Shares of Common Stock for which an Eligible Holder may subscribe pursuant to the Over-Subscription Privilege is the higher of (1) five times the number of Rights such holder received in the Rights Offering and (2) 100 Shares of Common Stock. No fractional Rights, fractional Common Stock or cash in lieu thereof will be distributed or paid by Westar Industries, but rather Westar Industries will round down the number of Rights distributed to each Eligible Holder to the nearest whole number, provided that each Eligible Holder will receive at least one Right. An aggregate of up to 12,250,000 Shares of Common Stock will be distributed in connection with the Rights Offering.

Westar Industries will pay to brokers 10 cents for each Common Stock purchased upon the exercise of Rights (including Shares of Common Stock purchased pursuant to the Over-Subscription Privilege) by a beneficial owner of up to 5,000 shares of Western Resources common stock on the Record Date, as well as any Oversubscribed Privilege.

-2-

We are asking you to contact your eligible clients for whom you hold Western Resources common stock registered in your name or in the name of your nominee to obtain instructions with respect to the Rights. We have enclosed several copies of the following documents for you to use:

1. A form letter which may be sent to your eligible clients for whose accounts you hold Western Resources common stock registered in your name or the name of your nominee, with space provided for obtaining the clients' instructions with regard to the Rights;
2. The Prospectus;
3. A Rights Certificate (if your shares are registered in your name);
4. The Instructions as to Use of Rights Certificate;

5. A Notice of Guaranteed Delivery;
6. A Nominee Holder Certification Form; and
7. A return envelope addressed to Alpine Fiduciary Services, Inc., the Subscription Agent.

We request that you act promptly. The Rights will expire at 5:00 p.m. New York City Time on July 13, 2001, unless extended by us (the "Expiration Date").

TO EXERCISE RIGHTS, PROPERLY COMPLETED AND EXECUTED RIGHTS CERTIFICATE(S) (UNLESS THE GUARANTEED DELIVERY PROCEDURES ARE COMPLIED WITH) AND PAYMENT IN FULL FOR ALL RIGHTS EXERCISED MUST BE DELIVERED TO THE SUBSCRIPTION AGENT AS INDICATED IN THE PROSPECTUS AND THE INSTRUCTIONS PRIOR TO THE EXPIRATION DATE.

In the case of Rights that are held of record through Depository Trust Company ("DTC"), you may exercise the Subscription Privilege by instructing DTC to transfer Rights from the DTC account of the Rights holder to the DTC account of Alpine Fiduciary Services, Inc., the Subscription Agent, together with payment of the Subscription Price for each Share of Common Stock subscribed for pursuant to the Subscription Privilege.

You may obtain additional copies of the enclosed materials and may request assistance or information from the Information Agent, Georgeson Shareholder Communications Inc., at (212) 440-9800.

Very truly yours,

-3-

GEORGESON SHAREHOLDER
SECURITIES CORPORATION

YOU ARE NOT AN AGENT OF WESTAR INDUSTRIES, INC., ALPINE FIDUCIARY SERVICES, INC., GEORGESON SHAREHOLDER SECURITIES CORPORATION, GEORGESON SHAREHOLDER COMMUNICATION INC. OR ANY OTHER PERSON WHO IS DEEMED TO BE MAKING OR WHO IS MAKING OFFERS OF RIGHTS OR COMMON STOCK IN THE RIGHTS OFFERING, AND YOU ARE NOT AUTHORIZED TO MAKE ANY STATEMENTS ON BEHALF OF ANY OF THEM, EXCEPT FOR STATEMENTS EXPRESSLY MADE IN THE PROSPECTUS.

Exhibit 99.5

BROKER LETTER TO CLIENTS

May __, 2001

To Our Clients:

We are sending this letter because we hold shares of Western Resources, Inc. ("Western Resources") common stock for you. Westar Industries, Inc. ("Westar Industries"), a wholly owned subsidiary of Western Resources, has distributed (the "Rights Offering") non-transferable rights (the "Rights") to subscribe for and purchase from Westar Industries shares of its common stock, par value \$.01 per share.

As described in the enclosed Prospectus, as an eligible shareholder of Western Resources, you will receive one Right for every six shares of Western Resources common stock carried by us in your account as of May 9, 2001 (the "Record Date"), provided that each such eligible shareholder will receive at

least one Right. Each Right will entitle you to subscribe for and purchase from Westar Industries one share of Common Stock (the "Basic Subscription Privilege") at \$10 per share (the "Subscription Price"). In addition to your Basic Subscription Privilege, you may subscribe for additional Common Stock (the "Over-Subscription Privilege") at the Subscription Price per share prior to the Expiration Date. The number of shares of additional Common Stock for which you may over-subscribe is the higher of (1) five times the number of Rights you received in the Rights Offering and (2) 100 shares of Common Stock. You may only exercise your Over-Subscription Privilege if you exercised your Basic Subscription Privilege in full. If the Common Stock available is not sufficient to satisfy all subscriptions (the "Excess Shares") pursuant to your Over-Subscription Privilege, Westar Industries will allocate the Excess Stock among those eligible shareholders of Western Resources exercising their Over-Subscription Privilege. The allocation will be made first to holders of less than 100 Rights so that those holders may subscribe for 100 shares of Common Stock (or the next higher multiple of 10 shares Common Stock) and thereafter pro rata among all holders exercising the Over-Subscription Privilege.

Westar Industries will pay to brokers 10 cents for each share of Westar Common Stock purchased upon the exercise of Rights (including shares of Westar Common Stock purchased pursuant to the Over-Subscription Privilege) by a beneficial owner of up to 5,000 shares of Western Resources common stock on the Record Date, as well as any Over-Subscription Privilege.

We have enclosed your copy of the (1) Prospectus and (2) Instructions as to Use of Rights Certificates. The materials enclosed are being forwarded to you as the beneficial owner of Western Resources common stock carried by us in your account, but not registered in your name. Exercises of Rights may be made only by us as the registered holder of Rights and pursuant to

your instructions. Accordingly, we request instructions as to whether you wish us to elect to subscribe for any shares of Westar Common Stock to which you are entitled pursuant to the terms and conditions set forth in the enclosed Prospectus and Instructions.

-2-

You should forward your instructions to us as promptly as possible to permit us to exercise Rights on your behalf in accordance with the terms of the Rights Offering. The Rights Offering will expire at 5:00 p.m. New York City time on July 13, 2001, unless extended by Westar Industries in its sole discretion (the "Expiration Date"). Any exercise of the Rights or the Over-Subscription Privilege may not be revoked unless the Expiration Date is extended for more than thirty days or a material change in the terms of the Rights Offering is made.

