

Form 10-Q
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

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

For the quarterly period ended September 30, 2001

OR

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

For the transition period from ____ to ____

Commission file number 1-707

KANSAS CITY POWER & LIGHT COMPANY
(Exact name of registrant as specified in its charter)

Missouri 44-0308720
(State or other jurisdiction of (I.R.S. Employer
incorporation or organization) Identification No.)

1201 Walnut, Kansas City, Missouri 64106-2124
(Address of principal executive offices) (Zip Code)

Registrant's telephone number, including area code: (816) 556-2200

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 ()

The number of shares outstanding of the registrant's Common stock at November 7, 2001, was 61,872,810 shares.

PART I - FINANCIAL INFORMATION

Item 1. Consolidated Financial Statements

KANSAS CITY POWER & LIGHT COMPANY
Consolidated Balance Sheets

	(Unaudited)	
	September 30	December 31
	2001	2000
	(thousands)	
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 27,937	\$ 34,877
Receivables	221,625	115,356
Equity securities	283	18,597
Fuel inventories, at average cost	20,050	20,802
Materials and supplies, at average cost	48,827	46,402
Deferred income taxes	4,105	737
Other	15,856	14,455
Total	338,683	251,226
Nonutility Property and Investments		
Telecommunications property	386,246	-
Affordable housing limited partnerships	87,121	98,129
Gas property and investments	35,323	47,654
Nuclear decommissioning trust fund	59,134	56,800
Other	63,027	81,624
Total	630,851	284,207
Utility Plant, at Original Cost		
Electric	4,197,174	3,832,655
Less-accumulated depreciation	1,761,065	1,645,450
Net utility plant in service	2,436,109	2,187,205

Construction work in progress	92,359	309,629
Nuclear fuel, net of amortization of \$122,770 and \$110,014	24,463	30,956
Total	2,552,931	2,527,790
Deferred Charges		
Regulatory assets	133,610	139,456
Prepaid pension costs	82,392	68,342
Goodwill	98,637	11,470
Other deferred charges	16,897	11,400
Total	331,536	230,668
Total	\$ 3,854,001	\$ 3,293,891

LIABILITIES AND CAPITALIZATION

Current Liabilities

Notes payable	\$ 22,440	\$ -
Commercial paper	193,248	55,600
Current maturities of long-term debt	367,842	93,645
Accounts payable	134,086	158,242
Accrued taxes	76,997	14,402
Accrued interest	15,468	12,553
Accrued payroll and vacations	24,160	28,257
Accrued refueling outage costs	10,526	1,890
Other	51,101	14,877
Total	895,868	379,466

Deferred Credits and Other Liabilities

Deferred income taxes	604,397	590,220
Deferred investment tax credits	46,820	50,037
Deferred telecommunications revenue	45,595	-
Accrued nuclear decommissioning costs	60,401	57,971
Other	72,220	63,936
Total	829,433	762,164

Capitalization (see statements)	2,128,700	2,152,261
Commitments and Contingencies (Note 4)		
Total	\$ 3,854,001	\$ 3,293,891

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

KANSAS CITY POWER & LIGHT COMPANY
Consolidated Statements of Capitalization

	(Unaudited)	
	September 30	December 31
	2001	2000
	(thousands)	
Long-term Debt (excluding current maturities)		
General Mortgage Bonds		
Medium-Term Notes due 2003-08, 7.28% and 7.18%, weighted-average rate	\$ 179,000	\$ 206,000
3.37%* Environmental Improvement Revenue Refunding Bonds due 2012-23	158,768	158,768
Senior Notes		
7.125% due 2005	250,000	250,000
Unamortized discount	(467)	(550)
Medium-Term Notes		
6.69%** due 2002	-	200,000
Environmental Improvement Revenue Refunding Bonds		
3.25%* Series A & B due 2015	106,500	106,500
4.50%* Series C due 2017	50,000	50,000
3.25%* Series D due 2017	40,000	40,000
Subsidiary Obligations		
Senior Discount Notes		
12.5% due 2008	200,443	-
Unamortized discount	(1,830)	-
R.S. Andrews Enterprises, Inc. long-term debt		
8.27% weighted-average rate due 2002-07	2,628	-
Affordable Housing Notes		
8.15% and 8.29%, weighted-average rate due 2003-08	20,333	31,129
Total	1,005,375	1,041,847
Company-obligated Mandatorily Redeemable		
Preferred Securities of a trust holding solely KCPL Subordinated Debentures	150,000	150,000
Cumulative Preferred Stock		
\$100 Par Value		
3.80% - 100,000 shares issued	10,000	10,000
4.50% - 100,000 shares issued	10,000	10,000
4.20% - 70,000 shares issued	7,000	7,000
4.35% - 120,000 shares issued	12,000	12,000
\$100 Par Value - Redeemable		
4.00%	-	62
Total	39,000	39,062
Common Stock Equity		
Common stock-150,000,000 shares authorized without par value 61,908,729 shares issued, stated value	449,697	449,697
Retained earnings (see statements)	499,739	473,321
Accumulated other comprehensive income		
Loss on derivative hedging instruments	(13,455)	-
Capital stock premium and expense	(1,656)	(1,666)
Total	934,325	921,352
Total	\$ 2,128,700	\$ 2,152,261

* Variable rate securities, weighted-average rate as of September 30, 2001

** Variable rate securities, weighted-average rate as of December 31, 2000

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

KANSAS CITY POWER & LIGHT COMPANY
Consolidated Statements of Income
(Unaudited)

	Three Months Ended		Year to Date	
	September 30		September 30	
	2001	2000	2001	2000
	(thousands)			
Operating Revenues				
Electric sales revenues	\$ 471,863	\$ 361,396	\$1,048,261	\$ 827,850
Gas sales revenues	(465)	16,043	16,641	37,905
Telecommunications revenues	4,528	-	11,520	-
Other revenues	16,717	925	52,410	2,868
Total	492,643	378,364	1,128,832	868,623
Operating Expenses				
Fuel	52,533	54,149	124,836	119,334
Purchased power	142,103	69,463	298,750	141,098
Gas purchased and production expenses	339	11,198	17,454	21,760
Other	78,304	69,501	243,163	183,859
Maintenance	18,835	17,258	60,588	55,775
Depreciation and depletion	40,424	34,242	117,046	99,325
Gain on property	(463)	(46,975)	(22,169)	(50,665)
General taxes	28,839	27,342	74,253	70,637
Total	360,914	236,178	913,921	641,123
Operating income	131,729	142,186	214,911	227,500
Loss from equity investments	(389)	(2,444)	(501)	(18,684)
Other income and expenses	(20,832)	(274)	(21,363)	(9,789)
Interest charges	28,645	20,407	78,481	56,775
Income before income taxes, extraordinary item and cumulative effect of changes in accounting principles	81,863	119,061	114,566	142,252
Income taxes	26,331	37,443	25,774	33,319
Income before extraordinary item and cumulative effect of changes in accounting principles	55,532	81,618	88,792	108,933
Early extinguishment of debt, net of income taxes	-	-	15,872	-
Cumulative effect to January 1, 2000, of changes in accounting principles, net of income taxes	-	-	-	30,073
Net income	55,532	81,618	104,664	139,006
Preferred stock dividend requirements	412	412	1,236	1,236
Earnings available for common stock	\$ 55,120	\$ 81,206	\$ 103,428	\$ 137,770
Average number of common shares outstanding	61,870	61,846	61,860	61,869
Basic and diluted earnings per common share before extraordinary item and cumulative effect of changes in accounting principles	\$ 0.89	\$ 1.31	\$ 1.41	\$ 1.74
Early extinguishment of debt	-	-	0.26	-
Cumulative effect to January 1, 2000, of changes in accounting principles	-	-	-	0.49
Basic and diluted earnings per common share	\$ 0.89	\$ 1.31	\$ 1.67	\$ 2.23
Cash dividends per common share	\$ 0.415	\$ 0.415	\$ 1.245	\$ 1.245

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

KANSAS CITY POWER & LIGHT COMPANY
Consolidated Statements of Cash Flows
(Unaudited)

Year to Date September 30	2001	2000
	(thousands)	
Cash Flows from Operating Activities		
Net income	\$ 104,664	\$ 139,006
Adjustments to reconcile income to net cash from operating activities:		
Early extinguishment of debt, net of income taxes	(15,872)	-
Cumulative effect of changes in accounting principles, net of income taxes	-	(30,073)
Depreciation and depletion	117,046	99,325
Amortization of:		
Nuclear fuel	12,757	12,725
Other	12,892	8,992
Deferred income taxes (net)	3,634	(18,830)
Investment tax credit amortization	(3,217)	(3,353)
Accretion of Senior Discount Notes (net)	11,083	-
Loss from equity investments	501	18,684
Gain on sale of KLT Gas properties	(20,137)	(60,413)
Asset impairments	-	16,099
Allowance for equity funds used during construction	(3,551)	(3,090)
Other operating activities (Note 1)	(81,180)	42,374
Net cash from operating activities	138,620	221,446
Cash Flows from Investing Activities		
Utility capital expenditures	(154,743)	(325,004)
Allowance for borrowed funds used during construction	(8,404)	(8,682)
Purchases of investments	(40,693)	(53,575)
Purchases of nonutility property	(47,812)	(18,069)
Sale of KLT Gas Properties	42,293	36,925
Sale of securities	21,779	-
Hawthorn No. 5 partial insurance recovery	30,000	50,000
Loan to DTI prior to majority ownership	(94,000)	-
Other investing activities	6,984	18,191
Net cash from investing activities	(244,596)	(300,214)
Cash Flows from Financing Activities		
Issuance of long-term debt	99,500	294,000
Repayment of long-term debt	(63,366)	(108,000)
Net change in short-term borrowings	144,731	(16,574)
Dividends paid	(78,246)	(78,256)
Other financing activities	(3,583)	(6,527)
Net cash from financing activities	99,036	84,643
Net Change in Cash and Cash Equivalents	(6,940)	5,875
Cash and Cash Equivalents at Beginning of Year	34,877	13,073
Cash and Cash Equivalents at End of Period	\$ 27,937	\$ 18,948

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

KANSAS CITY POWER & LIGHT COMPANY

Consolidated Statements of Comprehensive Income
(Unaudited)

	Three Months Ended		Year to Date	
	September 30		September 30	
	2001	2000	2001	2000
	(thousands)			
Net income	\$ 55,532	\$ 81,618	\$ 104,664	\$ 139,006
Other comprehensive income (loss):				
Loss on derivative				
hedging instruments	(5,537)	-	(39,705)	-
Income tax benefit	2,287	-	16,494	-
Net loss on derivative				
hedging instruments	(3,250)	-	(23,211)	-
Reclassification to revenues				
and expenses, net of tax	653	-	(7,687)	2,337
Comprehensive income before				
cumulative effect of a				
change in accounting				
principles, net of				
income taxes	52,935	81,618	73,766	141,343
Cumulative effect to				
January 1, 2001, of a				
change in accounting				
principles, net of				
income taxes	-	-	17,443	-
Comprehensive Income	\$ 52,935	\$ 81,618	\$ 91,209	\$ 141,343

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

Consolidated Statements of Retained Earnings
(Unaudited)

	Three Months Ended		Year to Date	
	September 30		September 30	
	2001	2000	2001	2000
	(thousands)			
Beginning balance	\$ 470,289	\$ 424,163	\$ 473,321	\$ 418,952
Net income	55,532	81,618	104,664	139,006
	525,821	505,781	577,985	557,958
Dividends declared				
Preferred stock -				
at required rates	411	412	1,235	1,236
Common stock	25,671	25,667	77,011	77,020
Ending balance	\$ 499,739	\$ 479,702	\$ 499,739	\$ 479,702

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

CERTAIN FORWARD-LOOKING INFORMATION

Statements made in this report that are not based on historical facts are forward-looking, may involve risks and uncertainties, and are intended to be as of the date when made. In connection with the safe harbor provisions of the Private Securities Litigation Reform Act of 1995, the Company is providing a number of important factors that could cause actual results to differ materially from provided forward-looking information. These important factors include:

- - future economic conditions in the regional, national and international markets
- - state, federal and foreign regulation
- - weather conditions
- - cost of fuel
- - financial market conditions, including, but not limited to changes in interest rates
- - inflation rates
- - increased competition, including, but not limited to, the deregulation of the United States electric utility industry, and the entry of new competitors
- - ability to carry out marketing and sales plans
- - ability to achieve generation planning goals and the occurrence of unplanned generation outages
- - nuclear operations
- - ability to enter new markets successfully and capitalize on growth opportunities in nonregulated businesses
- - adverse changes in applicable laws, regulations or rules governing environmental including air quality regulations, tax or accounting matters
- - delays in the anticipated in service dates of new generating capacity
- - market conditions in the telecommunications industry
- - other risks and uncertainties

THE COMPANY

Effective October 1, 2001, the Company completed its corporate reorganization creating a holding company structure. Great Plains Energy Incorporated became the holding company of Kansas City Power & Light Company (KCPL), Great Plains Power Incorporated (GPP) and KLT Inc.

Through September 30, 2001, the date of these reports, the consolidated company (referred to throughout as consolidated or the Company) consisted of KCPL, KLT Inc., GPP, and Home Service Solutions Inc. (HSS). KLT Inc.'s major holdings consisted of DTI Holdings, Inc. and subsidiaries, including Digital Teleport, Inc. (DTI), Strategic Energy LLC (SEL), KLT Gas, and investments in affordable housing limited partnerships. HSS had two subsidiaries: Worry Free Service, Inc. and R.S. Andrews Enterprises, Inc. (RSAE).

Notes to Consolidated Financial Statements

In management's opinion, the consolidated interim financial statements reflect all adjustments (which include only normal recurring adjustments) necessary to present fairly the results of operations for the interim periods presented. These statements and notes should be read in connection with the financial statements and related notes included in our 2000 annual report on Form 10-K.

1. SUPPLEMENTAL CASH FLOW INFORMATION (a)

	Year to Date September 30	
	2001	2000
	(thousands)	
Cash flows affected by changes in:		
Receivables	\$(101,179)	\$ (54,142)
Fuel inventories	752	2,831
Materials and supplies	(2,425)	(991)
Accounts payable	(61,674)	29,821
Accrued taxes	60,157	75,287
Accrued interest	2,873	(6,507)
Wolf Creek refueling outage accrual	8,636	4,013
Pension and postretirement benefit obligations	(17,997)	(10,706)
Other	29,677	2,768
Total other operating activities	\$ (81,180)	\$ 42,374
Cash paid during the period for:		
Interest	\$ 61,984	\$ 61,591
Income taxes	\$ 7,822	\$ 8,370

During the first quarter of 2001, KLT Telecom increased its equity ownership in DTI to a majority ownership and HSS increased its equity ownership in RSAE to a majority ownership. The effect of these transactions is summarized in the tables that follow (b).

	DTI	RSAE	Total
	(thousands)		
Cash paid to obtain majority ownership	\$ (39,855)	\$ (560)	\$ (40,415)
Subsidiary cash	4,557	1,053	5,610
Purchases of subsidiaries, net of cash received	\$ (35,298)	\$ 493	(34,805)
Purchases of other investments through September 30, 2001			(5,888)
Total purchases of investments			\$ (40,693)

	DTI at February 8 2001	RSAE at January 1 2001
(thousands)		
Initial consolidation of subsidiaries:		
Assets		
Cash	\$ 4,557	\$ 1,053
Receivables	1,012	4,078
Other nonutility property and investments	363,825	6,267
Goodwill	62,974	24,496
Other assets	5,143	3,919
Eliminate equity investment	(67,660)	(7,200)
Total assets	\$ 369,851	\$ 32,613
Liabilities		
Notes payable	\$ 5,300	\$ 10,057
Accounts payable	31,299	6,219
Accrued taxes	2,414	24
Deferred income taxes	7,437	-
Deferred telecommunications revenue	41,522	-
Other liabilities and deferred credits	5,009	13,418
Loan from KLT Telecom (c)	94,000	-
Long-term debt	182,870	2,895
Total liabilities	\$ 369,851	\$ 32,613

- (a) The initial consolidations of DTI and RSAE are not reflected in the Consolidated Statement of Cash Flows year to date September 30, 2001.
- (b) Additional adjustments to purchase accounting may be made.
- (c) KLT Telecom provided a \$94 million loan to DTI for the completion of the tender offer of 50.4 percent of DTI's Senior Discount Notes prior to increasing its DTI investment to a majority ownership. This loan is eliminated in consolidation.

Sale of KLT Gas properties in September 2000:	
	(thousands)
Cash proceeds	\$ 36,925
Equity securities	106,000
Receivable	2,463
Total	145,388
Property	(58,814)
Accounts payable	(15,409)
Other assets and liabilities	(10,752)
Gain on sale before tax	\$ 60,413

KLT Gas Inc. sold producing natural gas properties to Evergreen Resources, Inc. (Evergreen) in two parts with the first part closed in September 2000 (total proceeds of \$145 million).

2. CAPITALIZATION

KCPL Financing I (Trust) has previously issued \$150,000,000 of 8.3% preferred securities. The sole asset of the Trust is the \$154,640,000 principal amount of 8.3% Junior Subordinated Deferrable Interest Debentures, due 2037, issued by KCPL.

KCPL is authorized to issue an additional \$150 million of debt securities under its shelf registration statement dated November 21, 2000. KCPL plans an issuance of these debt securities in the fourth quarter of 2001.

DTI's Senior Discount Notes are senior unsecured obligations of DTI. The discount on the Senior Discount Notes accrues from the date of the issue until March 1, 2003, at which time interest on the Senior Discount Notes accrues at a rate of 12.5% per year. Cash interest is payable semi-annually in arrears on March 1 and September 1, commencing September 1, 2003.

During the third quarter 2001, KCPL remarketed \$48.3 million of its \$158.8 million variable rate environmental improvement revenue refunding general mortgage bonds due 2012-23 at a fixed rate of 3.90% through August 31, 2004. KCPL also remarketed its series A and B due 2015 and series D due 2017 environmental improvement revenue refunding bonds at a fixed rate of 3.25% through August 29, 2002. Series C due 2017 has a fixed rate of 4.50% through August 31, 2003.

On October 3, 2001, GPE entered into a \$110 million bridge revolving credit facility with tiered pricing based on the credit rating of GPE's unsecured long-term debt securities that terminates on February 28, 2002. GPE drew down \$101 million on October 3, of which \$100 million was loaned to KLT. KLT used the proceeds to pay off its outstanding long-term bank credit agreement (the balance of \$99.5 million is reflected in current maturities of long-term debt on the Consolidated Balance Sheet at September 30, 2001). After the payoff, KLT terminated its bank credit agreement.

3. SEGMENT AND RELATED INFORMATION

The Company's reportable segments include KCPL, KLT Inc. and HSS. KCPL includes the regulated electric utility, GPP's operations (immaterial through September 30, 2001) and unallocated corporate charges. KLT Inc. and HSS are holding companies for various unregulated business ventures.

The summary of significant accounting policies applies to all of the segments. The Company evaluates performance based on several factors including net income. The Company eliminates all intersegment sales and transfers. The tables below reflect summarized financial information concerning the Company's reportable segments.

