ONEOK INC /NEW/
Form 10-Q
August 04, 2006
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

x **Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**
For the quarterly period ended June 30, 2006

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 001-13643

ONEOK, Inc.

(Exact name of registrant as specified in its charter)

Oklahoma	**73-1520922**
(State or other jurisdiction of	**(I.R.S. Employer**
incorporation or organization)	**Identification No.)**
100 West Fifth Street, Tulsa, OK	**74103**
(Address of principal executive offices)	**(Zip Code)**

Registrant s telephone number, including area code (918) 588-7000

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 by checkmark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act.

Large accelerated Filer x Accelerated Filer ¨ Non-accelerated filer ¨

Indicate by checkmark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ¨ No x

On July 31, 2006, the Company had 117,557,407 shares of common stock outstanding.

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ONEOK, Inc.

QUARTERLY REPORT ON FORM 10-Q

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As used in this Quarterly Report on Form 10-Q, the terms we, our or us mean ONEOK, Inc., an Oklahoma corporation, and its predecessors and subsidiaries, unless the context indicates otherwise.

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Part I - FINANCIAL INFORMATION

Item 1. Financial Statements

ONEOK, Inc. and Subsidiaries

CONSOLIDATED STATEMENTS OF INCOME

(Unaudited)	Three Months Ended June 30, 2006	Three Months Ended June 30, 2005	Six Months Ended June 30, 2006	Six Months Ended June 30, 2005
	(Thousands of dollars, except per share amounts)			
Revenues				
Operating revenues, excluding energy trading revenues	**$ 2,427,795**	$ 2,089,574	**$ 6,176,064**	$ 4,787,422
Energy trading revenues, net	**4,112**	(8,784)	**11,482**	408
Total Revenues	**2,431,907**	2,080,790	**6,187,546**	4,787,830
Cost of sales and fuel	**2,030,258**	1,850,812	**5,281,367**	4,187,456
Net Margin	**401,649**	229,978	**906,179**	600,374
Operating Expenses				
Operations and maintenance	**160,173**	118,475	**320,923**	241,977
Depreciation, depletion and amortization	**67,094**	43,673	**123,420**	86,889
General taxes	**19,901**	15,648	**38,283**	32,947
Total Operating Expenses	**247,168**	177,796	**482,626**	361,813
Gain on Sale of Assets	**114,904**		**115,892**	
Operating Income	**269,385**	52,182	**539,445**	238,561
Other income	**26,266**	3,938	**63,279**	9,236
Other expense	**5,898**	3,939	**11,734**	4,722
Interest expense	**59,603**	23,991	**115,188**	50,081
Income before Minority Interest and Income Taxes	**230,150**	28,190	**475,802**	192,994
Minority interest in income of consolidated subsidiaries	**100,567**		**136,339**	
Income taxes	**51,638**	11,116	**131,779**	74,142
Income from Continuing Operations	**77,945**	17,074	**207,684**	118,852
Discontinued operations, net of taxes (Note C)				
Income (loss) from operations of discontinued components, net of tax	**(150)**	7,778	**(397)**	13,664
Net Income	**$ 77,795**	$ 24,852	**$ 207,287**	$ 132,516
Earnings Per Share of Common Stock (Note O)				
Basic:				
Earnings per share from continuing operations	**$ 0.66**	$ 0.17	**$ 1.85**	$ 1.16

Earnings per share from operations of discontinued components, net of tax				0.08				0.13
Net earnings per share, basic	**$**	**0.66**	$	0.25	**$**	**1.85**	$	1.29
Diluted:								
Earnings per share from continuing operations	**$**	**0.65**	$	0.16	**$**	**1.80**	$	1.08
Earnings per share from operations of discontinued components, net of tax				0.07				0.12
Net earnings per share, diluted	**$**	**0.65**	$	0.23	**$**	**1.80**	$	1.20
Average Shares of Common Stock *(Thousands)*								
Basic		**117,423**		101,143		**112,283**		102,404
Diluted		**119,026**		109,062		**114,891**		110,031
Dividends Declared Per Share of Common Stock	**$**	**0.30**	$	0.56	**$**	**0.58**	$	0.81

See accompanying Notes to Consolidated Financial Statements.

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ONEOK, Inc. and Subsidiaries

CONSOLIDATED BALANCE SHEETS

(Unaudited)	**June 30, 2006**	**December 31, 2005**
	(Thousands of dollars)	
Assets		
Current Assets		
Cash and cash equivalents	**$ 645,349**	$ 7,915
Trade accounts and notes receivable, net	**971,855**	2,202,895
Gas and natural gas liquids in storage	**905,098**	911,393
Commodity exchanges	**203,187**	133,159
Energy marketing and risk management assets (Note D)	**172,738**	765,157
Other current assets	**326,100**	385,274
Total Current Assets	**3,224,327**	4,405,793
Property, Plant and Equipment		
Property, plant and equipment	**6,534,378**	5,575,365
Accumulated depreciation, depletion and amortization	**1,823,874**	1,581,138
Net Property, Plant and Equipment	**4,710,504**	3,994,227
Deferred Charges and Other Assets		
Goodwill and intangibles (Note E)	**1,027,336**	683,211
Energy marketing and risk management assets (Note D)	**22,869**	150,026
Investments and other	**1,127,460**	716,298
Total Deferred Charges and Other Assets	**2,177,665**	1,549,535
Assets of Discontinued Component	**63,608**	63,911
Total Assets	**$ 10,176,104**	$ 10,013,466

See accompanying Notes to Consolidated Financial Statements.

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ONEOK, Inc. and Subsidiaries

CONSOLIDATED BALANCE SHEETS

(Unaudited)	June 30, 2006	December 31, 2005
	(Thousands of dollars)	
Liabilities and Shareholders Equity		
Current Liabilities		
Current maturities of long-term debt	**$ 18,485**	$ 6,546
Notes payable	**1,364,000**	1,541,500
Accounts payable	**943,194**	1,756,307
Commodity exchanges	**337,765**	238,176
Energy marketing and risk management liabilities (Note D)	**255,559**	814,803
Other	**403,020**	438,009
Total Current Liabilities	**3,322,023**	4,795,341
Long-term Debt, excluding current maturities	**2,630,320**	2,024,070
Deferred Credits and Other Liabilities		
Deferred income taxes	**572,738**	603,835
Energy marketing and risk management liabilities (Note D)	**149,596**	442,842
Other deferred credits	**330,669**	350,157
Total Deferred Credits and Other Liabilities	**1,053,003**	1,396,834
Liabilities of Discontinued Component	**2,359**	2,464
Commitments and Contingencies (Note K)		
Minority Interests in Consolidated Subsidiaries	**802,407**	
Shareholders Equity		
Common stock, $0.01 par value: authorized 300,000,000 shares; issued 119,677,784 shares and outstanding 117,522,979 shares at June 30, 2006; issued 107,973,436 shares and outstanding 97,654,697 shares at December 31, 2005	**1,197**	1,080
Paid in capital	**1,236,695**	1,044,283
Unearned compensation		(105)
Accumulated other comprehensive loss (Note F)	**(43,701)**	(56,991)
Retained earnings	**1,230,621**	1,085,845
Treasury stock, at cost: 2,154,805 shares at June 30, 2006 and 10,318,739 shares at December 31, 2005	**(58,820)**	(279,355)
Total Shareholders Equity	**2,365,992**	1,794,757
Total Liabilities and Shareholders Equity	**$ 10,176,104**	$ 10,013,466

See accompanying Notes to Consolidated Financial Statements.

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ONEOK, Inc. and Subsidiaries

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Six Months Ended June 30,	
(Unaudited)	**2006**	**2005**
	(Thousands of Dollars)	
Operating Activities		
Net income	**$ 207,287**	$ 132,516
Depreciation, depletion, and amortization	**123,420**	86,889
Gain on sale of assets	**(115,892)**	526
Minority interest in income of consolidated subsidiaries	**136,339**	
Distributions received from unconsolidated affiliates	**69,819**	570
Income from equity investments	**(49,817)**	(5,649)
Deferred income taxes	**9,982**	17,471
Stock-based compensation expense	**8,495**	5,983
Allowance for doubtful accounts	**6,575**	8,188
Changes in assets and liabilities (net of acquisition and disposition effects):		
Accounts and notes receivable	**1,270,248**	494,362
Inventories	**2,141**	42,347
Unrecovered purchased gas costs	**(51,135)**	1,326
Commodity exchanges	**29,561**	
Deposits	**(5,652)**	(44,413)
Regulatory assets	**12,427**	(4,435)
Accounts payable and accrued liabilities	**(841,045)**	(250,332)
Energy marketing and risk management assets and liabilities	**(135,401)**	38,782
Other assets and liabilities	**110,851**	(101,085)
Cash Provided by Operating Activities	**788,203**	423,046
Investing Activities		
Changes in other investments, net	**(6,222)**	(30,779)
Acquisitions	**(128,485)**	
Capital expenditures	**(132,593)**	(122,687)
Proceeds from sale of assets	**298,802**	(334)
Increase in cash and cash equivalents for previously unconsolidated subsidiaries	**1,334**	
Decrease in cash and cash equivalents for previously consolidated subsidiaries	**(22,039)**	
Other investing activities	**(2,376)**	(2,215)
Cash Provided by (Used in) Investing Activities	**8,421**	(156,015)
Financing Activities		
Borrowing (repayment) of notes payable, net	**(384,000)**	(532,500)
Issuance of debt, net of issuance costs		798,792
Termination of interest rate swaps		(22,565)
Payment of debt	**(31,955)**	(335,456)
Equity unit conversion	**402,448**	
Repurchase of common stock	**(2,276)**	(112,507)
Issuance of common stock	**2,657**	7,857
Debt reacquisition costs		
Dividends paid	**(62,564)**	(54,576)
Distributions to minority interests	**(78,594)**	
Other financing activities	**(47,996)**	(8,931)

Cash Used in Financing Activities	**(202,280)**	(259,886)
Change in Cash and Cash Equivalents	**594,344**	7,145
Cash and Cash Equivalents at Beginning of Period	**7,915**	9,458
Effect of Accounting Change on Cash and Cash Equivalents	**43,090**	
Cash and Cash Equivalents at End of Period	**$ 645,349**	$ 16,603

See accompanying Notes to Consolidated Financial Statements.

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ONEOK, Inc. and Subsidiaries

CONSOLIDATED STATEMENTS OF SHAREHOLDERS EQUITY AND COMPREHENSIVE INCOME

(Unaudited)	Common Stock Issued	Common Stock	Paid in Capital	Unearned Compensation
	(Shares)		*(Thousands of Dollars)*	
December 31, 2005	107,973,436	$ 1,080	$ 1,044,283	$ (105)
Net income				
Other comprehensive income				
Total comprehensive income				
Equity unit conversion	11,208,998	112	177,572	
Repurchase of common stock				
Common stock issuance pursuant to various plans	495,350	5	6,503	
Stock-based employee compensation expense			8,337	158
Common stock dividends - $0.58 per share				(53)
June 30, 2006	**119,677,784**	**$ 1,197**	**$ 1,236,695**	**$**

See accompanying Notes to Consolidated Financial Statements.

