# FORM 10-Q/A

Quarterly report pursuant to sections 13 or 15(d) [amend]

Filing Date: **2001-02-02** | Period of Report: **2000-03-31**
**SEC Accession No.** 0000950130-01-000567



## FILER

**WESTERN RESOURCES INC /KS**
CIK:**54507**| IRS No.: **480290150** | State of Incorp.:**KS** | Fiscal Year End: **1231**
Type: **10-Q/A** | Act: **34** | File No.: **001-03523** | Film No.: **1524310**
SIC: **4931** Electric & other services combined

Business Address
*818 KANSAS AVE*
*TOPEKA KS 66612*
*9135756300*

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q/A

(Mark One)

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

For the quarterly period ended March 31, 2000

OR

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

For the transition period from ________ to ________

Commission File Number 1-3523

WESTERN RESOURCES, INC.
(Exact Name of Registrant as Specified in Its Charter)

| | |
|---|---|
| KANSAS | 48-0290150 |
| (State or Other Jurisdiction of Incorporation or Organization) | (Employer Identification No.) |

| | |
|---|---|
| 818 KANSAS AVENUE, TOPEKA, KANSAS | 66612 |
| (Address of Principal Executive Offices) | (Zip Code) |

Registrant's Telephone Number Including Area Code (785) 575-6300

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes X No ___

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

| Class | Outstanding at May 10, 2000 |
|---|---|
| Common Stock, $5.00 par value | 68,646,867 |

WESTERN RESOURCES, INC.
INDEX

FORWARD-LOOKING STATEMENTS

Certain matters discussed here and elsewhere in this Form 10-Q/A are "forward-looking statements." The Private Securities Litigation Reform Act of 1995 has established that these statements qualify for safe harbors from liability. Forward-looking statements may include words like we "believe," "anticipate," "expect" or words of similar meaning. Forward-looking statements describe our future plans, objectives, expectations, or goals. Such statements address future events and conditions concerning capital expenditures, earnings, litigation, rate and other regulatory matters, possible corporate restructurings, mergers, acquisitions, dispositions, liquidity and capital resources, compliance with debt covenants, interest and dividends, the impact of Protection One's financial condition on our consolidated results, environmental matters, changing weather, nuclear operations, ability to enter new markets successfully and capitalize on growth opportunities in non-regulated businesses, events in foreign markets in which investments have been made, accounting matters, and the overall economy of our service area. What happens in each case could vary materially from what we expect because of such things as electric utility deregulation, including ongoing municipal, state and federal activities, such as the Wichita municipalization proceedings; future economic conditions; legislative and regulatory developments; our regulatory and competitive markets; and other circumstances affecting anticipated operations, sales and costs.

RESTATEMENT AND ACCOUNTING CHANGE

Following extensive conversations between Protection One and the Staff of the SEC which have been previously disclosed, we have restated our Consolidated Financial Statements as of December 31, 1999, 1998 and 1997 and for the years then ended and for each of the periods ended March 31, June 30, and September 30, 2000, to reflect restatements undertaken by Protection One. These restatements primarily relate to the amortization of customer accounts acquired and amounts allocated to obligations assumed in the Westinghouse Security Systems (WSS) acquisition.

In addition to the restatement, we have adopted Staff Accounting Bulletin (SAB) 101 in the fourth quarter of 2000, effective January 1, 2000. This change in accounting principle is unrelated to the restatement. A description of the adjustments which comprise the restatement and the impact of the change in accounting principle are disclosed in Note 2 of the Consolidated Financial Statements filed with this Form 10-Q/A.

For the purpose of this Form 10-Q/A, we have amended and restated in its entirety the Form 10-Q for the three months ended March 31, 2000 filed on May 11, 2000. In order to preserve the nature and the character of the disclosures as of May 11, 2000, the date on which the original Form 10-Q for the period ended March 31, 2000, was signed, no attempt has been made in this Form 10-Q/A to modify or update such disclosures except as required to reflect the results of the restatement and the adoption of SAB 101.

CONSOLIDATED BALANCE SHEETS
(Dollars in Thousands)
(Unaudited)

<TABLE>
<CAPTION>

| <S> | <C> March 31, 2000 (Restated) | <C> December 31, 1999 (Restated) |
|---|---|---|
| **ASSETS** | | |
| CURRENT ASSETS: | | |
| Cash and cash equivalents | $ 1,690 | $ 12,444 |
| Restricted cash | 17,732 | 14,558 |
| Accounts receivable (net) | 198,012 | 229,200 |
| Inventories and supplies (net) | 112,141 | 112,392 |
| Marketable securities | 29,137 | 177,128 |
| Prepaid expenses and other | 85,479 | 57,246 |
| Total Current Assets | 444,191 | 602,968 |
| PROPERTY, PLANT AND EQUIPMENT (NET) | 3,912,176 | 3,889,444 |
| OTHER ASSETS: | | |
| Investment in ONEOK | 589,288 | 590,109 |
| Customer accounts (net) | 1,098,411 | 1,131,932 |
| Goodwill (net) | 1,044,472 | 1,057,041 |
| Regulatory assets | 363,723 | 366,004 |
| Other | 357,782 | 352,394 |
| Total Other Assets | 3,453,676 | 3,497,480 |
| TOTAL ASSETS | $7,810,043 | $7,989,892 |
| **LIABILITIES AND SHAREHOLDERS' EQUITY** | | |
| CURRENT LIABILITIES: | | |
| Current maturities of long-term debt | $ 47,848 | $ 111,667 |
| Short-term debt | 643,911 | 705,421 |
| Accounts payable | 136,398 | 132,834 |
| Accrued liabilities | 221,548 | 226,786 |
| Accrued income taxes | 50,341 | 40,328 |
| Deferred security revenues | 73,270 | 61,148 |
| Other | 84,938 | 73,011 |
| Total Current Liabilities | 1,258,254 | 1,351,195 |
| LONG-TERM LIABILITIES: | | |
| Long-term debt (net) | 2,807,074 | 2,883,066 |
| Western Resources obligated mandatorily redeemable preferred securities of subsidiary trusts holding solely company subordinated debentures | 220,000 | 220,000 |
| Deferred income taxes and investment tax credits | 991,721 | 976,135 |
| Minority interests | 197,016 | 192,734 |
| Deferred gain from sale-leaseback | 195,165 | 198,123 |
| Other | 258,825 | 279,451 |
| Total Long-term Liabilities | 4,669,801 | 4,749,509 |
| COMMITMENTS AND CONTINGENCIES | | |
| SHAREHOLDERS' EQUITY: | | |
| Cumulative preferred stock | 24,858 | 24,858 |
| Common stock, par value $5 per share, authorized 150,000,000 shares, outstanding 68,084,715 and 67,401,657 shares, respectively | 344,568 | 341,508 |
| Paid-in capital | 823,645 | 820,945 |
| Retained earnings | 696,479 | 679,880 |
| Accumulated other comprehensive income (net) | 6,811 | 37,788 |
| Treasury stock, at cost, 828,918 and 900,000 shares, respectively | (14,373) | (15,791) |
| Total Shareholders' Equity | 1,881,988 | 1,889,188 |
| TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY | $7,810,043 | $7,989,892 |

</TABLE>

The Notes to Consolidated Financial Statements are an integral part of these statements.



WESTERN RESOURCES, INC.
CONSOLIDATED STATEMENTS OF INCOME
(Dollars in Thousands, Except Per Share Amounts)
(Unaudited)

<TABLE>
<CAPTION>

| | Three Months Ended March 31, 2000 | 1999 (Restated) |
|---|---|---|
| <C> | <S> | <S> |
| SALES: | | |
| Energy | $ 334,829 | $ 312,035 |
| Security | 146,870 | 148,547 |
| Total Sales | 481,699 | 460,582 |
| COST OF SALES: | | |
| Energy | 127,625 | 106,653 |
| Security | 47,314 | 41,274 |
| Total Cost of Sales | 174,939 | 147,927 |
| GROSS PROFIT | 306,760 | 312,655 |
| OPERATING EXPENSES: | | |
| Operating and maintenance expense | 86,208 | 79,082 |
| Depreciation and amortization | 107,780 | 85,166 |
| Selling, general and administrative expense | 84,915 | 71,868 |
| Total Operating Expenses | 278,903 | 236,116 |
| INCOME FROM OPERATIONS | 27,857 | 76,539 |
| OTHER INCOME (EXPENSE): | | |
| Investment earnings | 118,069 | 22,890 |
| Minority interests | (383) | 840 |
| Other | 515 | (418) |
| Total Other Income (Expense) | 118,201 | 23,312 |
| EARNINGS BEFORE INTEREST AND TAXES | 146,058 | 99,851 |
| INTEREST EXPENSE: | | |
| Interest expense on long-term debt | 51,442 | 59,151 |
| Interest expense on short-term debt and other | 18,584 | 11,649 |
| Total Interest Expense | 70,026 | 70,800 |
| EARNINGS BEFORE INCOME TAXES | 76,032 | 29,051 |
| INCOME TAXES | 36,231 | 9,071 |
| NET INCOME BEFORE EXTRAORDINARY GAIN AND ACCOUNTING CHANGE | 39,801 | 19,980 |
| EXTRAORDINARY GAIN, NET OF TAX | 18,492 | - |
| CUMULATIVE EFFECT OF ACCOUNTING CHANGE, NET OF TAX | (3,810) | - |
| NET INCOME | 54,483 | 19,980 |
| PREFERRED AND PREFERENCE DIVIDENDS | 282 | 282 |