If you wish to have us, on your behalf, exercise Rights to purchase any Westar Common Stock to which you are entitled, please so instruct us by completing, executing and returning to us the instruction form on the reverse side of this Letter. Payment for the Subscription Price will be deducted from such account as is indicated by you on the attached instruction sheet. If insufficient funds are in such account you shall deposit sufficient funds in an account with us from which we may make the appropriate payment deduction. Such deposit should be made in funds which are available at the time you deliver your instructions on exercise to us. IF WE DO NOT RECEIVE COMPLETE WRITTEN INSTRUCTIONS, WE WILL NOT EXERCISE YOUR RIGHTS, AND YOUR RIGHTS WILL EXPIRE WITHOUT VALUE.

ANY QUESTIONS OR REQUESTS FOR ASSISTANCE CONCERNING THE RIGHTS OFFERING SHOULD BE DIRECTED TO YOUR ACCOUNT REPRESENTATIVE.

-3-

BENEFICIAL OWNERS ELECTION FORM

INSTRUCTIONS TO BROKER

The undersigned acknowledge(s) receipt of your letter and the enclosed prospectus materials referred to therein relating to the offering of non-transferable rights ("Rights") to purchase shares of common stock, par value \$.01 per share, of Westar Industries, Inc. (the "Common Stock").

This will instruct you whether to exercise Rights to purchase the Common Stock pursuant to the terms and subject to the conditions set forth in the Prospectus and the related Instructions as to Use of Rights Certificates.

☐ 1. Please DO NOT EXERCISE RIGHTS for Common Stock.

☐ 2. Please EXERCISE RIGHTS for Common Stock as set forth below:

Basic Subscription: _____ x \$10 per share = \$ _____
(number of shares)

Over-Subscription: _____ x \$10 per share = \$ _____
(number of shares)

Total Payment Required = \$ _____

Payment enclosed: \$ _____

Please deduct payment from the following account maintained with you as follows:

Type of Account _____ Account No. _____

Amount to be Deducted: \$ _____

Signature(s) _____

Please type or print name(s) below

Date: _____, 2001

Exhibit 99.6

{OMITTED}

Exhibit 99.7

NOMINEE HOLDER CERTIFICATION

To the Subscription Agent:

The undersigned hereby certifies that it is a broker-dealer registered with the Securities and Exchange Commission, a commercial bank or trust company, a securities depository or participant therein, or a nominee therefor, holding

of record _____ shares of common stock, par value \$5.00 per share of Western Resources, Inc. ("Western Resources") on behalf of _____, beneficial owners as of the close of business on May 9, 2001 (the "Record Date") for the distribution by Westar Industries, Inc. ("Westar Industries"), a wholly owned subsidiary of Western Resources, of non-transferable rights (the "Rights") to purchase from Westar Industries shares of common stock, par value \$.01 per share ("Westar Common Shares"), all as described in Westar Industries' Prospectus dated May 18, 2001 (the "Prospectus"), a copy of which the undersigned has received. As stated in the Prospectus, one Right is being distributed for every six shares of Western common stock, or every six shares underlying a stock option or restricted share unit, held of record as of the close of business on the Record Date, except that at least one Right is being distributed to each holder of Western Resources common stock, stock options and restricted share units. The undersigned is exercising on behalf of the beneficial holders of _____ Rights and is subscribing for _____ Westar Common Shares pursuant to the basic subscription privilege and _____ Westar common stock pursuant to the over-subscription privilege. The amount subscribed for pursuant to the over-subscription privilege on behalf of each beneficial owner will not exceed the higher of (1) five times the number of Rights received by the beneficial owner, and (2) 100 shares of Westar common stock. The undersigned further certifies that each such beneficial owner is a bona fide beneficial owner of Western common stock, that such beneficial ownership is reflected on the undersigned's records and that all Western common stock which, to the undersigned's knowledge, are beneficially owned by any such beneficial owner through the undersigned have been aggregated in calculating the foregoing. The undersigned agrees to provide Westar Industries or its designee with such additional information as Westar Industries deems necessary to verify the foregoing.

Name of Record Holder

By: _____

Name: _____

Title: _____

Address: _____

Telephone Number: _____

Date: _____, 2001

Exhibit 99.8

RIGHTS CERTIFICATE FOR NON-TRANSFERABLE RIGHTS

THE TERMS AND CONDITIONS OF THE RIGHTS OFFERING ARE SET FORTH IN THE WESTAR INDUSTRIES, INC. PROSPECTUS, DATED MAY, 2001 (THE "PROSPECTUS"), AND ARE INCORPORATED HEREIN BY REFERENCE. COPIES OF THE PROSPECTUS ARE AVAILABLE UPON REQUEST FROM GEORGESON SHAREHOLDER, AS INFORMATION AGENT.

CERTIFICATE NUMBER _____

CERTIFICATE FOR _____ RIGHTS

WESTAR INDUSTRIES, INC.
INCORPORATED UNDER THE LAWS OF THE STATE OF KANSAS

RIGHTS CERTIFICATE

EVIDENCING RIGHTS TO PURCHASE ONE SHARE
OF \$.01 PAR VALUE COMMON STOCK FOR EACH RIGHT ISSUED

THE RIGHTS MAY NOT BE SOLD OR OTHERWISE TRANSFERRED

VOID IF NOT EXERCISED AT OR BEFORE
5:00 P.M. (NEW YORK CITY TIME) ON
THE EXPIRATION DATE OF JULY 13, 2001 OR SUCH LATER
DATE AS MAY BE ESTABLISHED BY WESTAR INDUSTRIES, INC.

EXPIRATION DATE: JULY 13, 2001

SUBSCRIPTION PRICE: U.S. \$10 PER
COMMON SHARE

REGISTERED OWNER:

THIS CERTIFIES THAT THE REGISTERED OWNER OF THIS RIGHTS CERTIFICATE, WHOSE NAME IS INSCRIBED ABOVE IS THE OWNER OF THE NUMBER OF RIGHTS SET FORTH ABOVE, EACH OF WHICH ENTITLES THE OWNER TO SUBSCRIBE FOR COMMON STOCK, PAR VALUE \$.01 PER SHARE, OF WESTAR INDUSTRIES, INC., A KANSAS CORPORATION, SHOWN ABOVE, IN THE RATIO OF ONE SHARE OF COMMON STOCK FOR EACH ONE RIGHT, PURSUANT TO THE TERMS AND CONDITIONS AND AT THE PRICE FOR EACH SHARE OF COMMON STOCK SPECIFIED IN THE PROSPECTUS AND THE INSTRUCTIONS RELATING HERETO. THE RIGHTS REPRESENTED BY THIS RIGHTS CERTIFICATE HAVE BEEN ISSUED TO THE PERSONS HOLDING THE COMMON STOCK OF WESTERN RESOURCES, INC., INCLUDING HOLDERS OF OPTIONS TO

-2-

PURCHASE WESTERN RESOURCES COMMON STOCK AND HOLDERS OF RESTRICTED SHARE UNITS, OTHER THAN WESTAR INDUSTRIES, INC., AS OF THE CLOSE OF BUSINESS ON MAY 9, 2001, AND SUCH RIGHTS MAY BE EXERCISED BY DULY COMPLETING SECTION 1 ON THE REVERSE SIDE HEREOF.