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ONEOK, Inc. and Subsidiaries

CONSOLIDATED STATEMENTS OF SHAREHOLDERS EQUITY AND COMPREHENSIVE INCOME (Continued)

(Unaudited)	Accumulated Other Comprehensive Loss	Retained Earnings	Treasury Stock	Total
		(Thousands of Dollars)		
December 31, 2005	$ (56,991)	$ 1,085,845	$ (279,355)	$ 1,794,757
Net income		207,287		207,287
Other comprehensive income	13,290			13,290
Total comprehensive income				220,577
Equity unit conversion			224,764	402,448
Repurchase of common stock			(4,229)	(4,229)
Common stock issuance pursuant to various plans				6,508
Stock-based employee compensation expense				8,495
Common stock dividends - $0.58 per share		(62,511)		(62,564)
June 30, 2006	**$ (43,701)**	**$ 1,230,621**	**$ (58,820)**	**$ 2,365,992**

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ONEOK, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

A. SUMMARY OF ACCOUNTING POLICIES

Our accompanying unaudited consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America and reflect all adjustments that, in our opinion, 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 our business, the results of operations for the three and six months ended June 30, 2006 are not necessarily indicative of the results that may be expected for a twelve-month period. These unaudited consolidated financial statements should be read in conjunction with our audited consolidated financial statements in our Annual Report on Form 10-K for the year ended December 31, 2005.

Our accounting policies are consistent with those disclosed in Note A of the Notes to Consolidated Financial Statements in our Annual Report on Form 10-K for the year ended December 31, 2005, except as described below.

Significant Accounting Policies

Consolidation - The consolidated financial statements include the accounts of ONEOK, Inc. and our subsidiaries over which we have control. All significant intercompany accounts and transactions have been eliminated in consolidation. Investments in affiliates are accounted for on the equity method if we have the ability to exercise significant influence over operating and financial policies of our investee. Investments in affiliates are accounted for on the cost method if we do not have the ability to exercise significant influence over operating and financial policies of our investee.

In June 2005, the Financial Accounting Standards Board (FASB) ratified the consensus reached in Emerging Issues Task Force (EITF) Issue No. 04-5, Determining Whether a General Partner, or the General Partners as a Group, Controls a Limited Partnership or Similar Entity When the Limited Partners Have Certain Rights (EITF 04-5). EITF 04-5 presumes that a general partner controls a limited partnership and therefore should consolidate the partnership in the financial statements of the general partner. Effective January 1, 2006, we were required to consolidate Northern Border Partners, L.P. s (renamed ONEOK Partners, L.P. on May 17, 2006) operations in our consolidated financial statements, and we elected to use the prospective method. Accordingly, prior period financial statements have not been restated. The adoption of EITF 04-5 did not have an impact on our net income; however, reported revenues, costs and expenses reflect the operating results of ONEOK Partners, L.P. (ONEOK Partners).

We reflect our 45.7 percent share of ONEOK Partners accumulated other comprehensive loss at June 30, 2006, in our consolidated accumulated other comprehensive loss. The remaining 54.3 percent is reflected as an adjustment to minority interests in partners equity.

Share-Based Payment - In December 2004, the FASB issued Statement of Financial Accounting Standards No. 123R, Share-Based Payment (Statement 123R). Statement 123R requires companies to expense the fair value of share-based payments net of estimated forfeitures. We adopted Statement 123R as of January 1, 2006, and elected to use the modified prospective method. Statement 123R did not have a material impact on our financial statements as we have been expensing share-based payments since our adoption of Statement of Financial Accounting Standards No. 148, Accounting for Stock-Based Compensation - Transition and Disclosure (Statement 148) on January 1, 2003. Awards granted after the adoption of Statement 123R are expensed under the requirements of Statement 123R, while equity awards granted prior to the adoption of Statement 123R will continue to be expensed under Statement 148. We recognized other income of $1.7 million upon adoption of Statement 123R.

Inventory - In September 2005, the FASB ratified the consensus reached in EITF Issue No. 04-13, Accounting for Purchases and Sales of Inventory with the Same Counterparty (EITF 04-13). EITF 04-13 defines when a purchase and a sale of inventory with the same party that operates in the same line of business should be considered a single nonmonetary transaction. EITF 04-13 is effective for new arrangements that a company enters into in periods beginning after March 15, 2006. We completed our review of the applicability of EITF 04-13 to our operations and determined that its impact was immaterial to our consolidated financial statements.

Property - The following table sets forth our property, by segment, for the periods presented.

	June 30, 2006	December 31, 2005
	(Thousands of dollars)	
Distribution	**$ 3,071,227**	$ 3,016,668
Energy Services	**7,688**	7,690
ONEOK Partners	**3,299,795**	2,412,679
Other	**155,668**	138,328
Property, plant and equipment	**6,534,378**	5,575,365
Accumulated depreciation, depletion and amortization	**1,823,874**	1,581,138
Net property, plant and equipment	**$ 4,710,504**	$ 3,994,227

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 Oklahoma Corporation Commission (OCC), Kansas Corporation Commission (KCC), Texas Railroad Commission (RRC) and various municipalities in Texas. For all other operations, the effect is recognized in income in the period that includes the enactment date. We continue to amortize previously deferred investment tax credits for ratemaking purposes over the period prescribed by the OCC, KCC, RRC and various municipalities in Texas.

In June 2006, the FASB issued Interpretation No. 48, Accounting for Uncertainty in Income Taxes (FIN 48), which clarified the accounting for uncertainty in income taxes recognized in the financial statements in accordance with FASB Statement 109, Accounting for Income Taxes. FIN 48 is effective for our year ending December 31, 2006. We are currently reviewing the applicability of FIN 48 to our operations and its potential impact on our consolidated financial statements.

Regulation - Our intrastate natural gas transmission pipelines and distribution operations are subject to the rate regulation and accounting requirements of the OCC, KCC, RRC and various municipalities in Texas. Other transportation activities are subject to regulation by the Federal Energy Regulatory Commission (FERC). Oklahoma Natural Gas, Kansas Gas Service, Texas Gas Service and portions of our ONEOK Partners segment follow the accounting and reporting guidance contained in Statement of Financial Accounting Standards No. 71, Accounting for the Effects of Certain Types of Regulation (Statement 71). During the rate-making process, regulatory authorities may require us to defer recognition of certain costs to be recovered through rates over time as opposed to expensing such costs as incurred. This allows us to stabilize rates over time rather than passing such costs on to the customer for immediate recovery. Accordingly, actions of the regulatory authorities could have an effect on the amount recovered from rate payers. Any difference in the amount recoverable and the amount deferred would be recorded as income or expense at the time of the regulatory action. If all or a portion of the regulated operations becomes no longer subject to the provisions of Statement 71, a write-off of regulatory assets and stranded costs may be required.

Other

Pension and Postretirement Employee Benefits - In March 2006, the FASB issued an exposure draft on accounting for pension and postretirement medical benefits. The final standard for the first phase of this project is expected to be issued in the third quarter of 2006, with implementation required for years ending after December 15, 2006. Based on the exposure draft, we could be required to record a balance sheet liability equal to the difference between our benefit obligations and plan assets. If this requirement had been in place at December 31, 2005, we would have been required to record unrecognized losses of $124.8 million and $78.8 million for pension and postretirement benefits, respectively, on our consolidated balance sheet as accumulated other comprehensive loss.

Reclassifications - Certain amounts in our consolidated financial statements have been reclassified to conform to the 2006 presentation. These reclassifications did not impact previously reported net income or shareholders equity. Prior periods have been adjusted to reflect the sale of our Production segment and the pending sale of our Spring Creek power plant as discontinued operations. See Note C for additional information.

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B. ACQUISITIONS AND DIVESTITURES

In May 2006, a subsidiary of ONEOK Partners entered into an agreement with a subsidiary of The Williams Companies, Inc. (Williams) to form a joint venture called Overland Pass Pipeline Company LLC (Overland Pass Pipeline Company). Overland Pass Pipeline Company will build a 750-mile natural gas liquids pipeline from Opal, Wyoming to the mid-continent natural gas liquids market center in Conway, Kansas. The pipeline will be designed to transport approximately 110,000 barrels per day of natural gas liquids (NGLs), which can be increased to approximately 150,000 barrels per day with additional pump facilities. A subsidiary of ONEOK Partners owns 99 percent of the joint venture, will manage the construction project, advance all costs associated with construction and operate the pipeline. Williams will have the option to increase its ownership up to 50 percent by reimbursing ONEOK Partners its proportionate share of all construction costs and, upon full exercise of that option, would become operator within two years of the pipeline becoming operational. Construction of the pipeline is expected to begin in the summer of 2007, with start-up scheduled for early 2008. As part of a long-term agreement, Williams dedicated its NGL production from two of its gas processing plants in Wyoming to the joint-venture company. Subsidiaries of ONEOK Partners will provide downstream fractionation, storage and transportation services to Williams. The pipeline project is estimated to cost approximately $433 million. At the project s inception, ONEOK Partners paid $11.4 million to Williams for initial capital expenditures incurred. In addition, ONEOK Partners plans to invest approximately $173 million to expand its existing fractionation capabilities and the capacity of its natural gas liquids distribution pipelines. ONEOK Partners financing for both projects may include a combination of short- or long-term debt or equity. The project requires the approval of various state and regulatory authorities.

In April 2006, we sold certain assets comprising our former Gathering and Processing, Natural Gas Liquids, and Pipelines and Storage segments to ONEOK Partners for approximately $3 billion, including $1.35 billion in cash, before adjustments, and approximately 36.5 million Class B limited partner units in ONEOK Partners. The Class B limited partner units and the related general partner interest contribution were valued at approximately $1.65 billion. We also purchased, through Northern Plains Natural Gas Company, L.L.C. (renamed ONEOK Partners GP, L.L.C. on May 15, 2006), from an affiliate of TransCanada Corporation (TransCanada), its 17.5 percent general partner interest in ONEOK Partners for $40 million. This purchase resulted in our owning 100 percent of the two percent general partner interest in ONEOK Partners. Following the completion of the transactions, we own approximately 37.0 million common and Class B limited partner units and 100 percent of the two percent ONEOK Partners general partner interest. Our overall interest in ONEOK Partners, including the two percent general partner interest, has increased to 45.7 percent. In June 2006, ONEOK Partners recorded a $63.2 million estimated purchase price adjustment to the acquired assets related to a working capital settlement which is reflected as a reduction of the value of the Class B units. The working capital settlement has not been finalized; however, we do not expect material adjustments.

In April 2006, in connection with the transactions described immediately above, our ONEOK Partners segment completed the sale of its 20 percent partnership interest in Northern Border Pipeline Company (Northern Border Pipeline) to TC PipeLines Intermediate Limited Partnership (TC PipeLines), an affiliate of TransCanada, for approximately $297 million. Our ONEOK Partners segment recorded a gain on sale of approximately $113.9 million in the second quarter of 2006. We and TC PipeLines each now own a 50 percent interest in Northern Border Pipeline, with an affiliate of TransCanada becoming operator of the pipeline in April 2007. Under Statement of Financial Accounting Standards No. 94, Consolidation of All Majority Owned Subsidiaries, a majority-owned subsidiary is not consolidated if control is likely to be temporary or if it does not rest with the majority owner. Neither we nor TC PipeLines will have control of Northern Border Pipeline, as control will be shared equally through Northern Border Pipeline s Management Committee. Following the completion of the transactions, ONEOK Partners no longer consolidates Northern Border Pipeline in its financial statements. Instead, its interest in Northern Border Pipeline is accounted for as an investment under the equity method. This change is reflected by ONEOK Partners retroactive to January 1, 2006. This change does not affect previously reported net income or shareholders equity. TransCanada paid us $10 million for expenses associated with the transfer of operating responsibility of Northern Border Pipeline to them.