| | 2000 | 1999 |
|---|---|---|
| EARNINGS AVAILABLE FOR COMMON STOCK | $ 54,201 | $ 19,698 |
| AVERAGE COMMON SHARES OUTSTANDING | 67,734,125 | 66,089,199 |
| BASIC EARNINGS PER AVERAGE COMMON SHARE OUTSTANDING: | | |
| Earnings available for common stock before extraordinary gain and accounting change | $ 0.58 | $ 0.30 |
| Extraordinary gain | 0.28 | - |
| Cumulative effect of accounting change | (0.06) | - |
| EARNINGS AVAILABLE FOR COMMON STOCK | $ 0.80 | $ 0.30 |
| DIVIDENDS DECLARED PER COMMON SHARE | $ .535 | $ .535 |

</TABLE>

The Notes to Consolidated Financial Statements are an integral part of these statements.



WESTERN RESOURCES, INC.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(Dollars in Thousands)
(Unaudited)

<TABLE>
<CAPTION>

| | Three Months Ended March 31, 2000 | 1999 (Restated) |
|---|---|---|
| NET INCOME | $54,483 | $19,980 |
| OTHER COMPREHENSIVE INCOME (LOSS), BEFORE TAX: | | |
| Unrealized holding gains/(losses) on marketable securities arising during the period | 46,217 | (21,382) |
| Less: Reclassification adjustment for gains included in net income | (98,260) | - |
| Unrealized loss on marketable securities (net) | (52,043) | (21,382) |
| Unrealized gain/(loss) on currency translation | 714 | (1,102) |
| Other comprehensive loss, before tax | (51,329) | (22,484) |
| INCOME TAX (BENEFIT) EXPENSE | 20,352 | (9,013) |
| OTHER COMPREHENSIVE INCOME (LOSS), NET OF TAX | (30,977) | (13,471) |
| COMPREHENSIVE INCOME | $23,506 | $ 6,509 |

</TABLE>

The Notes to Consolidated Financial Statements are an integral part of these statements.



WESTERN RESOURCES, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Dollars in Thousands)
(Unaudited)

<TABLE>
<CAPTION>

Three Months Ended

| | March 31, 2000 | March 31, 1999 (Restated) |
|---|---|---|
| <S> | <C> | <C> |
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Net income | $ 54,483 | $ 19,980 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Extraordinary gain | (18,492) | - |
| Cumulative effect of accounting change | 3,810 | - |
| Depreciation and amortization | 107,780 | 85,166 |
| Amortization of gain on sale-leaseback | (2,958) | (2,958) |
| Equity in earnings from investments | (4,068) | (5,644) |
| Gain on sale of marketable securities | (98,260) | - |
| Minority interests | 383 | (840) |
| Accretion of discount note interest | (5,085) | (1,659) |
| Changes in working capital items: | | |
| Accounts receivable (net) | 32,537 | 28,069 |
| Inventories and supplies | 251 | (8,379) |
| Prepaid expenses and other | (29,582) | 9,088 |
| Accounts payable | 3,564 | (41,308) |
| Accrued liabilities | (5,238) | (22,691) |
| Accrued income taxes | 10,013 | 12,907 |
| Deferred revenue | (508) | 3,691 |
| Other | (1,229) | (2,195) |
| Changes in other assets and liabilities | 20,044 | (14,883) |
| Net cash flows from operating activities | 67,445 | 58,344 |
| CASH FLOWS FROM (USED IN) INVESTING ACTIVITIES: | | |
| Additions to property, plant and equipment (net) | (64,486) | (41,571) |
| Customer account acquisitions | (13,180) | (78,601) |
| Security alarm monitoring acquisitions, net of cash acquired | - | (20,722) |
| Purchases of marketable securities | - | (10,464) |
| Proceeds from sale of marketable securities | 194,149 | 2,887 |
| Other investments (net) | 4,918 | (7,264) |
| Net cash flows from (used in) investing activities | 121,401 | (155,735) |
| CASH FLOWS (USED IN) FROM FINANCING ACTIVITIES: | | |
| Short-term debt (net) | (61,510) | 55,653 |
| Proceeds of long-term debt | 6,087 | 81,583 |
| Retirements of long-term debt | (113,471) | - |
| Issuance of common stock issued (net) | 5,760 | 5,692 |
| Cash dividends paid | (36,673) | (35,659) |
| Reissuance of treasury stock | 9,394 | - |
| Acquisition of treasury stock | (9,187) | - |
| Net cash flows (used in) from financing activities | (199,600) | 107,269 |
| NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS | (10,754) | 9,878 |
| CASH AND CASH EQUIVALENTS: | | |
| Beginning of the period | 12,444 | 16,394 |
| End of the period | $ 1,690 | $ 26,272 |
| SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION | | |
| CASH PAID FOR: | | |
| Interest on financing activities (net of amount capitalized | $ 95,068 | $ 78,882 |
| Income taxes | 72 | 256 |

</TABLE>

The Notes to Consolidated Financial Statements are an integral part of these statements.



WESTERN RESOURCES, INC.
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
(Dollars in Thousands)
(Unaudited)

<TABLE>
<CAPTION>

| | Three Months Ended March 31, 2000 | Three Months Ended March 31, 1999 (Restated) |
|---|---|---|
| <S> | <C> | <C> |
| CUMULATIVE PREFERRED STOCK: | | |
| Par value $100 per share, authorized 600,000 shares, outstanding - | | |
| 4 1/2% Series, 138,576 shares. . . . . . . . | $ 13,858 | $ 13,858 |
| 4 1/4% Series, 60,000 shares . . . . . . . . | 6,000 | 6,000 |
| 5% Series, 50,000 shares . . . . . . . . . . | 5,000 | 5,000 |
| Beginning balance. . . . . . . . . . . . . . . . | 24,858 | 24,858 |
| Redemption of preference stock . . . . . . . . | - | - |
| Ending balance . . . . . . . . . . . . . . . . | 24,858 | 24,858 |
| COMMON STOCK: | | |
| Beginning balance. . . . . . . . . . . . . . . . | 341,508 | 329,548 |
| Issuance of common stock . . . . . . . . . . . | 3,060 | 1,220 |
| Ending balance . . . . . . . . . . . . . . . . | 344,568 | 330,768 |
| PAID-IN-CAPITAL: | | |
| Beginning balance. . . . . . . . . . . . . . . . | 820,945 | 775,337 |
| Issuance on common stock . . . . . . . . . . . | 2,700 | 4,472 |
| Ending balance . . . . . . . . . . . . . . . . | 823,645 | 779,809 |
| RETAINED EARNINGS: | | |
| Beginning balance. . . . . . . . . . . . . . . . | 679,880 | 810,617 |
| Net income . . . . . . . . . . . . . . . . . . | 54,483 | 19,980 |
| Dividends on preferred and preference stock . . . . . . . . . . . . . . | (282) | (282) |
| Dividends on common stock. . . . . . . . . . . | (36,391) | (35,377) |
| Issuance of treasury stock . . . . . . . . . . | (1,211) | - |
| Ending balance . . . . . . . . . . . . . . . . | 696,479 | 794,938 |
| ACCUMULATED OTHER COMPREHENSIVE INCOME (NET): | | |
| Beginning balance. . . . . . . . . . . . . . . . | 37,788 | 9,508 |
| Unrealized loss on equity securities. . . . . . . . . . . . . . | (52,043) | (21,382) |
| Unrealized gain (loss) on currency translation . . . . . . . . . . . . | 714 | (1,102) |
| Income tax benefit . . . . . . . . . . . . . . | 20,352 | 9,013 |
| Ending balance . . . . . . . . . . . . . . . . | 6,811 | (3,963) |
| TREASURY STOCK: | | |
| Beginning balance. . . . . . . . . . . . . . . . | (15,791) | - |
| Issuance of treasury stock . . . . . . . . . . | 10,605 | - |
| Purchase of treasury stock . . . . . . . . . . | (9,187) | - |
| Ending balance . . . . . . . . . . . . . . . . | (14,373) | - |
| TOTAL SHAREHOLDERS' EQUITY . . . . . . . . . . . | $1,881,988 | $1,926,410 |

</TABLE>

The Notes to Consolidated Financial Statements are an integral part of these statements.