	Three Months Ended		Year to Date	
	September 30		September 30	
	2001	2000	2001	2000
KCPL	(millions)			
Operating revenues	\$ 323.2	\$ 324.3	\$ 759.6	\$ 742.7
Fuel expense	(52.5)	(54.1)	(124.8)	(119.3)
Purchased power expense	(21.1)	(43.0)	(59.1)	(78.6)
Other (a)	(93.1)	(104.3)	(280.1)	(285.2)
Depreciation and depletion	(34.4)	(31.7)	(100.9)	(91.9)
Gain (loss) on property	(0.1)	0.8	(0.2)	3.6
Other income and expenses	(3.9)	(3.7)	(7.5)	(8.3)
Interest charges	(21.6)	(16.4)	(59.3)	(45.6)
Income taxes	(36.9)	(28.0)	(47.0)	(45.8)
Cumulative effect of changes in pension accounting	-	-	-	30.1
Net income	\$ 59.6	\$ 43.9	\$ 80.7	\$ 101.7
KLT Inc.				
Operating revenues	\$ 152.8	\$ 53.0	\$ 317.2	\$ 123.0
Purchased power expense	(121.1)	(26.5)	(239.7)	(62.5)
Other (a)	(17.5)	(19.3)	(60.3)	(42.6)
Depreciation and depletion	(5.5)	(2.0)	(14.3)	(6.0)
Gain on property	0.6	59.6	23.7	60.5
Income (loss) from equity investment	(0.4)	0.2	(0.4)	(13.3)
Other income and expenses	(17.1)	3.3	(17.2)	(2.3)
Interest charges	(6.7)	(4.0)	(18.1)	(11.2)
Income taxes	11.2	(16.1)	20.9	4.4
Early extinguishment of debt	-	-	15.9	-
Net income (loss)	\$ (3.7)	\$ 48.2	\$ 27.7	\$ 50.0
HSS				
Operating revenues	\$ 16.6	\$ 1.0	\$ 52.0	\$ 2.9
Other (a)	(15.7)	(1.7)	(55.1)	(4.3)
Depreciation and depletion	(0.5)	(0.5)	(1.8)	(1.4)
Loss on property	-	(13.4)	(1.3)	(13.4)
Loss from equity investments	-	(2.7)	(0.1)	(5.4)
Other income and expenses	0.3	0.1	3.4	0.8
Interest charges	(0.4)	-	(1.1)	-
Income taxes	(0.6)	6.7	0.3	8.1
Net loss	\$ (0.3)	\$ (10.5)	\$ (3.7)	\$ (12.7)

	Three Months Ended		Year to Date	
	September 30		September 30	
	2001	2000	2001	2000
Consolidated	(millions)			
Operating revenues	\$ 492.6	\$ 378.3	\$1,128.8	\$ 868.6
Fuel expense	(52.5)	(54.1)	(124.8)	(119.3)
Purchased power expense	(142.2)	(69.5)	(298.8)	(141.1)
Other (a)	(126.3)	(125.3)	(395.5)	(332.1)
Depreciation and depletion	(40.4)	(34.2)	(117.0)	(99.3)
Gain on property	0.5	47.0	22.2	50.7
Loss from equity investments	(0.4)	(2.5)	(0.5)	(18.7)
Other income and expenses	(20.7)	(0.3)	(21.3)	(9.8)
Interest charges	(28.7)	(20.4)	(78.5)	(56.8)
Income taxes	(26.3)	(37.4)	(25.8)	(33.3)

Early extinguishment of debt and cumulative effect of changes in pension accounting	-	-	15.9	30.1
Net income	\$ 55.6	\$ 81.6	\$ 104.7	\$ 139.0

(a) Other includes gas purchased and production expenses, telecommunications expenses, other operating, maintenance and general tax expense.

September 30	KCPL	KLT Inc.	HSS	Consolidated
2001		(millions)		
Assets	\$3,065.3	\$ 733.6(b)	\$ 55.1	\$3,854.0
Net equity method investments (c)	-	-	-	-
Year to date capital and investments expenditures	158.5	85.0	(0.3)	243.2
2000				
Assets	\$ 2,952.0	\$ 381.5	\$ 27.9	\$3,361.4
Net equity method investments (c)	-	24.7	8.0	32.7
Year to date capital and investments expenditures	328.8	67.7	0.1	396.6

(b) Includes assets associated with DTI of \$454 million and SEL of \$114 million.

(c) Excluding affordable housing limited partnerships.

The following table provides additional detail on the operations of the KLT Inc. segment.

	Three Months Ended		Year to Date	
	September 30		September 30	
	2001	2000	2001	2000
DTI (a)	(millions)			
Operating revenues	\$ 4.6	-	\$ 11.6	-
Other	(6.9)	-	(17.5)	-
Depreciation and depletion	(5.0)	-	(12.6)	-
Loss from equity investments	-	-	-	\$ (14.0)
Other income and expenses	0.2	-	1.2	-
Interest charges	(4.8)	-	(11.8)	-
Income taxes	4.1	-	10.3	5.1
Early extinguishment of debt	-	-	15.9	-
Net loss	\$ (7.8)	-	\$ (2.9)	\$ (8.9)
SEL (a)				
Operating revenues	\$ 148.7	\$ 43.0	\$ 304.2	\$ 94.5
Purchased power expense	(121.1)	(26.5)	(239.7)	(62.5)
Other	(6.7)	(9.3)	(29.8)	(18.6)
Depreciation and depletion	(0.1)	(0.1)	(0.2)	(0.3)
Income from equity investments	-	-	-	0.1
Other income and expenses	(3.7)	(2.2)	(4.9)	(4.3)
Interest charges	-	(0.1)	(0.1)	(0.2)
Income taxes	(7.1)	(1.8)	(12.2)	(3.3)
Net income	\$ 10.0	\$ 3.0	\$ 17.3	\$ 5.4
KLT Gas				
Operating revenues	\$ (0.5)	\$ 10.0	\$ 1.4	\$ 28.5
Other	(2.3)	(8.6)	(8.3)	(19.6)
Depreciation and depletion	(0.4)	(1.9)	(1.4)	(5.7)
Gain on property	0.6	59.7	21.5	58.3
Income from equity investments	-	0.9	1.0	2.3
Other income and expenses	0.2	1.9	0.2	1.9
Interest charges	-	(1.4)	-	(3.5)
Income taxes	2.7	(19.6)	(0.8)	(16.2)
Net income	\$ 0.3	\$ 41.0	\$ 13.6	\$ 46.0
Other				
Other	\$ (1.6)	\$ (1.4)	\$ (4.7)	\$ (4.4)
Depreciation and depletion	-	-	(0.1)	-
Gain (loss) on property	-	(0.1)	2.2	2.2
Loss from equity investments	(0.4)	(0.7)	(1.4)	(1.7)
Other income and expenses	(13.8)	3.6	(13.7)	0.1
Interest charges	(1.9)	(2.5)	(6.2)	(7.5)
Income taxes	11.5	5.3	23.6	18.8
Net income (loss)	\$ (6.2)	\$ 4.2	\$ (0.3)	\$ 7.5

(a) KLT Inc. acquired a majority ownership in SEL during the second quarter of 2000 and in DTI in February 2001. Prior to this, the investments in SEL and DTI were recorded on an equity basis. In the second quarter of 2000, SEL was included in the Company's consolidated financial statements from January 1, 2000, with the appropriate adjustments to minority interest from January 1, 2000, through the date of the acquisition.

4. COMMITMENTS AND CONTINGENCIES

Environmental Matters

The Company operates in an environmentally responsible manner and uses the latest technology available to avoid and treat contamination. The Company continually conducts environmental audits designed to ensure compliance with governmental regulations and to detect contamination. However, governmental bodies may impose additional or more rigid environmental regulations that could require substantial changes to operations or facilities.

Mercury Emissions

In December 2000, The United States Environmental Protection Agency (EPA) announced it would propose regulations to reduce mercury emissions by 2003 and issue final rules by 2004. KCPL cannot predict the likelihood or compliance costs of such regulations.

Air Particulate Matter

In July 1997, the EPA published new air quality standards for particulate matter. Additional regulations implementing these new particulate standards have not been finalized. Without the implementation regulations, the impact of the standards on KCPL cannot be determined. However, the impact on KCPL and other utilities that use fossil fuels could be substantial. Under the new fine particulate regulations, the EPA is conducting a three-year study of fine particulate emissions. Until this testing and review period has been completed, KCPL cannot determine additional compliance costs, if any, associated with the new particulate regulations.

Nitrogen Oxide

In 1997, the EPA also issued new proposed regulations on reducing nitrogen oxide (NOx) emissions. The EPA announced in 1998 final regulations implementing reductions in NOx emissions. These regulations initially called for 22 states, including Missouri, to submit plans for controlling NOx emissions. The regulations require a significant reduction in NOx emissions from 1990 levels at KCPL's Missouri coal-fired plants by the year 2003.

In December 1998, KCPL and several other western Missouri utilities filed suit against the EPA over the inclusion of western Missouri in the 1997 NOx reduction program based upon the 1-hour NOx standard. On March 3, 2000, a three-judge panel of the District of Columbia Circuit of the U.S. Court of Appeals sent the NOx rules related to Missouri back to the EPA, stating the EPA failed to prove that fossil plants in the western part of Missouri significantly contribute to ozone formation in downwind states. On March 5, 2001, the U.S. Supreme Court denied certiorari, making the decision of the Court of Appeals final. The full impact of this decision is unknown at this time; however, it is likely to delay the implementation of new NOx regulations by EPA in the western portion of Missouri for some time.

To achieve the reductions proposed in the 1997 NOx reduction program, if required to be implemented, KCPL would need to incur significant capital costs, purchase power or purchase NOx emissions allowances. It is possible that purchased power or emissions allowances may be too costly. Preliminary analysis of the regulations indicates that selective catalytic reduction technology, as well as other changes, may be required for some of the KCPL units. Currently, KCPL estimates that additional capital expenditures to comply with these regulations could range from \$40 million to \$60 million. Operations and maintenance expenses could also increase by more than \$2.5 million per year. These capital expenditure estimates do not include the costs of the new air quality control equipment installed at Hawthorn No. 5. The new air control equipment installed at Hawthorn No. 5 complies with

the proposed requirements discussed above. KCPL continues to refine these preliminary estimates and explore alternatives. The ultimate cost of these regulations, if any, could be significantly different from the amounts estimated above.

Nuclear Insurance

As of November 15, 2001, Nuclear Electric Insurance Limited (NEIL), the provider of some types of insurance for the Owners of Wolf Creek, is increasing the potential retrospective assessments in its nuclear insurance policies. If losses incurred at any of the nuclear plants insured under the NEIL policies exceed premiums, reserves and other NEIL resources, the company may be subject to retrospective assessments under the amended NEIL policies of approximately \$10.7 million per year. For additional information regarding our nuclear insurance coverage, see Note 5 of the Notes to Consolidated Financial Statements in our Annual Report on Form 10-K for the year ended December 31, 2000.

Low-Level Waste

The Low-Level Radioactive Waste Policy Amendments Act of 1985 mandated that the various states, individually or through interstate compacts, develop alternative low-level radioactive waste disposal facilities. The states of Kansas, Nebraska, Arkansas, Louisiana and Oklahoma formed the Central Interstate Low-Level Radioactive Waste Compact and selected a site in northern Nebraska to locate a disposal facility. Wolf Creek Nuclear Operating Corporation (WCNOC) and the owners of the other five nuclear units in the compact provided most of the pre-construction financing for this project. As of September 30, 2001, KCPL's net investment on its books was \$7.4 million.

Significant opposition to the project has been raised by Nebraska officials and residents in the area of the proposed facility, and attempts have been made through litigation and proposed legislation in Nebraska to slow down or stop development of the facility. On December 18, 1998, the application for a license to construct this project was denied. This issue is being addressed in the courts. The passage of time, along with the appointment of a new state administration in Nebraska, has increased the chances for reversal of the license denial.

In May 1999, the Nebraska legislature passed a bill withdrawing Nebraska from the Compact. In August 1999, the Nebraska governor gave official notice of the withdrawal to the other member states. Withdrawal will not be effective for five years and will not, of itself, nullify the site license proceeding.

Coal Contracts

KCPL's remaining share of coal purchase commitments under existing contracts total \$84.7 million. Obligations for the remainder of 2001 through 2003, based on estimated prices for those years, total \$11.0 million, \$54.5 million, and \$19.2 million, respectively. These amounts are net of purchases made year to date September 30, 2001.

5. RECEIVABLES

	September 30 2001	December 31 2000
	(thousands)	
KCPL Receivable Corporation	\$ 74,175	\$ 48,208
Other Receivables	147,450	67,148
Receivables	\$221,625	\$115,356

Accounts receivable sold under the revolving agreement between KCPL Receivable Corporation and KCPL totaled \$134.2 million at September 30, 2001, and \$108.2 million at December 31, 2000. In consideration of the sale, KCPL received \$60 million in cash and the remaining balance in the form of a subordinated note from KCPL Receivable Corporation.

Other receivables at September 30, 2001, consist primarily of receivables from partners in jointly-owned electric utility plants, bulk power sales receivables and accounts receivable held by subsidiaries, including receivables of \$91 million from SEL due to the strong growth of their electric energy management business and the increase to a majority ownership of DTI and RSAE (see Note 1 - Supplemental Cash Flow Information).

6. DERIVATIVE FINANCIAL INSTRUMENTS

On January 1, 2001, the Company adopted Statement of Financial Accounting Standards (SFAS) No. 133 - Accounting for Derivative Instruments and Hedging Activities, as amended. SFAS 133 requires that every derivative instrument be recorded on the balance sheet as an asset or liability measured at its fair value and that changes in the fair value be recognized currently in earnings unless specific hedge accounting criteria are met.

SFAS 133 requires that as of the date of initial adoption, the difference between the fair market value of derivative instruments recorded on the balance sheet and the previous carrying amount of those derivatives be reported in net income or other comprehensive income, as appropriate, as a cumulative effect of a change in accounting principle. The adoption of SFAS 133 on January 1, 2001, required the Company to record a \$0.2 million expense, net of \$0.1 million of income tax. The Company did not reflect this immaterial amount as a cumulative effect. This entry increased interest expense by \$0.6 million and reduced purchased power expense by \$0.3 million. The Company also recorded \$17.4 million, net of \$12.6 million of income tax, as a cumulative effect of a change in accounting principle applicable to comprehensive income for its cash flow hedges.

Derivative Instruments and Hedging Activities

The Company's activities expose it to a variety of market risks including interest rates and commodity prices. Management has established risk management policies and strategies to reduce the potentially adverse effects that the volatility of the markets may have on its operating results.

The Company's interest rate risk management strategy uses derivative instruments to minimize significant, unanticipated earnings fluctuations caused by interest-rate volatility on a portion of its variable rate debt. The Company maintains commodity-price risk management strategies that use derivative instruments to minimize significant, unanticipated earnings fluctuations caused by commodity price volatility.

The Company's risk management activities, including the use of derivatives, are subject to the management, direction and control of Risk Management Committees.

Interest Rate Risk Management

KCPL utilizes interest rate management derivatives to reduce a portion of KCPL's interest rate risk by converting a portion of its variable interest rate payments into fixed interest rate payments.

In 2000, KCPL issued \$200 million of unsecured, floating rate medium-term notes. Simultaneously, KCPL entered into interest rate cap agreements to hedge the interest rate risk on the notes. The cap agreements are designated as cash flow hedges. The difference between the fair market value

of the cap agreements recorded on the balance sheet at initial adoption and the unamortized premium was reported in interest expense.

KCPL entered into interest rate swap agreements to limit the interest rate on \$30 million of long-term debt. These swaps do not qualify for hedge accounting. The swap agreements mature in 2003 and effectively fix the interest to a weighted-average rate of 3.88%. The fair market values of these agreements are recorded as current assets and liabilities and adjustments to interest expense on the income statement. Changes in the fair market value of these instruments are recorded in the income statement.

Commodity Risk Management

SEL utilizes an option and power swap agreements to hedge energy prices in various markets. The option and a majority of the swap agreements are designated as cash flow hedges.

The remaining swap agreements do not qualify for hedge accounting. The fair market value of these swaps at January 1, 2001, was recorded as an asset or liability on the balance sheet and an adjustment to the cost of purchased power. The change in the fair market value and future changes in the fair market values of these swaps will also be recorded in purchased power.

The option allows SEL to purchase up to 270 megawatts of power at a fixed rate of \$21 per mwh. The swap agreements protect SEL from price volatility by fixing the price per mwh. The fair market value of this option and the swap agreements designated as cash flow hedges at January 1, 2001, was recorded as a current asset and a cumulative effect of a change in accounting principle in comprehensive income. When the power is purchased and to the extent the hedge is effective at mitigating the cost of purchased power, the amounts accumulated in other comprehensive income are reclassified to the consolidated income statement. However, most of the energy purchased under the option and the energy hedged with the swaps has been sold to customers through contracts at prices different than the fair market value used to value the option and the swaps. Therefore, SEL will not receive income or losses to the extent represented in comprehensive income in the current or future periods. To the extent that the hedges are not effective, the ineffective portion of the changes in fair market value will be recorded directly to purchased power.

KLT Gas' risk management policy is to use firm sales agreements or financial hedge instruments to mitigate its exposure to market price fluctuations on up to 100% of its daily natural gas production. These hedging instruments are designated as cash flow hedges. The fair market value of these instruments at January 1, 2001, was recorded as current assets and current liabilities, as applicable, and the cumulative effect of a change in an accounting principle in comprehensive income. When the gas is sold and to the extent the hedge is effective at mitigating the impact of a change in the sales price of gas, the amounts in other comprehensive income are reclassified to the consolidated income statement. To the extent that the hedges are not effective, the ineffective portion of the changes in fair market value will be recorded directly in gas revenues.

KLT Gas unwound the majority of its gas hedge derivatives with a swap transaction during the second quarter of 2001 primarily due to declining production at its gas properties. This transaction does not qualify for hedge accounting. The fair market value of the swap has been recorded in gas revenues. Future changes in the fair market value of this swap will also be recorded in gas revenues.

The amounts recorded related to the cash flow hedges are summarized below.

Activity for three months ended September 30, 2001

Balance Sheet Classification	June 30 2001	Increase (Decrease) in Comprehensive Income (millions)	Reclassified	September 30 2001
Assets				
Other current assets	\$ 6.0	\$ (3.1)	\$ (2.9)	-
Liabilities				
Other current liabilities	(28.0)	8.8	4.2	\$ (15.0)
Other comprehensive income	10.8	3.3	(0.7)	13.4
Deferred income taxes	7.5	2.3	(0.4)	9.4
Other deferred credits	3.7	(11.3)	(0.2)	(7.8)

Activity for year to date September 30, 2001

Balance Sheet Classification	Cumulative Effect to January 1, 2001	Increase (Decrease) in Comprehensive Income (millions)	Reclassified	September 30 2001
Assets				
Other current assets	\$ 44.5	\$(20.4)	\$(24.1)	-
Liabilities				
Other current liabilities	(6.8)	(15.6)	7.4	\$ (15.0)
Other comprehensive income	(17.4)	23.2	7.6	13.4
Deferred income taxes	(12.7)	16.5	5.6	9.4
Other deferred credits	(7.6)	(3.7)	3.5	(7.8)

7. HSS PURCHASE OF AN ADDITIONAL OWNERSHIP INTEREST IN RSAE

On March 12, 2001, HSS acquired control of RSAE by acquiring an additional 22.1% of the shares of RSAE for \$0.6 million.