In April 2006, our ONEOK Partners segment acquired a 66 $^{2}/3$ percent interest in Guardian Pipeline L.L.C. (Guardian Pipeline) for approximately $77 million, increasing our ownership interest to 100 percent. ONEOK Partners used borrowings from its credit facility to fund the acquisition of the additional interest in Guardian Pipeline. Following the completion of the transaction, we consolidated Guardian Pipeline in our consolidated financial statements. This change is retroactive to January 1, 2006. Prior to the transaction, our 33 $^{1}/3$ interest in Guardian Pipeline was accounted for as an investment under the equity method.

In July 2005, we completed our acquisition of the natural gas liquids businesses owned by Koch Industries, Inc. (Koch) for approximately $1.33 billion, net of working capital and cash received. This transaction included Koch Hydrocarbon, L.P. s entire mid-continent natural gas liquids fractionation business; Koch Pipeline Company, L.P. s natural gas liquids pipeline distribution systems; Chisholm Pipeline Holdings, Inc., which has a 50 percent ownership interest in Chisholm Pipeline Company; MBFF, L.P., which owns an 80 percent interest in the 160,000 barrel per day fractionator at Mont Belvieu, Texas; and Koch VESCO Holdings, L.L.C., an entity that owns a 10.2 percent interest in Venice Energy Services Company, L.L.C. (VESCO). These assets are included in our consolidated financial statements beginning on July 1, 2005.

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The unaudited pro forma information in the table below presents a summary of our consolidated results of operations as if our acquisition of the Koch natural gas liquids businesses had occurred at the beginning of the periods presented. The results do not necessarily reflect the results that would have been obtained if our acquisition had actually occurred on the dates indicated or results that may be expected in the future.

	Pro Forma	Pro Forma
	Three Months Ended June 30, 2005	Six Months Ended June 30, 2005
	(Thousand of dollars, except per share amounts)	
Net margin	$ 263,914	$ 671,452
Net income	$ 26,148	$ 139,928
Net earnings per share, basic	$ 0.26	$ 1.37
Net earnings per share, diluted	$ 0.24	$ 1.27

C. DISCONTINUED OPERATIONS

In September 2005, we completed the sale of our Production segment to TXOK Acquisition, Inc. for $645 million, before adjustments, and recognized a pre-tax gain on the sale of approximately $240.3 million. The gain reflects the cash received less adjustments, selling expenses and the net book value of the assets sold. The proceeds from the sale were used to reduce debt. Our Board of Directors authorized management to pursue the sale during July 2005, which resulted in our Production segment being classified as held for sale beginning July 1, 2005.

Additionally, in the third quarter of 2005, we made the decision to sell our Spring Creek power plant and exit the power generation business. We entered into an agreement to sell our Spring Creek power plant to Westar Energy, Inc. for approximately $53 million. The transaction requires FERC approval and is expected to be completed in 2006. The 300-megawatt gas-fired merchant power plant was built in 2001 to supply electrical power during peak periods using gas-powered turbine generators. The proceeds from this sale will be used to purchase other assets, repurchase ONEOK shares or retire debt.

These components of our business are accounted for as discontinued operations in accordance with Statement of Financial Accounting Standards No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets (Statement 144). Accordingly, amounts in our financial statements and related notes for all periods shown relating to our Production segment and our power generation business are reflected as discontinued operations.

The amounts of revenue, costs and income taxes reported in discontinued operations are as follows.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2006	2005	2006	2005
	(Thousands of dollars)			
Operating revenues	**$ 3,315**	$ 40,330	**$ 5,164**	$ 86,153
Cost of sales and fuel	**2,386**	6,977	**3,504**	23,631
Net margin	**929**	33,353	**1,660**	62,522
Operating costs	**266**	8,412	**492**	16,089
Depreciation, depletion and amortization		8,492		16,772
Operating income	**663**	16,449	**1,168**	29,661
Other income (expense), net		5		(1)
Interest expense	**904**	3,910	**1,808**	7,622
Income taxes	**(91)**	4,766	**(243)**	8,374
Income (loss) from operations of discontinued components, net	**$ (150)**	$ 7,778	**$ (397)**	$ 13,664

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The following table discloses the major classes of discontinued assets and liabilities included in our Consolidated Balance Sheet for the periods indicated.

	June 30, 2006	December 31, 2005
	(Thousands of dollars)	
Assets		
Property, plant and equipment, net	**$ 50,937**	$ 50,937
Other assets	**12,671**	12,974
Assets of Discontinued Component	**$ 63,608**	$ 63,911
Liabilities		
Accounts payable	**$ 712**	$ 1,043
Other liabilities	**1,647**	1,421
Liabilities of Discontinued Component	**$ 2,359**	$ 2,464

D. ENERGY MARKETING AND RISK MANAGEMENT ACTIVITIES AND FAIR VALUE OF FINANCIAL INSTRUMENTS

Accounting Treatment - We account for derivative instruments and hedging activities in accordance with Statement of Financial Accounting Standards No. 133, Accounting for Derivative Instruments and Hedging Activities (Statement 133). Under Statement 133, entities are required to record all derivative instruments 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, the reason for holding it. If the derivative instrument does not qualify or is not designated as part of a hedging relationship, we account for changes in fair value of the derivative instrument in earnings as they occur. We record changes in the fair value of derivative instruments that are considered held for trading purposes as energy trading revenues, net and derivative instruments considered not held for trading purposes as cost of sales and fuel in our Consolidated Statements of Income. If certain conditions are met, entities may elect to designate a derivative instrument as a hedge of exposure to changes in fair values, cash flows or foreign currencies. For hedges of exposure to changes in fair value, 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. The difference between the change in fair value of the derivative instrument and the change in fair value of the hedged item represents hedge ineffectiveness. For hedges of exposure to changes in cash flow, the effective portion of the gain or loss on the derivative instrument is reported initially as a component of other comprehensive loss and is subsequently reclassified into earnings when the forecasted transaction affects earnings.

As required by Statement 133, we formally document all relationships between hedging instruments and hedged items, as well as risk management objectives, strategies for undertaking various hedge transactions and methods for assessing and testing correlation and hedge ineffectiveness. We specifically identify the asset, liability, firm commitment or forecasted transaction that has been designated as the hedged item. We assess the effectiveness of hedging relationships, both at the inception of the hedge and on an ongoing basis.

Refer to Note D of the Notes to Consolidated Financial Statements in our Annual Report on Form 10-K for the year ended December 31, 2005, for additional discussion.

Fair Value Hedges

In prior years, we terminated various interest rate swap agreements. The net savings from the termination of these swaps is being recognized in interest expense over the terms of the debt instruments originally hedged. Net interest expense savings for the six months ended June 30, 2006 for all terminated swaps was $5.1 million and the remaining net savings for all terminated swaps will be recognized over the following periods:

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	ONEOK	ONEOK Partners	Total
	(Millions of dollars)		
Remainder of 2006	$ 3.3	$ 1.6	$ 4.9
2007	6.6	3.4	10.0
2008	6.6	3.6	10.2
2009	5.6	3.8	9.4
2010	5.5	4.0	9.5
Thereafter	15.3	0.8	16.1

Currently, $490 million of fixed rate debt is swapped to floating. Interest on the floating rate debt is based on both the three- and six-month London InterBank Offered Rate (LIBOR), depending upon the swap. Based on the actual performance through June 30, 2006, the weighted average interest rate on the $490 million of debt increased from 6.64 percent to 7.18 percent. At June 30, 2006, we recorded a net liability of $30.2 million to recognize the interest rate swaps at fair value. Long-term debt was decreased by $30.2 million to recognize the change in the fair value of the related hedged liability.

Our Energy Services segment uses basis swaps to hedge the fair value of certain firm transportation commitments. Net gains or losses from the fair value hedges are recorded to cost of sales and fuel. The ineffectiveness related to these hedges was $3.9 million for the three months ended June 30, 2006, and was immaterial for the three months ended June 30, 2005. The ineffectiveness related to these hedges was $9.3 million for the six months ended June 30, 2006 and was immaterial for the six months ended June 30, 2005.

Cash Flow Hedges

Our Energy Services segment uses futures and swaps to hedge the cash flows associated with our anticipated purchases and sales of natural gas and cost of fuel used in transportation of natural gas. Accumulated other comprehensive loss at June 30, 2006, includes losses of approximately $28.9 million, net of tax, related to these hedges that will be realized within the next 35 months. If prices remain at current levels, we will recognize $4.1 million in net gains over the next 12 months, and we will recognize net losses of $33.0 million thereafter.

Net gains and losses are reclassified out of accumulated other comprehensive loss to operating revenues or cost of sales and fuel when the anticipated purchase or sale occurs. Ineffectiveness related to our cash flow hedges resulted in a gain of approximately $2.3 million and $9.5 million for the three and six months ended June 30, 2006, respectively. Ineffectiveness related to these cash flow hedges for the three and six months ended June 30, 2005, resulted in a gain of approximately $0.6 million and a loss of approximately $0.1 million, respectively. There were no losses during the six months ended June 30, 2006 and 2005, respectively, due to the discontinuance of cash flow hedge treatment.

Our ONEOK Partners segment periodically enters into derivative instruments to hedge the cash flows associated with our exposure to changes in the price of natural gas, NGLs and condensate. If prices remain at current levels, our ONEOK Partners segment expects to reclassify losses of approximately $2.2 million from accumulated other comprehensive loss to the income statement within the next six months.

Our Distribution segment also uses derivative instruments from time to time. Gains or losses associated with these derivative instruments are included in, and recoverable through, the monthly purchased gas adjustment. At June 30, 2006, Kansas Gas Service had derivative instruments in place to hedge the cost of natural gas purchases for 2.7 Bcf, which represents part of its gas purchase requirements for the 2006/2007 winter heating months. At June 30, 2006, Texas Gas Service had derivative instruments in place to hedge the cost of natural gas purchases for 1.0 Bcf, which represents part of its gas purchase requirements for the 2006/2007 winter heating months.

E. GOODWILL AND INTANGIBLES

Goodwill - In accordance with EITF 04-5, we consolidated our ONEOK Partners segment beginning January 1, 2006.

We performed our annual test of goodwill as of January 1, 2006, for our Energy Services segment, Distribution segment, and portions of our ONEOK Partners segment and there was no impairment indicated. The annual test for goodwill for the remaining portions of our ONEOK Partners segment was performed as of October 1, 2005, and there was no impairment indicated.

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During the second quarter of 2006, ONEOK Partners assessed its Black Mesa Pipeline coal slurry pipeline operation. Its evaluation of the Black Mesa Pipeline indicated a goodwill and asset impairment of $8.4 million and $3.4 million, respectively, which were recorded as depreciation and amortization in the second quarter 2006. The reduction to our net income, net of minority interest and income taxes, was $3.0 million.

ONEOK Partners also assessed the impact of the sale of its 20 percent partnership interest in Northern Border Pipeline in April 2006 and the acquisition of a 66 2/3 percent interest in Guardian Pipeline in April 2006 on goodwill and concluded that there was no impairment indicated. The following table reflects the changes in the carrying amount of goodwill for the periods indicated.

	Balance December 31, 2005	Additions	Adjustments	Adoption of EITF 04-5	Balance June 30, 2006
			(Thousands of dollars)		
Distribution	$ 157,953	$	$	$	**$ 157,953**
Energy Services	10,255				**10,255**
ONEOK Partners	211,087	**9,552**	**(2,001)**	**184,843**	**403,481**
Other	1,099				**1,099**
Goodwill	$ 380,394	**$ 9,552**	**$ (2,001)**	**$ 184,843**	**$ 572,788**

Goodwill additions in our ONEOK Partners segment include $7.5 million related to our consolidation of Guardian Pipeline, of which $5.7 million relates to the purchase of the additional 66 2/3 percent interest, and $2.1 million related to the incremental one percent acquisition in an affiliate that was previously accounted for under the equity method. Following our acquisition of the additional one percent interest, we began consolidating the entity.