WESTERN RESOURCES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Description of Business: Western Resources, Inc. (the company) is a publicly-traded, consumer services company. The company's primary business activities are providing electric generation, transmission and distribution services to approximately 634,000 customers in Kansas and providing monitored services to approximately 1.6 million customers in North America, the United Kingdom and continental Europe. Rate regulated electric service is provided by KPL, a division of the company, and Kansas Gas and Electric Company (KGE), a wholly-owned subsidiary. Monitored services in North America are provided by Protection One, Inc. (Protection One), a publicly-traded, approximately 85%-owned subsidiary. Monitored services in the United Kingdom and continental Europe are provided by Protection One International, Inc. and Protection One UK, Plc. (collectively referred to as Protection One Europe), see also Note 4. In addition, through the company's 45% ownership interest in ONEOK, Inc. (ONEOK), natural gas transmission and distribution services are provided to approximately 1.4 million customers in Oklahoma and Kansas. The company's investments in Protection One, Protection One Europe and ONEOK are owned by Westar Capital, Inc. (Westar Capital), a wholly-owned subsidiary.

Principles of Consolidation: The company's unaudited consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States for interim financial information and in accordance with the instructions to Form 10-Q. Accordingly, certain information and footnote disclosures normally included in financial statements presented in accordance with GAAP have been condensed or omitted. These consolidated financial statements and notes should be read in conjunction with the Consolidated Financial Statements and the notes included in the company's 1999 Annual Report on Form 10-K/A-2.

In management's opinion, all adjustments, consisting only of normal recurring adjustments considered necessary for a fair presentation of the financial statements, have been included. The results of operations for the three months ended March 31, 2000, are not necessarily indicative of the results to be expected for the full year.

New Pronouncements: In June 1998, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities" (SFAS 133). SFAS 133, as amended, is effective for fiscal years beginning after June 15, 2000. SFAS 133 cannot be applied retroactively. The company is currently evaluating commodity contracts and financial instruments to determine what, if any, effect adopting SFAS 133 might have on its financial statements. The company has not yet quantified all effects of adopting SFAS 133 on its financial statements; however, SFAS 133 could increase volatility in earnings and other comprehensive income. The company plans to adopt SFAS 133 as of January 1, 2001.

Goodwill: Goodwill represents the excess of the purchase price over the fair value of net assets acquired. Protection One has historically amortized goodwill on a straight-line basis over 40 years. Protection One re-evaluated the original assumptions and rationale utilized in the establishment of the estimated useful life of goodwill. Protection One



concluded that due to continued losses and increased 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, the remaining goodwill, net of accumulated amortization, is being amortized over its remaining useful life based on a 20-year life. Protection One Europe made a similar change. Based on Protection One's and Protection One Europe's existing account bases at January 1, 2000, the company anticipates that this will result in an increase in aggregate annual goodwill amortization of approximately $32.6 million prospectively for Protection One and Protection One Europe.

Restricted Cash: The company's restricted cash consists primarily of cash held in escrow pursuant to certain letters of credit and one of Protection One's 1998 acquisitions.

Reclassifications: Certain amounts in prior years have been reclassified to conform with classifications used in the current year presentation.

2. RESTATEMENT OF FINANCIAL STATEMENTS

Restatement Adjustments: Following extensive conversations between Protection One and the staff of the SEC, which have previously been disclosed, the company has restated its Consolidated Financial Statements as of December 31, 1999, 1998 and 1997 and for the years then ended to reflect restatements undertaken by Protection One. The company has also restated its interim financial statements included in this Form 10-Q/A. These restatements primarily relate to the amortization of customer accounts acquired and amounts allocated to obligations assumed in the Westinghouse Security Systems (WSS) acquisition. A description of the principal adjustments which comprise the restatement are as follows:

The first adjustment reflects a change in the historical amortization expense recorded for customer accounts acquired in the WSS acquisition. The life of the acquired WSS customers was initially estimated at ten years. Straight-line amortization had originally been implemented. With the restatement an eight-year estimated life and an accelerated amortization method will be used for customers acquired from the WSS acquisition as of the acquisition date.

The second adjustment reverses a special charge of $12.75 million for excess customer attrition that was recorded in the fourth quarter of 1997. This charge had been recorded for attrition experienced in the WSS customer account base in 1997.

The third adjustment reduces a repurchase obligation (SAMCO contract financing) to more closely match the estimated fair value of the obligation to the estimated fair value of WSS customer accounts on a per account basis. This change in valuation has the effect of reducing the obligation and goodwill and eliminating $14.8 million of a non-recurring $16.3 million pre-tax gain that was reported in 1998 when this obligation was repaid.

The fourth adjustment reduces goodwill as a result of a purchase price adjustment related to the WSS acquisition. Goodwill has been reduced by the amount of the claim of $33.8 million. A receivable had not originally been recorded for this claim. The change was made to establish this receivable which reduces recorded goodwill. The company entered into a comprehensive settlement agreement with Westinghouse in November 2000 and received $37.5 million.



Accounting Change: The company adopted Staff Accounting Bulletin (SAB) 101 in the fourth quarter of 2000. The impact of this accounting change requires the company to defer certain installation revenues and expenses incurred by Protection One Europe. Deferral of these revenues and costs has been made when installation revenues have been received and on-going security service is provided. The deferred revenues will be amortized over the estimated life of customer accounts. Prior to the adoption of SAB 101, installation revenues and related expenses were recognized upon completion of the installation.

The cumulative impact of changing this accounting principle for activity through January 1, 2000, is approximately $3.8 million (net of tax) and has been recorded in the first quarter of 2000 as a cumulative effect of change in accounting principle.

The current year impact of SAB 101 for the quarters ended March 31, June 30, and September 30, 2000, is a reduction to net income of $0.7 million, $0.9 million, and $0.9 million, respectively, and an increase to deferred revenue of approximately $2.1 million, $2.3 million, and $2.0 million, respectively. The adjustment for this change in accounting method is unrelated to the other restatement adjustments described above and results solely from the requirements of SAB 101.

A summary of the significant effects of these items has been reflected in the appropriate quarterly results as follows:

<TABLE>
<CAPTION>

| | As Previously Reported | | Restatement Adjustments | | Accounting Change | | As Restated | |
|---|---|---|---|---|---|---|---|---|
| | Amount | Per Share Amounts | Amount | Per Share Amounts | Amount | Per Share Amounts | Amount | Per Share Amounts |
| | (Dollars in thousands, except for per share amounts) | | | | | | | |
| **Net income before extraordinary gain and accounting change** | | | | | | | | |
| <S> <C> <C> | <C> | <C> | <C> | <C> | <C> | <C> | <C> | <C> |
| For the three months ended: | | | | | | | | |
| March 31, 2000. . . . . . . . . | $ 41,324 | $ 0.61 | $ (775) | $ (0.01) | $ (748) | $ (0.01) | $ 39,801 | $ 0.59 |
| March 31, 1999. . . . . . . . . | 20,747 | 0.31 | (767) | (0.01) | - | - | 19,980 | 0.30 |
| **Earnings available for common stock** | | | | | | | | |
| For the three months ended: | | | | | | | | |
| March 31, 2000. . . . . . . . . | $ 59,534 | $ 0.88 | $ (775) | $ (0.01) | $(4,558) | $ (0.07) | $ 54,201 | $ 0.80 |
| March 31, 1999. . . . . . . . . | 20,465 | 0.31 | (767) | (0.01) | - | - | 19,698 | 0.30 |

</TABLE>

Prior to the restatement, during the third quarter of 1999 Protection One changed its amortization method for its customer account intangible asset from a straight-line to an accelerated method to more closely match future amortization cost with the estimated revenue stream from these assets. The effect of the change in accounting principle increased amortization expense reported in the third quarter of 1999 by $47 million. The change in the WSS customer account amortization method restates the results of 1997, 1998 and 1999 and thereby reduces the cumulative charge recorded in the third quarter of 1999.

See the company's Form 10-Q/A for the period ended September 30, 2000, for a more detailed break-down of the restatement items for the interim periods restated in 2000.

3. CORPORATE RESTRUCTURING

On March 28, 2000, the company's board of directors approved the separation of its electric and non-electric utility businesses. The separation is currently expected to be effected through an offer to be made to shareholders prior to year end 2000. The offer will be described in materials furnished to Western Resources' shareholders. The impact on the



company's financial position and operating results cannot be determined until the final details of the offer are determined. The company's goal is to complete the separation in the fourth quarter of 2000, but no assurance can be given that the separation will be completed by that time or at all.