DELIVERY OF THE RIGHTS CERTIFICATE TO THE SUBSCRIPTION AGENT PURSUANT TO THE NOTICE OF GUARANTEED DELIVERY MAY BE SPECIFIED BY COMPLETING SECTION 2 ON THE REVERSE SIDE HEREOF. SPECIAL DELIVERY INSTRUCTIONS MAY BE SPECIFIED BY COMPLETING SECTION 3 ON THE REVERSE SIDE HEREOF. THE RIGHTS EVIDENCED BY THIS RIGHTS CERTIFICATE ARE NON-TRANSFERABLE BY THE REGISTERED HOLDER.

IMPORTANT: Complete appropriate form on reverse.

DATE: _____, 2001

WESTAR INDUSTRIES, INC.

By: _____

Name: Paul R. Geist
Title: President

-3-

SECTION 1. EXERCISE AND SUBSCRIPTION

TO: Subscription Agent
Alpine Fiduciary Services, Inc.
c/o Georgeson Shareholder Communications Inc.

Expiration Date: July 13, 2001

By Mail:

P.O. Box 2065
South Hackensack, NJ 07606-9974

By Overnight Courier:
111 Commerce Road
Carlstadt, NJ 07072

By Hand:
110 Wall Street, 11th Floor
New York, NY 10005
Attn: Will Richard

The undersigned hereby irrevocably subscribes for the number of whole Shares of Common Stock indicated below upon the terms and conditions specified in the Prospectus related hereto, receipt of which is acknowledged.

- A. Basic Subscription Privilege: x \$10 = \$
(No. of Shares) (Basic Subscription Payment)
- B. Over-Subscription Privilege: x \$10 = \$
(No. of Shares) (Over-Subscription Payment)
- C. Total Subscription Payment: + = \$
(Basic Subscription Payment) (Over-Subscription Payment) (Total Subscription Payment)

METHOD OF PAYMENT (CHECK ONE)

{ } Uncertified personal check payable to Alpine Fiduciary Services, Inc., as Subscription Agent. Please note that funds paid by uncertified personal check may take at least five business days to clear and that such checks must clear on or prior to the Expiration Date for you to have validly exercised your Rights. Accordingly, Rights holders who wish to pay the Sub-

-4-

scription Price by means of an uncertified personal check are urged to make payment sufficiently in advance of the Expiration Date to ensure that such payment is received and clears by such time, and are urged to consider payment by means of certified or cashier's check, money order or wire transfer of immediately available funds payable in U.S. dollars to avoid missing the opportunity to exercise the Rights.

{ } Certified check or bank draft drawn upon a U.S. bank or of any postal, telegraphic or express money order payable in U.S. dollars, payable to Alpine Fiduciary Services, Inc., as Subscription Agent.

{ } Wire transfer of immediately available funds directed to the subscription account maintained by Alpine Fiduciary Services, Inc., the Subscription Agent, for such purpose at the Provident Bank, One East Fourth Street, Cincinnati, OH 45202 ABA No. #042000424 Account No. #0767-618 for further credit to Alpine Fiduciary Services, Inc. as Agent for Westar Industries, Inc.

If the undersigned has not specified the number of shares of Westar Industries, Inc., common stock being subscribed for pursuant to the Basic Subscription Privilege, or does not forward full payment of the Total Subscription Payment for the number of shares of common stock that he or she indicates are being exercised, such person will be deemed to have exercised such Basic Subscription Privilege with respect to the maximum whole number of Rights that may be exercised with the Subscription Payment delivered. If the Total Subscription Payment forwarded to the Subscription Agent is greater than the amount owed for the number of shares of common stock to be purchased pursuant to the Basic Subscription Privilege (the "Subscription Excess"), the undersigned will be deemed to have exercised his or her Over-Subscription Privilege to purchase, to the extent available, the maximum number of shares of common stock purchasable with the Subscription Excess. The amount of additional shares of common stock for which a holder may subscribe for pursuant to the Over-Subscription Privilege is the higher of (1) five times the number of Rights received by such holder in the Rights Offering and (2) 100 shares of common stock. If the full Subscription Payment is not applied to the purchase of shares of common stock, the undersigned will be refunded the amount of any overpayment, sent via mail, without interest or deduction, as soon as practicable after the Expiration Date.

SECTION 2. NOTICE OF GUARANTEED DELIVERY

{ } Check here if Rights are being exercised pursuant to a Notice of Guaranteed Delivery delivered to the Subscription Agent prior to the Expiration Date and complete the following:

Name(s) of Registered Owner(s):

Window Ticket Number (if any):

-5-

Name of Institution which Guaranteed Delivery:

SECTION 3. SPECIAL DELIVERY INSTRUCTIONS

Name and/or address for mailing of any securities or Subscription Excess, if other than as shown on the reverse hereof:

Name:

Address:

{ } Check here if permanent change of address

Please give your daytime telephone number: ()

-6-

SUBSTITUTE FORM W-9

Date:

(Signature of Holder)

(Print Name of Holder)

Tax I.D. Number or Social Security Number: _____

(Complete Substitute Form W-9)

(Must be signed by the Rights holder(s) exactly as name(s) appears on the reverse side of this Rights Certificate. If signature is by trustee, executor, administrator, guardian, attorney-in-fact, agent, officer or a corporation or another acting in a fiduciary or representative capacity, please provide the following information. See instructions accompanying this Rights Certificate).