Goodwill adjustments include an $8.4 million reduction related to the Black Mesa Pipeline impairment, offset by $6.4 million in purchase price adjustments. See Note K for discussion of Black Mesa Pipeline impairment.

The adoption of EITF 04-5 resulted in $152.8 million of ONEOK Partners goodwill being included in our consolidated balance sheet and $32.0 million of goodwill which was previously recorded as our equity investment in ONEOK Partners.

In accordance with Accounting Principal Board Opinion No. 18, The Equity Method of Accounting for Investments in Common Stock, any premium paid by an investor, which is comparable to goodwill, must be identified. For the investments we account for under the equity method of accounting, this premium or excess cost over underlying fair value of net assets is referred to as equity method goodwill. At June 30, 2006, $185.6 million of equity method goodwill was included in our investment in unconsolidated affiliates on our consolidated balance sheet.

Intangibles - Intangible assets primarily relate to contracts acquired through our acquisition of the natural gas liquids businesses from Koch currently held in our ONEOK Partners segment which are being amortized over an aggregate weighted-average period of 40 years. The aggregate amortization expense for each of the next five years is estimated to be approximately $7.7 million. Amortization expense for intangible assets for the three and six months ended June 30, 2006 was $1.9 million and $3.8 million, respectively. The following table reflects the gross carrying amount and accumulated amortization of intangibles at June 30, 2006 and December 31, 2005.

	Gross Intangibles	Accumulated Amortization	Net Intangibles
		(Thousands of dollars)	
June 30, 2006	**$ 462,214**	**$ (7,666)**	**$ 454,548**
December 31, 2005	$ 306,650	$ (3,833)	$ 302,817

The adoption of EITF 04-5 resulted in the addition of $123.0 million of intangibles, which was previously recorded as our equity investment in ONEOK Partners. An additional $32.5 million was recorded related to the additional general partner incentive distribution rights acquired through the purchase of TransCanada s 17.5 percent general partner interest. The intangibles have an indefinite life and accordingly, are not subject to amortization, but are subject to impairment testing.

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F. COMPREHENSIVE INCOME

The tables below give an overview of comprehensive income for the periods indicated.

	Three Months Ended June 30,			
	2006		2005	
	(Thousands of dollars)			
Net income		**$ 77,795**		$ 24,852
Unrealized gains (losses) on derivative instruments	**$ 5,361**		$ (3,421)	
Realized gains (losses) in net income	**(74,257)**		1,901	
Other comprehensive loss before taxes	**(68,896)**		(1,520)	
Income tax benefit on other comprehensive loss	**25,700**		588	
Other comprehensive loss		**(43,196)**		(932)
Comprehensive income		**$ 34,599**		$ 23,920

	Six Months Ended June 30,			
	2006		2005	
	Thousands of dollars			
Net income		**$ 207,287**		$ 132,516
Unrealized gains (losses) on derivative instruments	**$ 86,196**		$ (84,548)	
Unrealized holding losses arising during the period			(606)	
Realized losses in net income	**(62,975)**		(10,018)	
Other comprehensive income (loss) before taxes	**23,221**		(95,172)	
Income tax benefit (provision) on other comprehensive income (loss)	**(9,931)**		36,800	
Other comprehensive income (loss)		**13,290**		(58,372)
Comprehensive income		**$ 220,577**		$ 74,144

Accumulated other comprehensive loss at June 30, 2006 and 2005, primarily includes unrealized gains and losses on derivative instruments and minimum pension liability adjustments.

G. CAPITAL STOCK

Stock Repurchase Plan - A total of 7.5 million shares have been repurchased to date pursuant to a plan approved by our Board of Directors. The plan, originally approved by our Board of Directors in January 2005, was extended in November 2005 to allow us to purchase up to a total of 15 million shares of our common stock on or before November 2007. During the six months ended June 30, 2006, we did not repurchase shares of our common stock under this plan.

Dividends - Quarterly dividends paid on our common stock for shareholders of record as of the close of business on January 31, 2006 and May 1, 2006, were $0.28 per share and $0.30 per share, respectively. Additionally, a quarterly dividend of $0.32 per share was declared in July, payable in the third quarter of 2006.

Equity Units - On February 16, 2006, we successfully settled our 16.1 million equity units with 19.5 million shares of our common stock. Of this amount, 8.3 million shares were issued from treasury stock and approximately 11.2 million shares were newly issued. Holders of the equity units received 1.2119 shares of our common stock for each equity unit they owned. The number of shares that we issued for each stock purchase contract was determined based on our average closing price over the 20 trading day period ending on the third trading day prior to February 16, 2006. With the settlement, we received $402.4 million in cash, which was used to pay down our short-term bridge financing agreement.

H. LINES OF CREDIT AND SHORT-TERM NOTES PAYABLE

ONEOK Short-term Bridge Financing Agreement - On July 1, 2005, we borrowed $1.0 billion under a new short-term bridge financing agreement to assist in financing our acquisition of assets from Koch. We funded the remaining acquisition cost through our commercial paper program. During the three months ended March 31, 2006, we repaid the remaining $900 million under our short-term bridge financing agreement.

ONEOK Five-year Credit Agreement - In April 2006, we amended ONEOK s 2004 $1.2 billion five-year credit agreement to accommodate the transaction with ONEOK Partners. This amendment included changes to the material adverse effect representation, the burdensome agreement representation and the covenant regarding maintenance of control of ONEOK Partners.

In July 2006, we amended and restated ONEOK s 2004 $1.2 billion five-year credit agreement. The new amendment included revised pricing, an extension of the maturity date from 2009 to 2011, an option for additional extensions of the maturity date with the consent of the lenders, and an option to request an increase in the commitments of the lenders of up to an additional $500 million. The interest rate applicable to extensions of credit is based, at our election, on either (i) the higher of prime or one-half of one percent above the Federal Funds Rate, which is the rate that banks charge each other for the overnight borrowing of funds, or (ii) the Eurodollar rate plus a set number of basis points based on our current long-term unsecured debt ratings. ONEOK s five-year credit agreement includes a $500 million sublimit for the issuance of standby letters of credit. ONEOK s five-year credit agreement also has a limitation on our debt-to-capital ratio, which may not exceed 67.5 percent at the end of any calendar quarter, a covenant that we maintain the power to control the management and policies of ONEOK Partners, and a limit on new investments in master limited partnerships. The debt covenant calculations in ONEOK s five-year credit agreement exclude the debt of ONEOK Partners. At June 30, 2006, we had no borrowings outstanding under this agreement.

ONEOK Partners - In March 2006, ONEOK Partners entered into a five-year $750 million amended and restated revolving credit agreement (2006 Partnership Credit Agreement) with certain financial institutions and terminated its $500 million revolving credit agreement. At June 30, 2006, ONEOK Partners had borrowings of $311.0 million under the 2006 Partnership Credit Agreement and a $15.0 million letter of credit outstanding at a weighted average interest rate of 5.75 percent.

In April 2006, ONEOK Partners entered into a $1.1 billion 364-day credit agreement (Bridge Facility) with a syndicate of banks and borrowed $1.05 billion to finance a portion of its purchase of certain assets comprising our former Gathering and Processing, Natural Gas Liquids, and Pipelines and Storage segments. Amounts outstanding under the Bridge Facility must be paid in full on or before April 5, 2007. ONEOK Partners must make mandatory prepayments on any outstanding balance under the Bridge Facility with the net cash proceeds of any asset disposition in excess of $10 million or from the net cash proceeds received from any issuance of equity or debt having a term greater than one year. The interest rate applied to amounts under the Bridge Facility may, at ONEOK Partners option, be the lender s base rate or an adjusted LIBOR plus a spread that is based upon its long-term unsecured debt ratings. At June 30, 2006, the weighted average interest rate for borrowings under the Bridge Facility was 5.67 percent.

Under the 2006 Partnership Credit Agreement and the Bridge Facility, ONEOK Partners is required to comply with certain financial, operational and legal covenants. Among other things, these requirements include:

- maintaining a ratio of EBITDA (net income plus minority interests in net income, interest expense, income taxes, and depreciation and amortization) to interest expense of greater than 3 to 1 and
- maintaining a ratio of indebtedness to adjusted EBITDA (EBITDA adjusted for pro forma operating results of acquisitions made during the year) of no more than 4.75 to 1.

If ONEOK Partners consummates one or more acquisitions in which the aggregate purchase price is $25 million or more, the allowable ratio of indebtedness to adjusted EBITDA will be increased to 5.25 to 1 for two calendar quarters following the acquisition. Upon any breach of these covenants, amounts outstanding under the 2006 Partnership Credit Agreement and the Bridge Facility may become immediately due and payable.

Guardian Pipeline - ONEOK Partners acquisition of an additional 66 2/3 percent interest in Guardian Pipeline resulted in the inclusion of outstanding amounts under Guardian Pipeline s revolving note agreement in our consolidated balance sheet. The revolving note agreement permits Guardian Pipeline to choose the prime commercial lending rate or LIBOR as the interest rate on its outstanding borrowings, specify the portion of the borrowings to be covered by the specific interest rate options and specify the interest rate period. At June 30, 2006, Guardian

Pipeline had $3.0 million outstanding under its $10 million revolving note agreement at an interest rate of 6.60 percent due November 8, 2007.

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Guardian Pipeline s revolving note agreement contains financial covenants (1) restricting the incurrence of other indebtedness by Guardian Pipeline and (2) requiring the maintenance of a minimum interest coverage ratio and a maximum debt ratio. The agreements require the maintenance of a ratio of (1) EBITDA (net income plus interest expense, income taxes, and depreciation and amortization) to interest expense of not less than 1.5 to 1 and (2) total indebtedness to EBITDA of not greater than 6.75 to 1. Upon any breach of these covenants, amounts outstanding under the note agreements may become due and payable immediately.

General - ONEOK s five-year credit agreement and ONEOK Partners 2006 Partnership Credit Agreement and $1.1 billion 364-day credit agreements contain customary affirmative and negative covenants, including covenants relating to liens, investments, fundamental changes in our businesses, changes in the nature of our businesses, transactions with affiliates, the use of proceeds and a covenant that prevents us from restricting our subsidiaries ability to pay dividends. At June 30, 2006, ONEOK and ONEOK Partners were in compliance with all credit agreement covenants.

At June 30, 2006, ONEOK had $143.5 million in letters of credit and no commercial paper outstanding. At June 30, 2006, ONEOK Partners had $15.0 million in letters of credit outstanding.

I. LONG-TERM DEBT

The following table sets forth our long-term debt for the periods indicated.

	June 30, 2006	December 31, 2005
	(Thousands of dollars)	
ONEOK		
5.51% due 2008	**$ 402,303**	$ 402,303
6.0% due 2009	**100,000**	100,000
7.125% due 2011	**400,000**	400,000
5.2% due 2015	**400,000**	400,000
6.4% due 2019	**92,760**	92,921
6.5% due 2028	**92,020**	92,246
6.875% due 2028	**100,000**	100,000
6.0% due 2035	**400,000**	400,000
Other	**5,489**	5,732
	1,992,572	1,993,202
ONEOK Partners		
8.875% due 2010	**250,000**	
7.10% due 2011	**225,000**	
	475,000	
Guardian		
Average 7.85%, due 2022	**151,537**	
Total long-term notes payable	**2,619,109**	1,993,202
Change in fair value of hedged debt	**29,946**	39,211
Unamortized debt premium	**(250)**	(1,797)
Current maturities	**(18,485)**	(6,546)
Long-term debt	**$ 2,630,320**	$ 2,024,070

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As of June 30, 2006, current maturities outstanding are $6.6 million for ONEOK and $11.9 million for Guardian Pipeline. The aggregate maturities of long-term debt outstanding for years 2007 through 2010 are shown below.