4. PROTECTION ONE EUROPEAN OPERATIONS

On February 29, 2000, Westar Capital purchased the continental European and United Kingdom operations of Protection One, and certain investments held by a subsidiary of Protection One, for an aggregate purchase price of $244 million. The consideration given included cash and certain Protection One debt securities. The basis of the net assets sold did not change and no gain or loss was recorded for this related party transaction. Terms of the agreement were approved by the independent directors of the boards of directors of Protection One and Protection One Alarm Monitoring, Inc. upon the recommendation of a special committee of the Protection One board of directors. The special committee obtained a fairness opinion from an investment banker with regard to this transaction. See also Note 7 for further discussion of the debt securities that were transferred as a result of this transaction.

5. DIVIDEND POLICY

The company's board of directors reviews the company's dividend policy from time to time. Among the factors the board of directors considers in determining the company's dividend policy are earnings, cash flows, capitalization ratios, competition and regulatory conditions. In January 2000, the company's board of directors declared a first-quarter 2000 dividend of 53 1/2 cents per share that was paid on April 3, 2000. In March 2000, the company announced a new dividend policy in conjunction with the announcement of the separation of the company's electric and non-electric utility businesses. The new dividend policy will result in quarterly dividends of $0.30 per share, or $1.20 per share on an annual basis, to be effective with the anticipated declaration of the July 2000 dividend. The company believes the new dividend policy would be reconsidered if the separation, discussed in Note 3, were materially delayed or modified.

6. MARKETABLE SECURITIES

During the first quarter of 2000, the company sold a significant portion of an equity investment in a gas compression company and realized a pre-tax gain of $73.7 million. The company also sold other securities during the first quarter and realized a pre-tax gain of $24.5 million.

See also Note 4 to Consolidated Financial Statements in the company's 1999 Annual Report on Form 10-K/A-2 for discussion of the sale of marketable securities in 1999.

7. GAIN ON EXTINGUISHMENT OF DEBT

In the first quarter of 2000, Westar Capital purchased $59.5 million face value of Protection One bonds on the open market. A portion of these debt securities was transferred to Protection One in connection with the purchase of Protection One's European operations.



Protection One also purchased $6 million face value of its bonds on the open market in the first quarter of 2000. An extraordinary gain of $18.5 million, net of tax, was recognized on these retirements.

8. INCOME TAXES

The company's effective income tax for the three month period ended March 31, 2000, was 47.7% compared to 31.2% for the three month period ended March 31, 1999. The company estimates its effective tax rate to be 27.3% for the fiscal year ending December 31, 2000, which is lower than the effective tax rate for the quarter ended March 31, 2000. The effective tax rate for the first quarter includes income tax expense on the sale of marketable securities at the statutory rate.

In addition to the factors discussed above, the effective tax rate for the quarter varied from the Federal statutory rate due to the tax benefit of excluding 70% of the dividends received from ONEOK, the generation and utilization of tax credits from Affordable Housing investments, the amortization of prior years' investment tax credits, the amortization of non-deductible goodwill, the flow-through of tax benefits from corporate-owned life insurance, and the deduction for state income taxes.

9. RATE MATTERS AND REGULATION

KCC Proceedings: On March 16, 2000, the Kansas Industrial Consumers (KIC), an organization of commercial and industrial users of electricity in Kansas, filed a complaint with the Kansas Corporation Commission (KCC) requesting an investigation of Western Resources' and KGE's rates. The KIC alleges that these rates are not based on current costs. The company filed a motion to dismiss the complaint on April 24, 2000. The company will continue to oppose this request vigorously.

FERC Proceeding: In September 1999, the City of Wichita filed a complaint with the Federal Energy Regulatory Commission (FERC) against the company, alleging improper affiliate transactions between KPL and KGE. The City of Wichita is asking that FERC equalize the generation costs between KPL and KGE, in addition to other matters. FERC has issued an order setting this matter for hearing and has referred the case to a settlement judge. The hearing has been suspended pending settlement discussions between the parties. The company believes that the City of Wichita's complaint is without merit and intends to defend against it vigorously.

On April 28, 2000, Westar Generating II, Inc. (Westar Generating II), a wholly-owned subsidiary of the company, filed an initial rate application with the FERC regarding two 74 MW combustion turbine units currently being installed. The rate filing, to be effective June 1, 2000, will allow Westar Generating II to charge the company a monthly fee for the right to utilize the capacity of these two units.

1O. LEGAL PROCEEDINGS

The Securities and Exchange Commission (SEC) commenced a private investigation in 1997



relating to, among other things, the timeliness and adequacy of disclosure filings with the SEC by the company with respect to securities of ADT Ltd. The company is cooperating with the SEC staff in this investigation.

The company, its subsidiary Westar Capital, Protection One, its subsidiary 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, "Ronald Cats, 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 March 2000, plaintiffs filed a Second Consolidated Amended Class Action Complaint (the 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 November 12, 1999. 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 and 1998 were false and misleading and not in compliance with Generally Accepted Accounting Principals. 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 the company and Westar Capital 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. The Amended Complaint seeks an unspecified amount of compensatory damages and an award of fees and expenses, including attorneys' fees. The company and

Protection One believe that all the claims asserted in the Amended Complaint are without merit and intend to defend against them vigorously. The company and Protection One cannot currently predict the impact of this litigation which could be material.

The company and its subsidiaries are involved in various other legal, environmental and regulatory proceedings. Management believes that adequate provision has been made and accordingly believes that the ultimate disposition of such matters will not have a material adverse effect upon the company's overall financial position or results of operations. See also Note 9 for discussion of regulatory proceedings.

11. COMMITMENTS AND CONTINGENCIES

Manufactured Gas Sites: The company has been associated with 15 former manufactured gas sites located in Kansas which may contain coal tar and other potentially harmful materials. The company and the Kansas Department of Health and Environment (KDHE) entered into a consent agreement governing all future work at the 15 sites. The terms of the consent agreement will allow the company to investigate these sites and set remediation priorities based upon the results of the investigations and risk analysis. At March 31, 2000, the costs incurred for preliminary site investigation and risk assessment have been minimal. In accordance with the terms of the strategic alliance with ONEOK, ownership of twelve of these sites and the responsibility for clean-up of these sites were transferred to ONEOK. The ONEOK agreement



limits the company's future liability associated with these sites to an immaterial amount. The company's investment earnings from ONEOK, as recorded in investment earnings on the accompanying Consolidated Income Statements, could be impacted by these costs if insurance and rate allowances do not cover these potential contingencies.

Split Dollar Life Insurance Program: Obligations under the company's split dollar life insurance program can increase and decrease based on the company's total return to shareholders and payments to plan participants. The related liability decreased approximately $12.8 million for the three month period ended March 31, 2000, as a result of payments under the plan.

Decommissioning: On September 1, 1999, Wolf Creek submitted the 1999 Decommissioning Cost Study to the KCC for approval. The KCC approved the 1999 Decommissioning Cost Study on April 26, 2000. Based on the study, the company's share of Wolf Creek's decommissioning costs, under the immediate dismantlement method, is estimated to be approximately $631 million during the period 2025 through 2034, or approximately $221 million in 1999 dollars. These costs were calculated using an assumed inflation rate of 3.6% over the remaining service life from 1999 of 26 years.

For additional information on Commitments and Contingencies, see Note 13 to Consolidated Financial Statements in the company's 1999 Annual Report on Form 10-K/A-2.

12. SEGMENTS OF BUSINESS

The company has segmented its business based on differences in products and services, production processes, and management responsibility. Based on this approach, the company has identified four reportable segments: fossil generation, nuclear generation, power delivery and monitored services.

Fossil generation, nuclear generation and power delivery represent the three business segments that comprise the company's electric utility business. Fossil generation produces power for sale internally to the power delivery segment and to external wholesale customers within and outside the company's historical marketing territory. Power marketing is a component of the company's fossil generation segment which attempts to minimize market fluctuation risk, enhance system reliability and improve efficiency of power plant operations. Nuclear generation represents the company's 47% ownership in the Wolf Creek nuclear generating facility. This segment does not have any external sales. The power delivery segment consists of the transmission and distribution of power to the company's retail customers in Kansas and the customer service provided to these customers. Monitored services represents the company's security alarm monitoring business in North America, the United Kingdom and continental Europe. Other represents the company's non-utility operations and natural gas investment.

The accounting policies of the segments are substantially the same as those described in the summary of significant accounting policies in the company's 1999 Annual Report on Form 10-K/A-2. The company evaluates segment performance based on earnings before interest and taxes.