Name: _____

Taxpayer Identification or Social Security

Number: _____

(Please Print)

(Complete Substitute Form W-9)

Capacity: _____

Home Telephone Number: () _____

Address: _____

Business Telephone Number: () _____

-7-

SOLICITING DEALER PAYMENT REQUEST FORM (OPTIONAL)

Name of Broker: _____

Firm: _____

Address: _____

Telephone Number: () _____

Exhibit 99.12

May , 2001

INSTRUCTIONS AS TO USE OF 401(k) SUBSCRIPTION FORMS FOR
WESTAR INDUSTRIES, INC. SHARES OF COMMON STOCK -CONSULT THE SUBSCRIPTION AGENT OR INFORMATION AGENT,
AS TO ANY QUESTIONS

The following instructions relate to the distribution (the "Rights Offering") by Westar Industries, Inc. ("Westar Industries"), a Kansas corporation, and wholly-owned subsidiary of Western Resources, Inc. ("Western Resources") of non-transferable rights ("Rights") to purchase from Westar Industries shares of common stock, par value \$.01 per share of Westar Industries, as described in Westar Industries' prospectus dated May 18, 2001 (the "Prospectus"). Each holder of Western Resources common stock (including participants in the Western Resources, Inc. Employees' 401(k) Savings Plan or Protection One 401(k) Plan whose plan accounts hold such stock, collectively referred to as the "Plans"), stock options, and restricted share units, other than Westar Industries and foreign stockholders (the "Eligible Holders"), as of May 9, 2001 (the "Record Date"), will receive one Right for every six shares of Western Resources common stock, or every six shares underlying a stock option

or restricted share unit, held on the Record Date; provided that each Eligible Holder will receive at least one Right. Each Right carries a basic subscription privilege (the "Basic Subscription Privilege") which entitles the Eligible Holders to purchase one share of common stock at the subscription price of \$10 per share (the "Subscription Price"). In addition, subject to the allocation described below, each Right carries an over-subscription privilege (the "Over-Subscription Privilege") which entitles Eligible Holders to purchase additional shares of common stock at the Subscription Price per share. All purchases by Plan participants are made within their respective Plan accounts using other assets in their Plan accounts to pay the subscription payment. No fractional Rights, fractional shares of common stock or cash in lieu thereof will be distributed or paid by Westar Industries, but rather Westar Industries will round down the number of Rights distributed to each Eligible Holder to the nearest whole number, provided that each Eligible Holder will receive at least one Right. An aggregate of up to 12,250,000 shares of common stock will be distributed in connection with the Rights Offering.

Your right to elect to exercise the Rights will expire at 5:00 p.m., New York City time, on July 3, 2001, unless extended by Westar Industries (as it may be extended, the "Election Expiration Date"). PLEASE NOTE THAT THE ELECTION EXPIRATION DATE IS EARLIER THAN THE EXPIRATION DATE APPLICABLE FOR RIGHTS NOT RECEIVED THROUGH THE 401(k) PLANS. THE EARLIER DATE IS NECESSARY BECAUSE THE 401(k) PLAN TRUSTEE (AS THE RECORD HOLDER OF THE WESTERN RESOURCES SHARES HELD IN THE PLAN) IS THE PARTY THAT MUST EXERCISE ANY RIGHTS THAT YOU AND OTHER PARTICIPANTS RECEIVE THROUGH THE PLAN AND THE ADDITIONAL TIME IS NEEDED TO ENABLE THE TRUSTEE TO PROCESS PARTICIPANTS' ELECTIONS.

The number of Rights to which you are entitled is printed on the face of your 401(k) Subscription Form. You should provide your instructions with regard to the exercise of your Rights by completing the appropriate section on the back of your 401(k) Subscription Form and returning the completed form to the Subscription Agent in the envelope provided.

YOUR 401(k) SUBSCRIPTION FORM MUST BE RECEIVED BY THE SUBSCRIPTION AGENT ON OR PRIOR TO THE ELECTION EXPIRATION DATE. YOU MAY NOT REVOKE ANY EXERCISE OF A RIGHT UNLESS THE ELECTION EXPIRATION DATE IS EXTENDED BY MORE THAN THIRTY DAYS OR A MATERIAL CHANGE IN THE TERMS OF THE RIGHTS OFFERING IS MADE.

Shares of Westar common stock will be available for purchase pursuant to the Over-Subscription Privilege only upon the Eligible Holder having fully subscribed for shares of common stock pursuant to the Basic Subscription Privilege and only to the extent that all the shares of common stock are not subscribed for through the exercise of the Basic Subscription Privilege by the expiration date of the Rights Offering. The amount of additional shares of common stock for which each Eligible Holder may over-subscribe is the higher of (1) five

times the number of Rights received in the Rights Offering and (2) 100 shares of common stock. Eligible Holders may only exercise the Over-Subscription Privilege if they exercised their Basic Subscription Privilege in full. If the shares of common stock available are not sufficient to satisfy all subscriptions (the "Excess Shares") pursuant to the Over-Subscription Privilege, Westar Industries will allocate the Excess Shares among the Eligible Holders who exercised their Over-Subscription Privilege. The allocation will be made first to the holders of less than 100 Rights so that those holders may subscribe for 100 shares of common stock (or the next higher multiple of 10 shares) and thereafter pro rata among all holders exercising the Over-Subscription Privilege. If a 401(k) plan participant exercised his or her Over-Subscription Privilege and is allocated less than all of the shares of Westar common stock which he or she wished to subscribe for, the excess payment for shares of common stock that were not allocated to such participant's plan account will be refunded to the participant's plan account as soon as practicable after the Election Expiration Date and invested in accordance with

the participant's contribution allocation percentages (or, if the participant has not made a contribution allocation election, will be deposited in Vanguard Prime Money Market Fund).

Westar Industries will not have any liability to you as a Rights holder if your 401(k) Subscription Form is not received by the Subscription Agent prior to the Election Expiration Date.

1. SUBSCRIPTION PRIVILEGES; EXERCISE.

To exercise Rights, complete the reverse side of your 401(k) Subscription Form and send your properly completed and executed 401(k) Subscription Form to the Subscription Agent. FACSIMILE DELIVERY OF THE 401 (k) SUBSCRIPTION FORM WILL NOT CONSTITUTE VALID DELIVERY.

If you elect to exercise any Rights, the cash Subscription Price will be paid from other amounts allocated to your Plan account (to be obtained from your investments in the Plan's investment funds other than the Western Resources Company Stock Fund in proportion to the amount of your account balance in each such fund) at the time the liquidation is made.

CONTACTING THE SUBSCRIPTION AGENT OR THE INFORMATION AGENT.

The address and telephone number of the Subscription Agent are as follows:

Alpine Fiduciary Services, Inc.
c/o Georgeson Shareholder Communication Inc.
By Mail: P.O. Box 2065, South Hackensack, NJ 07606-9974
By Overnight Courier: 111 Commerce Road, Carlstadt, NJ 07022
By Hand: 110 Wall Street, 11th floor, New York, NY 10005
Attn: Will Richard
Toll free (888) 388-2251

The telephone number of the Information Agent is as follows:

Georgeson Shareholder Communication Inc.:
Toll free (888) 388-2251

PARTIAL EXERCISES; EFFECT OF OVERPAYMENT AND UNDERPAYMENT.

If you exercise less than all of the Rights printed on your 401(k) Subscription Form, the Subscription Agent will, upon request, issue to you a new 401(k) Subscription Form evidencing the unexercised Rights. If you choose to have a new 401(k) Subscription Form sent to you, however, you may not receive any such new 401(k) Subscription Form in sufficient time to permit you to exercise the Rights evidenced thereby.