	ONEOK	ONEOK Partners	Guardian	Total
		(Millions of dollars)		
2007	$ 6.6	$	$ 11.9	$ 18.5
2008	408.9		11.9	420.8
2009	107.5		11.9	119.4
2010	6.3	250.0	11.9	268.2

Additionally, $184.8 million of ONEOK s debt is callable at par at our option from now until maturity, which is 2019 for $92.8 million and 2028 for $92.0 million. Certain debt agreements have negative covenants that relate to liens and sale/leaseback transactions.

Guardian Pipeline Master Shelf Agreement - ONEOK Partners acquisition of an additional 66 2/3 percent interest in Guardian Pipeline resulted in the inclusion of $151.5 million of debt in our consolidated balance sheet. The senior notes were issued under a master shelf agreement with certain financial institutions. Principal payments are due annually through 2022. Interest rates on the notes range from 7.61 percent to 8.27 percent, with an average rate of 7.85 percent. Guardian Pipeline s master shelf agreement contains financial covenants which are the same as Guardian Pipeline s revolving note agreement, as described in Note H.

J. EMPLOYEE BENEFIT PLANS

The tables below provide the components of net periodic benefit cost for our pension and other postretirement benefit plans.

	Pension Benefits Three Months Ended June 30,		Pension Benefits Six Months Ended June 30,	
	2006	**2005**	**2006**	**2005**
	(Thousands of dollars)			
Components of Net Periodic Benefit Cost				
Service cost	**$ 5,267**	$ 4,941	**$ 10,532**	$ 9,882
Interest cost	**10,871**	10,758	**21,742**	21,516
Expected return on assets	**(14,396)**	(14,927)	**(28,794)**	(29,854)
Amortization of unrecognized prior service cost	**378**	361	**756**	722
Amortization of loss	**3,353**	2,126	**6,708**	4,252
Net periodic benefit cost	**$ 5,473**	$ 3,259	**$ 10,944**	$ 6,518

	Postretirement Benefits Three Months Ended June 30,		Postretirement Benefits Six Months Ended June 30,	
	2006	**2005**	**2006**	**2005**
	(Thousands of dollars)			
Components of Net Periodic Benefit Cost				
Service cost	**$ 1,583**	$ 1,765	**$ 3,166**	$ 3,530
Interest cost	**3,539**	3,567	**7,078**	7,134
Expected return on assets	**(1,141)**	(1,086)	**(2,282)**	(2,172)
Amortization of unrecognized net asset at adoption	**797**	864	**1,595**	1,728
Amortization of unrecognized prior service cost	**(571)**	118	**(1,143)**	236
Amortization of loss	**2,271**	1,617	**4,542**	3,234
Net periodic benefit cost	**$ 6,478**	$ 6,845	**$ 12,956**	$ 13,690

Contributions - For the six months ended June 30, 2006, contributions of $0.8 million and $14.6 million were made to our pension plan and other postretirement benefit plan, respectively. For 2006, we anticipate total contributions to our defined benefit pension plan and postretirement benefit plan to be $1.5 million and $17.3 million, respectively. Our pay-as-you-go other

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postretirement benefit plan costs were $5.2 million for the six months ended June 30, 2006, and we expect our total pay-as-you-go costs for 2006 to be $14.0 million.

K. COMMITMENTS AND CONTINGENCIES

Leases - Our operating leases include a gas processing plant, office buildings, vehicles and equipment. The following table sets forth the future minimum lease payments under non-cancelable operating leases for each of the following years.

	ONEOK	ONEOK Partners	Total
	(Millions of dollars)		
Remainder of 2006	$ 24.0	$ 2.3	$ 26.3
2007	32.7	3.1	35.8
2008	30.8	2.3	33.1
2009	28.3	0.9	29.2
2010	26.1	0.8	26.9

The amounts in the ONEOK column above include the minimum lease payments relating to the lease of a gas processing plant for which we have a liability as a result of uneconomic lease terms.

Environmental - We are subject to multiple environmental laws and regulations affecting many aspects of present and future operations, including air emissions, water quality, wastewater discharges, solid wastes and hazardous material and substance management. These laws and regulations generally require us to obtain and comply with a wide variety of environmental registrations, licenses, permits, inspections and other approvals. Failure to comply with these laws, regulations, permits and licenses may expose us to fines, penalties and/or interruptions in our operations that could be material to the results of operations. If an accidental leak or spill of hazardous materials occurs from our lines or facilities, in the process of transporting natural gas or NGLs, or at any facility that we own, operate or otherwise use, we could be held jointly and severally liable for all resulting liabilities, including investigation and clean up costs, which could materially affect our results of operations and cash flows. In addition, emission controls required under the Federal Clean Air Act and other similar federal and state laws could require unexpected capital expenditures at our facilities. We cannot assure that existing environmental regulations will not be revised or that new regulations will not be adopted or become applicable to us. Revised or additional regulations that result in increased compliance costs or additional operating restrictions, particularly if those costs are not fully recoverable from customers, could have a material adverse effect on our business, financial condition and results of operations.

We own or retain legal responsibility for the environmental conditions at 12 former manufactured gas sites in Kansas. Our expenditures for environmental evaluation and remediation to date have not been significant in relation to the results of operations, and there have been no material effects upon earnings during 2006 related to compliance with environmental regulations. See Note K in our Annual Report on Form 10-K for the year ended December 31, 2005, for additional discussion. There has been no material change to the status of the manufactured gas sites since December 31, 2005.

Black Mesa Pipeline - On December 31, 2005, our ONEOK Partners segment s Black Mesa Pipeline was temporarily shut down due to the expiration of its coal slurry transportation contract. Pending resolution of the issues confronting Mohave Generating Station, its owners requested that Black Mesa Pipeline remain prepared to resume coal slurry operations. In accordance with an agreement reached with a co-owner of Mohave Generating Station, Black Mesa Pipeline was reimbursed for its standby costs. In June 2006, a co-owner of Mohave Generating Station announced that the owners would no longer pursue resumption of plant operations. As a result Black Mesa Pipeline is no longer receiving reimbursement for its standby costs. Accordingly, ONEOK Partners assessed its coal slurry pipeline operation in accordance with its accounting policies related to the goodwill and asset impairment. Its evaluation of the Black Mesa Pipeline indicated a goodwill and asset impairment of $8.4 million and $3.4 million, respectively, which were recorded as depreciation and amortization in the second quarter of 2006. The reduction to our net income, net of minority interest and income taxes, was $3.0 million.

Other - We are a party to other litigation matters and claims, which are normal in the course of our operations. While the results of litigation and claims cannot be predicted with certainty, we believe the final outcome of such matters will not have a material adverse effect on our consolidated results of operations, financial position or liquidity.

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L. SEGMENTS

Our business segments and the accounting policies of our business segments are the same as those described in Note M and the Summary of Significant Accounting Policies in our Annual Report on Form 10-K for the year ended December 31, 2005, with the exception of the segments described below. Our Distribution segment is comprised of regulated public utilities. Intersegment gross sales are recorded on the same basis as sales to unaffiliated customers. Corporate overhead costs relating to a reportable segment have been allocated for the purpose of calculating operating income. We have no single external customer from which we received 10 percent or more of our consolidated gross revenues for the periods covered by this Quarterly Report on Form 10-Q.

Effective January 1, 2006, we were required to consolidate ONEOK Partners operations in our consolidated financial statements under EITF 04-5 and we elected to use the prospective method. In April 2006, we sold certain assets comprising our former Gathering and Processing, Natural Gas Liquids, and Pipelines and Storage segments to ONEOK Partners for approximately $3 billion, including $1.35 billion in cash before adjustments, and approximately 36.5 million Class B limited partner units in ONEOK Partners. These former segments are now included in our ONEOK Partners segment. All periods presented have been restated to reflect this change. Our ONEOK Partners segment gathers, processes, transports and stores natural gas; gathers, treats, stores, and fractionates NGLs and provides NGL gathering and distribution services. The primary customers for our ONEOK Partners segment include major and independent oil and gas production companies, gathering and processing companies, petrochemical and refining companies, natural gas producers, marketers, industrial facilities, local distribution companies and electric power generating plants.

In September 2005, we completed the sale of our Production segment. Additionally, in the third quarter of 2005, we made the decision to sell our Spring Creek power plant and exit the power generation business. These components of our business are accounted for as discontinued operations in accordance with Statement 144. Our Production segment is included in our Other segment in the 2005 tables below, while our power generation business is included in our Energy Services segment in the tables below.

The following tables set forth certain selected financial information for our operating segments for the periods indicated.

Three Months Ended June 30, 2006	Distribution	Energy Services	ONEOK Partners	Other and Eliminations	Total
			(Thousands of dollars)		
Sales to unaffiliated customers	**$ 317,109**	**$ 1,103,904**	**$ 998,070**	**$ 8,712**	**$ 2,427,795**
Energy trading revenues, net		**4,112**			**4,112**
Intersegment sales		**86,763**	**161,280**	**(248,043)**	
Total Revenues	**$ 317,109**	**$ 1,194,779**	**$ 1,159,350**	**$ (239,331)**	**$ 2,431,907**
Net margin	**$ 119,631**	**$ 64,327**	**$ 215,200**	**$ 2,491**	**$ 401,649**
Operating costs	**91,524**	**10,304**	**77,199**	**1,047**	**180,074**
Depreciation, depletion and amortization	**27,161**	**529**	**39,282**	**122**	**67,094**
Gain on sale of assets			**113,877**	**1,027**	**114,904**
Operating income	**$ 946**	**$ 53,494**	**$ 212,596**	**$ 2,349**	**$ 269,385**
Loss from operations of discontinued components	**$**	**$ (150)**	**$**	**$**	**$ (150)**
Income from equity investments	**$**	**$**	**$ 18,075**	**$**	**$ 18,075**
Capital expenditures	**$ 41,017**	**$**	**$ 35,799**	**$ 1,106**	**$ 77,922**

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Three Months Ended June 30, 2005	Distribution	Energy Services	ONEOK Partners	Other and Eliminations	Total
		(Thousands of dollars)			
Sales to unaffiliated customers	$ 339,794	$ 1,383,473	$ 263,140	$ 103,167	$ 2,089,574
Energy trading revenues, net		(8,784)			(8,784)
Intersegment sales		171,257	181,409	(352,666)	
Total Revenues	$ 339,794	$ 1,545,946	$ 444,549	$ (249,499)	$ 2,080,790
Net margin	$ 106,492	$ 11,248	$ 114,298	$ (2,060)	$ 229,978
Operating costs	83,477	7,783	44,898	(2,035)	134,123
Depreciation, depletion and amortization	30,014	569	12,978	112	43,673
Operating income	$ (6,999)	$ 2,896	$ 56,422	$ (137)	$ 52,182
Income (loss) from operations of discontinued components	$	$ (593)	$	$ 8,371	$ 7,778
Income from equity investments	$	$	$ 337	$ 2,496	$ 2,833
Capital expenditures	$ 36,323	$ 132	$ 14,035	$ 13,885	$ 64,375