Three Months Ended March 31, 2000:

| | Fossil Generation | Nuclear Generation | Power Delivery | Monitored Services | (1)Other | Eliminating/ Reconciling Items | Total |
|---|---|---|---|---|---|---|---|
| | (Dollars in Thousands) | | | | | | |
| | | | | Restated Note 2 | Restated Note 2 | | Restated Note 2 |
| External sales. . . | $ 100,764 | $ - | $ 233,731 | $ 146,870 | $ 332 | $ 2 | $ 481,699 |
| Allocated sales . . | 128,392 | 29,480 | 67,370 | - | - | (225,242) | - |
| Earnings before interest and taxes | 45,352 | (5,346) | 12,457 | (19,724) | 116,377 | (3,058) | 146,058 |
| Interest expense. . | | | | | | | 70,026 |
| Earnings before income taxes . . . | | | | | | | 76,032 |

Three Months Ended March 31, 1999:

| | Fossil Generation | Nuclear Generation | Power Delivery | Monitored Services | Other | Eliminating/ Reconciling Items | Total |
|---|---|---|---|---|---|---|---|
| | (Dollars in Thousands) | | | | | | |
| | | | | Restated Note 2 | Restated Note 2 | | Restated Note 2 |
| External sales. . . | $ 79,361 | $ - | $ 232,340 | $ 148,547 | $ 331 | $ 3 | $ 460,582 |
| Allocated sales . . | 125,662 | 29,218 | 69,380 | - | - | (224,260) | - |
| Earnings before interest and taxes | 47,225 | (4,225) | 15,631 | 16,146 | 27,953 | (2,879) | 99,851 |
| Interest expense. . | | | | | | | 70,800 |
| Earnings before income taxes . . . | | | | | | | 29,051 |

(1) Earnings before interest and taxes includes investment earnings of $118.1 million which is primarily due to the sale of marketable securities as discussed in Note 6.

## 13. SUBSEQUENT EVENTS

Retirement of Protection One Debt: Through May 9 of the second quarter of 2000, Westar Capital purchased $45.1 million face value of Protection One bonds in the open market. An extraordinary gain of $11.8 million, net of tax, is expected to be recognized on this retirement.

Registration of Western Resources Debt: On April 28, 2000, the company filed a shelf registration statement with the SEC to register $500 million of first mortgage bonds. The registration statement became effective May 8, 2000. The proceeds of the sale of the securities, if and when issued, are expected to be used to pay off short-term indebtedness.

Marketable Securities: During the second quarter of 2000, the company sold the remaining portion of an equity investment in a gas compression company and realized a gain of $17.4 million.



# ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

## INTRODUCTION

In Management's Discussion and Analysis we explain the general financial condition and the operating results for Western Resources, Inc. (the company) and its subsidiaries. We explain:

- What factors impact our business

- What our earnings and costs were for the three months ending March 31, 2000, and 1999

- Why these earnings and costs differed from period to period - How our earnings and costs affect our overall financial condition - Any other items that particularly affect our financial condition or earnings.

The following Management's Discussion and Analysis of Financial Condition and Results of Operations updates the information provided in the 1999 Annual Report on Form 10-K/A-2 and should be read in conjunction with Management's Discussion and Analysis of Financial Condition and Results of Operations in that 1999 Annual Report.

SUMMARY OF SIGNIFICANT ITEMS

Gain on Extinguishment of Debt

In the first quarter of 2000, Westar Capital, Inc. (Westar Capital), a wholly-owned subsidiary, purchased $59.5 million face value of Protection One bonds on the open market. A portion of these debt securities was transferred to Protection One in connection with the purchase of Protection One's European operations. Protection One also purchased $6 million face value of its bonds on the open market in the first quarter of 2000. An extraordinary gain of $18.5 million, net of tax, was recognized on these retirements.

Marketable Securities

During the first quarter of 2000, we sold a significant portion of an equity investment in a gas compression company and realized a pre-tax gain of $73.7 million. During the second quarter of 2000, we sold the remaining portion of this investment and realized a subsequent pre-tax gain of $17.4 million. We also sold other securities during the first quarter and realized a pre-tax gain of $24.5 million.

See also Note 4 to Consolidated Financial Statements in our 1999 Annual Report on Form 10-K/A-2 for discussion of the sale of marketable securities in 1999.

Monitored Services Change in Estimate of Useful Life of Goodwill

Protection One re-evaluated the original assumptions and rationale utilized in the establishment of the estimated useful life of goodwill. Protection One concluded that due to



continued losses and increased 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, the remaining goodwill, net of accumulated amortization, is being amortized over its remaining useful life based on a 20-year life. Protection One International, Inc. and Protection One UK, Plc. (collectively referred to as Protection One Europe) made a similar change. Based on Protection One's and Protection One Europe's existing account bases at January 1, 2000, we anticipate that this will result in an increase in aggregate annual goodwill amortization of approximately $32.6 million prospectively for Protection One and Protection One Europe.

Corporate Restructuring

On March 28, 2000, our board of directors approved the separation of our electric and non-electric utility businesses. The separation is currently expected to be effected through an offer to be made to shareholders prior to year end 2000. The offer will be described in materials furnished to our shareholders. The impact on our financial position and operating results cannot be determined until the final details of the offer are determined. Our goal is to complete the separation in the fourth quarter of 2000, but no assurance can be given that the separation will be completed by that time or at all.

OPERATING RESULTS

Western Resources Consolidated

The following discussion explains significant changes in operating results between the three months ended March 31, 2000, and March 31, 1999. Basic earnings per share were $0.80 compared to $0.30 in the first quarter of 1999. The significant increase is primarily attributable to increased investment earnings from the sale of our investments in a gas compression company and other marketable securities. Also contributing to this increase is the extraordinary gain on the retirement of Protection One bonds.

Higher amortization of intangible assets due to a change in amortization method for customer accounts, a change in the estimate of the useful life of goodwill from 40 years to 20 years, the impact of adopting SAB 101 and operating losses from our monitored services segment partially offset the increase from investment earnings. For further discussion of the impact of the accounting changes, see discussion below in "Monitored Services Business Segment."

A decline in electric utility operating income primarily resulting from scheduled maintenance of generating units also partially offset the increase from investment earnings.

The following table reflects the increases/(decreases) in electric sales volumes for the three months ended March 31, 2000, from the comparable period of 1999.

| | 2000 | 1999 | % Change |
|---|---|---|---|
| | (Thousands of Megawatthours) | | |
| Residential. . . . . | 1,222 | 1,201 | 1.8 % |
| Commercial . . . . . | 1,420 | 1,394 | 1.8 % |
| Industrial . . . . . | 1,340 | 1,365 | (1.8)% |
| Other. . . . . . . . | 231 | 265 | (12.8)% |
| Total retail . . . | 4,213 | 4,225 | (0.3)% |
| System hedging . . . | 643 | - | - |
| Wholesale. . . . . . | 1,673 | 1,197 | 39.8 % |
| Total. . . . . . . | 6,529 | 5,422 | 20.4 % |



Utility operations' sales increased $22.8 million in the first quarter of 2000 from $311.7 million to $334.5 million, primarily due to higher wholesale sales volumes as discussed below under "Fossil Generation." Utility operations' sales include all electric sales, including power produced for sale to Power Delivery and power produced for sale to external wholesale customers located within and outside our historical marketing territory. Despite higher sales, EBIT decreased $6.4 million from $55.8 million to $49.4 million due to higher cost of sales of $20.9 million which was primarily a result of increased purchased power expense and higher fossil fuel expense. Higher operating expenses, which increased by $9.4 million because of increased maintenance expense, also contributed to the lower EBIT.

For more detailed information regarding our Utility Operations, see the business segments discussion below.

BUSINESS SEGMENTS

We have segmented our business based on differences in products and services, production processes, and management responsibility. Based on this approach, we have identified four reportable segments: Fossil Generation, Nuclear Generation, Power Delivery and Monitored Services.

Fossil Generation, Nuclear Generation and Power Delivery represent the three business segments that comprise our electric utility business. Fossil Generation produces power for sale internally to the Power Delivery segment and to external wholesale customers within and outside the company's historical marketing territory. Power marketing is a component of our Fossil Generation segment which attempts to minimize market fluctuation risk, enhance system reliability and improve efficiency of power plant operations. Nuclear Generation represents our 47% ownership in the Wolf Creek nuclear generating facility. This segment does not have any external sales. The Power Delivery segment consists of the transmission and distribution of power to our retail customers in Kansas and the customer service provided to these customers. Monitored Services represents our security alarm monitoring business in North America, the United Kingdom and continental Europe. Other represents our non-utility operations and natural gas investment.