This acquisition has been accounted for by the purchase method of accounting and the operating results of RSAE have been included in the Company's consolidated financial statements from January 1, 2001, with the appropriate adjustments to minority interest from January 1, 2001, through the date of the acquisition. RSAE's September 30, 2001, assets included \$23.1 million of goodwill, which is being amortized over 40 years. On a pro forma basis, as if the business had been acquired at the beginning of fiscal 2000, revenue, net income and earnings per share would not differ materially from the amounts reported in the Company's year ended December 31, 2000, consolidated financial statements.

8. KLT TELECOM INC. PURCHASE OF AN ADDITIONAL OWNERSHIP INTEREST IN DTI

On February 8, 2001, KLT Telecom acquired control of DTI by acquiring an additional 31.2% of the fully diluted shares of DTI from Richard D. Weinstein, DTI's former Chairman, President and CEO, for \$33.6 million in cash. An additional 5.0% of the fully diluted shares were purchased through a tender offer for DTI's outstanding warrants and the purchase of a separate warrant for 1.0% of DTI's common stock. Consequently, KLT Telecom now owns 83.6% of DTI's fully diluted shares. Under the purchase agreement, Weinstein, who resigned as Chairman, President and CEO, retained just over 15% of the fully diluted ownership and a seat on the DTI board. Also, the parties granted put

and call options that gave Weinstein the right to sell and KLT Telecom the right to buy Weinstein's remaining ownership in DTI.

This acquisition has been accounted for by the purchase method of accounting. Operating results were included in the Company's consolidated financial statements from the date of the acquisition. Goodwill of \$63.0 million was recorded as a result of this acquisition and is being amortized over 25 years. At September 30, 2001, unamortized goodwill totaled \$61.2 million.

Extraordinary Item - Early Extinguishment of Debt

The KLT Telecom gain on early extinguishment of debt year to date September 30, 2001, resulted from DTI's completion of a successful tender offer for 50.4 percent of its outstanding Senior Discount Notes prior to KLT Telecom acquiring a majority ownership in DTI. The \$15.9 million early extinguishment of debt has been reduced by the losses previously recorded by DTI but not reflected by KLT Telecom, and is net of \$9.1 million of income taxes.

Telecommunications Property

DTI telecommunications property at September 30, 2001, of \$383.3 million, is net of accumulated depreciation of \$44.7 million and consists mainly of fiber optic plant and usage rights. At September 30, 2001, telecommunications property included about \$47 million of construction work in progress.

Operating Leases and Indefeasible Rights to Use (IRU) Commitments

DTI is a lessee under operating leases and IRUs for fiber, equipment space, maintenance, power costs and office space. Minimum rental commitments under these agreements for 2001 are \$8 million and \$9 million annually for the years 2002 through 2005. After 2005, cumulative minimum rental commitments under these agreements total \$136 million.

DTI Risk Factors

For a description of certain risk factors that may adversely affect DTI's business and results of operations, see DTI's report on Form 10-K for the six-month period ended December 31, 2000, filed on May 15, 2001, and DTI's quarterly report on Form 10-Q for the quarter ended September 30, 2001.

DTI is actively exploring its strategic alternatives including a merger, sale of assets, bankruptcy, and all other types of recapitalization. DTI has not yet determined which alternative, or combination thereof, it will pursue. KLT Telecom has \$186.9 million invested in DTI. For additional information regarding DTI, see the Telecommunications-DTI Holdings, Inc. and subsidiaries section under the KLT Inc. Business Overview in the attached Management's Discussion and Analysis.

Consolidated Pro forma Information

The following unaudited pro forma consolidated results of operations are presented as if the acquisition of an additional ownership interest in DTI had been made at January 1, 2000. No pro forma adjustments to net income are required after February 8, 2001.

	Three Months Ended September 30, 2000 (thousands)		EPS
Revenues	\$381,242		
Net income	\$ 81,618		
Eliminate DTI recorded operating loss	-		
Add DTI operating loss on a 100% basis	(11,007)		
Other adjustments	(678)		
Pro forma net income	\$ 69,933		\$1.13

	Year to Date September 30			
	2001	2000		
	(thousands)		EPS	EPS
Revenues	\$1,130,310	\$876,345		
Income before extraordinary item and cumulative effect of changes in accounting principles	\$ 88,792	\$108,933		
Eliminate DTI recorded operating loss	18,819	8,876		
Add DTI operating loss on a 100% basis	(22,415)	(28,978)		
Other adjustments	(1,138)	(2,034)		
Pro forma loss before extraordinary item and cumulative effect of changes in accounting principles	84,058	86,797	\$1.36	\$1.40
Cumulative effect to January 1, 2000 of changes in accounting principles, net of income taxes	-	30,073	-	0.49
DTI's early extinguishment of debt, net of income taxes and minority interests	50,695	-	0.82	-
Pro forma net income	\$ 134,753	\$116,870	\$2.18	\$1.89

The unaudited pro forma consolidated results of operations are not necessarily indicative of the combined results that would have occurred had the acquisition occurred on those dates, nor is it indicative of the results that may occur in the future.

9. SALE OF EQUITY INVESTMENTS

Sale of KLT Investments II Inc.'s Ownership of Downtown Hotel Group
On May 31, 2001, KLT Investments II Inc. sold its 25% ownership of Kansas City Downtown Hotel Group, L.L.C. for total proceeds of \$3.8 million resulting in a \$2.2 million gain before income taxes. The after income tax gain on the sale was \$1.4 million (\$0.02 per share).

Sale of KLT Gas Properties

On June 28, 2001, KLT Gas sold its 50% ownership in Patrick KLT Gas, LLC for total proceeds of \$42.3 million resulting in a \$20.1 million gain before income taxes. The after income tax gain on the sale was \$12.0 million (\$0.19 per share).

10. NEW ACCOUNTING PRONOUNCEMENTS

SFAS No. 142 - Goodwill and Other Intangible Assets

The Financial Accounting Standards Board (FASB) has issued SFAS No. 142 - Goodwill and Other Intangible Assets. SFAS 142 is effective for fiscal years beginning after December 15, 2001. The Company will adopt SFAS 142 on January 1, 2002. Under the new pronouncement, goodwill will be assigned to reporting units and an initial impairment test (comparison of the fair value of a reporting unit to its carrying amount) will be done on all goodwill within six months of initially applying the statement and then at least annually, thereafter. We have not yet quantified the effects of adopting SFAS 142 on the Company's financial condition and results of operations. At September 30, 2001, goodwill reported on the Consolidated Balance Sheet totaled \$98.0 million.

SFAS No. 143 - Accounting for Asset Retirement Obligations

FASB has issued SFAS No. 143 - Accounting for Asset Retirement Obligations. SFAS 143 is effective for fiscal years beginning after June 15, 2002. The Company will adopt SFAS 143 on January 1, 2003. Under the new pronouncement, an entity must recognize as a liability, the fair value of an asset retirement obligation including nuclear decommissioning costs. We have not yet quantified the effect of adopting SFAS 143 on the Company's financial conditions.

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

Great Plains Energy Incorporated

Effective October 1, 2001, KCPL completed its corporate reorganization creating a holding company structure. GPE became the holding company of the following subsidiaries:

- - KCPL, a leading regulated provider of electricity in the Midwest;
- - GPP, a competitive generator that will sell to the wholesale market; and
- - KLT Inc., a national investment company focusing on energy-related ventures that are unregulated with high growth potential.

In implementing this strategy, the Company is focused on:

- - Providing reliable, low-cost electricity to retail customers;
- - Acquiring and investing in generation to serve the wholesale market;
- - Pursuing high growth, unregulated business opportunities;
- - Managing the Company as a portfolio of both regulated and unregulated, energy-related and growth businesses; and
- - Investing in a diverse group of people in recognition that the Company's success is dependent upon the skills and expertise of its people.

After October 1, 2001, all outstanding KCPL shares are honored on a share for share basis as GPE shares. The new GPE trading symbol "GXP" replaces the KCPL trading symbol "KLT" and is traded on the New York Stock Exchange.

The information reported in this report is through September 30, 2001, and thus is for KCPL prior to the reorganization to GPE. The following discussion and analysis by management focuses on those factors that had a material effect on the consolidated financial condition and results of operations for the three months ended and year to date September 30, 2001, compared to the three months ended and year to date September 30, 2000. The discussion should be read in conjunction with the accompanying Consolidated Financial Statements, Notes and especially Note 3 - Segment and Related Information which summarizes the income statement by segment.

Consolidated Earnings Overview

	Three Months Ended September 30		Year to Date September 30	
	2001	2000	2001	2000
Earnings per share (EPS) summary				
KCPL				
Excluding cumulative effect	\$ 0.96	\$ 0.70	\$ 1.28	\$ 1.13
Cumulative effect of changes in pension accounting	-	-	-	0.49
KCPL EPS	0.96	0.70	1.28	1.62
KLT Inc.				
Excluding extraordinary item	(0.06)	0.78	0.19	0.81
Extraordinary item:				
Early extinguishment of debt	-	-	0.26	-
KLT Inc. EPS	(0.06)	0.78	0.45	0.81
HSS EPS	(0.01)	(0.17)	(0.06)	(0.20)
Reported Consolidated EPS	\$ 0.89	\$ 1.31	\$ 1.67	\$ 2.23

On February 1, 2001, DTI completed a tender offer for 50.4% of its outstanding senior discount notes. This transaction resulted in KLT Inc. reporting on an equity basis a \$15.9 million (\$0.26 per share) extraordinary item for the gain on the early extinguishment of debt year to date September 30, 2001.

Effective January 1, 2000, KCPL changed its methods of amortizing unrecognized net gains and losses and determination of expected return related to its accounting for pension expense. Accounting principles required the Company to record the cumulative effect of these changes increasing common stock earnings year to date September 30, 2000, by \$30.1 million (\$0.49 per share). Adoption of the new methods of accounting for pensions will lead to greater fluctuations in pension expense in the future. The portions of the cumulative effect of pension accounting changes attributable to KLT Inc. and HSS are immaterial and, therefore, were not allocated to these subsidiaries.

For further discussion regarding each segment's contribution to consolidated EPS, see its respective Earnings Overview section below.

KCPL Operations

KCPL Business Overview

KCPL, a regulated utility, consists of two business units - generation and delivery. Dividing into two business units has provided KCPL the opportunity to reexamine the businesses' internal processes in order to operate more efficiently and create additional value for shareholders.

The generation business has over 3,700 megawatts of generating capacity, including Hawthorn No. 5. The rebuild of the boiler at Hawthorn No. 5 is complete. The unit was returned to commercial operation on June 20, 2001. During the third quarter of 2001, KCPL completed a \$200 million, five-year operating lease agreement for five combustion turbines that will add 385 megawatts of peaking capacity. Site preparation will begin next year for the arrival of the first combustion turbine in 2003. Some or all of the units may be transferred to GPP. If transferred, a significant portion of the output from some of these units may be sold to KCPL.

The delivery business consists of transmission and distribution that serves over 472,000 customers at September 30, 2001, and experiences annual load growth of approximately 2% to 3% through increased customer usage and additional customers. Rates charged for electricity are currently below the national average. Additionally, there is a moratorium on changes to Missouri retail rates until March 2002.

KCPL has an obligation, under FERC Order 2000, to join a Federal Energy Regulatory Commission (FERC) approved Regional Transmission Organization (RTO) by December 2001. RTOs combine regional transmission operations of utility businesses into an organization that schedules transmission services and monitors the energy market to ensure regional transmission reliability and non-discriminatory access. KCPL has been considering its options for joining an RTO. FERC has indicated a desire for the numerous RTOs that have been formed and are in the process of being formed to consolidate into four RTOs covering the entire nation. To accomplish that objective, FERC directed an Administrative Law Judge to mediate a potential consolidation among the various RTOs. The Administrative Law Judge has submitted a report to the FERC, but FERC has not yet ruled on the issue.

KCPL Earnings Overview

KCPL contributed EPS of \$0.96 for the three months ended September 30, 2001, compared to \$0.70, for the same period in 2000, and \$1.28 year to date September 30, 2001, compared to \$1.13, excluding the cumulative effect of changes in pension accounting, for the same period in 2000. The following table and discussion highlight significant factors affecting the changes in KCPL's EPS contribution for the periods indicated.

September 30, 2001 compared to September 30, 2000

	Three Months Ended	Year to Date
Increased (decreased) revenues	\$(0.01)	\$ 0.17
Decreased quantity of energy and capacity purchased	0.19	0.21
Decreased other operation and maintenance including administrative and general expenses	0.11	0.05
Increased interest charges	(0.05)	(0.14)
Increased depreciation	(0.03)	(0.09)
Other (see discussion below)	0.05	(0.05)
Total	\$ 0.26	\$ 0.15

Contributing to the other factors impacting the change in KCPL's EPS are the following:

- Increased expenses because of the write-off of \$2.0 million of billings incurred after January 1, 2001, to one of KCPL's larger customers because of its Chapter 11 bankruptcy filing on February 7, 2001. Any recoveries from this bankruptcy proceeding will be recorded as income when received.
- Decreased gain on property due to a gain on the sale of unit train coal cars year to date September 30, 2000.
- Fossil fuel and purchased power prices decreased for the three months ended and increased year to date September 30, 2001, compared to the same periods of 2000.

KCPL Megawatt-hour (mwh) Sales and Electric Sales Revenues
September 30, 2001 compared to September 30, 2000

	Three Months Ended		Year to Date	
	Mwh	Revenues	Mwh	Revenues
(revenue change in millions)				
Retail Sales:				
Residential	(4) %	\$ (4.4)	4 %	\$ 4.2
Commercial	-	1.2	3 %	7.5
Large Industrial Customer	(99) %	(7.7)	(80) %	(15.5)
Industrial - Other	(5) %	(1.3)	(4) %	(1.3)
Other	6 %	-	3 %	0.1
Total Retail	(5) %	(12.2)	(2) %	(5.0)
Sales for Resale:				
Bulk Power Sales	144 %	11.1	62 %	20.0
Other	(5) %	(0.3)	(1) %	-
Total	7 %	(1.4)	5 %	15.0
Other revenues		0.3		1.9
KCPL electric sales revenues		\$ (1.1)		\$ 16.9

Residential mwh sales decreased for the three months ended September 30, 2001, compared to the same period of 2000, primarily due to milder weather. The decrease was more than offset for year to date September 30, 2001, compared to the same period of 2000, by colder winter weather and continued load growth. Load growth consists of higher usage-per-customer and the addition of new customers. Mwh sales to one Large Industrial Customer decreased for the three months ended and year to date September 30, 2001, compared to the the same periods of 2000, due to its February 7, 2001, bankruptcy, and the closing of its Kansas City, Missouri facilities on May 25, 2001. Industrial - Other mwh sales decreased primarily due to economic conditions affecting certain industrial customers. Less than 1% of revenues include an automatic fuel adjustment provision.

Bulk power sales vary with system requirements, generating unit and purchased power availability, fuel costs and requirements of other electric systems. Increased bulk power mwh sales for both the three months ended and year to date September 30, 2001, compared to the same periods in 2000, were primarily attributable to the availability of Hawthorn No. 5 and the loss of the large industrial customer discussed above. The increase in bulk power sales year to date September 30, 2001, compared to the same period of 2000, was partially offset by additional residential and commercial sales resulting from colder winter weather during the first three months of 2001 and continued load growth. The average prices per mwh of bulk power sales were down 10% for the three months ended and up 10% year to date September 30, 2001, compared to the same periods of 2000.

KCPL's share of LaCygne No. 1 unit's capacity has been temporarily reduced by approximately 100 megawatts because of the failure, in mid-July 2001, of one of the two air heaters. KCPL is replacing the 30-year old air heaters during a 6-week fall outage that began November 2, 2001, at an approximate capitalized cost to KCPL of \$2 million. KCPL anticipates that other units will replace the lost capacity during the outage. However, this outage will reduce bulk power sales in the fourth quarter of 2001.

KCPL Fuel and Purchased Power

Fuel costs decreased \$1.6 million for the three months ended September 30, 2001, compared to the same period of 2000, due to decreased generation from natural gas partially offset by increased generation from coal and a slight decrease in the cost per mmBtu of coal. Fuel costs increased \$5.5 million year to date September 30, 2001, compared to the same period of 2000, due to increased generation from coal and the higher cost per mmBtu of natural gas partially offset by decreased generation from natural gas. Natural gas has a significantly higher cost per mmBtu than coal or nuclear

fuel. Total generation increased 14% for the three months ended and 8% year to date September 30, 2001, compared to the same periods of 2000.

Fossil plants represent about two-thirds of total generation and the nuclear plant about one-third. Nuclear fuel costs per mmBtu remain substantially less than the mmBtu price of coal. KCPL expects the price of nuclear fuel to remain fairly constant through the year 2003. KCPL's procurement strategies continue to provide delivered coal costs below the regional average.

Purchased power expenses decreased \$21.9 million for the three months ended and \$19.5 million year to date September 30, 2001, compared to the same periods of 2000. Mwh's purchased decreased 47% for the three months ended and 22% year to date September 30, 2001, compared to the same periods of 2000. The decreases were primarily due to Hawthorn No. 5 returning to commercial operation in June 2001 which contributed to an increase in the availability of KCPL's generating units and a decline in capacity purchased. Purchased power prices were down 14% for the three months ended September 30, 2001, compared to the same period of 2000, but the decrease in prices for the quarter did not completely offset the increase in prices during the first half of 2001. The cost per mwh for purchased power is significantly higher than the fuel cost per mwh of generation.

KCPL Other Operation and Maintenance Expenses

KCPL's other operation and maintenance expense decreased \$11.2 million for the three months ended and \$5.1 million year to date September 30, 2001, compared to the same periods of 2000. The primary reasons for the decrease in KCPL's other operation and maintenance expense were:

- - reductions in replacement power insurance for the summer months because of the availability of Hawthorn No. 5 during the summer of 2001;
- - less customer information system software consulting in 2001;
- - less advertising in 2001; and
- - decreased net periodic pension cost due to \$9 million year to date credits in 2000 increasing to \$12 million year to date credits in 2001. See discussion below.

KCPL's pension benefit accounting principles, as discussed in the December 31, 2000, report on Form 10-K, can result in large fluctuations in pension expenses. Excluding the Wolf Creek pension plan, the fair value of the other pension plan assets at September 30, 2001, decreased significantly from the September 30, 2000, plan year. This decrease will cause the expected return on plan assets to decrease approximately \$15 million in 2002, an unfavorable change to net periodic benefit cost.

KCPL Interest Charges

KCPL's interest charges increased \$5.2 million for the three months ended and \$13.7 million year to date September 30, 2001, compared to the same periods of 2000, primarily because of an increase in long-term debt interest expense and a decrease in the allowance for borrowed funds used during construction.

The increase in long-term interest expense is reflective of higher average levels of outstanding long-term debt for the three months ended and year to date September 30, 2001, compared to the same periods of 2000. The higher average levels of debt primarily reflect \$200 million of unsecured, floating rate medium-term notes issued by KCPL in March 2000, and \$250 million of unsecured, fixed-rate senior notes issued in December 2000, partially offset by \$60.5 million of scheduled debt repayments by KCPL since September 30, 2000. The increase in interest expense was partially offset by lower interest rates.