If your account balance in the Plan at the time of liquidation (exclusive of the Western Resources Company Stock Fund) is not sufficient to cover the total Subscription Payment for the number of shares of common stock that you indicate are being exercised, you will be deemed to have exercised such Basic

Subscription Privilege with respect to the maximum whole number of Rights that may be exercised with the amount of your account balance (exclusive of the Western Resources Common Stock Fund). If your full Subscription Payment is not applied to your purchase of shares of common stock, the amount of any overpayment, without interest or deduction, will be refunded to your Plan account as soon as practicable after the Election Expiration Date and invested in accordance with your contribution allocation percentages (or, if you have not made a contribution allocation election, will be deposited in Vanguard Prime Money Market Fund).

2. DELIVERY OF SHARES OF COMMON STOCK TO YOUR PLAN ACCOUNT.

It is anticipated that the closing of the sale of shares issuable upon exercise of the Rights (the "Closing") will occur as soon as practicable following the expiration date of the Rights Offering as a whole (the "Closing Date"). The shares of common stock which you have purchased will be allocated to your Plan account after that date.

3. EXECUTION.

(A) EXECUTION BY PARTICIPANT. The signature on the 401(k) Subscription Form must correspond with the name of the Participant exactly as it appears on the face of the 401(k) Subscription Form without any alteration or change whatsoever. Persons who sign the 401(k) Subscription Form in a representative or other fiduciary capacity must indicate their capacity when signing and, unless waived by the Subscription Agent in its sole and absolute discretion, must certify to the Subscription Agent and Westar Industries as to their authority to so act.

(B) EXECUTION BY PERSON OTHER THAN PARTICIPANT. If the 401(k) Subscription Form is executed by a person other than the Participant named on the face of the 401(k) Subscription Form, proper evidence of authority of the person executing the 401(k) Subscription Form must accompany the same unless, for good cause, the Subscription Agent dispenses with proof of authority.

4. METHOD OF DELIVERY.

The method of delivery of the 401(k) Subscription Form to the Subscription Agent will be at the election and risk of the Participant, but, if sent by mail, it is recommended that they be sent by registered mail, properly insured, with return receipt requested, and that a sufficient number of days be allowed to ensure delivery to the Subscription Agent prior to the Election Expiration Date.

Exhibit 99.13

May 2001

Notice to Participants in the Western Resources, Inc. Employees' 401(k) Savings Plan and the Protection One 401(k) Plan

Dear 401(k) Plan Participant:

Westar Industries, Inc., a subsidiary of Western Resources, Inc., has announced a distribution (the "Rights Offering") to all shareholders of record of Western Resources common stock as of May 9, 2001, the record date. This distribution consists of nontransferable rights ("Rights") to purchase shares of common stock of Westar Industries. As a plan participant with assets invested in the Western Resources Common Stock Fund, you are eligible for this Rights Offering.

Details About the Rights Offering

Enclosed you will find important materials relating to the Rights Offering. Please review them carefully before deciding whether to exercise the Rights available to you.

For every six shares of Western Resources common stock that you held in your plan account at the close of business on May 9, 2001, you will receive one Right. Each Right entitles you to purchase one share of Westar Industries common stock at the subscription price of \$10.00. In addition, you are eligible to purchase ("over-subscribe") up to five more shares of Westar Industries common stock for each Right you own, or 100 shares, whichever is greater. Any

purchases that you elect will be made within your plan account using funds in your plan account, excluding balances in the Western Resources Common Stock Fund, and the Westar Industries shares you purchase will be allocated to your plan account.

If You Decide Not to Exercise Your Rights

If you do not wish to exercise your Rights to purchase shares of Westar Industries common stock, you do not have to take any action. Your Rights will simply expire on the expiration date for the Rights Offering, and your plan account will be unaffected.

If You Decide to Exercise Your Rights

If you wish to exercise your Rights to purchase shares of Westar Industries common stock, please complete and return the enclosed 401(k) Subscription Form in the enclosed reply envelope. Your form must be received by Alpine Fiduciary Services, the subscription agent, by 5 p.m., New York City time, on July 3, 2001, (unless the deadline is extended by Westar Industries). All instructions received from you will be held in confidence. Do not send checks or cash with your 401(k) Subscription Form. Please note that your 401(k) Subscription Form must be received earlier than the deadline for returning Subscription Certificates for Rights not received through the 401(k) Plan. The earlier date is necessary because Vanguard, as plan trustee, is the recordholder of the Western Resources shares held in the 401(k) Plan and is, therefore, the party that must exercise any Rights allocated to plan participants under the 401(k) Plan. The additional time is needed to enable Vanguard to process the elections by participants and exercise the Rights in accordance with those elections.

You may not revoke any exercise of a Right unless the expiration date is extended by more than 30 days or a material change in the terms of the Rights Offering is made. The method of delivery of the 401(k) Subscription Form will be at your election and risk, but facsimile delivery will not be allowed. If you send the form by mail, it is recommended that you send it by registered mail, properly insured, with return receipt requested, and that a sufficient number of days be allowed to ensure delivery to the Subscription Agent by 5 p.m., New York City time on July 3, 2001.

The money needed to fund your purchase will be obtained by liquidating the appropriate number of shares from the investments in your plan account--except the Western Resources Common Stock Fund--on a prorated basis. If your plan account has insufficient assets to cover the cost of the Westar Industries shares you requested at the time the liquidation is made, your plan account will receive only the number of Westar Industries shares that can be purchased with the assets available in your account (exclusive of your assets in Western Resources Common Stock Fund). For an estimate of the assets you have available to purchase Westar Industries shares, call Vanguard(R) Participant Services at 1-800-523-1188 Monday through Friday from 8:30 a.m. to 9 p.m., New York City time.

If the Rights Offering is canceled, or if the over-subscription requests exceed the supply, your liquidated assets will be reallocated to your plan account, without earnings, according to your contribution allocation percentages. If you have not made a contribution allocation election, your assets will be deposited in Vanguard(R) Prime Money Market Fund.*

If You Exercise Your Rights, What Happens Next?

If you exercise your Rights, the fund assets to cover your purchase will be sold in your plan account on July 9, 2001, and deposited in the newly created Westar Industries Common Stock Fund.

Activity on the assets used to purchase Westar Industries common stock will

be temporarily restricted. Loans, withdrawals, and distributions involving these assets will not be available from 4 p.m., New York City time, on July 9, 2001, until the Westar shares are received by Vanguard and offered for public trading. During this period your assets will be out of the market and will not accrue earnings or losses. Note that these temporary restrictions do not apply to the other investments in your plan account.

When the Rights Offering is consummated, the shares of the Westar Industries common stock that you purchased will be held in the Westar Industries Common Stock Fund in your individual plan account. The new fund will be accounted for in units and administered in the same manner as the Western Resources Common Stock Fund.