Six Months Ended June 30, 2006	Distribution	Energy Services	ONEOK Partners	Other and Eliminations	Total
		(Thousands of dollars)			
Sales to unaffiliated customers	**$ 1,104,352**	**$ 3,123,799**	**$ 1,802,613**	**$ 145,300**	**$ 6,176,064**
Energy trading revenues, net		**11,482**			**11,482**
Intersegment sales		**282,650**	**526,566**	**(809,216)**	
Total Revenues	**$ 1,104,352**	**$ 3,417,931**	**$ 2,329,179**	**$ (663,916)**	**$ 6,187,546**
Net margin	**$ 315,072**	**$ 167,481**	**$ 420,141**	**$ 3,485**	**$ 906,179**
Operating costs	**182,037**	**19,564**	**155,802**	**1,803**	**359,206**
Depreciation, depletion and amortization	**55,314**	**1,104**	**66,752**	**250**	**123,420**
Gain on sale of assets			**114,865**	**1,027**	**115,892**
Operating income	**$ 77,721**	**$ 146,813**	**$ 312,452**	**$ 2,459**	**$ 539,445**
Income (loss) from operations of discontinued components	**$**	**$ (397)**	**$**	**$**	**$ (397)**
Income from equity investments	**$**	**$**	**$ 49,954**	**$**	**$ 49,954**
Total assets	**$ 2,628,453**	**$ 1,689,530**	**$ 5,040,491**	**$ 817,630**	**$ 10,176,104**
Capital expenditures	**$ 77,692**	**$**	**$ 53,575**	**$ 1,326**	**$ 132,593**

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Six Months Ended June 30, 2005	Distribution	Energy Services	ONEOK Partners	Other and Eliminations	Total
			(Thousands of dollars)		
Sales to unaffiliated customers	$ 1,117,924	$ 2,919,829	$ 537,701	$ 211,968	$ 4,787,422
Energy trading revenues, net		408			408
Intersegment sales		377,165	359,040	(736,205)	
Total Revenues	$ 1,117,924	$ 3,297,402	$ 896,741	$ (524,237)	$ 4,787,830
Net margin	$ 307,712	$ 72,443	$ 222,785	$ (2,566)	$ 600,374
Operating costs	174,105	15,826	88,698	(3,705)	274,924
Depreciation, depletion and amortization	60,003	970	25,692	224	86,889
Operating income	$ 73,604	$ 55,647	$ 108,395	$ 915	$ 238,561
Income (loss) from operations of discontinued components	$	$ (1,441)	$	$ 15,105	$ 13,664
Income from equity investments	$	$	$ 636	$ 5,013	$ 5,649
Total assets	$ 2,660,904	$ 1,300,637	$ 1,899,394	$ 835,935	$ 6,696,870
Capital expenditures	$ 64,009	$ 159	$ 25,155	$ 33,364	$ 122,687

M. SUPPLEMENTAL CASH FLOW INFORMATION

The following table sets forth supplemental information with respect to our cash flow for the periods indicated.

	Six Months Ended June 30, 2006	2005
	(Thousands of dollars)	
Cash paid during the period		
Interest, including amounts capitalized	**$ 125,670**	$ 104,149
Income taxes	**$ 159,628**	$ 55,260

Cash paid for interest includes swap terminations and treasury rate-lock terminations of $22.6 million for the six months ended June 30, 2005.

N. SHARE-BASED PAYMENT PLANS

General

Effective January 1, 2006, we adopted Statement 123R. See Note A for additional information. We used a three percent forfeiture rate for all awards outstanding based on historical forfeitures under our share-based payment plans. We use a combination of issuances from treasury and repurchases in the open market to satisfy our share-based payment obligations.

The compensation cost expensed for our share-based payment plans described below was $5.2 million for the six months ended June 30, 2006, net of tax benefit of $2.0 million. No compensation cost was capitalized for the six months ended June 30, 2006.

Cash received from the exercise of awards under all share-based payment arrangements was $3.6 million for the six months ended June 30, 2006. The actual tax benefit realized for the anticipated tax deductions of the exercise of share-based payment arrangements totaled $1.5 million for the six months ended June 30, 2006. No cash was used to settle awards granted under share-based payment arrangements.

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Share-Based Payment Plan Descriptions

The ONEOK, Inc. Long-Term Incentive Plan (the LTIP), ONEOK, Inc. Equity Compensation Plan (Equity Compensation Plan) and the ONEOK, Inc. Stock Compensation Plan for Non-Employee Directors (the DSCP) are described in Note P in our Annual Report on Form 10-K for the year ended December 31, 2005.

Stock Option Activity

The total fair value of stock options vested during the six months ended June 30, 2006, was $3.6 million. The following table sets forth the stock option activity for employees and non-employee directors for the periods indicated.

	Number of Shares	Weighted Average Exercise Price
Outstanding December 31, 2005	1,952,415	$ 22.51
Exercised	**(359,256)**	**$ 21.39**
Expired	**(2,166)**	**$ 19.39**
Restored	**115,667**	**$ 31.83**
Outstanding June 30, 2006	**1,706,660**	**$ 23.38**
Exercisable June 30, 2006	**1,582,692**	**$ 22.72**

Range of Exercise Prices	Stock Options Outstanding Number of Awards	Remaining Life (yrs)	Weighted Average Exercise Price	Aggregate Intrinsic Value (in 000 s)	Stock Options Exercisable Number of Awards	Remaining Life (yrs)	Weighted Average Exercise Price	Aggregate Intrinsic Value (in 000 s)
$13.44 to $20.16	767,172	5.51	$ 17.10	$ 12,996	765,630	5.51	$ 17.10	$ 12,970
$20.17 to $30.26	667,819	4.42	$ 26.01	$ 5,363	554,822	4.43	$ 24.98	$ 5,027
$30.27 to $35.49	271,669	3.80	$ 34.40	$	262,240	3.78	$ 34.38	$

The aggregate intrinsic value in the table above represents the total pre-tax intrinsic value based on our closing stock price of $34.04 as of June 30, 2006, that would have been received by the option holders had all option holders exercised their options as of that date.

The fair value of each option granted was estimated on the date of grant based on the Black-Scholes model using the assumptions in the table below.

	June 30, 2006
Volatility (a)	13.88% to 31.06%
Dividend Yield	2.78% to 8.93%
Risk-free Interest Rate	2.52% to 6.53%

(a) - Volatility was based on historical volatility over six months using daily stock price observations.

The expected life of outstanding options ranged from one to ten years based upon experience to date and the make-up of the optionees. As of June 30, 2006, the amount of unrecognized compensation cost related to nonvested stock options was not material.

Weighted average grant date fair value (per share)	$	5.66
Intrinsic value of options exercised (thousands of dollars)	$	3,884
Fair value of shares granted (thousands of dollars)	$	655

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Restricted Stock Activity

Awards granted in 2006 and 2003 vest over a three-year period and entitle the grantee to receive shares of our common stock. Awards granted in 2005 and 2004 entitle the grantee to receive two-thirds of the grant in our common stock and one-third of the grant in cash. The equity awards are measured at fair value as if they were vested and issued on the grant date, generally reduced by expected dividend payments, and adjusted for estimated forfeitures. The portion of the grants that are settled in cash are classified as liability awards with fair value based on the fair market value of our common stock, reduced by expected dividend payments and adjusted for estimated forfeitures, at each reporting date. The total fair value of shares vested during the six months ended June 30, 2006, was $5.7 million.

The following table sets forth activity for the restricted stock equity awards.

	Number of Shares	Weighted Average Exercise Price
Nonvested December 31, 2005	432,856	$ 19.58
Granted	**144,750**	**$ 23.82**
Released to participants	**(198,651)**	**$ 17.07**
Forfeited	**(11,261)**	**$ 20.14**
Dividends	**1,993**	**$ 27.19**
Nonvested June 30, 2006	**369,687**	**$ 22.61**

The following table sets forth activity for the restricted stock liability awards.

	Number of Shares	Weighted Average Exercise Price
Nonvested December 31, 2005	119,514	$ 22.44
Released to participants	**(4,086)**	**$ 21.55**
Forfeited	**(2,912)**	**$ 23.19**
Nonvested June 30, 2006	**112,516**	**$ 22.45**

As of June 30, 2006, there was $4.5 million of total unrecognized compensation cost related to our nonvested restricted stock awards, which is expected to be recognized over a weighted-average period of 1.5 years.

	June 30, 2006
Weighted average grant date fair value (per share)	$ 23.82
Fair value of shares granted (thousands of dollars)	$ 3,448

Performance Unit Activity

Performance unit awards granted in 2005 and 2004 entitle the grantee to receive two-thirds of the grant in shares of our common stock and one-third of the grant in cash, while awards granted in 2003 entitle the grantee to receive common stock only. These awards vest over a three-year period. The fair values of these performance units that are classified as equity awards were calculated as of the date of grant and remain fixed as equity units upon adoption of Statement 123R. The fair values of the one-third liability portion of the performance units are estimated at each reporting date based on a Monte Carlo model.

Awards granted in 2006 entitle the grantee to receive the grant in shares of our common stock. Under Statement 123R, our 2006 performance unit awards are equity awards with a market based condition, which results in the compensation cost for these awards being recognized over the requisite service period, provided that the requisite service period is rendered, regardless of when, if ever, the market condition is satisfied. The fair value of these performance units was estimated on the grant date based on a Monte Carlo model. The compensation expense on these awards will only be adjusted for changes in forfeitures. The total fair value of shares vested during the six months ended June 30, 2006, was $4.9 million.

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The following table sets forth activity for the performance unit equity awards.

	Number of Units	Weighted Average Exercise Price
Nonvested December 31, 2005	581,847	$ 21.13
Granted	**479,000**	**$ 25.98**
Released to participants	**(158,365)**	**$ 15.31**
Forfeited	**(16,324)**	**$ 23.96**
Nonvested June 30, 2006	**886,158**	**$ 24.74**

The following table sets forth the assumptions used in the valuation of the 2006 grants.

	February 19, 2006
Volatility (a)	18.80%
Dividend Yield	3.70%
Risk-free Interest Rate	4.32%

(a) - Volatility was based on historical volatility over three years using daily stock price observations.

The following tables set forth activity for the performance unit liability awards and the assumptions used in the valuations.

	Number of Units	Weighted Average Exercise Price
Nonvested December 31, 2005	212,311	$ 23.31
Released to participants	**(166)**	**$ 23.36**
Forfeited	**(7,894)**	**$ 23.89**
Nonvested June 30, 2006	**204,251**	**$ 23.29**

	January 1, 2006	June 30, 2006
Volatility (a)	19.00%	20.50%
Dividend Yield	3.70%	3.87%
Risk-free Interest Rate	4.37%	5.13%

(a) - Volatility was based on historical volatility over three years using daily stock price observations.

As of June 30, 2006, there was $14.0 million of total unrecognized compensation cost related to the nonvested performance unit awards, which is expected to be recognized over a weighted-average period of 1.8 years.

	June 30, 2006
Weighted average grant date fair value (per share)	$ 25.98
Fair value of shares granted (thousands of dollars)	$ 12,444

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O. EARNINGS PER SHARE INFORMATION

We compute earnings per common share (EPS) as described in Note Q of the Notes to Consolidated Financial Statements in our Annual Report on Form 10-K for the year ended December 31, 2005.

The following tables set forth the computations of the basic and diluted EPS for the periods indicated.