Allowance for borrowed funds used during construction decreased \$2.9 million for the three months ended and \$0.3 million year to date September 30, 2001, compared to the same periods of 2000,

because of decreased construction work in progress due to the completion of the Hawthorn No. 5 rebuild.

Short-term debt interest expense decreased for the three months ended and year to date September 30, 2001, compared to the same periods of 2000, due to lower interest rates partially offset by higher levels of commercial paper outstanding.

Wolf Creek

Wolf Creek is one of KCPL's principal generating units, representing about 15% of KCPL's generating capacity. The plant's operating performance has remained strong over the last three years, contributing about 30% of KCPL's annual mwh generation while operating at an average capacity of 93%. Furthermore, Wolf Creek has the lowest fuel cost per mMBtu of any of KCPL's generating units.

KCPL accrues the incremental operating, maintenance and replacement power costs for planned outages evenly over the unit's operating cycle, normally 18 months. As actual outage expenses are incurred, the refueling liability and related deferred tax asset are reduced. Wolf Creek's next refueling and maintenance outage is scheduled for the spring of 2002 and is estimated to be a 30-day outage.

Ownership and operation of a nuclear generating unit exposes KCPL to risks regarding decommissioning costs at the end of the unit's life and to potential retrospective assessments and property losses in excess of insurance coverage.

Hawthorn No. 5

On June 20, 2001, Hawthorn No. 5 was returned to commercial operation. The coal-fired unit has a capacity of 575 megawatts and was rebuilt following a February 1999 explosion that destroyed the boiler. KCPL has been recognized nationally, including mention in the National Energy Policy Report sent to President Bush, for its use of state-of-the-art pollution control technology in the rebuilt Hawthorn No. 5. Under KCPL's property insurance coverage, with limits of \$300 million, KCPL received an additional \$30 million in insurance recoveries year to date September 30, 2001, increasing the total insurance recoveries received to date to \$160 million. The recoveries have been recorded in Utility Plant - accumulated depreciation on the consolidated balance sheet. Expenditures, excluding capitalized interest, for rebuilding Hawthorn No. 5 were \$35.6 million in 1999, \$207.6 million in 2000 and are projected to be about \$73 million in 2001, of which \$58.1 million were incurred year to date September 30, 2001. These amounts have not been reduced by the insurance proceeds received to date or future proceeds to be received.

KLT Inc. Operations

KLT Inc. Business Overview

KLT Inc., an unregulated subsidiary, pursues business ventures in higher growth businesses. Existing ventures include investments in telecommunications, natural gas development and production, energy services and affordable housing limited partnerships. KCPL's investment in KLT Inc. was \$150.0 million at September 30, 2001, and \$119.0 million at December 31, 2000.

Telecommunications - DTI Holdings, Inc. and Subsidiaries (DTI)

At December 31, 2000, KLT Telecom, a subsidiary of KLT Inc., owned 47% of DTI (acquired in 1997), a facilities-based telecommunications company. Through utilization of a \$94 million loan (10% interest rate) to DTI Holdings, Inc. from KLT Telecom, DTI successfully completed a tender offer to repurchase a portion of its long-term debt on February 1, 2001, reducing interest costs. On February 8, 2001, KLT Telecom increased its ownership of DTI from 47 percent to 84 percent. See Note 8 to the Consolidated Financial Statements for further information.

The strategic design of the DTI network allows DTI to offer reliable, high-capacity voice and data transmission services, on a region-by-region basis, to primary carriers and end-user customers who seek a competitive alternative to existing providers. DTI's network infrastructure is designed to provide reliable customer service through back-up power systems, automatic traffic re-routing and computerized automatic network monitoring. If the network experiences a failure of one of its links, the routing intelligence of the equipment transfers traffic to the next choice route, thereby ensuring delivery without affecting customers. DTI currently provides services to other communication companies including Tier 1 and Tier 2 carriers. DTI also provides private line services to targeted business and governmental end-user customers. All of DTI's operations are subject to federal and state regulations.

Responding to the current challenges of the telecommunications industry, DTI has more narrowly focused its strategy. In order to reduce the capital requirements, DTI will only provide connectivity in secondary and tertiary markets in five states. In addition, DTI is evaluating means to enhance its business by utilizing the significant metropolitan fiber assets that it has in its current regional network to provide metro access services, including high bandwidth services over an Ethernet based network targeted at enterprise customers (i.e., Gigabit Ethernet services). DTI estimates that its total additional cash funding requirements subsequent to September 30, 2001, necessary to implement its refocused and downsized business plan and to fund existing commitments and payables, will be approximately \$28 million over the next 15 months.

KLT Telecom had committed to provide or arrange a revolving credit facility for Digital Teleport, Inc., a subsidiary of DTI Holdings, Inc., in the amount of \$75.0 million. A credit facility with bank lenders has not been possible to obtain due to, among other things, the downturn in the telecommunications industry. The DTI Holdings and Digital Teleport Boards of Directors confirmed, in July 2001, that KLT Telecom is not obligated to make any other future loans to Digital Teleport. This confirmation was based on the downturn in the telecommunications industry and the resulting decline in Digital Teleport's prospects and financial condition. KLT Telecom, in September 2001, under a credit facility agreed to lend up to \$5.0 million subject to Digital Teleport meeting specified conditions. As of September 30, 2001, Digital Teleport had borrowed \$1.5 million of the \$5.0 million. Under these credit facilities, KLT Telecom has loaned Digital Teleport a total of \$47.0 million (\$1.0 million was loaned on October 25, 2001). These loans are secured, to the extent permitted by law or agreement, by Digital Teleport's assets. DTI is dependent upon KLT Telecom's continued funding of Digital Teleport. KLT Telecom will not provide additional funding to Digital Teleport unless in its sole judgement Digital Teleport meets certain specified conditions.

Because of the downturn in the telecommunication industry, an impairment analysis was performed on the DTI, June 30, 2001, assets in accordance with SFAS 121 Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of, which requires that long-lived assets be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Based upon current business strategies, the analysis indicated there was no impairment as defined in SFAS 121.

DTI is actively exploring its strategic alternatives including a merger, sale of assets, bankruptcy, and all other types of recapitalization. DTI has not yet determined which alternative, or combination thereof, it will pursue. KLT Telecom has \$186.9 million invested in DTI including the loans to date detailed above, interest accrued on these loans and goodwill recorded.

Natural Gas Development and Production - KLT Gas
KLT Gas' business strategy is to acquire and develop early stage coalbed methane properties and then divest properties in order to create shareholder value. KLT Gas believes that coalbed methane production provides an economically attractive alternative source of supply to meet the growing demand for natural gas in North America and has built a knowledge base in coalbed methane production and

reserves evaluation. Therefore, KLT Gas focuses on coalbed methane - a niche in the natural gas industry where it believes its expertise gives it a competitive advantage. Because it has a longer, predictable reserve life, coalbed methane is inherently lower risk than conventional gas exploration.

Although gas prices have been volatile recently, KLT Gas continues to believe that the long-term future price scenarios for natural gas appear strong. Environmental concerns and the increased demand for natural gas for new electric generating capacity are contributing to this projected growth in demand.

KLT Gas' properties are located in Colorado, Texas, Wyoming, Kansas, and Nebraska. These leased properties cover approximately 210,000 undeveloped acres. The development of this acreage is in accordance with KLT Gas' exploration plan and capital budget. The timing of the development may vary from the plans based upon obtaining the required environmental and regulatory approvals and permits.

Energy Management Service - Strategic Energy LLC (SEL)
SEL is an energy management services provider that operates in several deregulated electricity markets, including Pennsylvania, Southern California, Ohio and New York. Recently, SEL has expanded its geographic reach by entering into additional deregulated electricity markets in Massachusetts and Texas. In 2001, in exchange for approximately \$4.7 million preferred stock ownership in an energy services company, the ownership in SEL was increased from approximately 72% to approximately 83%.

SEL acts as an energy manager in deregulated markets on behalf of approximately 15,000 commercial and small manufacturing customers. SEL enters into one to five year contracts with customers to supply energy and manage their energy needs. For this service they receive an ongoing management fee plus the contracted price for the electricity and natural gas. SEL will phase out its natural gas retail service in the fourth quarter of 2001.

SEL's suppliers and customer base are very diverse. Suppliers include small and large energy generators across the country. Customers include numerous Fortune 500 companies, school districts, and governmental entities. Based on current signed contracts and expected usage, SEL forecasts a peak load of 1,433 megawatts. The largest concentration of the forecasted load, 568 megawatts, is in Pennsylvania.

Investments in Affordable Housing Limited Partnerships - KLT Investments

At September 30, 2001, KLT Investments had \$87.1 million in affordable housing limited partnerships. About 69% of these investments were recorded at cost; the equity method was used for the remainder. Tax expense is reduced in the year tax credits are generated. The investments generate future cash flows from tax credits and tax losses of the partnerships. The investments also generate cash flows from the sales of the properties (estimated residual value). For most investments, tax credits are received over ten years. A change in accounting principle relating to investments made after May 19, 1995, requires the use of the equity method when a company owns more than 5% in a limited partnership investment. Of the investments recorded at cost, \$58.3 million exceed this 5% level but were made before May 19, 1995.

On a quarterly basis, KLT Investments completes a valuation study of its cost method investments in affordable housing by comparing the cost of those properties to the total of projected residual value of the properties and remaining tax credits to be received. Estimated residual values are based on studies performed by an independent firm. Based on the latest valuation study, KLT Investments reduced its investments in affordable housing limited partnerships by about \$8 million during the third quarter of 2001. KLT Investments estimates that additional reductions in affordable housing

investments will approximate \$5 million in the fourth quarter of 2001 and \$9 million, \$12 million, \$8 million and \$7 million, for the years 2002 through 2005, respectively. Even after these reductions, earnings from affordable housing are expected to be positive for the next five years.

These projections are based on the latest information available but the ultimate amount and timing of actual reductions made could be significantly different from the above estimates.

KLT Inc. Earnings Overview

The following table and discussion highlight significant factors affecting KLT Inc.'s effect on consolidated EPS for the three months ended and year to date September 30, 2001, and September 30, 2000.

	Three Months		Year to Date	
	Ended September 30 2001	2000	September 30 2001	2000
Earnings per share (EPS) summary				
KLT Inc.				
SEL	\$ 0.16	\$ 0.05	\$ 0.28	\$ 0.09
DTI				
Operations subsequent to 2/8/01	(0.13)	-	(0.31)	-
Gain on early extinguishment of debt and equity losses prior to majority ownership	-	-	0.26	(0.14)
KLT Gas				
Operations	-	0.04	0.03	0.12
Sale of gas properties	-	0.62	0.19	0.62
Realized loss on CellNet stock	-	-	-	(0.05)
KLT Investments	(0.02)	0.06	0.09	0.18
Other	(0.07)	0.01	(0.09)	(0.01)
KLT Inc. EPS	\$(0.06)	\$ 0.78	\$ 0.45	\$ 0.81

SEL's increase in earnings per share for the three months ended and year to date September 30, 2001, compared to the same periods of 2000, is due to continued strong growth in its electric energy management business and a significant increase over the prior year periods in wholesale bulk power sales, which have a considerably higher gross margin (revenues less cost of energy supplied) than SEL's retail electric sales.

In February 2001, KLT Telecom increased its investment in DTI from 47% to 84%, which required a change in the method of accounting from equity to consolidation. DTI's loss per share on operations subsequent to 2/8/01 primarily reflects increased personnel costs mostly due to increased marketing and sales efforts and higher depreciation and amortization expenses due to increasing amounts of its fiber optic network being placed into service.

DTI's \$0.26 EPS contribution prior to the change in ownership resulted from the net impact of the gain from early extinguishment of \$193 million of senior discount notes by DTI, reduced by the losses previously recorded by DTI but not reflected by KLT Telecom. KLT Telecom stopped recording equity losses on its investment in DTI after the second quarter of 2000 because at June 30, 2000, its investment had been written down to zero. The gain from early extinguishment is reflected in the consolidated financial statements as an extraordinary item.

During June 2001, KLT Gas sold its 50% equity ownership in Patrick KLT Gas, LLC for \$42.3 million, resulting in an after tax gain of \$12.0 million (\$0.19 per share). During September 2000, KLT Gas sold producing natural gas properties to Evergreen Resources, Inc. for \$145.4 million, resulting in an after tax gain of \$38.6 million (\$0.62 per share).

During the third quarter of 2001, KLT Investments reduced its investments in affordable housing limited partnerships by \$8.1 million (\$0.08 per share). Also during the third quarter of 2001, KLT Energy Services recorded a mark-to-market, unrealized loss of \$5.2 million (\$0.05 per share) on its investment in common stock of a publicly traded company, which is reflected in Other in the table above.

KLT Inc. Revenues

Increase (Decrease)	September 30, 2001 compared to September 30, 2000	
	Three Months Ended	Year to Date
	(millions)	
DTI	\$ 4.6	\$ 11.6
SEL		
Electric - Retail	86.4	154.7
Electric - Bulk Power Sales	25.7	50.5
Gas	(6.4)	4.5
KLT Gas	(10.5)	(27.1)
Total	\$ 99.8	\$ 194.2

KLT Inc. acquired a majority ownership in DTI in February 2001. Prior to this, the investment in DTI was recorded on an equity basis.

SEL's retail revenues increased for the three months ended and year to date ended September 30, 2001, compared to the same periods of 2000, due to continued strong growth in its electric energy management business. SEL currently serves approximately 15,000 commercial and small manufacturing customers, an increase of 8,000 customers from the beginning of 2001. In addition, based on current signed contracts and expected usage, SEL forecasts a peak load of 1,433 megawatts compared to 485 megawatts under management at the beginning of 2001.

SEL has an option to purchase up to 270 megawatts of power at \$21 per mwh through the end of 2001. Almost all of the bulk power sales increase for the three months ended and year to date September 30, 2001, compared to the same periods of 2000, is related to large block sales of the power purchased under the option. SEL also purchases energy in the wholesale markets to meet its customers' energy needs. On occasion, SEL must purchase small blocks of power prior to the sales contract in order to quote stable pricing to potential new customers. Power purchased in excess of retail sales is sold in the wholesale markets.

SEL's gas sales decreased for the three months ended September 30, 2001, compared to the same period of 2000, because SEL began to phase out its retail natural gas service. SEL intends to complete the phase out in the fourth quarter of 2001.

KLT Gas revenues decreased for the three months ended and year to date September 30, 2001, compared to the same periods of 2000, primarily due to the sale of KLT Gas properties in September and October 2000. Also contributing to the three months ended and year to date decreases were declines in production and in the average price per MCF of gas sold, particularly during the three months ended September 30, 2001, and transactions associated with gas hedging activities. KLT Gas

unwound the majority of its gas hedge derivatives with a swap transaction during the second quarter of 2001. The fair market value of the swap has been recorded in gas revenues.

Gain on Property

KLT Inc.'s gain on property year to date September 30, 2001, includes a \$20.1 million before tax gain on KLT Gas' sale of its 50% equity ownership in Patrick KLT Gas, LLC. KLT Inc.'s gain on property for the three months ended and year to date September 30, 2000, includes a \$60.4 million before tax gain on KLT Gas' sale of producing natural gas properties to Evergreen Resources, Inc.

Other Income and Expenses

The unfavorable changes in KLT Inc.'s other income and expenses for the three months ended and year to date September 30, 2001, compared to the same periods in 2000, were primarily due to KLT Investments Inc.'s \$8.1 million reduction in affordable housing limited partnerships and a \$5.2 million mark-to-market, unrealized loss from KLT Energy Services' investment in the common stock of a publicly-traded company. Year to date September 30, 2000, included \$4.8 million of realized losses on the write off of an investment in CellNet in 2000.

KLT Inc. Taxes

KLT Inc. accrued tax credits of \$6.5 million and \$19.5 million for the three months ended and year to date September 30, 2001, and \$7.0 million and \$20.7 million for the three months ended and year to date September 30, 2000. These tax credits are related to investments in affordable housing limited partnerships and natural gas properties.

HSS Operations

HSS, an unregulated subsidiary, pursues business ventures primarily in residential services. In 2001, HSS increased its ownership to 72% from 49% in RSAE, a consumer services company in Atlanta, Georgia, which required a change in the method of accounting for RSAE from equity to consolidation. Additionally, Worry Free Service, Inc., a wholly owned subsidiary of HSS, assists residential customers in obtaining financing primarily for heating and air conditioning equipment.

KCPL's investment in HSS was \$46.9 million at September 30, 2001, and \$46.3 million at December 31, 2000. HSS' loss year to date September 30, 2001, totaled \$3.7 million (\$0.06 per share) compared to a loss of \$12.7 million (\$0.20 per share) year to date September 30, 2000. HSS' decreased loss year to date September 30, 2001, compared to 2000, was primarily due to a write-down of its investment in RSAE during 2000. At September 30, 2001, the Company's accumulated losses were \$21.7 million on its investment in HSS. HSS' consolidated assets increased to \$55.1 million at September 30, 2001, compared to \$25.3 million at December 31, 2000, reflecting the consolidation of RSAE in 2001.

Great Plains Power Incorporated (GPP)

GPP will focus on fossil fuel-fired electric generation in the central part of the U.S. GPP is considering building, in the Midwest region, one to five coal-fired plants ranging from 500 to 900 megawatts each. One of the units, Weston Bend I, is anticipated to be on line in 2006. GPP announced an agreement with the boiler and air quality control equipment vendor and construction firm, Babcock and Wilcox, and the design and engineering firm, Burns and McDonnell, to conduct the design and development study for Weston Bend I, a coal-fired plant near Weston, Missouri. This agreement reunites the same team that rebuilt Hawthorn No. 5.