The Westar Industries Common Stock Fund will be closed to new investments, but you will be permitted to transfer (exchange) money out of the fund into the plan's other investment options, in accordance with normal plan procedures. The daily deadline for an exchange request will be 1 p.m., New York City time, and other trading restrictions may apply.

For More Information

If you have questions about the Rights Offering, call Georgeson Shareholder, the information agent, at 1-888-388-2251.

If you have general questions about your plan, please call Vanguard at 1-800-523-1188 Monday through Friday from 8:30 a.m. to 9 p.m., New York City time, or visit www.vanguard.com.

Vanguard Fiduciary Trust Company

* An investment in a money market fund is not insured or guaranteed by the Federal Deposit Insurance Corporation or any other government agency. Although the fund seeks to preserve the value of your investment at \$1 per share, it is possible to lose money by investing in the fund.

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2

401(k) SUBSCRIPTION FORM

THIS FORM IS TO BE COMPLETED, SIGNED AND DELIVERED TO THE SUBSCRIPTION AGENT BY PARTICIPANTS IN THE WESTERN RESOURCES, INC. EMPLOYEES' 401(k) SAVINGS PLAN OR PROTECTION ONE 401(k) PLAN (EACH CALLED THE "PLAN") WHO WISH TO EXERCISE ANY RIGHTS ALLOCATED TO THEIR PLAN ACCOUNTS. THE TERMS AND CONDITIONS OF THE RIGHTS OFFERING ARE SET FORTH IN THE WESTAR INDUSTRIES, INC. PROSPECTUS, DATED MAY, 2001 (THE "PROSPECTUS"), AND ARE INCORPORATED HEREIN BY REFERENCE. COPIES OF THE PROSPECTUS ARE AVAILABLE UPON REQUEST FROM GEORGESON SHAREHOLDER, AS INFORMATION AGENT.

FORM REGISTRATION NUMBER

401(k) SUBSCRIPTION FORM FOR RIGHTS

WESTAR INDUSTRIES, INC.
INCORPORATED UNDER THE LAWS OF THE STATE OF KANSAS

401(k) SUBSCRIPTION FORM

EVIDENCING RIGHTS TO PURCHASE ONE SHARE
OF \$.01 PAR VALUE COMMON STOCK FOR EACH RIGHT ISSUED

THE RIGHTS MAY NOT BE SOLD OR OTHERWISE TRANSFERRED

VOID IF NOT EXERCISED AT OR BEFORE
5:00 P.M. (NEW YORK CITY TIME) ON
THE ELECTION EXPIRATION DATE OF JULY 3, 2001 OR SUCH LATER
DATE AS MAY BE ESTABLISHED BY WESTAR INDUSTRIES, INC.

ELECTION EXPIRATION DATE: JULY 3, 2001 SUBSCRIPTION PRICE: U.S. \$10 PER
SHARE OF COMMON STOCK

PLAN PARTICIPANT:

THIS CERTIFIES THAT THERE HAS BEEN ALLOCATED TO THE PLAN ACCOUNT OF THE PLAN PARTICIPANT WHOSE NAME IS INSCRIBED ABOVE THE NUMBER OF RIGHTS SET FORTH ABOVE, EACH OF WHICH ENTITLES THE PARTICIPANT TO DIRECT THE PLAN TRUSTEE TO SUBSCRIBE FOR COMMON STOCK, PAR VALUE \$.01 PER SHARE, OF WESTAR INDUSTRIES, INC., A KANSAS CORPORATION, SHOWN ABOVE, IN THE RATIO OF ONE SHARE OF COMMON STOCK FOR EACH ONE RIGHT, PURSUANT TO THE TERMS AND CONDITIONS AND AT THE PRICE FOR EACH SHARE OF COMMON STOCK SPECIFIED IN THE PROSPECTUS AND THE INSTRUCTIONS RELATING HERETO. THE RIGHTS REPRESENTED BY THIS 401(k) SUBSCRIPTION FORM HAVE BEEN ISSUED TO PARTICIPANTS IN THE WESTERN RESOURCES, INC. EMPLOYEES' 401(k) SAVINGS PLAN AND PARTICIPANTS IN THE PROTECTION ONE 401(k) PLAN WHOSE PLAN ACCOUNTS HOLD COMMON STOCK OF WESTERN RESOURCES, INC., AS OF THE CLOSE OF BUSINESS ON MAY 9, 2001, AND SUCH RIGHTS MAY BE EXERCISED BY DULY COMPLETING SECTION 1 ON THE REVERSE SIDE HEREOF.

PLEASE NOTE THAT THE ELECTION EXPIRATION DATE IS EARLIER THAN THE EXPIRATION DATE APPLICABLE FOR RIGHTS NOT RECEIVED THROUGH THE 401(k) PLANS. THE EARLIER DATE IS NECESSARY BECAUSE THE 401(k) PLAN TRUSTEE (AS THE RECORD HOLDER OF THE WESTERN RESOURCES SHARES HELD IN THE PLAN) IS THE PARTY THAT MUST EXERCISE ANY RIGHTS THAT YOU AND OTHER PARTICIPANTS RECEIVE THROUGH THE PLAN AND THE ADDITIONAL TIME IS NEEDED TO ENABLE THE TRUSTEE TO PROCESS PARTICIPANTS' ELECTIONS.

THE RIGHTS EVIDENCED BY THIS 401(k) SUBSCRIPTION FORM ARE NON-TRANSFERABLE BY THE PARTICIPANT.

IMPORTANT: Complete appropriate form on reverse.

DATE: , 2001

WESTAR INDUSTRIES, INC.

By: _____

Name: Paul R. Geist
Title: President

2

SECTION 1. EXERCISE AND SUBSCRIPTION

TO: Subscription Agent
Alpine Fiduciary Services, Inc.
c/o Georgeson Shareholder

Election Expiration Date: July 3, 2001

By Mail:
P.O. Box 2065
South Hackensack, NJ 07606-9974

By Overnight Courier:
111 Commerce Road
Carlstadt, NJ 07072

Disclosure Page 274

Social Security Number: _____

(Must be signed by the Participant exactly as name appears on the reverse side of this 401(k) Subscription Form. If signature is by executor, administrator, guardian, attorney-in-fact, agent, or another acting in a fiduciary or representative capacity, please provide the following information. See instructions for 401(k) Subscription Forms accompanying this 401(k) Subscription Form).

Name: _____
(Please print)Taxpayer Identification or Social Security
Number: _____

Capacity: _____

Home Telephone Number: ()

Address: _____

Daytime Telephone Number: ()

Exhibit 99.15

THE STATE CORPORATION COMMISSION
OF THE STATE OF KANSAS

Before Commissioners: John Wine, Chair
Cynthia L. Claus
Brian J. Moline

In the Matter of the Investigation of Actions of)
Western Resources, Inc. to Separate its) Docket No. 01-WSRE-949-GIE
Jurisdictional Electric Public Utility Business)
from its Unregulated Businesses.)