The following discussion identifies key factors affecting our electric business segments for the three month periods ending March 31, 2000, and March 31, 1999.

| | 2000 | 1999 |
|---|---|---|
| Fossil Generation: | (Dollars in Thousands) | |
| External sales. . . . . . . . . . | $100,764 | $ 79,361 |
| Internal sales. . . . . . . . . . | 128,392 | 125,662 |
| EBIT. . . . . . . . . . . . . . . | 45,352 | 47,225 |
| Nuclear Generation: | | |
| Internal sales. . . . . . . . . . | $ 29,480 | $ 29,218 |
| EBIT. . . . . . . . . . . . . . . | (5,346) | (4,225) |
| Power Delivery: | | |
| External sales. . . . . . . . . . | $233,731 | $232,340 |
| Internal sales. . . . . . . . . . | 67,370 | 69,380 |
| EBIT. . . . . . . . . . . . . . . | 12,457 | 15,631 |

Fossil Generation

External sales increased $21.4 million due to 40% higher wholesale sales volumes to wholesale customers within our service territory. The wholesale sales increased due to increased wholesale market opportunities and greater system availability, allowing us to sell more electricity to wholesale customers than we did in 1999. The increased wholesale market opportunities are due to a larger trading operation and increased involvement in the market for our system.

External sales were also affected by lower power marketing sales which were $5.8 million, or 12%, lower than in the first quarter of 1999. The related cost of sales was $7.7 million, or 16% lower. Our involvement in the wholesale market varies from quarter to quarter based on current marketing opportunities and availability of generation.

Internal sales increased $2.7 million due to a higher internal transfer price charged to Power Delivery. Internal sales to Power Delivery are made at an internal transfer price which is based upon an assumed competitive market price for capacity and energy.

Despite higher sales, EBIT was lower due to higher electric cost of sales and higher operating expenses, including increased maintenance expense for a planned maintenance outage at a KGE generating unit.

Electric cost of sales reflected higher purchased power expense and higher fossil fuel expense. We had higher purchased power expense in 2000 compared to 1999 primarily due to an increased number of system hedging transactions. Fossil fuel expense also increased by $6.5 million, or 20% primarily due to increased use of coal at our generating stations to support our system needs and our wholesale sales.

At certain times, we enter into transactions to reduce exposure relative to the volatility of cash market prices. The system hedging sales discussed above represent the settlement of such transactions. During the first quarter of 1999, we had no material system hedging transactions. However, during the last quarter of 1999, hedging transactions were entered into in order to maintain system reliability in the event of any Year 2000 problems. These hedging transactions were settled during the first quarter of 2000. These transactions resulted in a loss of approximately $1 million.

Nuclear Generation

Nuclear Generation has no external sales because it provides all of its power to its co-owners KGE, Kansas City Power and Light Company and Kansas Electric Power Cooperative, Inc. Internal sales include the internal transfer price that Nuclear Generation charges to Power Delivery. The amounts in the table above are our 47% share of Wolf Creek's operating results. EBIT is negative because internal sales are less than Wolf Creek's costs. Internal sales and EBIT did not materially change because there were no Wolf Creek outages in either period.



Power Delivery

Power Delivery's external sales consist of the transmission and distribution of power to our Kansas electric customers and the customer service provided to them. Internal sales include an intra-segment transfer price for charges for the use of the distribution lines and transformers.

External sales increased $1.4 million primarily due to increased retail kilowatt hour sales.

Internal sales were $2.0 million lower due to reduced retail transmission service revenues which resulted from a change in pricing methodology.

EBIT decreased $3.2 million primarily due to a $2.7 million higher expense related to the internal transfer price charged by Fossil Generation.

Monitored Services

Protection One and Protection One Europe comprise our monitored services business. The results discussed below reflect monitored services on a stand-alone basis. These results do not take into consideration Protection One's minority interest of approximately 15% at March 31, 2000, and March 31, 1999.

| | Three Months Ended March 31, | |
|---|---|---|
| | 2000 | 1999 |
| | (Dollars in Thousands) | |

| | Restated - Note 2 | |
|---|---|---|
| External sales. . . . . . . . . . | $146,870 | $148,547 |
| EBIT. . . . . . . . . . . . . . . | (19,724) | 16,146 |

EBIT decreased $35.9 million due to higher cost of sales, higher depreciation and amortization expense and higher selling, general and administrative expenses.

Cost of sales increased $6.0 million primarily due to increased compensation costs for additional personnel at Protection One's monitoring stations to improve the level of customer service.

Depreciation and amortization expense increased $21.5 million. As discussed in our 1999 Annual Report on Form 10-K/A-2, Protection One changed its customer amortization method from a ten-year straight line method to a declining balance method over eight to ten years. Protection One Europe made a similar change. Customer amortization increased from $28.5 million for the first quarter of 1999 to $35.5 million for the first quarter of 2000. See Note 2 of the Notes to Consolidated Financial Statements for a discussion of the restatement of our financial statements.



As discussed in the "Summary of Significant Items" above, Protection One also changed its estimate of useful life of goodwill from 40 years to 20 years. Protection One Europe made a similar change. These changes resulted in an aggregate $8.1 million increase in our goodwill amortization in the first quarter of 2000. Additionally, in the first quarter of 2000, Protection One's depreciation expense increased by $4.8 million due to a change in the estimated life of certain information systems installed in 1999 which accelerated the depreciation of these systems.

Selling, general and administrative expenses increased $7.3 million primarily due to an increase in Protection One's bad debt and collection expenses of approximately $2.1 million, and an increase of $1.6 million in Protection One's subcontract expense primarily for outside information technology support for the new billing and collection software Protection One began utilizing in November 1999.

Western Resources Consolidated

Other Income (Expenses)

Other income (expense) includes income and expenses not directly related to our operations. The increase in other income during 2000 is primarily related to a $73.7 million gain on the sale of part of our investment in a gas compression company and a $24.5 million gain on the sale of our other marketable securities.

Interest Expense

Interest expense decreased approximately $0.8 million, or 1.1%. Long-term debt interest expense was $7.7 million lower due to decreased long-term debt balances resulting from the retirement of $125 million of first mortgage bonds in 1999 and the repurchase and retirement of $155.4 million face value of Protection One bonds in the fourth quarter of 1999 and the first quarter of 2000. Short-term debt interest expense was $6.9 million higher due to increased short-term borrowings under our credit facilities as discussed below in "Liquidity and Capital Resources."

Income Taxes

Our effective income tax rate for the three month period ended March 31, 2000, was 47.7% compared to 31.2% for the three month period ended March 31, 1999. We estimate our effective tax rate to be 27.3% for the fiscal year ending December 31, 2000, which is lower than the effective tax rate for the quarter ended March 31, 2000. The effective tax rate for the first quarter includes income tax expense on the sale of marketable securities at the statutory rate.

In addition to the factors discussed above, the effective tax rate for the quarter varied from the Federal statutory rate due to the tax benefit of excluding 70% of the dividends received from ONEOK, the generation and utilization of tax credits from Affordable Housing investments, the amortization of prior years' investment tax credits, the amortization of non-deductible goodwill, the flow-through of tax benefits from corporate-owned life insurance, and the deduction for state income taxes.

LIQUIDITY AND CAPITAL RESOURCES



We had $1.7 million in cash and cash equivalents at March 31, 2000. We consider highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents. At March 31, 2000, we had approximately $643.9 million of short-term debt outstanding, of which $443.4 million was commercial paper. All of the outstanding commercial paper will mature by May 19, 2000, and is expected to be refinanced with short-term borrowings under our credit facilities. Current maturities of long-term debt were $47.8 million at March 31, 2000.

We also had $17.7 million of restricted cash at March 31, 2000. Our restricted cash consists primarily of cash held in escrow pursuant to certain letters of credit and one of Protection One's 1998 acquisitions.

As of March 31, 2000, we had arrangements with certain banks to provide unsecured short-term lines of credit on a committed basis totaling approximately $992 million.

The unsecured short-term lines of credit included three revolving credit facilities with various banks as follows:

| Amount | Facility | Termination Date |
|---|---|---|
| $242 million | 364-day | June 30, 2000 |
| 500 million | 5-year | March 17, 2003 |
| 250 million | 6 1/2-month | June 30, 2000 |

In March 2000, we amended all of these credit facilities to reflect the possibility of borrowing from them rather than using them to provide support for commercial paper borrowings. Our cost of borrowing short term debt is about 1.5% higher under the revolvers versus commercial paper. Due to the lowering of our credit ratings in March 2000, as discussed below, we no longer participate in the commercial paper market but, instead, borrow directly from our revolving credit facilities.

Amendments to the credit facilities include increased pricing to reflect credit quality and the potential drawn nature of credit facilities rather than support for commercial paper, redefinition of the total debt to capital financial covenant, limitation on use of proceeds from sale of first mortgage bonds requiring repayment of debt outstanding under the credit facilities before proceeds may be used for other purposes, and a commitment to use our "best efforts" to pledge first mortgage bonds to support our credit facilities if our senior unsecured credit rating drops below "investment grade" (bonds rated below BBB by Standard & Poor's (S&P) and Fitch and below Baa by Moody's Investors Service (Moody's)). As indicated by the table below, at May 9, 2000, our mortgage bonds were rated above investment grade by S&P and below investment grade by Fitch and Moody's.