Other Consolidated Discussion

Significant Consolidated Balance Sheet Changes

(September 30, 2001 compared to December 31, 2000)

- Receivables increased \$106.3 million primarily due to strong growth in SEL's electric energy management business and the seasonal nature of the utility business.
- Equity securities decreased \$18.3 million primarily due to KLT Gas' sale of \$12.3 million of stock in Evergreen Resources, Inc. and the decline in the market value of an equity security that KLT Energy Services, Inc. held.
- Telecommunications property of \$386.2 million at September 30, 2001, resulted from KLT Telecom's purchase of an additional ownership interest in DTI, which required a change in the method of accounting for DTI from equity to consolidation.
- Gas property and investments decreased \$12.3 million primarily due to KLT Gas' sale of its 50% equity ownership in Patrick KLT Gas, LLC partially offset by additions to gas property.
- Other nonutility property and investments decreased \$18.6 million due to the sale by KLT of its \$1.6 million investment in the Downtown Hotel Group, the sale of \$8.1 million of various other investments and the exchange of \$4.7 million preferred stock in an energy services company for an additional ownership in SEL.
- Combined electric utility plant and construction work in progress increased \$147.2 million primarily due to expenditures and capitalized interest of \$68.2 million at Hawthorn No. 5 to rebuild the boiler and \$92.2 million for other utility capital expenditures. The completion of rebuilding the boiler at Hawthorn No. 5 resulted in a transfer of \$288.9 million from construction work in progress to electric plant.
- Goodwill increased \$87.2 million due to increased goodwill at September 30, 2001, of \$61.2 million resulting from the consolidation of DTI and an additional \$2.9 million in goodwill recorded because of increased ownership in SEL. An additional \$23.1 million of goodwill at September 30, 2001, relates to the consolidation of RSAE, resulting from an increased ownership by HSS.
- Notes payable of \$22.4 million includes \$19.3 million of short-term notes at September 30, 2001, relating to the consolidation of RSAE and \$3.1 million relating to short-term notes held by DTI.
- Commercial paper increased \$137.6 million due to the repayment of medium-term notes of \$50 million and additional commercial paper borrowings as expenditures exceeded cash receipts.
- Current maturities of long-term debt increased \$274.2 million, reflecting a \$227.0 million increase in the current portion of KCPL's medium-term notes offset by \$50.0 million of maturing medium-term notes, and \$99.5 million borrowed under KLT Inc.'s bank credit agreement. KLT Inc.'s bank credit agreement was repaid October 3, 2001, with proceeds from GPE's bridge credit facility which terminates on February 28, 2002.
- Accounts payable decreased \$24.2 million primarily due to the timing of cash receipts and cash payments partially offset by strong growth in SEL's electric energy management business.
- Accrued taxes increased \$62.6 million primarily due to the timing of income tax and property tax payments.
- Other current liabilities increased \$36.2 million including \$3.4 million at September 30, 2001, due to the consolidation of RSAE, \$17.1 million because of SFAS 133 - Accounting for Derivative Instruments and Hedging Activities, as amended, (See Note 6 to the Consolidated Financial Statements) and \$12.4 million at September 30, 2001, due to the consolidation of DTI.
- Deferred telecommunications revenue of \$45.6 million at September 30, 2001, is due to the consolidation of DTI. This deferred revenue results from advances under contracts being deferred and then recognized on a straight-line basis as revenue over the terms of the contract. In many cases, recognition does not start until completion of specified route segments.

Capital Requirements and Liquidity

The Company's liquid resources at September 30, 2001, included cash flows from operations, \$150 million of registered but unissued debt securities, and \$52.8 million of unused bank lines of credit. The unused lines consisted of KCPL's short-term bank lines of credit.

KLT Inc.'s bank credit agreement was repaid October 3, 2001, with proceeds from a new GPE bridge credit facility which terminates on February 28, 2002, and has \$9.0 million remaining available at October 3, 2001. On October 12, 2001, KCPL paid \$40.8 million by issuing commercial paper to purchase the Hawthorn No. 6 combustion turbine unit from the lessor in accordance with the terms of the lease with KCPL.

The Company generated positive cash flows from operating activities year to date September 30, 2001. Individual components of working capital will vary with normal business cycles and operations, such as the increase in receivables of \$101.2 million year to date September 30, 2001, the reduction of accounts payable by \$61.7 million and the increase in accrued taxes of \$60.2 million for the same period. Also, the timing of the Wolf Creek outage affects the refueling outage accrual, deferred income taxes and amortization of nuclear fuel.

Cash used for investing activities varies with the timing of utility capital expenditures and purchases of investments and nonutility property. Cash used for purchases of investments and nonutility property increased year to date September 30, 2001, compared to the same period of 2000, primarily reflecting cash paid by KLT Telecom for additional ownership in DTI and additional telecommunications property partially offset by investments in gas properties during the same period of 2000. The note receivable from DTI prior to majority ownership is reflected as an investing activity. See additional discussion of DTI loan activity in the Telecommunications section of the KLT Inc. Business overview. These amounts were partially offset by cash received from the sale of KLT gas properties in the current and prior year and the sale of securities in the current period.

Cash from financing activities increased year to date September 30, 2001, compared to the same period of 2000, primarily because short-term borrowings increased \$144.7 million year to date September 30, 2001, compared to a \$16.6 million decrease for the same period of 2000. However, this change in short-term borrowings was partially offset by a decrease in long-term debt issuances, net of repayments, year to date September 30, 2001, compared to the same period of 2000.

The Company expects to meet day-to-day operations, construction requirements (excluding new generating capacity and telecommunications construction) and dividends with internally-generated funds. However, the Company might not be able to meet these requirements with internally-generated funds because of the effect of inflation on operating expenses, the level of mwh sales, regulatory actions, compliance with future environmental regulations and the availability of generating units. The funds needed to retire \$752 million of maturing debt through the year 2005 will be provided from operations, refinancings and/or short-term debt. The Company may issue additional debt and/or additional equity to finance growth or take advantage of new opportunities.

Environmental Matters

The Company's operations must comply with federal, state and local environmental laws and regulations. The generation and transmission of electricity produces and requires disposal of certain products and by-products, including polychlorinated biphenyl (PCBs), asbestos and other hazardous materials. The Federal Comprehensive Environmental Response, Compensation and Liability Act (the Superfund law) imposes strict joint and several liability for those who generate, transport or deposit hazardous waste. In addition, the current owner of contaminated property, as well as prior owners since the time of contamination, may be liable for cleanup costs.

The Company continually conducts environmental audits to detect contamination and ensure compliance with governmental regulations. However, compliance programs need to meet new and future environmental laws, as well as regulations governing water and air quality, including carbon dioxide emissions, nitrogen oxide emissions, hazardous waste handling and disposal, toxic substances and the effects of electromagnetic fields. Therefore, compliance programs could require substantial changes to operations or facilities (see Note 4 to the Consolidated Financial Statements).

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

This disclosure is for the interim periods presented and should be read in connection with the quantitative and qualitative disclosures about market risk included in our 2000 annual report on Form 10-K.

The consolidated company is exposed to market risks associated with commodity price and supply, interest rates and equity prices. Market risks are handled in accordance with established policies, which may include entering into various derivative transactions. In the normal course of business, the Company also faces risks that are either non-financial or non-quantifiable. Such risks principally include business, legal, operational and credit risks and are not represented in the following analysis.

Commodity Risk

KCPL has its forecasted coal requirements under contract for the year 2001. A portion of these coal requirements are subject to the market price of coal. Because of the increased price of coal and additional commitments, KCPL's coal commitments for 2001 have increased 16% to \$41.8 million since the 2000 annual report on Form 10-K was filed. A hypothetical 10% increase in the price of coal would result in an immaterial decrease in the year 2001 pretax earnings.

PART II - OTHER INFORMATION

ITEM 2(a). CHANGES IN SECURITIES

On October 1, 2001, KCPL completed a corporate reorganization creating a holding company structure. Pursuant to and through an agreement and plan of merger among KCPL, Great Plains Energy Incorporated (GPE) and another wholly owned subsidiary of GPE, KCPL became the wholly owned subsidiary of GPE. GPE became the holding company and successor issuer for all of KCPL shares of (i) Common Stock; (ii) 3.80% Cumulative Preferred Stock; (iii) 4.50% Cumulative Preferred Stock; (iv) 4.20% Cumulative Preferred Stock; and (v) 4.35% Cumulative Preferred Stock. GPE replaced KCPL as the listed entity on the New York Stock Exchange. The new GPE trading symbol GXP replaces the old KCPL symbol KLT. With the exception of the change in issuer, all other designations, preferences, rights, qualification, restrictions, and limitations pertaining to each class of stock remain the same.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K.

EXHIBITS

- 3-(i) Restated Articles of Consolidated as amended
October 1, 2001
- 10 Credit Agreement between KLT Telecom Inc. and
Digital Teleport, Inc. dated as of September 25,
2001

REPORTS ON FORM 8-K

No reports on Form 8-K were filed with the Securities and Exchange Commission during the nine months ended September 30, 2001.

A report on Form 8-K was filed October 1, 2001, by Kansas City Power & Light Company announcing the completion of its corporate restructuring.

SIGNATURES

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

KANSAS CITY POWER & LIGHT COMPANY

Dated: November 9, 2001 By: /s/Bernard J. Beaudoin
(Bernard J. Beaudoin)
(Chief Executive Officer)

Dated: November 9, 2001 By: /s/Neil Roadman
(Neil Roadman)
(Principal Accounting Officer)

RESTATED ARTICLES OF CONSOLIDATION

KANSAS CITY POWER & LIGHT COMPANY

AS AMENDED OCTOBER 1, 2001

RESTATED ARTICLES OF CONSOLIDATION
OF
KANSAS CITY POWER & LIGHT COMPANY

The following shall constitute the Restated Articles of Consolidation of Kansas City Power & Light Company.

Kansas City Power & Light Company consolidated with Carroll County Electric Company under the corporate name of Kansas City Power & Light Company. The original Articles of Consolidation were filed with the Secretary of State of Missouri on July 29, 1922. The Restated Articles of Consolidation were originally approved by the Board of Directors on February 7, 1989, and duly adopted by an affirmative vote of the holders of a majority of all outstanding stock entitled to vote at the Annual Meeting of Shareholders held on April 25, 1989.

The registered office of Kansas City Power & Light Company is located at 1201 Walnut, Kansas City, Missouri 64106; and the name of the registered agent at such address is Jeanie Sell Latz.

ARTICLE FIRST. The name of this corporation shall be KANSAS CITY POWER & LIGHT COMPANY.

ARTICLE SECOND. The name of the city or town and county in which said corporation is to be located is Kansas City, Jackson County, Missouri, and its registered office shall be 1201 Walnut, Kansas City, Missouri, but it shall have power to transact business anywhere in Missouri, and also in the several States of the United States if and when so desired under the respective laws thereof regarding foreign corporations.

ARTICLE THIRD. The amount of authorized capital stock of the Company is One Thousand (1,000) shares of Common Stock without par value.

- (a) Dividends. Subject to the limitations in this ARTICLE THIRD set forth, dividends may be paid on the Common Stock out of any funds legally available for the purpose, when and as declared by the Board of Directors.
- (b) Liquidation Rights. In the event of any liquidation or dissolution of the Company, after there shall have been paid to or set aside for the holders of outstanding shares having superior liquidation preferences to Common Stock the full preferential amounts to which they are respectively entitled, the holders of outstanding shares of Common Stock shall be entitled to receive pro rata, according to the number of shares held by each, the remaining assets of the Company available for distribution.
- (c) Voting Rights. Except as set forth in this ARTICLE THIRD or as by statute otherwise mandatory provided, the holders of the Common Stock shall exclusively possess full voting powers for the election of Directors and for all other purposes.
- (d) No Preemptive Rights. No holders of outstanding shares of Common Stock shall have any preemptive right to subscribe for or acquire any shares of stock or any securities of any kind hereafter issued by the Company.
- (e) Consideration for Shares. Subject to applicable law, the shares of the Company, now or hereafter authorized, may be issued for such consideration as may be fixed from time to time by the

Board of Directors. Subject to applicable law and to the provisions of this ARTICLE THIRD, shares of the Company issued and thereafter acquired by the Company may be disposed of by the Company for such consideration as may be fixed from time to time by the Board of Directors.

(f) Crediting Consideration to Capital. The entire consideration hereafter received upon the issuance of shares of Common Stock without par value shall be credited to capital, and this requirement may not be eliminated or amended without the affirmative vote of consent of the holders of two-thirds of the outstanding Common Stock.

ARTICLE FOURTH. [Deleted]

ARTICLE FIFTH. The number of Directors which shall constitute the whole Board of Directors shall be fixed by the By-laws of the Company, but shall not be less than three (3). Any changes in the number of Directors shall be reported to the Secretary of State of Missouri within thirty (30) calendar days of such change.

ARTICLE SIXTH. That the said corporation, KANSAS CITY POWER & LIGHT COMPANY, shall continue perpetually.

ARTICLE SEVENTH. That the said corporation, KANSAS CITY POWER & LIGHT COMPANY, is formed for the following purposes:

The acquisition, construction, maintenance and operation of electric power and heating plant or plants and distribution systems therefor; the purchase of electrical current and of steam and of other heating mediums and forms of energy; distribution and sale thereof; the doing of all things necessary or incident to carrying on the business aforesaid in the State of Missouri and elsewhere, and generally the doing of all other things the law may authorize such a corporation so to do.

ARTICLE EIGHTH. [Deleted]

ARTICLE NINTH. The Board of Directors may make, alter, amend or repeal By-laws of the Company by a majority vote of the whole Board of Directors at any regular meeting of the Board or at any special meeting of the Board if notice thereof has been given in the notice of such special meeting. Nothing in this ARTICLE NINTH shall be construed to limit the power of the shareholders to make, alter, amend or repeal By-laws of the Company at any annual or special meeting of shareholders by a majority vote of the shareholders present and entitled to vote at such meeting, provided a quorum is present.

ARTICLE TENTH. At any meeting of shareholders, a majority of the outstanding shares entitled to vote represented in person or by proxy shall constitute a quorum; provided, that less than such quorum shall have the right successively to adjourn the meeting to a specified date not longer than 90 days after such adjournment, and no notice need be given of such adjournment to shareholders not present at the meeting.

ARTICLE ELEVENTH. These Restated Articles of Consolidation may be amended in accordance with and upon the vote prescribed by the laws of the State of Missouri; provided, that in no event shall any such amendment be adopted after the date of the adoption of this ARTICLE ELEVEN without receiving the affirmative vote of at least a majority of the outstanding shares of the Company entitled to vote.

ARTICLE TWELFTH. In addition to any affirmative vote required by these Restated Articles of Consolidation or By-laws, the affirmative vote of the holders of at least 80% of the outstanding shares of Common Stock of the Company entitled to vote shall be required for the approval or authorization of any Business Combination with an Interested Shareholder; provided, however, that such 80% voting requirement shall not be applicable if:

(a) the Business Combination shall have been approved by a majority of the Continuing Directors; or

(b) the cash or the Fair Market Value of the property, securities or other consideration to be received per share by holders of the Common Stock in such Business Combination is not less than the highest per share price paid by or on behalf of the Interested Shareholder for any shares of Common Stock during the five-year period preceding the announcement of such Business Combination.

The following definitions shall apply for purposes of this ARTICLE TWELFTH:

(a) The term "Business Combination" shall mean: (i) any merger or consolidation involving the Company or a subsidiary of the Company with or into an Interested Shareholder; (ii) any sale, lease, exchange, transfer or other disposition (in one transaction or a series) of any Substantial Part of the assets of the Company or a subsidiary of the Company to or with an Interested Shareholder; (iii) the issuance of any securities of the Company or a subsidiary of the Company to an Interested Shareholder other than the issuance on a pro rata basis to all holders of shares of the same class pursuant to a stock split or stock dividend; (iv) any recapitalization or reclassification or other transaction that would have the effect of increasing the proportionate voting power of an Interested Shareholder; (v) any liquidation, spinoff, splitup or dissolution of the Company proposed by or on behalf of an Interested Shareholder; or (vi) any agreement, contract, arrangement or understanding providing for any of the transactions described in this definition of Business Combination;

(b) The term "Interested Shareholder" shall mean and include (i) any individual, corporation, partnership or other person or entity which, together with its "Affiliates" or "Associates" (as defined on March 1, 1986, in Rule 12b-2 of the General Rules and Regulations under the Securities Exchange Act of 1934) "beneficially owns" (as defined on March 1, 1986, in Rule 13d-3 of the General Rules and Regulations under the Securities Exchange Act of 1934) in the aggregate 5% or more of the outstanding shares of the Common Stock of the Company, and (ii) any Affiliate or Associate of any such Interested Shareholder;

(c) The term "Continuing Director" shall mean any member of the Board of Directors of the Company who is unaffiliated with the Interested Shareholder and was a member of the Board of Directors prior to the time that the Interested Shareholder became an Interested Shareholder, and any successor of a Continuing Director if the successor is unaffiliated with the Interested Shareholder and is recommended or elected to succeed the Continuing Director by a majority of Continuing Directors;

(d) The term "Fair Market Value" shall mean: (i) in the case of stock, the highest closing sale price during the 30-day period immediately preceding the date in question of a share of such stock on the Composite Tape for New York Stock Exchange-Listed Stocks, or, if such stock is not quoted on the Composite Tape, on the New York Stock Exchange, or, if such stock is not listed on such Exchange, on the principal United States securities exchange registered under the Securities and Exchange Act of 1934 on which such stock is listed, or, if such stock is not listed on any such exchange, the highest closing bid quotation with respect to a share of such stock during the 30-day period preceding the date in question on the National Association of Securities Dealers, Inc. Automated Quotations System or any similar system then in use, or, if no such quotations are available, the Fair Market Value on the date in question of a share of such stock as determined by a majority of the Continuing Directors; and (ii) in the case of property other than cash or stock, the Fair Market Value of such property on the date in question as determined by a majority of the Continuing Directors; and

(e) The term "Substantial Part" shall mean 10% or more of the Fair Market Value of the total assets as reflected on the most recent balance sheet existing at the time the shareholders of the Company would be required to approve or authorize the Business Combination involving the assets constituting any such Substantial Part.

Notwithstanding ARTICLE ELEVENTH or any other provisions of these Restated Articles of Consolidation or the By-laws of the Company (and not withstanding the fact that a lesser percentage may be specified by law), this ARTICLE TWELFTH may not be altered, amended or repealed except by the affirmative vote of the holders of at least 80% or more of the outstanding shares of Common Stock of the Company entitled to vote.

ARTICLE THIRTEENTH. (a) Right to Indemnification. Each person who was or is made a party or is threatened to be made a party to any action, suit or proceeding, whether civil, criminal, administrative or investigative, by reason of the fact that he or she is or was a Director or officer of the Company or is or was an employee of the Company acting within the scope and course of his or her employment or is or was serving at the request of the Company as a Director, officer, employee or agent of another corporation or of a partnership, joint venture, trust or other enterprise, including service with respect to employee benefit plans, shall be indemnified and held harmless by the Company to the fullest extent authorized by The Missouri General and Business Corporation Law, as the same exists or may hereafter be amended, against all expense, liability and loss (including attorneys' fees, judgments, fines, ERISA excise taxes or penalties and amounts paid to or to be paid in settlement) actually and reasonably incurred by such person in connection therewith. The Company may in its discretion by action of its Board of Directors provide indemnification to agents of the Company as provided for in this ARTICLE THIRTEENTH. Such indemnification shall continue as to a person who has ceased to be a Director, officer, employee or agent and shall inure to the benefit of his or her heirs, executors and administrators.

(b) Rights Not Exclusive. The indemnification and other rights provided by this ARTICLE THIRTEENTH shall not be deemed exclusive of any other rights to which a person may be entitled under any applicable law, By-laws of the Company, agreement, vote of shareholders or disinterested Directors or otherwise, both as to action in such person's official capacity and as to action in any other capacity while holding the office of Director or officer, and the Company is hereby expressly authorized by the shareholders of the Company to enter into agreements with its Directors and officers which provide greater indemnification rights than that generally provided by The Missouri General and Business Corporation Law; provided, however, that no such further indemnity shall indemnify any person from or on account of such Director's or officer's conduct which was finally adjudged to have been knowingly fraudulent, deliberately dishonest or willful misconduct. Any such agreement providing for further indemnity entered into pursuant to this ARTICLE THIRTEENTH after the date of approval of this ARTICLE THIRTEENTH by the Company's shareholders need not be further approved by the shareholders of the Company in order to be fully effective and enforceable.