ORDER INITIATING INVESTIGATION

For the reasons stated below, the State Corporation Commission of the State of Kansas ("Commission") initiates this investigation of the actions taken by Western Resources, Inc. ("WRI") to separate its jurisdictional electric public utility business from its unregulated businesses, and of the continued ability of the electric public utility to provide efficient and sufficient electric service at just and reasonable rates.

I. Factual Background

1. Public information concerning actions and plans of WRI to restructure WRI by separating its regulated public utility business from its unregulated businesses is available in the S-1 Registration Statement No. 333-47424 ("Registration Statement") filed by Westar Industries, Inc. ("Westar") at the Securities and Exchange Commission ("SEC"); 10-K reports of WRI filed at the SEC; published financial analysts' reports; Commission records, documents and press releases relating to the proposed merger of WRI's utility business with the Public Service Company of New Mexico.

2. WRI is a certificated electric public utility subject to the jurisdiction of the Commission. WRI, doing business in parts of the state of Kansas as KPL, and its wholly-owned subsidiary, Kansas Gas and Electric Company ("KG&E"), provide retain electric service to approximately 636,000 customers in the state of Kansas.

3. Westar, currently a wholly-owned subsidiary of WRI, filed Amendment No. 2 to the Registration Statement with the SEC on April 13, 2001. Through this filing, WRI is taking the first step in a series of transactions which may result in the separation of Westar from its electrical utilities business.

Westar is a holding company which owns interests in Protection One, Inc., Protection One Alarm Monitoring, Inc., Protection One International, Inc., Protection One (UK) plc and ONEOK, Inc. Westar's assets comprise substantially all of WRI's non electric utility assets.

4. WRI has stated that the separation of Westar from WRI should allow the investment community to more accurately value Westar's assets. In effecting the separation of Westar from WRI, WRI must distribute certain of its assets, liabilities and equity between itself and Westar. This distribution is embodied in the Asset Allocation Agreement, and Amendment No. 1 thereto, as referenced in the Registration Statement. WRI's decisions in implementing the separation of assets, liabilities and equity effectively establish separate balance sheets for Westar and WRI. If WRI implements its plan to separate Westar from WRI, the financial condition of WRI, which will be left with only electric utility assets and substantially all of WRI's liabilities (excluding those issued by Protection One), may be significantly diminished.

5. According to Westar's Registration Statement, Westar has entered into an Asset Allocation Agreement with WRI providing for the repayment of a note receivable from WRI. Registration Statement at 6. The note receivable, due Westar from WRI, records the receipt of cash advances provided WRI by Westar pursuant to the Asset Allocation Agreement. The balance of the

note receivable was approximately \$350 million as of January 31, 2001. Form SC-13-D filed by WRI March 12, 2001. The balance of the note receivable will be increased by additional cash advances by Westar to WRI, including an advance of all net proceeds of the rights offering contemplated by Westar. On February 28, 2001, WRI decreased the inter-company note receivable by issuing WRI common stock to Westar. Westar received 14.4 million shares valued at \$350 million. Westar is now the largest stockholder in WRI, holding approximately 17 percent of WRI's voting capital stock. Form SC-13D filed by WRI on March 12, 2001.

6. In its most recent Form 10-K filed by WRI with the SEC on April 2, 2001, WRI states, "Protection One Has Had a History of Losses Which are Likely to Continue." Protection One is WRI's monitoring service business that is not regulated by this Commission. For the years ending 1998, 1999 and 2000, Protection One reported net losses (excluding extraordinary items) of \$17.8 million, \$91.9 million and \$127.1 million, respectively. 10-K at 20. Because WRI owns 85 percent of Protection One, those losses are consolidated on WRI's financial statements.

7. In addition to these losses, WRI warns its shareholders that changes considered by the Financial Accounting Standards Board could require Protection One to write down or remove from its balance sheet a significant amount of its assets. In addition, WRI warns its shareholders that the amount would have a material adverse effect on its operating results, including the regulated utility business operations. 10-K at 21.

8. On March 29, 2000, the three major credit rating agencies downgraded WRI's debt from "investment grade" to what is commonly referred to as a "junk bond rating." (Fitch, Inc. from A- to BB+; Standard & Poors' from BBB+ to BB+; and Moody's from A3 to Ba1.) Press Releases by Fitch, Inc., Standard & Poors', and Moody's dated March 29, 2000. The rating agencies issued their press releases as WRI's management announced a restructuring plan that would have separated

WRI's unregulated investments from its regulated utility business. That plan, like the separation plan currently contemplated by WRI, would have shifted a vast majority of the company's total debt to the regulated operations leaving the unregulated entity unburdened by the interest expense. WRI eventually dropped that restructuring plan, but the rating agencies have not returned WRI's bond rating to its previous investment grade.

9. The downgrade of WRI's credit rating had an immediate effect of halting WRI's ability to issue short-term, unsecured notes known as commercial paper to finance its short-term capital needs. WRI negotiated a short-term lending arrangement with banks secured by a mortgage to replace its commercial papers program. WRI entered into a \$600 million two-year secured note with an interest rate of 10.50 percent. 10-K at 71. WRI has included this cost in its recent rate filing. Docket No. 01-WSRE-436-RTS.

10. According to WRI's most recent 10-K filing, it has \$1.3 billion in debt coming due between now and 2005. 10-K at 70. This amount does not include additional capital required to fund new power plants that are in the planning stages.

11. On November 8, 2000, WRI entered into a merger agreement with the Public Service Company of New Mexico ("PNM") to effect the combination of its electric utility business with PNM. Pursuant to the conditions and terms of the agreement, WRI and PNM will become subsidiaries of a new holding company. WRI will "split-off" Westar concurrently with the closing of the merger with PNM. The "split-off" involves the distribution of Westar's common stock held by WRI to WRI's shareholders in exchange for a portion of the shareholders' WRI common stock. As a result, all of Westar's common stock held by WRI will be distributed to WRI's shareholders in the "split-off". Registration Statement at 9.

12. It is clear from the contents of Westar's Registration Statement and WRI's merger

agreement with PNM that the separation of Westar and WRI is related to the merger. Further, the terms and conditions for the combination require the successful separation and "split-off" of Westar from WRI prior to completion and effectiveness of the merger.

II. Jurisdiction

13. WRI is a certificated electric public utility subject to the jurisdiction of the Commission pursuant to K.S.A. 66-104 and 66-131. An electric public utility is required under K.S.A. 2000 Supp. 66-101b to carry out the mandate of its certificate to provide efficient and sufficient service at just and reasonable rates.