	Three Months Ended June 30, 2006		
	Income	**Shares**	**Per Share Amount**
	(Thousands, except per share amounts)		
Basic EPS from continuing operations			
Income from continuing operations available for common stock	$ 77,945	117,423	**$ 0.66**
Diluted EPS from continuing operations			
Effect of options and other dilutive securities		1,603	
Income from continuing operations available for common stock and common stock equivalents	$ 77,945	119,026	**$ 0.65**

	Three Months Ended June 30, 2005		
	Income	**Shares**	**Per Share Amount**
	(Thousands, except per share amounts)		
Basic EPS from continuing operations			
Income from continuing operations available for common stock	$ 17,074	101,143	$ 0.17
Diluted EPS from continuing operations			
Effect of dilutive securities:			
Mandatory convertible units		6,840	
Options and other dilutive securities		1,079	
Income from continuing operations available for common stock and common stock equivalents	$ 17,074	109,062	$ 0.16

	Six Months Ended June 30, 2006		
	Income	**Shares**	**Per Share Amount**
	(Thousands, except per share amounts)		
Basic EPS from continuing operations			
Income from continuing operations available for common stock	$ 207,684	112,283	**$ 1.85**
Diluted EPS from continuing operations			
Effect of dilutive securities:			
Mandatory convertible units		1,259	
Options and other dilutive securities		1,349	
Income from continuing operations available for common stock and common stock equivalents	$ 207,684	114,891	**$ 1.80**

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	Six Months Ended June 30, 2005		
	Income	Shares	Per Share Amount
	(Thousands, except per share amounts)		
Basic EPS from continuing operations			
Income from continuing operations available for common stock	$ 118,852	102,404	$ 1.16
Diluted EPS from continuing operations			
Effect of dilutive securities:			
Mandatory convertible units		6,569	
Options and other dilutive securities		1,058	
Income from continuing operations available for common stock and common stock equivalents	$ 118,852	110,031	$ 1.08

There were 341,300 and 21,964 option shares excluded from the calculation of diluted EPS for the three months ended June 30, 2006 and 2005, respectively, since their inclusion would have been antidilutive for each period. There were 390,112 and 24,977 option shares excluded from the calculation of diluted EPS for the six months ended June 30, 2006 and 2005, respectively, since their inclusion would be antidilutive for each period.

P. ONEOK PARTNERS

General Partner Interest - See Note B for discussion of the April 2006 acquisition of the additional general partner interest in ONEOK Partners. The limited partner units we received from ONEOK Partners were newly created Class B units with the same distribution rights as the outstanding common units, but have limited voting rights and are subordinated to the common units with respect to payment of minimum quarterly distributions. Under the ONEOK Partners partnership agreement and in conjunction with the issuance of additional common units by ONEOK Partners, we, as the general partner, are required to make equity contributions in order to maintain our representative general partner interest.

At June 30, 2006 and 2005, our investment in ONEOK Partners consisted of the following:

	June 30, 2006	June 30, 2005
General partner interest	**2.00%**	1.650%
Limited partner interest	**43.70%** (a)	1.050%(b)
Total ownership interest	**45.70%**	2.700%

(a) - Represents approximately 0.5 million common units and 36.5 million Class B units.
(b) - Represents approximately 0.5 million common units.

Under the ONEOK Partners partnership agreement, distributions are made to their partners with respect to each calendar quarter in an amount equal to 100 percent of available cash. Available cash generally consists of all cash receipts adjusted for cash disbursements and net changes to cash reserves. Available cash will generally be distributed 98.0 percent to limited partners and 2.0 percent to the general partner. As an incentive, the general partner s percentage interest in quarterly distributions is increased after certain specified target levels are met. Under the incentive distribution provisions, the general partner receives:

15 percent of amounts distributed in excess of $0.605 per unit,

25 percent of amounts distributed in excess of $0.715 per unit and

50 percent of amounts distributed in excess of $0.935 per unit.

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ONEOK Partners income is allocated to the general and limited partners in accordance with their respective partnership percentages, after giving effect to any priority income allocations for incentive distributions that are allocated to the general partner. The following table shows ONEOK Partners distributions that were due to the general partners for the periods ending June 30, 2006 and 2005.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2006	**2005**	**2006**	**2005**
	(Thousands of dollars)			
Distributions to ONEOK	**$ 9,078**	$ 2,300	**$ 11,866**	$ 4,600
Distributions to other general partner		488		976
Total distributions to general partners	**$ 9,078**	$ 2,788	**$ 11,866**	$ 5,576

The quarterly distributions paid by ONEOK Partners to limited partners in the first and second quarters of 2006 were $0.80 per unit and $0.88 per unit, respectively. In July 2006, ONEOK Partners declared a cash distribution of $0.95 per unit payable in the third quarter. At the current cash distribution of $0.95 per unit, our incentive partner distribution and partner allocation is approximately $8.2 million, payable beginning in the third quarter of 2006.

Affiliate Transactions - We have certain transactions with our 45.7 percent owned ONEOK Partners affiliate, which comprises our ONEOK Partners segment.

ONEOK Partners sells natural gas from its gathering and processing operations to our Energy Services segment. In addition, a large portion of ONEOK Partners revenues from its pipelines and storage operations are from our Energy Services and Distribution segments which utilize both transportation and storage services.

As part of the transaction between us and ONEOK Partners, ONEOK Partners acquired contractual rights to process natural gas at the Bushton, Kansas processing plant (Bushton Plant) from us through a Processing and Services Agreement, which sets out the terms for processing and related services we will provide at the Bushton Plant through 2012. In exchange for such services, ONEOK Partners will pay us for all direct costs and expenses of operating the Bushton Plant, including reimbursement of a portion of our obligations under equipment leases covering the Bushton Plant.

We provide a variety of services to our affiliates, including cash management and financing services, employee benefits provided through our benefit plans, administrative services provided by our employees and management, insurance and office space leased in our headquarters building and other field locations. Where costs are specifically incurred on behalf of an affiliate, the costs are billed directly to the affiliate by us. In other situations, the costs are allocated to the affiliates through a variety of methods, depending upon the nature of the expenses and the activities of the affiliates. For example, a benefit that applies equally to all employees is allocated based upon the number of employees in each affiliate. On the other hand, an expense benefiting the consolidated company but having no direct basis for allocation is allocated through a modified Distrigas method, a method using a combination of ratios of gross plant and investment, operating income and wages.

The following table shows transactions with ONEOK Partners for the periods shown.

	Three Months Ended June 30, 2006	Six Months Ended June 30, 2006
	(Thousands of Dollars)	
Revenue	**$ 150,538**	**$ 380,226**
Expense		
Administrative and general expenses	**$ 26,476**	**$ 45,911**
Interest expense		**21,281**
Total expense	**$ 26,476**	**$ 67,192**

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

EXECUTIVE SUMMARY

Operating income for our second quarter of 2006 was $269.4 million, an increase of $217.2 million, or 416 percent, compared with the same period in 2005. For the first six months of 2006, operating income was $539.4 million, an increase of $300.9 million, or 126 percent, from the same period last year. The increase in operating income, excluding the gain on sale of assets, was $102.3 million and $185.0 million for the three- and six-month periods, respectively. The gain on sale of assets primarily relates to our ONEOK Partners L.P. (formerly Northern Border Partners, L.P.) segment s sale of its 20 percent partnership interest in Northern Border Pipeline Company (Northern Border Pipeline) to TC PipeLines Intermediate Limited Partnership (TC PipeLines), an affiliate of TransCanada Corporation (TransCanada), in April 2006.

Diluted earnings per share of common stock from continuing operations (EPS) increased to 65 cents for the second quarter of 2006 from 16 cents for the same period in 2005. For the six-month period, EPS increased to $1.80 from $1.08 for the same period last year.

In April 2006, we sold certain assets comprising our former Gathering and Processing, Natural Gas Liquids, and Pipelines and Storage segments to Northern Border Partners, L.P. (renamed ONEOK Partners, L.P. on May 17, 2006) for approximately $3 billion, including $1.35 billion in cash, before adjustments, and approximately 36.5 million Class B limited partner units in ONEOK Partners. We also purchased the remaining 17.5 percent general partner interest which increased our general partner interest to 100 percent of the two percent general partner interest in ONEOK Partners, L.P. (ONEOK Partners). Prior periods have been restated to show our former Gathering and Processing, Natural Gas Liquids, and Pipelines and Storage segments as part of our newly formed ONEOK Partners segment. The legacy operations of ONEOK Partners accounted for increases in our ONEOK Partners segment in 2006 since we consolidated ONEOK Partners beginning January 1, 2006 in accordance with Emerging Issues Task Force (EITF) Issue No. 04-5, Determining Whether a General Partner, or the General Partners as a Group, Controls a Limited Partnership or Similar Entity When the Limited Partners Have Certain Rights (EITF 04-5). See Impact of New Accounting Standards on page 33 for additional information on the consolidation of ONEOK Partners. In addition, the acquisition of the natural gas liquids businesses owned by Koch Industries, Inc. (Koch) in July 2005, contributed to increases in our ONEOK Partners segment. The purchase of the remaining interest in Guardian Pipeline, L.L.C. (Guardian Pipeline) in April 2006, which resulted in its consolidation retroactive to January 1, 2006, also positively impacted our ONEOK Partners segment. Our legacy operations in the ONEOK Partners segment benefited from higher commodity prices, wider gross processing spreads and increased natural gas transportation revenues. These increases were slightly offset by decreases in our ONEOK Partners segment resulting from the sale of natural gas gathering and processing assets located in Texas in December 2005.

Operating income for our Energy Services segment increased $50.6 million and $91.2 million for the three and six months ended June 30, 2006, respectively. Increases of $21.9 million and $32.0 million for the three and six months ended June 30, 2006, respectively, were related to optimization activities and increased demand fees. Additionally, increases of $16.8 million and $45.0 million for the three and six months ended June 30, 2006, respectively, were due to the effect of improved natural gas basis differentials on transportation contracts.

In July 2006, our Board of Directors announced an increase in our quarterly dividend to $0.32 per share, an increase of approximately seven percent over the $0.30 paid in the second quarter and an increase of approximately 14 percent over the $0.28 paid in the first quarter. This increase is a result of the continued evaluation of our dividend payout in relation to both our financial performance and our peer companies.

Additionally, ONEOK Partners declared an increase in its cash distribution to $0.95 per unit in July 2006, an increase of approximately eight percent over the $0.88 paid in the second quarter and an increase of approximately 19 percent over the $0.80 paid in the first quarter.

ACQUISITIONS AND DIVESTITURES

In May 2006, a subsidiary of ONEOK Partners entered into an agreement with a subsidiary of The Williams Companies, Inc. (Williams) to form a joint venture called Overland Pass Pipeline Company LLC (Overland Pass Pipeline Company). Overland Pass Pipeline Company will build a 750-mile natural gas liquids pipeline from Opal, Wyoming to the mid-continent natural gas liquids market center in Conway, Kansas. The pipeline will be designed to transport approximately 110,000 barrels per day of natural gas liquids (NGLs), which can be increased to approximately 150,000 barrels per day with additional pump facilities. A

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subsidiary of ONEOK Partners owns 99 percent of the joint venture, will manage the construction project, advance all costs associated with construction and operate the pipeline. Williams will have the option to increase its ownership up to 50 percent by reimbursing ONEOK Partners its proportionate share of all construction costs and, upon full exercise of that option, would become operator within two years of the pipeline becoming operational. Construction of the pipeline is expected to begin in the summer of 2007, with start-up scheduled for early 2008. As part of a long-term agreement, Williams dedicated its NGL production from two of its gas processing plants in Wyoming to the joint-venture company. Subsidiaries of ONEOK Partners will provide downstream fractionation, storage and transportation services to Williams. The pipeline project is estimated to cost approximately $433 million. At the project s inception, ONEOK Partners paid $11.4 million to Williams for initial capital expenditures incurred. In addition, ONEOK Partners plans to invest approximately $173 million to expand its existing fractionation capabilities and the capacity of its natural gas liquids distribution pipelines. ONEOK Partners financing for both projects may include a combination of short- or long-term debt or equity. The project requires the approval of various state and regulatory authorities.