(c) Insurance. The Company may purchase and maintain insurance on behalf of any person who was or is a Director, officer, employee or agent of the Company, or was or is serving at the request of the Company as a Director, officer, employee or agent of another Company, partnership, joint venture, trust or other enterprise against any liability asserted against or incurred by such person in any such capacity, or arising out of his or her status as such, whether or not the Company would have the power to indemnify such person against such liability under the provisions of this ARTICLE THIRTEENTH.

(d) Amendment. This ARTICLE THIRTEENTH may be hereafter amended or repealed; however, no amendment or repeal shall reduce, terminate or otherwise adversely affect the right of a person entitled to obtain indemnification or an advance of expenses with respect to an action, suit or proceeding that pertains to or arises out of actions or omissions that occur prior to the later of (a) the effective date of such amendment or

repeal; (b) the expiration date of such person's then current term of office with, or service for, the Company (provided such person has a stated term of office or service and completes such term); or (c) the effective date such person resigns his or her office or terminates his or

her service (provided such person has a stated term of office or service but resigns prior to the expiration of such term).

ARTICLE FOURTEEN. Any act or transaction by or involving the Company that requires for its adoption pursuant to Chapter 351 of the Missouri General and Business Corporation Law or these Restated Articles of Consolidation the approval of the shareholders of the Company shall, pursuant to Section 351.448 of the Missouri General and Business Corporation Law, require, in addition, the approval of the shareholders of Great Plains Energy Incorporated, a Missouri corporation, or any successor thereto by merger, by the same vote as is required pursuant to Chapter 351 of the Missouri General and Business Corporation Law or the Restated Articles of Consolidation of the Company.

CREDIT AGREEMENT

BETWEEN

KLT TELECOM INC.

AS LENDER,

AND

DIGITAL TELEPORT, INC.

AS BORROWER

DATED AS OF SEPTEMBER 25, 2001

CREDIT AGREEMENT

THIS CREDIT AGREEMENT, dated as of September 25, 2001, is between Digital Teleport, Inc., a Missouri corporation (the "Borrower"), and KLT Telecom Inc., a Missouri corporation (the "Lender").

WHEREAS, the Borrower wishes to obtain, and the Lender is willing to make, a certain term loan on the terms and conditions set forth herein, such indebtedness to be evidenced by one or more Notes.

NOW, THEREFORE, in consideration of the representations, warranties, covenants and agreements contained in this Agreement, and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto hereby agree as follows:

ARTICLE I

DEFINITIONS

SECTION 1.01. DEFINITIONS. Definitions as used in this Agreement:

"Action" means any action, suit, arbitration, inquiry, proceeding or investigation by or before any Governmental Authority.

"Advance" means a borrowing hereunder by the Borrower.

"Affiliate" shall have the meaning ascribed to such term in Rule 12b-2 under the Securities Exchange Act of 1934, as amended, as such Rule is in effect on the date of this Agreement.

"Aggregate Available Commitment" means, at any time, the Aggregate Commitment at such time, MINUS the aggregate amount of all Advances.

"Aggregate Commitment" means the total amount which the Lender is obligated to advance under SECTION 2.04 below.

"Agreement" means this Credit Agreement, as it may be amended, modified or restated and in effect from time to time.

"Article" means an article of this Agreement unless another document is specifically referenced.

"Authorized Officer" means any of the chairman, chief executive officer or chief financial officer of the Borrower, or any other officer of the Borrower they or any of them designate to the Lender.

"Borrower" means Digital Teleport, Inc., a Missouri corporation, and its successors and permitted assigns.

"Borrowing Date" means a date on which an Advance is made hereunder.

"Borrower Material Adverse Effect" has the meaning set forth in SECTION 11.13.

"Borrowing Notice" is defined in SECTION 2.05.

"Business Day" means with respect to any borrowing or payment, a day (other than a Saturday or Sunday) on which banks generally are open in Kansas City, Missouri for the conduct of substantially all of their commercial lending activities.

"Business Plan" has the meaning set forth in SECTION 6.02.

"Capitalized Lease" of a Person means any lease of Property by such Person as lessee which would be capitalized on a balance sheet of such Person prepared in accordance with GAAP.

"Capitalized Lease Obligations" of a Person means the amount of the obligations of such Person under Capitalized Leases which would be shown as a liability on a balance sheet of such Person prepared in accordance with GAAP.

"Code" means the Internal Revenue Code of 1986, as amended, reformed or otherwise modified from time to time.

"Collateral" means Borrower's Property which is subject to a security interest held by the Lender pursuant to the Loan Documents.

"Condemnation" is defined in SECTION 7.08.

"Consolidated" or "consolidated", when used in connection with any calculation, means a calculation to be determined on a consolidated basis (as determined in accordance with GAAP) for the Borrower.

"Consolidated Person" means, for the taxable year of reference, each Person which is a member of the affiliated group of which the Borrower is a member if consolidated returns are or shall be filed for such affiliated group for federal income tax purposes or any combined or unitary group of which the Borrower is a member for state income tax purposes.

"Contingent Obligation" of a Person means any agreement, undertaking or arrangement by which such Person assumes, guarantees, endorses, contingently agrees to purchase or provide funds for the payment of, or otherwise becomes or is contingently liable upon, the obligation or liability of any other Person, or agrees to maintain the net worth or working capital or other financial condition of any other Person, or otherwise assures any creditor of such other Person against loss, including, without limitation, any operating agreement or take-or-pay contract or application for a letter of credit.

"Controlled Group" means all members of a controlled group of corporations and all trades or businesses (whether or not incorporated) under common control which, together with the Borrower, are treated as a single employer under Section 414 of the Code.

"Default" means any event or condition the occurrence of which would, with the passage of time or the giving of notice, or both, constitute an Event of Default.

"Encumbrance" means any charge, claim, community property interest, equitable interest lien, tax lien, option, pledge, security interest, right of first refusal or restriction of any kind, including any restriction on transfer, receipt of income or exercise of any other attribute of ownership.

"Environment" means soil, land surface or subsurface strata, surface waters (including navigable waters, ocean waters, streams, ponds, drainage basins, and wetlands), groundwaters, drinking water supply, stream sediments, ambient air (including indoor air), plant and animal life, and any other environmental medium or natural resource.

"Environmental Law" means any Law that requires or relates to protection of human health or the Environment.

"ERISA" means the Employee Retirement Income Security Act of 1974, as amended from time to time, and any rule or regulation issued thereunder.

"Event of Default" is defined in ARTICLE VII.

"Facility Termination Date" is defined in SECTION 2.02.

"Fair Market Value" means the amount which a willing buyer would pay a willing seller in an arm's-length transaction.

"Fiscal Quarter" means one of the four consecutive three-month accounting periods beginning on the first day of each Fiscal Year.

"Fiscal Year" means the twelve-month accounting period ending on December 31 of each year.

"GAAP" means generally accepted accounting principles, consistently applied.

"Governmental Authority" means any federal, state, foreign or local government, any of its subdivisions, administrative agencies, authorities, commissions, boards or bureaus, any federal, state, foreign or local court or tribunal and any arbitrator.

"Indebtedness" of a Person means such Person's (a) obligations for borrowed money, (b) obligations representing the deferred purchase price of Property or services (other than accounts payable arising in the ordinary course of such Person's business), (c) obligations, whether or not assumed, secured by Liens or payable out of the proceeds or production from Property now or hereafter owned or acquired by such Person, (d) obligations which are evidenced by notes, acceptances, or other instruments, (e) Capitalized Lease Obligations, (f)

Contingent Obligations, (g) Rate Hedging Obligations, and (h) repurchase obligations or liabilities of such Person with respect to accounts receivable or notes receivable sold by such Person.

"Investment" of a Person means any loan, advance (other than commission, travel and similar advances to officers and employees made in the ordinary course of business), extension of credit (other than accounts receivable arising in the ordinary course of business), or contribution of capital by such Person to any other Person or any investment in, or purchase or other acquisition of, the stock, partnership interests, notes, debentures, other securities or other indebtedness of any other Person made by such Person.

"Knowledge," in the case of an individual, means that such individual will be deemed to have "Knowledge" of a particular fact or other matter if (i) such individual is actually aware of such fact or other matter or (ii) a prudent individual could be expected to discover or otherwise become aware of such fact or other matter in the course of conducting a reasonably comprehensive investigation concerning the existence of such fact or other matter; and, in the case of the Borrower, "Knowledge" means that the Borrower will be deemed to have "Knowledge" of a particular fact or other matter if any one or more of the following individuals had knowledge of such fact or other matter: Daniel A. Davis, Gary Douglass, Andrew Whipple and Paul Pierron.

"Law" means any federal, state, local, municipal, foreign, international, multinational, or other judicial or administrative order, judgment, decree, constitution, law, ordinance, common law of Missouri, regulation, statute, or treaty.

"Lender" means KLT Telecom Inc., a Missouri corporation, and its successors and assigns.

"Lien" means any lien, pledge, claim, security interest or Encumbrance whatsoever, including any mortgage, deed of trust, security interest (including any Capitalized Lease or other title retention agreement), charge, pledge, retention of title agreement, easement, encroachment, condition, reservation, covenant, lis pendens lien, claim of lien, adverse claim, restriction on attributes of ownership, or other Encumbrance affecting title.

"Loan" means the aggregate of all Advances.

"Loan Documents" means this Agreement, the Notes, the Security Documents and the other documents and agreements contemplated by this Agreement and executed by the Borrower in favor of the Lender in connection with this Agreement.

"Margin Stock" has the meaning assigned to that term under Regulation G of the Board of Governors of the Federal Reserve.

"Material Adverse Effect" means a material adverse effect on (i) the business, Property, condition (financial or otherwise), results of operations, or prospects of the Borrower taken as a whole, (ii) the ability of the Borrower to perform its obligations under the Loan Documents, or

(iii) the validity or enforceability of any of the Loan Documents or the rights and remedies of the Lender thereunder.

"Multiemployer Plan" means a Plan coming within Section 4001(a)(3) of ERISA.

"Net Income" means, for any computation period, with respect to the Borrower on a consolidated basis with its Subsidiaries (other than any Subsidiary which is restricted from declaring or paying dividends or otherwise advancing funds to its parent whether by contract or otherwise), cumulative net income earned during such period in accordance with GAAP.

"Note" and "Notes" means one or more of the Promissory Notes substantially in the form attached hereto as EXHIBIT A each evidencing an Advance (including any such Promissory Notes issued in exchange or substitution).

"Obligations" means all unpaid principal of and accrued and unpaid interest on the Notes, all accrued and unpaid fees and all expenses, reimbursements, indemnities and any and all other obligations of any kind of the Borrower to the Lender, including, without limitation, those arising under the Loan Documents.

"Ordinary Course of Business" means an action taken by a Person will be deemed to have been taken in the "Ordinary Course of Business" only if:

(a) such action is consistent with the past practices of such Person and is taken in the ordinary course of the normal day-to-day operations of such Person; and

(b) such action is not required to be authorized by the board of directors of such Person (or by any Person or group of Persons exercising similar authority);

"Party" and "Parties" shall mean individually a party to this Agreement and collectively all of the parties to this Agreement.

"Payment Date" means February 1, 2002 and any other date on which any payment of principal and/or interest is due hereunder or under any Note.

"PBGC" means the Pension Benefit Guaranty Corporation or any successor thereto.

"Permitted Telecommunication Asset Sale" means any Telecommunication Asset Sale approved in advanced in writing by the Lender.

"Person" means any natural person, corporation, limited liability company, firm, joint venture, partnership, association, enterprise, trust or other entity or organization, or any government or political subdivision or any agency, department, division or instrumentality of any of the foregoing.

"Plan" means an employee pension benefit plan, as defined in Section 3(2) of ERISA, as to which the Borrower or any member of the Controlled Group has any liability.

"Property" of a Person means any and all property, whether real, personal, tangible, intangible, or mixed, of such Person, or other assets owned, leased or operated by such Person.

"Purchase" means any transaction, or any series of related transactions, consummated on or after the date of this Agreement, by which the Borrower or any of its Subsidiaries (a) acquires any business or all or substantially all of the assets of any other Person, whether through purchase of assets, merger or otherwise, or (b) directly or indirectly acquires (in one transaction or as the most recent transaction in a series of transactions) at least a majority (in number of votes) of the securities of a corporation which have ordinary voting power for the election of directors (other than securities having such power only by reason of the happening of a contingency) or a majority in interest (by percentage or voting power) of the outstanding interests of any other Person.

"Rate Hedging Obligations" of a Person means any and all obligations of such Person, whether absolute or contingent and howsoever and whensoever created, arising, evidenced or acquired (including all renewals, extensions and modifications thereof and substitutions therefor), under (i) any and all agreements, devices or arrangements designed to protect at least one of the parties thereto from the fluctuations of interest rates, exchange rates or forward rates applicable to such party's assets, liabilities or exchange transactions, including, but not limited to, dollar-denominated or cross-currency interest rate exchange agreements, forward currency exchange agreements, interest rate cap or collar protection agreements, forward rate currency or interest rate options, puts and warrants, and (ii) any and all cancellations, buy backs, reversals, terminations or assignments of any of the foregoing.

"Release" is defined in the Comprehensive Environmental Response, Compensation and Liability Act, as amended, 42 U.S.C. 9601 ET SEQ.

"Reportable Event" means a reportable event as defined in Section 4043 of ERISA and the regulations issued under such section, with respect to a Plan, excluding, however, such events as to which the PBGC has by regulation waived the requirement of Section 4043(a) of ERISA that it be notified within 30 days of the occurrence of such event; PROVIDED, that a failure to meet the minimum funding standard of Section 412 of the Code and of Section 302 of ERISA shall be a Reportable Event regardless of the issuance of any such waiver of the notice requirement in accordance with Section 4043(a) of ERISA.

"Returns" means all tax returns that must be filed with any federal, state or local taxing authority.

"SEC" means the Securities and Exchange Commission of the United States Government.

"Section" means a numbered section of this Agreement, unless another document is specifically referenced.

"Security Documents" means and includes all assignments, deeds of trust, mortgages, security agreements, and pledge agreements, and any other agreement or instrument evidencing, pledging or granting a security interest in any property or assets to secure the Loan and the

Obligations, as may from time to time be executed and delivered to or in favor of Lender by Borrower.

"Single Employer Plan" means a Plan subject to Title IV of ERISA, other than a Multiemployer Plan.

"Subsidiary" of any Person means any corporation or other entity of which a majority of the voting power of the voting equity securities or equity interest is owned, directly or indirectly, by such Person. Unless otherwise expressly provided, all references herein to a "Subsidiary" shall mean a Subsidiary of the Borrower.

"Substantial Portion" means, with respect to the Property of the Borrower and its Subsidiaries, Property which (a) represents more than 10% of the consolidated assets of the Borrower, as would be shown in the consolidated financial statements of the Borrower as at the end of the Fiscal Quarter next preceding the date on which such determination is made, or (b) is responsible for more than 10% of the consolidated net sales or of the Net Income of the Borrower for the 12-month period ending as of the end of the Fiscal Quarter next preceding the date of determination.

"Tax" or "Taxes" means all income, profits, franchise, gross receipts, capital, sales, use, withholding, value added, ad valorem, transfer, employment, social security, disability, occupation, property, severance, production, excise and other taxes, duties and similar governmental charges and assessments imposed by or on behalf of any Governmental Authority (including interest and penalties thereon).

"Telecommunication Asset Sale" means any transfer, conveyance, sale, lease or other disposition of assets, rights (contractual or otherwise) and properties, whether tangible or intangible, used or intended for use in connection with the Borrower's business; provided that such assets are accounted for as "property, plant and equipment" on the Borrower's consolidated balance sheet in accordance with GAAP, the proceeds of which are treated as revenues (including deferred revenues) by the Borrower in accordance with GAAP.

"Termination Event" means, with respect to a Plan which is subject to Title IV of ERISA, (a) a Reportable Event, (b) the withdrawal of the Borrower or any other member of the Controlled Group from such Plan during a plan year in which the Borrower or any other member of the Controlled Group was a "substantial employer" as defined in Section 4001(a)(2) of ERISA or was deemed such under Section 4066 of ERISA, (c) the termination of such Plan or the filing of a notice of intent to terminate such Plan under Section 4041 of ERISA, or (d) the institution by the PBGC of proceedings to terminate such Plan or the occurrence of any event or condition which constitutes grounds under Section 4042 of ERISA for the termination of, or appointment of a trustee to administer, such Plan.

"Threatened" means any demand or statement that has been made in writing that would lead a prudent person to conclude that a claim, proceeding, dispute, Action, or other matter is likely to be asserted, commenced, taken, or otherwise pursued in the future.

"Unfunded Liability" means the amount (if any) by which the present value of all vested and unvested accrued benefits under a Single Employer Plan exceeds the fair market value of assets allocable to such benefits, all determined as of the then most recent valuation date for such Plan using PBGC actuarial assumptions for single employer plan terminations.

The foregoing definitions shall be equally applicable to both the singular and plural forms of the defined terms.

ARTICLE II

THE CREDITS

SECTION 2.01. ADVANCES.

(a) From and including the date of this Agreement and prior to the Facility Termination Date, the Lender agrees, on the terms and subject to the conditions set forth in this Agreement, to make Advances to the Borrower from time to time in amounts not to exceed the Aggregate Available Commitment existing at such time. Lender agrees that the initial Advance to Borrower pursuant to the terms of this Agreement shall be in the amount of \$1,500,000 and shall be made within one (1) business day of the date of this Agreement. Although the Borrower may obtain multiple Advances hereunder, this is not a revolving line of credit and Advances may not be repaid and re-advanced. Prepayment may only be made in accordance with ARTICLE III.

(b) The Borrower agrees that if at any time the outstanding balance of the Loan exceeds the Aggregate Commitment, the Borrower shall repay immediately the then outstanding Loan balance in such amount as is necessary to eliminate such excess.

(c) The Borrower's obligation to pay the principal of, and interest on, each Advance shall be evidenced by a Note executed by the Borrower in the principal amount equal to such Advance and dated the date of such Advance.

Each Advance shall mature, and the principal amount thereof and any unpaid accrued interest thereon shall be due and payable, on February 1, 2002 (or as otherwise provided in the related Note).

SECTION 2.02. FACILITY TERMINATION DATE. The Facility Termination Date is the date after which the Lender is no longer obligated to make Advances hereunder and shall occur upon the earlier of:

(a) February 1, 2002; or

(b) Acceleration by the Lender in accordance with the provisions of ARTICLE VIII.

Such termination of the credit facility shall not affect in any way the Lender's rights, including the rights to accelerate the Loans, under this Agreement and the Notes.

SECTION 2.03. MINIMUM AMOUNT AND MAXIMUM AMOUNT OF EACH ADVANCE. After the initial Advance, each Advance shall be in the minimum amount of \$500,000 (and in multiples of \$50,000 if in excess thereof) and in the maximum amount of \$1,000,000.

SECTION 2.04. AGGREGATE COMMITMENT. The Lender shall not be obligated to make any Advance prior to the date of this Agreement. From and after the date of this Agreement the "Aggregate Commitment" shall be \$5,000,000.