In order to maintain adequate short-term borrowing capacity, we are pursuing discussions with our lenders, which we expect to be successful, to replace or further amend these credit facilities prior to their maturity.

In January 2000, we reached an agreement with our banks under our current credit facilities to eliminate a cross-default provision relating to Protection One and its



subsidiaries, provided we do not increase our investment in Protection One by more than $125 million.

On April 28, 2000, we filed a shelf registration statement with the SEC to register $500 million of first mortgage bonds. The registration statement became effective May 8, 2000. The proceeds of the sale of the securities, if and when issued, are expected to be used to pay off short-term indebtedness.

S&P, Fitch Investors Service (Fitch) and Moody's are independent credit-rating agencies that rate our debt securities. These ratings indicate the agencies' assessment of our ability to pay interest and principal on these securities.

As of May 9, 2000, ratings with these agencies were as follows:

<TABLE>
<CAPTION>

| Rating Agency | Western Resources' Mortgage Bond Rating | Western Resources' Unsecured Debt | KGE's Mortgage Bond Rating | KGE's Senior Unsecured Debt Rating | Protection One Senior Unsecured Debt | Protection One Senior Subordinated Unsecured Debt |
|---|---|---|---|---|---|---|
| <S> <C> | <C> | <C> | <C> | <C> | <C> | <C> |
| S&P | BBB- | BB- | BB+ | BB- | B+ | B- |
| Fitch | BB+ | BB | BB+ | BB | B+ | B- |
| Moody's | Ba1 | Ba2 | Ba1 | - | B2 | Caa1 |

</TABLE>

Credit rating agencies are applying more stringent guidelines when rating utility companies due to increasing competition and utility investment in non-utility businesses. On March 29, 2000, S&P, Moody's and Fitch lowered the credit ratings of the company. Additionally, our ratings at S&P remain on credit watch with negative implications and Moody's has said the outlook is negative.

On March 24, 2000, Moody's downgraded their ratings on Protection One's outstanding securities with outlook remaining negative.

Cash Flows from Operating Activities

Net cash flow from operations did not change materially between the first quarter of 2000 and the first quarter of 1999. The gain on sale of marketable securities in 2000 was offset by changes in working capital.

Cash Flows from Investing Activities

Investing activities provided net cash flow of $121.4 million in the first quarter of 2000 due primarily to proceeds of $194.1 million received from the sale of marketable securities.

Investing activities used net cash flow of $155.7 million in the first quarter of 1999 due primarily to Protection One's use of approximately $99.3 million for customer account and security alarm monitoring acquisitions.

Cash Flows Used in Financing Activities



We had a net use of cash for financing activities totaling $199.6 million in the first quarter of 2000 due primarily to payments on debt. We used the proceeds from the sale of marketable securities to reduce short-term debt by $61.5 million, to retire $75 million in current maturities of first mortgage bonds and to purchase and retire Protection One bonds.

We had net cash from financing activities totaling $107.3 million in the first quarter of 1999 due primarily to proceeds of short-term and long-term debt of $137.2 million.

Debt Repurchase Plan

We may from time to time purchase our debt securities and preferred stock. The timing and terms of purchases, and the amount of debt actually purchased, will be determined by the company based on market conditions and other factors. We may also purchase Protection One debt securities. Purchases are expected to be made in the open market or through negotiated transactions.

Dividend Policy

Our board of directors reviews our dividend policy from time to time. Among the factors the board of directors considers in determining our dividend policy are earnings, cash flows, capitalization ratios, competition and regulatory conditions. In January 2000, our board of directors declared a first-quarter 2000 dividend of 53 1/2 cents per share that was paid on April 3, 2000. In March 2000, we announced a new dividend policy in conjunction with the announcement of the separation of the company's electric and non-electric utility businesses. The new dividend policy will result in quarterly dividends of $0.30 per share, or $1.20 per share on an annual basis, to be effective with the anticipated declaration of the July 2000 dividend. We believe the new dividend policy would be reconsidered if the separation were materially delayed or modified.

OTHER INFORMATION

Electric Utility

City of Wichita Proceeding: In December 1999, the Wichita, Kansas, City Council authorized the hiring of an outside consultant to determine the feasibility of creating a municipal electric utility to replace KGE as the supplier of electricity in Wichita. KGE's rates are currently 7% below the national average for retail customers. The average rates charged to retail customers in territories served by our KPL division are 19% lower than KGE's rates. Customers within the Wichita metropolitan area account for approximately 25% of our total energy sales. KGE has an exclusive franchise with the City of Wichita to provide retail electric service that expires March 2002. Under Kansas law, KGE will continue to have the exclusive right to serve the customers in Wichita following the expiration of the franchise, assuming the system is not municipalized. See also "FERC Proceedings" below regarding a complaint filed with the Federal Energy Regulatory Commission (FERC) against KGE by the City of Wichita.

KCC Proceeding: On March 16, 2000, the Kansas Industrial Consumers (KIC), an organization of commercial and industrial users of electricity in

Kansas, filed a complaint with the Kansas Corporation Commission (KCC) requesting an investigation of Western Resources' and



KGE's rates. The KIC alleges that these rates are not based on current costs. We filed a motion to dismiss the complaint on April 24, 2000. We will continue to oppose this request vigorously.

FERC Proceedings: In September 1999, the City of Wichita filed a complaint with the FERC against us, alleging improper affiliate transactions between KPL and KGE. The City of Wichita is asking that FERC equalize the generation costs between KPL and KGE, in addition to other matters. FERC has issued an order setting this matter for hearing and has referred the case to a settlement judge. The hearing has been suspended pending settlement discussions between the parties. We believe that the City of Wichita's complaint is without merit and intend to defend against it vigorously.

On April 28, 2000, Westar Generating II, Inc. (Westar Generating II), a wholly-owned subsidiary of the company, filed an initial rate application with the FERC regarding two 74 MW combustion turbine units currently being installed. The rate filing, to be effective June 1, 2000, will allow Westar Generating II to charge the company a monthly fee for the right to utilize the capacity of these two units.

Nuclear Decommissioning: On September 1, 1999, Wolf Creek submitted the 1999 Decommissioning Cost Study to the KCC for approval. The KCC approved the 1999 Decommissioning Cost Study on April 26, 2000. Based on the study, our share of Wolf Creek's decommissioning costs, under the immediate dismantlement method, is estimated to be approximately $631 million during the period 2025 through 2034, or approximately $221 million in 1999 dollars. These costs were calculated using an assumed inflation rate of 3.6% over the remaining service life from 1999 of 26 years.

For additional information on Nuclear Decommissioning, see Note 13 to Consolidated Financial Statements in our 1999 Annual Report on Form 10-K/A-2.

Monitored Services Business

Attrition: Customer attrition for Protection One's business segments is summarized below:

| | Trailing Twelve Months Ended March 31, 2000 | 1999 |
|---|---|---|
| North America . . . . . . . | 16.1 % | 8.9 % |
| Europe (a). . . . . . . . . | 10.2 % | (b) |
| Multifamily . . . . . . . . | 8.3 % | 4.5 % |
| Total Protection One. . . | 14.3 % | 8.1 % |

(a) Europe represents annualized activity through February 29, 2000.
(b) European operations were acquired in 1998.

The quarterly annualized attrition rate for Protection One's North America segment in the first quarter of 2000 was 11.9% as compared to 11.2% in the first quarter of 1999. Protection One experienced high levels of attrition for its North America segment in 1999 with quarterly annualized attrition reaching peak levels of 19.1% and 16.3% in the third and fourth



quarters. Protection One believes the significant decrease in attrition for the North America segment over the last three quarters is a result of efforts to improve customer service and billing and collection practices.

Related Party Transactions: On February 29, 2000, Westar Capital purchased the continental European and United Kingdom operations of Protection One, and certain investments held by a subsidiary of Protection One, for an aggregate purchase price of $244 million. The consideration given included cash and certain Protection One debt securities. The basis of the net assets sold did not change and no gain or loss was recorded for this related party transaction. Terms of the agreement were approved by the independent directors of the boards of directors of Protection One and Protection One Alarm Monitoring, Inc. upon the recommendation of a special committee of the Protection One board of directors. The special committee obtained a fairness opinion from an investment banker with regard to this transaction. See also Note 7 of the Notes to Consolidated Financial Statements for further discussion of debt securities that were transferred as a result of this transaction.

Market Risk

During the three months ended March 31, 2000, the company's balance in marketable securities declined approximately $107 million from December 31, 1999, due to the sale of a significant portion of our marketable security portfolio.