14. The Commission has plenary authority under K.S.A. 66-101 to "supervise and control" the electric utilities doing business in Kansas and "is empowered to do all things necessary and convenient for the exercise of such power, authority and jurisdiction." The Commission has clear authority under K.S.A. 66-101h to "examine and inspect the condition of each electric public utility" and the "manner of its conduct and its management with reference to the public safety and convenience." Further, the Commission has the jurisdiction and authority to investigate, on its own initiative, any act or practice of an electric public utility that affects its ability to provide efficient and sufficient service at just and reasonable rates and to substitute such act or practice after investigation and hearing under K.S.A. 2000 Supp. 66-101d. These provisions, by themselves, create sufficient authority for the Commission to carry out this investigation, since the actions, events and relationships described above may affect the utilities' ability to provide efficient and sufficient service at just and reasonable rates.

15. Any transaction that constitutes a "contract or agreement with reference to or affecting" the certificate of convenience is not valid until it is approved by the Commission pursuant to K.S.A. 2000 Supp. 66-136. One or more of the agreements which are a part of, or relate to, the

actions, events and relationships described in Part I above may affect the utilities' ability to carry out the public utility responsibilities associated

with their certificates of convenience. Consequently, the Commission has jurisdiction to investigate such agreements, declare them subject to K.S.A. 2000 Supp. 66-136, and require that they be brought to the Commission for approval.

16. Any affiliate of a jurisdictional public utility that holds more than 10 percent of the voting capital stock of the public utility is subject to the Commission's jurisdiction under K.S.A. 66-1401, et seq., for the purposes of that act. In addition, any management contract or similar agreement entered into between the affiliate and the public utility can have no effect until filed with the Commission, and such contracts or agreements can be disapproved, upon investigation and hearing, if found by the Commission not to be in the public interest. K.S.A. 66-1402. One or more of the agreements which are a part of, or relate to, the actions, events and relationships described in Part 1 above will involve "affiliate interest" as defined by K.S.A. 66-1401 (2), and will be a transaction "other than ownership of stock and receipt of dividends thereon." Id. In addition, one or of the contracts could constitute a "management" contract requiring advance approval under K.S.A. 66-1402. Consequently, the Commission has jurisdiction to investigate such agreements, declare them subject to K.S.A. 2000 Supp. 66-136, and require that they be brought to the Commission for approval.

17. Neither WRI nor Westar has made any filing with the Commission to seek approval of this transaction.

III. Commencement of the Investigation

18. Accordingly, the Commission finds that the matters set forth in this Order warrant an investigation into whether the participation by WRI and its affiliates in the transactions and relationships described herein, and any other transactions or relationships which may emerge from

the investigation, is consistent with Kansas law, including WRI's and KG&E's statutory obligations to provide efficient and reliable service to Kansas customers at just and reasonable rates. The Commission further finds that it has jurisdiction to conduct this investigation.

19. In light of the foregoing, the Commission orders as follows:

- (A) WRI and Westar shall, within 60 days of service of this order, provide a verified explanation of why each of the actions, events or relationships described in paragraphs 1-12 of this order, or other actions, events or relationships related to those described therein and known to WRI or Westar, will not adversely affect the ability of WRI or KG&E to provide efficient and sufficient electric utility service at just and reasonable rates to its certificated electric utility customers in the state of Kansas. Such verified explanation shall be accompanied by all relevant documents which constitute, explain or justify the actions, events or relationships.
- (B) WRI and Westar shall provide to this Commission, on a continuing basis, 10 copies of all documents filed with the SEC or transmitted to its investors, related to the aforescribed actions, events or relationships, including any disclosures made concerning the Commission's investigation, on the same day that it files such documents with the SEC or transmits them to its investors.
- (C) Commission Staff shall begin immediately an

investigation into the impact on WRI's and KG&E's ability to carry out their public utility obligations of the aforescribed actions, events and relationships. Such investigation shall include, but not be limited to:

- (i) the basis for and the effect of the Asset Allocation Agreement, as referenced in the S-1 Registration Form, on WRI's ability to meet its certificate obligations to provide sufficient and efficient service at just and reasonable rates;
- (ii) the basis for and effect of the inter-company note receivable on WRI's ability to meet its certificate obligations to provide sufficient and efficient service at just and reasonable rates;
- (iii) the split-off of Westar stock and any other event described in the S-1 filed with the SEC;
- (iv) the effect of business difficulties faced by WRI's unregulated operations, including whether the utility business should continue to be affiliated with unregulated business and, if so, under what conditions;
- (v) whether the present and prospective capital structures are appropriate given WRI's and KG&E's public utility responsibilities; and
- (vi) whether WRI and KG&E are taking the actions necessary to assure that service to Kansas customers is economical and efficient.

- (D) To carry out such investigation, Staff shall have authority to carry out discovery consistent with the Commission's rules, including the right to take deposition of relevant witnesses. Staff shall present a report to the Commission on its findings no later than October 8, 2001 unless the Commission extends this date.

20. Staff, WRI and Westar shall, and other interested persons may, suggest additional issues or questions for the Commission to include in this investigation, and shall submit such suggestions to the Commission no later than July 30, 2001.

21. Upon receiving the suggestion described in the preceding paragraph, the Commission will hold a prehearing conference to discuss the additional issues or questions and the procedures that will be utilized to conduct its investigation. Notice of the prehearing conference shall be given by separate order.

IT IS, THEREFORE, BY THE COMMISSION CONSIDERED AND ORDERED THAT:

(A) This docket shall be initiated to investigate, as provided above, whether the participation by WRI and its affiliates in the transactions and relationships described herein, and any other transactions or relationships

which may emerge from the investigation, is consistent with Kansas law, including WRI's and KG&E's statutory obligations to provide efficient and reliable service to Kansas customers.

(B) This order is effective upon service. Any party may file a petition for reconsideration of this order within fifteen days of the date this order is served. If service is by mail, service is complete upon mailing and three days may be added to the above time.

(C) This order shall be served upon counsel for WRI and Westar. The Commission records indicate that the general counsel of WRI and Westar is Richard D. Terrill, Western Resources, Inc., 818 Kansas Avenue, Topeka, Kansas, 66612.

(D) The Commission retains jurisdiction over the subject matter and the parties for the purpose of entering such further order or orders as it may deem necessary.

BY THE COMMISSION IT IS SO ORDERED.

Wine, Chr.; Claus, Comm.; Moline, Comm.

Dated: May 08 2001

/s/ Jeffrey S. Wagaman

JEFFREY S. WAGAMAN
Executive Director

WESTAR ENERGY, INC.

**REPORT OF DEBEVOISE & PLIMPTON
TO
THE SPECIAL COMMITTEE OF
THE BOARD OF DIRECTORS**

APRIL 11, 2003

**VOLUME 7 of 7
EXHIBITS 211→246**

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