SECTION 2.05. BORROWING NOTICES FOR NEW ADVANCES. After the initial Advance, Borrower shall give the Lender irrevocable notice containing the following information (the "Borrowing Notice") not later than 10:00 a.m. (Kansas City time) at least three (3) Business Days and not more than twenty (20) Business Days before the proposed Borrowing Date of each Advance:

(a) the proposed Borrowing Date, which shall be a Business Day, of such Advance;

(b) the aggregate amount of such Advance;

(c) a statement to the effect that all of the representations and warranties of the Borrower contained herein and in the Loan Documents are true and correct (i) as of the date referred to in any representation or warranty that addresses a matter as of a particular date and (ii) as to all other representations and warranties as of the date of such Borrowing Notice;

(d) a description of any Default that exists as to which the proviso of clause (f) in ARTICLE IV may apply;

(e) a statement that the then applicable financial milestones set forth in SCHEDULE 2.05(E) hereto ("Financial Milestones") have been achieved; and

(f) a statement that the then applicable contractual and operational milestones set forth in SCHEDULE 2.05(F) hereto ("Contractual and Operational Milestones") have been achieved.

Subject to the terms hereof and subject to the satisfaction of the conditions set forth in ARTICLE IV, the Lender shall, not later than noon (Kansas City time) on each Borrowing Date, make available to Borrower immediately available funds in the amount of the Advance requested to be made on such Borrowing Date. Notwithstanding anything to the contrary contained herein, Borrower shall not give Lender a Borrowing Notice until all previous Borrowing Notices are either funded or denied pursuant to the terms of this Agreement.

SECTION 2.06. RATES APPLICABLE AFTER AN EVENT OF DEFAULT. During the continuance of an Event of Default, the Lender may, at its option, by notice to the Borrower (which notice may be revoked at the option of the Lender), declare that for the duration of time during which such Event of Default shall be continuing, the outstanding balance of the Loan shall bear interest at a rate equal to twelve and one-half percent (12.5%) per annum calculated for actual days elapsed on the basis of a 360-day year.

SECTION 2.07. METHOD OF PAYMENT. All payments of the Obligations hereunder shall be made, without setoff, deduction or counterclaim, in immediately available funds to the Lender pursuant to wire transfer instructions provided to the Borrower by a duly authorized executive officer of the Lender, or absent such instructions, at the Lender's address specified pursuant to SECTION 11.01, on the date when due. If the Borrower shall be required by law to deduct any such amounts from or in respect of any sum payable hereunder to the Lender, then the sum payable hereunder shall be increased so that, after making all required deductions, the Lender receives an amount equal to the sum it would have received had no such deduction been made, and the Borrower shall indemnify the Lender for taxes, assessments and governmental charges imposed by any jurisdiction on account of amounts paid or payable pursuant to this sentence. Within 30 days after the date of any payment of any such amount withheld by either Borrower in respect of any payment to the Lender, the Borrower shall furnish to the Lender the original or certified copy of a receipt evidencing payment thereof.

SECTION 2.08. NOTES. Upon receipt of a Borrowing Notice, the Lender shall promptly deliver to the Borrower a Note for execution by the Borrower; PROVIDED, HOWEVER, that the Lender may refuse to deliver such Note if the Lender is not obligated to make an Advance hereunder.

SECTION 2.09. INTEREST RATE; PAYMENT DATES; INTEREST AND FEE BASIS. Interest on principal shall be payable at a rate equal to nine and one-half percent (9.5%) per annum, provided, however, such interest rate may be increased as provided in this Agreement under certain circumstances to 12.5% per annum. The principal amount of each Advance, and all interest accrued on each Advance, shall be payable on the Payment Date. Interest accrued on each Advance shall be payable on any date on which principal is prepaid, whether due to acceleration or otherwise. Interest shall be calculated for actual days elapsed on the basis of a 360-day year. Interest shall be payable for the day an Advance is made but not for the day of any payment on the amount paid if payment is received prior to noon (Kansas City time) at the place of payment. If any payment of principal or interest on an Advance shall become due on a day which is not a Business Day, such payment shall be made on the next succeeding Business Day and, in the case of a principal payment, such extension of time shall be included in computing interest in connection with such payment.

SECTION 2.10. SECURITY. As security for the repayment of the Obligations and for the payment and performance of all other obligations of the Borrower to the Lender, Borrower shall cause the following documents, all in form and content acceptable to the Lender, to be executed and delivered to the Lender, and Borrower shall cooperate with Lender to cause all filings, recordings and other actions to be taken, all at no cost to the Lender, as reasonably required by the Lender to establish of record and to perfect the Lender's security interests or Liens to the satisfaction of the Lender: (i) the Security Agreement attached hereto as EXHIBIT C and (ii) such other and additional instruments and reports as may reasonably be required in the opinion of the Lender to validate and perfect its security interest or lien and enable it to exercise and enforce its rights under this Agreement or the Security Documents executed and delivered to the Lender as security for the Obligations.

ARTICLE III

PREPAYMENT

The Borrower may at any time and from time to time prepay the Loan, in full or in part, without penalty or premium. All prepayments made, whether a scheduled installment, prepayment, or payment as a result of acceleration, shall be allocated first to accrued but unpaid interest on all outstanding Notes, next to any costs of collection, and then to installments of principal remaining outstanding on the Notes, first to principal amounts overdue then to principal amounts currently due and then to installments of principal due in the future in the inverse order of their maturity. In the event that the Borrower prepays a Note in part, the Borrower, at Lender's option, shall execute and deliver to the Lender a new Note in a principal amount equal to the principal remaining outstanding.

ARTICLE IV

ADVANCE CONDITIONS

The Lender shall not be required to make a requested Advance, if on the proposed Borrowing Date for such Advance:

- (a) All representations and warranties of the Borrower contained herein and in the Loan Documents are not true and correct (i) as of the date referred to in any representation or warranty that addresses a matter as of a particular date and (ii) as to all other representations and warranties as of the date of such proposed Advance;
- (b) An accurate and complete Borrowing Notice shall not have been properly submitted with respect to such Advance;
- (c) A duly executed Note representing the Advance has not been received by the Lender;
- (d) A Security Agreement, in the form of EXHIBIT C hereto, duly executed by an Authorized Officer of the Borrower has not been received by the Lender;
- (e) The Facility Termination Date shall have occurred;
- (f) A Default or Event of Default has occurred and is continuing or will exist as a result of the requested Advance; provided, however, this clause (f) shall not apply to any Default, the facts of which have been specifically disclosed to the Lender in the Borrowing Notice for such Advance and as to which the Lender has, within five (5) Business Days after the Lender's receipt of the Borrowing Notice, neither advised the Borrower of its intent to declare an Event of Default nor, advised the Borrower that it intends to exercise its rights in this clause (f) and not make the requested Advance (as is the Lender's right, exercising such right in its sole discretion);
- (g) An Event of Force Majeure (as defined in Section 11.13 of this Agreement) has occurred; or

(h) The applicable Financial Milestones or the applicable Contractual and Operational Milestones have not been achieved.

Each Borrowing Notice with respect to each such Advance shall constitute a representation and warranty by the Borrower that the conditions contained in this ARTICLE IV have been satisfied. The Lender may require a duly completed compliance certificate (dated the Borrowing Date) in substantially the form of EXHIBIT B hereto as a condition to making an Advance.

ARTICLE V

REPRESENTATIONS AND WARRANTIES

Borrower represents and warrants as follows:

SECTION 5.01. ORGANIZATION, STANDING AND POWER. The Borrower is a corporation duly organized, validly existing and in good standing under the laws of the jurisdiction in which it is incorporated and has all requisite power and authority to own, lease and operate its properties and to carry on its business as now being conducted. The Borrower is duly qualified or licensed to do business and is in good standing in each jurisdiction in which the nature of its business or the ownership or leasing of its properties makes such qualification or licensing necessary, other than in such jurisdictions where the failure to be so qualified or licensed (individually or in the aggregate) would not have a Material Adverse Effect.

SECTION 5.02. AUTHORITY; NONCONTRAVENTION. The Borrower has the requisite corporate power and authority to enter into this Agreement and perform its obligations hereunder and under the Loan Documents and the same have been duly authorized by all necessary corporate action on the part of the Borrower, and assuming this Agreement constitutes the valid and binding agreement of the Lender, constitute valid and binding obligations of the Borrower enforceable against the Borrower, in accordance with its terms, except to the extent that the enforcement thereof may be limited by (i) bankruptcy, insolvency, reorganization, moratorium or other similar laws now or hereafter in effect relating to creditors' rights generally, and (ii) general principles of equity regardless of whether enforceability is considered in a proceeding in equity or at law. Except as set forth on the attached SCHEDULE 5.02, the execution and delivery of this Agreement by the Borrower did not, and the consummation of the transactions contemplated by this Agreement will not, conflict with, or result in any violation of, or default (with or without notice or lapse of time, or both) under, or give rise to a right of termination, cancellation or acceleration of any obligation or to loss by the Borrower of a material benefit under, or result in the creation of any Lien upon any of the properties or assets of the Borrower under, (i) the articles of incorporation or bylaws of the Borrower, (ii) any loan or credit agreement, note, bond, mortgage, indenture, lease or other agreement, instrument, permit or license applicable to the Borrower or its properties or assets or (iii) subject to any required governmental filings, any law applicable to the Borrower or its properties or assets, other than any such conflicts, violations, defaults, rights or Liens that individually or in the aggregate would not (x) have a Material Adverse Effect, (y) materially impair the ability of the Borrower to perform its obligations under this Agreement or (z) prevent the consummation of any of the transactions contemplated by this Agreement.

SECTION 5.03. TAXES. The Borrower has timely filed all Returns and reports required to be filed by it, except where failure to timely file would not have a Material Adverse Effect. All such Returns and reports are complete and accurate except where the failure to be complete or accurate would not have a Material Adverse Effect. The Borrower has paid or has set up an adequate reserve for the payment of all Taxes shown as due on such Returns except where the failure to do so would not have a Material Adverse Effect. No deficiencies for any Taxes have been asserted, proposed or assessed against the Borrower that have not been paid or otherwise settled or reserved against, except for deficiencies the assertion, proposing or assessment of which would not have a Material Adverse Effect, and no requests for waivers of the time to assess any such taxes are pending. There are no material Liens for Taxes (other than for current taxes not yet due and payable) on the assets of the Borrower.

SECTION 5.04. COMPLIANCE WITH LAWS. The Borrower has in effect all permits from approvals, authorizations, certificates, filings, franchises, licenses, notices, permits, variances, exemptions, orders and rights ("Permits") necessary for it to own, lease or operate its properties and assets and to carry on its business as now conducted, and there has not occurred any default under any Permit, except for the absence of Permits and for defaults under Permits that, individually or in the aggregate, have not had a Material Adverse Effect. The Borrower is in compliance with all applicable Law, except where failures to so comply, individually or in the aggregate, would not have a Material Adverse Effect.

SECTION 5.05. ENVIRONMENTAL MATTERS. The Borrower is and at all times has been in full compliance with, and has not been and is not in violation of or liable under, any Environmental Law (which compliance includes the possession by the Borrower of all Permits required under applicable Environmental Law and compliance with the terms and conditions thereof), except for such failure to be in compliance which, individually or in the aggregate, would not have a Material Adverse Effect. There are no pending or, to the Knowledge of the Borrower, Threatened claims, orders, notices, administrative or judicial actions, or Encumbrances, relating to environmental, health, and safety liabilities arising under or pursuant to any federal, state or local Environmental Laws, with respect to or affecting any of the properties and assets (whether real, personal, or mixed) in which the Borrower has an interest, except for any such claim, order, notice, administrative or judicial action, Encumbrance or other restriction that would not, individually or in the aggregate, have a Material Adverse Effect.

SECTION 5.06. INTELLECTUAL PROPERTY. Except as set forth in the attached SCHEDULE 5.06, the Borrower owns sufficient right, title and interest in and to, or has valid licenses of sufficient scope and duration for, all patents, patent rights, copyrights, trademarks, service marks, trade names, software, trade secrets, confidential information and other intellectual property material to the operation of the business of the Borrower as currently conducted and as proposed to be conducted (the "Intellectual Property Assets"). The Intellectual Property Assets are free and clear of all Liens which would materially impair the Borrower's ability to use the Intellectual Property Assets in the business of the Borrower as currently conducted or proposed to be conducted. The Borrower has not granted any third party any rights in and to the Intellectual Property Assets. No Intellectual Property Assets of the Borrower infringes, or conflicts with, or to the Knowledge of the Borrower, is alleged to infringe upon or conflict with the intellectual property rights of any third party. The Borrower has no Knowledge that any of its employees performing or managing key functions of the Borrower is obligated under any contract

(including licenses, covenants or commitments of any nature) or other agreement, or subject to any judgment, decree or order of any court or administrative agency, that would interfere with the use of such employee's best efforts to promote the interests of the Borrower or that would conflict with the Borrower's business as proposed to be conducted. To the Knowledge of the Borrower, neither the execution nor delivery of this Agreement, nor the carrying on of the Borrower's business by the employees of the Borrower, nor the conduct of the business of the Borrower as proposed, will conflict with or result in a breach of the terms, conditions or provisions of, or constitute a default under, any contract, covenant or instrument under which any of such employees is now obligated, which conflict or breach would have a Material Adverse Effect. The Borrower does not utilize nor intends to utilize any inventions of any of its employees (or people it currently intends to hire) made prior to their employment by the Borrower.

SECTION 5.07. CERTAIN PAYMENTS. Neither the Borrower, nor any of the directors, officers, agents, or employees of the Borrower, nor to the Knowledge of the Borrower, any other Person associated with or acting for or on behalf of the Borrower, has directly or indirectly (a) made any contribution, gift, bribe, rebate, payoff, influence payment, kickback, or other payment to any Person, private or public, regardless of form, whether in money, property, or services (i) to obtain favorable treatment in securing business, (ii) to pay for favorable treatment for business secured, (iii) to obtain special concessions or for special concessions already obtained, for or in respect of the Borrower or any Affiliate of the Borrower, (b) established or maintained any fund or asset that has not been appropriately recorded in the books and records of the Borrower, which in the case of either clause (a) or (b) would be in violation of Law or would have a Material Adverse Effect.

SECTION 5.08. SECURITY DOCUMENTS. The provisions of each Security Document providing for any Lien will be effective to create in favor of the Lender a legal, valid and enforceable Lien in all right, title and interest of the Borrower in the collateral described therein. When financing statements have been duly filed and, when appropriate, possession or control of such collateral has been taken by the Lender, each Security Document providing for the creation of a security interest shall constitute a fully perfected security interest in all right, title and interest of the Borrower in such collateral, subject only to any (i) prior Liens held by Lender and (ii) any Liens expressly permitted under the terms of such Security Document and set forth on SCHEDULE 5.08 attached hereto (but only to the extent such Liens are perfected or otherwise have priority over the Lien created by the Security Documents).

SECTION 5.09. BUSINESS PLAN MILESTONES. The Financial Milestones and the Contractual and Operational Milestones have been derived from the Business Plan and each of them have been prepared in good faith with a reasonable basis.

SECTION 5.10. ACCURACY OF INFORMATION. All information, exhibits or reports with respect to Debtor that has been or is hereafter furnished by or on behalf of Debtor to Secured Party is or will be, as of the date furnished to Secured Party, accurate, correct and complete in all material respects.

SECTION 5.11. MATERIAL AGREEMENTS. Except as set forth in the attached SCHEDULE 5.11, the Borrower is not in default in the performance, observance of fulfillment of any of the

obligations, covenants or conditions contained in any agreement or instrument to which Borrower is a party, which default could reasonably be expected to have a Material Adverse Effect.

SECTION 5.12. LITIGATION. Except as set forth in the attached SCHEDULE 5.12, there is no litigation, arbitration, governmental investigation, proceeding or inquiry pending or, to Borrower's Knowledge, threatened against or affecting the Borrower which could have a Material Adverse Effect.

ARTICLE VI

COVENANTS

So long as any Note remains unpaid, unless the Lender shall otherwise consent in writing:

SECTION 6.01. FINANCIAL REPORTING. The Borrower will maintain a system of accounting established and administered in accordance with GAAP, and furnish to the Lender:

(a) Within 90 days after the close of each of its Fiscal Years, an audit report certified by independent certified public accountants, acceptable to the Lender, prepared in accordance with GAAP for itself, including balance sheets as of the end of such period, related profit and loss and reconciliation of surplus statements, and a statement of cash flows, accompanied by (a) any management letter prepared by said accountants, and (b) a certificate of said accountants that, in the course of their examination necessary for their certification of the foregoing, they have obtained no knowledge of any Default or Event of Default, or if, in the opinion of such accountants, any Default or Event of Default shall exist, stating the nature and status thereof.

(b) Within 45 days after the close of the first three quarterly periods of each of its Fiscal Years, unaudited balance sheets as at the close of each such period and profit and loss and reconciliation of surplus statements and a statement of cash flows for the period from the beginning of such Fiscal Year to the end of such quarter, all certified by its President or the Chief Financial Officer.

(c) As soon as available, but in any event within 60 days after the beginning of each Fiscal Year of the Borrower, a copy of the plan and forecast (including a projected consolidated and consolidating balance sheet, income statement and funds flow statement and updated projections) of the Borrower for such Fiscal Year.

(d) Together with the financial statements required hereunder, a compliance certificate in substantially the form of EXHIBIT B hereto signed by its chief financial officer showing the calculations necessary to determine compliance with this Agreement and stating that no Default or Event of Default exists, or if any Default or Event of Default exists, stating the nature and status thereof.

(e) Within 270 days after the close of each Fiscal Year, a statement of the

Unfunded Liabilities of each Single Employer Plan, certified as correct by an actuary enrolled under ERISA.

(f) As soon as possible and in any event within ten (10) days after the Borrower knows that any event has occurred which is a Termination Event with respect to any Plan which is subject to Title IV of ERISA, a statement, signed by the chief financial officer of the Borrower, describing said Termination Event and any action which the Borrower proposes to take with respect thereto.

(g) As soon as possible and in any event within ten (10) days after receipt by the Borrower, a copy of (i) any notice, claim, complaint or order to the effect that the Borrower is or may be liable to any Person as a result of the release by the Borrower or any other Person of any Hazardous Materials into the Environment or requiring that action be taken by the Borrower to respond to or clean up a Release of Hazardous Materials into the Environment, and (ii) any notice, complaint or citation alleging any violation of any Environmental Law or environmental permit by the Borrower. Within ten (10) days after the Borrower having Knowledge of the proposal, enactment or promulgation of any Environmental Law which would have a Material Adverse Effect, the Borrower shall provide the Lender with written notice thereof.

(h) Promptly upon the furnishing thereof to the stockholders of Borrower, copies of all financial statements, reports and proxy statements so furnished.

(i) Promptly, and in any event within five (5) days after the filing thereof, copies of any reports which the Borrower files with the SEC.

(j) Such other information (including non-financial information) as the Lender may from time to time reasonably request.

SECTION 6.02. USE OF PROCEEDS. The Borrower will use the proceeds of the Advances for working capital and general corporate purposes in accordance with the Borrower's August 2001 business plan, dated August 12, 2001, prepared by management of the Borrower which includes financial projections and budgeted capital expenditures (the "Business Plan"). The Business Plan is the most current Business Plan prepared by management of the Borrower and presented to Borrower's board of directors. A copy of the Business Plan was delivered to the Lender prior to the date of this Agreement. The Borrower will not use any identifiable portion of the Advances to purchase or carry any Margin Stock.