Subsequent to the sale of the remaining portion of our investment in a gas compression company, the value of our marketable security portfolio is not material and we do not expect to be materially impacted by changes in the market prices of our remaining investments.

The company has not experienced any other significant changes in its exposure to market risk since December 31, 1999. For additional information on the company's market risk, see the Form 10-K/A-2 for the year ended December 31, 1999.

New Pronouncements

In June 1998, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities" (SFAS 133). SFAS 133, as amended, is effective for fiscal years beginning after June 15, 2000. SFAS 133 cannot be applied retroactively. We are currently evaluating commodity contracts and financial instruments to determine what, if any, effect adopting SFAS 133 might have on our financial statements. We have not yet quantified all effects of adopting SFAS 133 on our financial statements; however, SFAS 133 could increase volatility in earnings and other comprehensive income. We plan to adopt SFAS 133 as of January 1, 2001.



ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Information relating to market risk disclosure is set forth in Other Information of Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations included herein.



WESTERN RESOURCES, INC.
Part II Other Information

ITEM 1. LEGAL PROCEEDINGS

The company, its subsidiary Westar Capital, Protection One, its subsidiary 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, "Ronald Cats, 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 March 2000, plaintiffs filed a Second Consolidated Amended Class Action Complaint (the 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 November 12, 1999. 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 and 1998 were false and misleading and not in compliance with Generally Accepted Accounting Principals (GAAP). 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 the company and Westar Capital 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. The Amended Complaint seeks an unspecified amount of compensatory damages and an award of fees and expenses, including attorneys' fees. The company and Protection One believe that all the claims asserted in the Amended Complaint are without merit and intend to defend against them vigorously. The company and Protection One cannot currently predict the impact of this litigation which could be material.

For other proceedings affecting the company, see Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations which is incorporated herein by reference.

ITEM 2. CHANGES IN SECURITIES AND USE OF PROCEEDS

None

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

None



ITEM 5. OTHER INFORMATION

None

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits:

Exhibit 12 - Computation of Ratio of Consolidated Earnings to Fixed Charges for Three Months Ended March 31, 2000 - Restated (filed electronically)

Exhibit 27 - Financial Data Schedule - Restated (filed electronically)

(b) Reports on Form 8-K:

Form 8-K filed January 3, 2000 - Press release reporting that Kansas City Power & Light Company terminated the proposed merger with Western Resources.

Form 8-K filed January 26, 2000 - Press release reporting that Western Resources reached an agreement with its banks to eliminate the cross-default provisions relating to Protection One, Inc.

Form 8-K filed January 27, 2000 - Press release reporting Western Resources declaration of a first quarter dividend and that the board of directors will consider a stock dividend for the balance of the current annual dividend.

Form 8-K filed March 1, 2000 - Press release reporting Westar Capital's purchase of Protection One, Inc.'s continental European and United Kingdom operations, and certain other assets of Protection One.

Form 8-K filed March 29, 2000 - Press release announcing Western Resources plans to separate its electric utility business from its non-electric business, reporting 1999 earnings results and announcing dividend policy; investor presentation.

Form 8-K filed April 10, 2000 - Press release announcing Western Resources may from time-to-time purchase its debt securities and preferred stock.



SIGNATURE

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

Western Resources, Inc.

Date February 2, 2001 By /s/ JAMES A. MARTIN

James A. Martin
Senior Vice President
and Treasurer

| | | | |
|---|---|---|---|
| Date | February 2, 2001 | By | /s/ LEROY P. WAGES |
| | | | Leroy P. Wages, Controller |

Restated Exhibit 12

WESTERN RESOURCES, INC.
Computations of Ratio of Earnings to Fixed Charges and
Computations of Ratio of Earnings to Combined Fixed Charges
and Preferred and Preference Dividend Requirements
(Dollars in Thousands)

<TABLE>
<CAPTION>

| | Unaudited Three Months Ended March 31, | Year Ended December 31, | | | | |
|---|---|---|---|---|---|---|
| | 2000 | 1999 | 1998 | 1997 | 1996 | 1995 |
| <S> | <C> | <C> | <C> | <C> | <C> | <C> |
| Earnings from continuing operations(1)..... | $72,427 | $(45,460) | $ 35,799 | $879,556 | $255,052 | $265,068 |
| Fixed Charges: | | | | | | |
| Interest expense............. | 70,026 | 294,104 | 226,120 | 193,808 | 152,551 | 123,821 |
| Interest on Corporate-owned Life Insurance Borrowings.. | 9,769 | 36,908 | 38,236 | 36,167 | 35,151 | 32,325 |
| Interest Applicable to Rentals.................... | 7,270 | 34,252 | 32,796 | 34,514 | 32,965 | 31,650 |
| Total Fixed Charges...... | 87,065 | 365,264 | 297,152 | 264,489 | 220,667 | 187,796 |
| Distributed income of equity investees.................... | 672 | 3,728 | 3,812 | - | - | - |
| Preferred and Preference Dividend Requirements: | | | | | | |
| Preferred and Preference Dividends.................... | 282 | 1,129 | 3,591 | 4,919 | 14,839 | 13,419 |
| Income Tax Required........... | 186 | 746 | 1,095 | 3,798 | 7,562 | 6,160 |
| Total Preferred and Preference Dividend Requirements.............. | 468 | 1,875 | 4,686 | 8,717 | 22,401 | 19,579 |
| Total Fixed Charges and Preferred and Preference Dividend Requirements................ | 87,533 | 367,139 | 301,838 | 273,206 | 243,068 | 207,375 |
| Earnings (2) .................. | $160,164 | $323,532 | $336,763 | $1,144,045 | $475,719 | $452,864 |
| Ratio of Earnings to Fixed Charges ...................... | 1.84 | 0.89 | 1.13 | 4.33 | 2.16 | 2.41 |

Ratio of Earnings to Combined Fixed

| | | | | | | |
|---|---|---|---|---|---|---|
| Charges and Preferred and Preference Dividend Requirements......... | 1.83 | 0.88 | 1.12 | 4.19 | 1.96 | 2.18 |

</TABLE>

(1) Earnings from continuing operations consists of loss or earnings before extraordinary gain and income taxes adjusted for minority interest and undistributed earnings from equity investees.

(2) Earnings are deemed to consist of net income to which has been added income taxes (including net deferred investment tax credit), fixed charges and distributed income of equity investees.
Fixed charges consist of all interest on indebtedness, amortization of debt discount and expense, and the portion of rental expense which represents an interest factor. Preferred and preference dividend requirements consist of an amount equal to the pre-tax earnings which would be required to meet dividend requirements on preferred and preference stock.

<TABLE> <S> <C>

<ARTICLE> 5
<LEGEND>
THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM THE CONSOLIDATED BALANCE SHEET AT MARCH 31, 2000, AND THE CONSOLIDATED STATEMENT OF INCOME AND THE CONSOLIDATED STATEMENT OF CASH FLOWS FOR THREE MONTHS ENDED MARCH 31, 2000, AS RESTATED FEBRUARY 2, 2001, AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.
</LEGEND>
<MULTIPLIER> 1000

| <S> | <C> |
|---|---|
| <PERIOD-TYPE> | 3-MOS |
| <FISCAL-YEAR-END> | DEC-31-2000 |
| <PERIOD-START> | JAN-31-2000 |
| <PERIOD-END> | MAR-31-2000 |
| <CASH> | 1690 |
| <SECURITIES> | 29137 |
| <RECEIVABLES> | 237319 |
| <ALLOWANCES> | 39307 |
| <INVENTORY> | 112141 |
| <CURRENT-ASSETS> | 444191 |
| <PP&E> | 6124634 |
| <DEPRECIATION> | 2212458 |
| <TOTAL-ASSETS> | 7810043 |
| <CURRENT-LIABILITIES> | 1258254 |
| <BONDS> | 2807074 |
| <PREFERRED-MANDATORY> | 220000 |
| <PREFERRED> | 24858 |
| <COMMON> | 344568 |
| <OTHER-SE> | 1512562 |
| <TOTAL-LIABILITY-AND-EQUITY> | 7810043 |
| <SALES> | 481699 |
| <TOTAL-REVENUES> | 481699 |
| <CGS> | 174939 |
| <TOTAL-COSTS> | 453842 |
| <OTHER-EXPENSES> | 0 |
| <LOSS-PROVISION> | 0 |
| <INTEREST-EXPENSE> | 70026 |
| <INCOME-PRETAX> | 76032 |
| <INCOME-TAX> | 36231 |
| <INCOME-CONTINUING> | 39801 |
| <DISCONTINUED> | 0 |
| <EXTRAORDINARY> | 18492 |
| <CHANGES> | (3810) |
| <NET-INCOME> | 54483 |
| <EPS-BASIC> | 0.80 |
| <EPS-DILUTED> | 0.80 |

</TABLE>