In April 2006, we sold certain assets comprising our former Gathering and Processing, Natural Gas Liquids, and Pipelines and Storage segments to ONEOK Partners for approximately $3 billion, including $1.35 billion in cash, before adjustments, and approximately 36.5 million Class B limited partner units in ONEOK Partners. The Class B limited partner units and the related general partner interest contribution were valued at approximately $1.65 billion. We also purchased, through Northern Plains Natural Gas Company, L.L.C. (renamed ONEOK Partners GP, L.L.C. on May 15, 2006), from an affiliate of TransCanada Corporation (TransCanada) its 17.5 percent general partner interest in ONEOK Partners for $40 million. This purchase resulted in our owning 100 percent of the two percent general partner interest in ONEOK Partners. Following the completion of the transactions, we own approximately 37.0 million common and Class B limited partner units and 100 percent of the two percent ONEOK Partners general partner interest. Our overall interest in ONEOK Partners, including the two percent general partner interest, has increased to 45.7 percent. In June 2006, ONEOK Partners recorded a $63.2 million estimated purchase price adjustment to the acquired assets related to a working capital settlement which is reflected as a reduction of the value of the Class B units. The working capital settlement has not been finalized; however, we do not expect material adjustments.

In April 2006, in connection with the transactions described immediately above, our ONEOK Partners segment completed the sale of its 20 percent partnership interest in Northern Border Pipeline to TC PipeLines for approximately $297 million. Our ONEOK Partners segment recorded a gain on sale of approximately $113.9 million in the second quarter of 2006. We and TC PipeLines each now own a 50 percent interest in Northern Border Pipeline, with an affiliate of TransCanada becoming operator of the pipeline in April 2007. Following the completion of the transactions, ONEOK Partners no longer consolidates Northern Border Pipeline in its financial statements. Instead, its interest in Northern Border Pipeline is accounted for as an investment under the equity method. This change is reflected by ONEOK Partners retroactive to January 1, 2006. This change does not affect previously reported net income or shareholders equity. TransCanada paid us $10 million for expenses associated with the transfer of operating responsibility of Northern Border Pipeline to them.

In April 2006, our ONEOK Partners segment acquired the remaining 66 2/3 percent interest in Guardian Pipeline for approximately $77 million, increasing our ownership interest to 100 percent. ONEOK Partners used borrowings from its credit facility to fund the acquisition of the additional interest in Guardian Pipeline. Following the completion of the transaction, we consolidated Guardian Pipeline in our consolidated financial statements. This change is retroactive to January 1, 2006. Prior to the transaction, our 33 1/3 percent interest in Guardian Pipeline was accounted for as an investment under the equity method.

In December 2005, we sold our natural gas gathering and processing assets located in Texas to a subsidiary of Eagle Rock Energy, Inc. for approximately $527.2 million and recorded a pre-tax gain of $264.2 million.

In October 2005, we entered into an agreement to sell our Spring Creek power plant to Westar Energy, Inc. (Westar) for approximately $53 million. The transaction requires Federal Energy Regulatory Commission (FERC) approval and is expected to be completed in 2006. The 300-megawatt gas-fired merchant power plant was built in 2001 to supply electrical power during peak periods using gas-powered turbine generators. The financial information related to the properties held for sale is reflected as a discontinued component in this Quarterly Report on Form 10-Q. All periods presented have been restated to reflect the discontinued component.

In September 2005, we completed the sale of our Production segment to TXOK Acquisition, Inc. for $645 million, before adjustments, and recognized a pre-tax gain on the sale of approximately $240.3 million. The gain reflects the cash received less adjustments, selling expenses and the net book value of the assets sold. The proceeds from the sale were used to reduce debt. The financial information related to the properties sold is reflected as a discontinued component in this Quarterly Report on Form 10-Q. All periods presented have been restated to reflect the discontinued component.

In July 2005, we completed our acquisition of the natural gas liquids businesses owned by Koch for approximately $1.33 billion, net of working capital and cash received. This transaction included Koch Hydrocarbon, L.P. s entire mid-continent natural gas liquids fractionation business; Koch Pipeline Company, L.P. s natural gas liquids pipeline distribution systems; Chisholm Pipeline Holdings, Inc., which has a 50 percent ownership interest in Chisholm Pipeline Company; MBFF, L.P., which owns an 80 percent interest in the 160,000 barrel per day fractionator at Mont Belvieu, Texas; and Koch VESCO Holdings, L.L.C., an entity that owns a 10.2 percent interest in Venice Energy Services Company, L.L.C. (VESCO). These assets are included in our consolidated financial statements beginning on July 1, 2005.

REGULATORY

Several regulatory initiatives impacted the earnings and future earnings potential for our Distribution segment and our ONEOK Partners segment. See discussion of our Distribution segment s regulatory initiatives beginning on page 39 and discussion of our ONEOK Partners segment s regulatory initiative beginning on page 44.

IMPACT OF NEW ACCOUNTING STANDARDS

In December 2004, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No. 123R, Share-Based Payment (Statement 123R). Statement 123R requires companies to expense the fair value of share-based payments net of estimated forfeitures. We adopted Statement 123R as of January 1, 2006, and elected to use the modified prospective method. Statement 123R did not have a material impact on our financial statements as we have been expensing share-based payments since our adoption of Statement of Financial Accounting Standards No. 148, Accounting for Stock-Based Compensation - Transition and Disclosure (Statement 148) on January 1, 2003. Awards granted after the adoption of Statement 123R are expensed under the requirements of Statement 123R, while equity awards granted prior to the adoption of Statement 123R will continue to be expensed under Statement 148. We recognized other income of $1.7 million upon adoption of Statement 123R. As of June 30, 2006, there was $4.5 million of total unrecognized compensation cost related to our nonvested restricted stock awards, which is expected to be recognized over a weighted-average period of 1.5 years. There was $14.0 million of unrecognized compensation cost related to our performance unit awards as of June 30, 2006, which is expected to be recognized over a weighted-average period of 1.8 years. The total unrecognized compensation cost related to nonvested stock options was not material.

In June 2005, the FASB ratified the consensus reached in EITF 04-5, which presumes that a general partner controls a limited partnership and therefore should consolidate the partnership in the financial statements of the general partner. Effective January 1, 2006, we were required to consolidate ONEOK Partners operations in our consolidated financial statements, and we elected to use the prospective method. Accordingly, prior period financial statements have not been restated. The adoption of EITF 04-5 did not have an impact on our net income; however, reported revenues, costs and expenses reflect the operating results of ONEOK Partners.

In September 2005, the FASB ratified the consensus reached in EITF Issue No. 04-13, Accounting for Purchases and Sales of Inventory with the Same Counterparty (EITF 04-13). EITF 04-13 defines when a purchase and a sale of inventory with the same party that operates in the same line of business should be considered a single nonmonetary transaction. EITF 04-13 is effective for new arrangements that a company enters into in periods beginning after March 15, 2006. We completed our review of the applicability of EITF 04-13 to our operations and determined that its impact was immaterial to our consolidated financial statements.

In March 2006, the FASB issued an exposure draft on accounting for pension and postretirement medical benefits. The final standard for the first phase of this project is expected to be issued in the third quarter of 2006, with implementation required for years ending after December 15, 2006. Based on the exposure draft, we could be required to record a balance sheet liability equal to the difference between our benefit obligations and plan assets. If this requirement had been in place at December 31, 2005, we would have been required to record unrecognized losses of $124.8 million and $78.8 million for pension and postretirement benefits, respectively, on our consolidated balance sheet as accumulated other comprehensive loss.

In June 2006, the FASB issued Interpretation No. 48, Accounting for Uncertainty in Income Taxes (FIN 48), which clarified the accounting for uncertainty in income taxes recognized in the financial statements in accordance with FASB Statement 109, Accounting for Income Taxes. FIN 48 is effective for our year ending December 31, 2006. We are currently reviewing the applicability of FIN 48 to our operations and its potential impact on our consolidated financial statements.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Derivatives and Risk Management Activities - We engage in wholesale energy marketing, retail marketing, trading, and risk management activities. We account for derivative instruments utilized in connection with these activities and services under the fair value basis of accounting in accordance with Statement of Financial Accounting Standards No. 133, Accounting for Derivative Instruments and Hedging Activities (Statement 133), as amended.

Under Statement 133, entities are required to record derivative instruments at fair value. The fair value of derivative instruments is determined by commodity exchange prices, over-the-counter quotes, volatility, time value, counterparty credit and the potential impact on market prices of liquidating positions in an orderly manner over a reasonable period of time under current market conditions. Refer to the table on page 54 for amounts in our portfolio at June 30, 2006, that were determined by prices actively quoted, prices provided by other external sources and prices derived from other sources. The majority of our portfolio s fair values are based on actual market prices. Transactions are also executed in markets for which market prices may exist but the market may be relatively inactive, thereby resulting in limited price transparency that requires management s subjectivity in estimating fair values.

Market value changes result in a change in the fair value of our derivative instruments. 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, the reason for holding it. If the derivative instrument does not qualify or is not designated as part of a hedging relationship, we account for changes in fair value of the derivative in earnings as they occur. Commodity price volatility may have a significant impact on the gain or loss in any given period. For more information on fair value sensitivity and a discussion of the market risk of pricing changes, see Item 3, Quantitative and Qualitative Disclosures about Market Risk.

To minimize the risk of fluctuations in natural gas, NGLs and condensate prices, we periodically enter into futures and swaps transactions in order to hedge anticipated purchases and sales of natural gas and condensate, fuel requirements and NGL inventories. Interest rate swaps are also used to manage interest rate risk. Under certain conditions, we designate these derivative instruments as a hedge of exposure to changes in fair values or cash flows. For hedges of exposure to changes in fair value, 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. For hedges of exposure to changes in cash flow, the effective portion of the gain or loss on the derivative instrument is reported initially as a component of other comprehensive loss and is subsequently reclassified into earnings when the forecasted transaction affects earnings. Any ineffectiveness of designated hedges is reported in earnings in the period the ineffectiveness occurs.

Many of our purchase and sale agreements that otherwise would be required to follow derivative accounting qualify as normal purchases and normal sales under Statement 133 and are therefore exempt from fair value accounting treatment.

Impairment of Goodwill and Long-Lived Assets - We assess our goodwill for impairment at least annually based on Statement of Financial Accounting Standards No. 142, Goodwill and Other Intangible Assets (Statement 142). An initial assessment is made by comparing the fair value of the operations with goodwill, as determined in accordance with Statement 142, to the book value of each reporting unit. If the fair value is less than the book value, an impairment is indicated, and we must perform a second test to measure the amount of the impairment. In the second test, we calculate the implied fair value of the goodwill by deducting the fair value of all tangible and intangible net assets of the operations with goodwill from the fair value determined in step one of the assessment. If the carrying value of the goodwill exceeds this calculated implied fair value of the goodwill, we will record an impairment charge. At June 30, 2006, we had $572.8 million of goodwill recorded on our balance sheet as shown below.

		(Thousands of dollars)
Distribution	$	157,953
Energy Services		10,255
ONEOK Partners		403,481
Other		1,099
Total goodwill	$	572,788

We assess our long-lived assets for impairment based on Statement of Financial Accounting Standards No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets (Statement 144). A long-lived asset is tested for impairment whenever events or changes in circumstances indicate that its carrying amount may exceed its fair value. Fair values are based on the sum of the undiscounted future cash flows expected to

result from the use and eventual disposition of the assets.

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Examples of long-lived asset impairment indicators include:

- a significant decrease in the market price of a long-lived asset or asset group,
- a significant adverse change in the extent or manner in which a long-lived asset or asset group is being used or in its physical condition,
- a significant adverse change in legal factors or in the business cl