SECTION 6.03. NOTICE OF DEFAULT. The Borrower will give prompt notice in writing to the Lender of the occurrence of any Default or Event of Default and of any other development relating to the Borrower, financial or other, which could reasonably be expected to have a Material Adverse Effect.

SECTION 6.04. CONDUCT OF BUSINESS. The Borrower will carry on and conduct its business in generally the same manner and in generally the same fields of enterprise as it is presently conducted and to do all things necessary to remain duly incorporated, validly existing and in good standing as a domestic corporation in its jurisdiction of incorporation and, except

where the failure to do so would not have a Material Adverse Effect, maintain all requisite authority to conduct its business in each jurisdiction in which its business is conducted.

SECTION 6.05. TAXES. The Borrower will timely file complete and correct United States federal and applicable foreign, state and local tax returns required by applicable law and pay when due all taxes, assessments and governmental charges and levies upon it or its income, profits or Property, except those which are being diligently contested in good faith by appropriate proceedings and with respect to which adequate reserves have been set aside.

SECTION 6.06. INSURANCE. The Borrower will maintain with financially sound and reputable insurance companies insurance on all its Property in such amounts and covering such risks as is consistent with sound business practice, and will furnish to the Lender upon request full information as to the insurance carried.

SECTION 6.07. COMPLIANCE WITH LAWS. The Borrower will comply with all laws, rules, regulations, orders, writs, judgments, injunctions, decrees or awards to which it may be subject, the failure to comply with which would have a Material Adverse Effect.

SECTION 6.08. MAINTENANCE OF PROPERTIES. The Borrower will do all things necessary and consistent with sound business practices to maintain, preserve, protect and keep its Property in good repair, working order and condition, and, consistent with sound business practices, make all necessary and proper repairs, renewals and replacements so that its business carried on in connection therewith may be properly conducted at all times.

SECTION 6.09. INSPECTION. The Borrower will permit the Lender, by its representatives and agents, to inspect any of the Property, corporate books and financial records of the Borrower, to examine and make copies of the books of accounts and other financial records of the Borrower, and to discuss the affairs, finances and accounts of the Borrower with, and to be advised as to the same by, their respective officers at such reasonable times and intervals as the Lender may designate.

SECTION 6.10. INVESTMENTS AND PURCHASES. The Borrower will not make or suffer to exist any Investments or commitments therefor, or become or remain a partner in any partnership or joint venture, or make any Purchase of any Person.

SECTION 6.11. LIENS. The Borrower will not create, incur, or suffer to exist any Lien in, of or on the Property of the Borrower, except:

(a) Liens for taxes, assessments or governmental charges or levies on its Property if the same shall not at the time be delinquent or thereafter can be paid without penalty, or are being contested in good faith and by appropriate proceedings and for which adequate reserves in accordance with GAAP shall have been set aside on its books;

(b) Liens imposed by law, such as landlords', carriers', warehousemen's and mechanics' liens and other similar liens arising in the ordinary course of business which secure payment of obligations not more than 60 days past due or which are being contested in good faith by appropriate proceedings and for which adequate reserves in

accordance with GAAP shall have been set aside on its books;

(c) Liens arising out of pledges or deposits under worker's compensation laws, unemployment insurance, old age pensions, or other social security or retirement benefits, or similar legislation;

(d) Utility easements, building restrictions and such other encumbrances or charges against real property as are of a nature generally existing with respect to properties of a similar character and which do not in any material way adversely affect the marketability of the same or interfere with the use thereof in the business of the Borrower;

(e) Liens existing on the date hereof as disclosed on SCHEDULE 5.08;

(f) Liens on Property in existence at the time of acquisition of such Property by the Borrower;

(g) Deposits to secure the performance of bids, trade contracts (other than for borrowed money), leases, statutory obligations, surety and appeal bonds, performance bonds, and other obligations of a like nature incurred in the ordinary course of business by the Borrower;

(h) Liens created by the Loan Documents; and

(i) Liens arising from or in connection with a Permitted Telecommunication Asset Sale.

SECTION 6.12. AFFILIATES. The Borrower shall not enter into any transaction (including, without limitation, the purchase or sale of any Property or service) with, or make any payment or transfer to, any other Affiliate except in the Ordinary Course of Business and pursuant to the reasonable requirements of the Borrower's business and upon fair and reasonable terms no less favorable to the Borrower than the Borrower would obtain in a comparable arms-length transaction.

SECTION 6.13. CHANGE IN CORPORATE STRUCTURE; FISCAL YEAR. The Borrower shall not (a) permit any amendment or modification to be made to its certificate of incorporation or bylaws which is adverse to the interests of the Lender or (b) subject to the Lender's consent (which consent shall not be unreasonably withheld), change its Fiscal Year to end on any date other than December 31 of each year.

SECTION 6.14. INCONSISTENT AGREEMENTS. The Borrower shall not enter into any indenture, agreement, instrument or other arrangement which contains any provision which would be violated or breached by the making of Advances or by the performance by the Borrower of any of the Borrower's obligations under any Loan Document.

SECTION 6.15. ASSET SALES. The Borrower will not, directly or indirectly, assign, license, sell or transfer any of the Borrower's Property other than in the ordinary course of business. In addition, Borrower will not engage in any Telecommunication Asset Sale involving

Property which is part of Borrower's "metro" or "regional" business (as described in the Business Plan), whether or not such Telecommunication Asset Sale is in the ordinary course of business, without first obtaining the Lender's written consent to such sale. All cash proceeds from the sale of Collateral, including cash proceeds from a Permitted Telecommunication Asset Sale, shall be used to prepay the Loan in accordance with ARTICLE III hereof.

SECTION 6.16. FURTHER ASSURANCES. The Borrower shall execute and file all such further instruments and perform such other acts as the Lender may determine are necessary or advisable to maintain the first priority of the Liens and security interests created by the Security Documents in all property subject thereto or otherwise to carry out the purposes of this Agreement.

ARTICLE VII

EVENTS OF DEFAULT

The occurrence of any one or more of the following events shall constitute an Event of Default:

SECTION 7.01. Any representations or warranties of the Borrower made or deemed made by or on behalf of the Borrower to the Lender under or in connection with this Agreement, any Advance, or in any certificate or information delivered in connection with this Agreement or any other Loan Document are not true and correct (i) as of the date referred to in such representations or warranties that addresses a matter as of a particular date and (ii) as to all other representations and warranties as of the date of such representation or warranty.

SECTION 7.02. Nonpayment of principal of any Note when due, or nonpayment of interest upon a Note or other obligations under any of the Loan Documents within five (5) days after the same becomes due.

SECTION 7.03. The breach by the Borrower of any of the terms or provisions of SECTIONS 6.02, 6.11, 6.13 or 6.14.

SECTION 7.04. The breach by the Borrower (other than a breach which constitutes a Default under SECTION 7.01, 7.02 or 7.03) of any of the terms or provisions of this Agreement, in any such case, which is not remedied within five (5) days after written notice to the Borrower from the Lender.

SECTION 7.05. Failure of the Borrower to pay any Indebtedness when due; or the default by the Borrower in the performance of any term, provision or condition contained in any agreement under which any Indebtedness was created or is governed, or any other event shall occur or condition exist, the effect of any of which is to cause, or to permit the holder or holders of such Indebtedness to cause, such Indebtedness to become due prior to its stated maturity; or any such Indebtedness of the Borrower shall be declared to be due and payable or required to be prepaid (other than by a regularly scheduled payment) prior to the stated maturity thereof; or the Borrower shall not pay, or admit in writing its inability to pay, its debts generally as they become due.

SECTION 7.06. The Borrower shall (a) have an order for relief entered with respect to it under the Federal bankruptcy laws as now or hereafter in effect, (b) make an assignment for the benefit of creditors, (c) apply for, seek, consent to, or acquiesce in, the appointment of a receiver, custodian, trustee, examiner, liquidator or similar official for it or any Substantial Portion of its Property, (d) institute any proceeding seeking an order for relief under the Federal bankruptcy laws as now or hereafter in effect or seeking to adjudicate it a bankrupt or insolvent, or seeking dissolution, winding up, liquidation, reorganization, arrangement, adjustment or composition of it or its debts under any law relating to bankruptcy, insolvency or reorganization or relief of debtors, (e) take any corporate action to authorize or effect any of the foregoing actions set forth in this SECTION 7.06, (f) fail to contest in good faith any appointment or proceeding described in SECTION 7.07 or (g) become unable to pay, not pay, or admit in writing its inability to pay, its debts generally as they become due.

SECTION 7.07. Without the application, approval or consent of the Borrower, a receiver, trustee, examiner, liquidator or similar official shall be appointed for the Borrower or any Substantial Portion of its Property, or a proceeding described in SECTION 7.06(D) shall be instituted against the Borrower, and such appointment continues undischarged or such proceeding continues undismissed or unstayed for a period of thirty (30) consecutive days.

SECTION 7.08. Any Governmental Authority shall condemn, seize or otherwise appropriate, or take custody or control of (each a "CONDEMNATION"), all or any portion of the Property of the Borrower which, when taken together with all other Property of the Borrower so condemned, seized, appropriated, or taken custody or control of, during the twelve-month period ending with the month in which any such Condemnation occurs, constitutes a Substantial Portion.

SECTION 7.09. The Borrower shall fail within thirty (30) days to pay, bond or otherwise discharge any judgments or orders for the payment of money in an aggregate amount in excess of \$100,000, which are not stayed on appeal or otherwise being appropriately contested in good faith.

SECTION 7.10. The Unfunded Liabilities of all Single Employer Plans shall exceed in the aggregate \$100,000 or any Reportable Event shall occur in connection with any Plan.

SECTION 7.11. The Borrower or any other member of the Controlled Group shall have been notified by the sponsor of a Multiemployer Plan that it has incurred withdrawal liability to such Multiemployer Plan in an amount which, when aggregated with all other amounts required to be paid to Multiemployer Plans by the Borrower or any other member of the Controlled Group as withdrawal liability (determined as of the date of such notification), exceeds \$100,000.

SECTION 7.12. The Borrower or any other member of the Controlled Group shall have been notified by the sponsor of a Multiemployer Plan that such Multiemployer Plan is in reorganization or is being terminated, within the meaning of Title IV of ERISA, if as a result of such reorganization or termination the aggregate annual contributions of the Borrower and the other members of the Controlled Group (taken as a whole) to all Multiemployer Plans which are then in reorganization or being terminated have been or will be increased over the amounts contributed to such Multiemployer Plans for the respective plan years of each such

Multiemployer Plan immediately preceding the plan year in which the reorganization or termination occurs by an amount exceeding \$100,000.

SECTION 7.13. The Borrower shall be the subject of any proceeding or investigation pertaining to the release by the Borrower or any other Person of any toxic or hazardous waste or substance into the Environment, or any violation of any federal, state or local environmental, health or safety law or regulation, which, in either case, could reasonably be expected to have a Material Adverse Effect.

SECTION 7.14. The failure of any Security Document, for any reason, to be in full force and effect.

SECTION 7.15. The occurrence of a default or Event of Default under any other agreement, instrument and/or document between Lender and Borrower, including, without limitation, any Note or Security Document, which is not cured within the time, if any, specified therefor in such other agreement, instrument and/or document.

ARTICLE VIII

ACCELERATION, WAIVERS, AMENDMENTS AND REMEDIES

SECTION 8.01. ACCELERATION. If any Event of Default described in SECTION 7.06 or 7.07 occurs with respect to the Borrower, the obligations of the Lender to make Advances hereunder shall automatically terminate and the Obligations shall immediately become due and payable without any election or action on the part of the Lender. If any other Event of Default occurs, the Lender may terminate or suspend the obligations of the Lender to make Advances hereunder, or declare the Obligations to be due and payable, or both, whereupon the Obligations shall become immediately due and payable, without presentment, demand, protest or notice of any kind, all of which each of the Borrower hereby expressly waives.

Within ten (10) Business Days after acceleration of the maturity of the Obligations or termination of the obligations of the Lender to make Advances hereunder as a result of any Event of Default (other than any Event of Default as described in SECTION 7.06 or 7.07 with respect to the Borrower) and before any judgment or decree for the payment of the Obligations due shall have been obtained or entered, the Lender may (in its sole discretion), by notice to the Borrower, rescind and annul such acceleration and/or termination.

SECTION 8.02. AMENDMENTS. Subject to the provisions of this ARTICLE VIII, the Lender and the Borrower may enter into agreements supplemental hereto for the purpose of adding or modifying any provisions to the Loan Documents or changing in any manner the rights of the Lender or the Borrower hereunder or waiving any Default hereunder.

SECTION 8.03. PRESERVATION OF RIGHTS. No delay or omission of the Lender to exercise any right under the Loan Documents shall impair such right or be construed to be a waiver of any Default or an acquiescence therein, and the making of an Advance notwithstanding the existence of a Default or the inability of the Borrower to satisfy the conditions precedent to such Advance shall not constitute any waiver or acquiescence. Any single or partial exercise of any such right

shall not preclude other or further exercise thereof or the exercise of any other right, and no waiver, amendment or other variation of the terms, conditions or provisions of the Loan Documents whatsoever shall be valid unless in contained in a writing signed by the Lender, and then only to the extent set forth in such writing. All remedies contained in the Loan Documents or afforded by law shall be cumulative and all shall be available to the Lender until the Obligations have been paid in full.

ARTICLE IX

SETOFF

In addition to, and without limitation of, any rights of the Lender under applicable law, if any Default or Event of Default occurs, any and all deposits (including all account balances, whether provisional or final and whether or not collected or available) and any other Indebtedness at any time held or owing by the Lender or any Affiliate of the Lender to or for the credit or account of the Borrower may be offset and applied toward the payment of the Obligations owing to the Lender or such Affiliate of the Lender, whether or not the Obligations, or any part hereof, shall then be due or have matured.

ARTICLE X

BENEFIT OF AGREEMENT; ASSIGNMENTS

SECTION 10.01. SUCCESSORS AND ASSIGNS. The terms and provisions of the Loan Documents shall be binding upon and inure to the benefit of the Borrower and the Lender and their respective successors and assigns, except that (a) the Borrower shall not have the right to assign any rights or obligations under the Loan Documents, and (b) any assignment by the Lender must be made in compliance with SECTION 10.02. Any assignee or transferee of any Note agrees by acceptance thereof to be bound by all the terms and provisions of the Loan Documents. Any request, authority or consent of any Person, who at the time of making such request or giving such authority or consent is the holder of the Note, shall be conclusive and binding on any subsequent holder, transferee or assignee of such Note or of any note or notes issued in exchange therefor.

SECTION 10.02. ASSIGNMENTS BY THE LENDER.

10.02.1. ASSIGNMENTS OF THIS AGREEMENT AND THE OBLIGATIONS THEREUNDER. An Assignment or transfer of this Agreement may be made without the prior consent of the Borrower (i) by the Lender to any of its Affiliates, provided that any such assignment or transfer to such Affiliate shall not release the Lender from the obligations of the Lender under this Agreement, or (ii) pursuant to any merger or sale of substantially all of the assets or stock of the Lender or such Affiliates (or any transaction having such effect) that is pursuant to an agreement entered into after the date of this Agreement and pursuant to which in the case of a purchase of substantially all of the assets or stock of the Lender or such Affiliates, the party purchasing such assets or stock of the Lender or such Affiliates assumes the obligations of the Lender under this Agreement.

10.02.2. TRANSFERS OF THE NOTES. The Lender may in accordance with applicable law and without the prior consent of the Borrower, at any time, transfer and assign all or part of the Notes to one or more Persons ("Transferees"). In the case of such an assignment or transfer, the Lender shall surrender the Notes subject to such assignment to the Borrower prior to the transfer and assignment being effective and the Borrower shall, simultaneously with such surrender, reissue and deliver new Notes in the same aggregate outstanding principal amount as the surrendered Note in the name of such holders as requested by the Lender. On or after the effective date of such transfer and assignment, (a) each such Transferee shall acquire all of the rights of the Lender in the Notes assigned to such Transferee, and (b) the Lender shall remain subject to the Aggregate Commitment and Loans.

10.02.3. ADMINISTRATION. As a condition to any transfer or assignment of the Notes pursuant to SECTION 10.02.2, each Transferee shall appoint the Lender (or any other Person to whom this Agreement has been assigned in accordance with SECTION 10.02.1 or with the consent of the Borrower) (the "Agent") to act as agent of such Transferee, provided that the Agent shall not have a fiduciary relationship in respect of the Borrower or any Transferee of the Notes. The Agent shall exclusively exercise such powers under this Agreement as are specifically delegated to the Lender by the terms hereof, including the right to receive notices, requests, waivers, instructions, information regarding the Borrower, consents and other documents which the Borrower may be required to deliver pursuant to this Agreement. The Agent shall have no implied duties to the Transferees, or any obligation to the Transferees to take any action thereunder.

SECTION 10.03. DISSEMINATION OF INFORMATION. The Borrower authorizes the Lender to disclose to any Person to whom this Agreement is being assigned pursuant to SECTION 10.02.1 or Transferees under SECTION 10.02.2 any and all information in the Lender's possession concerning the creditworthiness of the Borrower, subject however, to the Lender obtaining an appropriate confidentiality agreement respecting such information.

ARTICLE XI

MISCELLANEOUS

SECTION 11.01. NOTICES. Unless otherwise provided herein, any notice, request, waiver, instruction, consent or document or other communication required or permitted to be given by this Agreement shall be effective only if it is in writing and (a) delivered by hand or sent by certified mail, return receipt requested, (b) if sent by a nationally-recognized overnight delivery service with delivery confirmed, or (c) if telexed or telecopied, with receipt confirmed as follows:

The Borrower: Digital Teleport, Inc.
 8112 Maryland Avenue
 St. Louis, MO 63105
 Attn: President
 Facsimile: (314) 880-1999

with a copy to: Digital Teleport, Inc.
8112 Maryland Avenue
St. Louis, MO 63105
Attn: CFO
Facsimile: (314) 880-1999

and a copy to: Digital Teleport, Inc.
8112 Maryland Avenue
St. Louis, MO 63105
Attn: General Counsel
Facsimile: (314) 880-1999

The Lender: KLT Telecom Inc.
10740 Nall, Suite 230
Overland Park, KS 66211
Attn: President
Facsimile: (913) 967-4340

with a copy to: KLT Inc.
10740 Nall, Suite 230
Overland Park, Kansas 66211
Attn: General Counsel
Facsimile: (913) 967-4340

The Parties shall promptly notify each other of any change in their respective addresses or facsimile numbers or of the Person or office to receive notices, requests or other communications under this SECTION 11.01. Notice shall be deemed to have been given as of the date when so personally delivered, when actually delivered by the U.S. Postal Service at the proper address, the next day when delivered during business hours to an overnight delivery service properly addressed or when receipt of a telex or telecopy is confirmed, as the case may be, unless the sending party has actual knowledge that such notice was not received by the intended recipient.

SECTION 11.02. ENTIRE AGREEMENT. This Agreement, together with all Loan Documents, Schedules and Exhibits hereto, and a certain letter agreement between the Parties concerning SCHEDULE 5.02, embody the entire agreement and understanding of the Parties in respect to the matters contemplated hereby and supersedes and renders null and void all other prior agreements and understandings, written and oral, with respect to the subject matters hereof, PROVIDED that this provision shall not abrogate any other written agreement between the Parties executed simultaneously with this Agreement. No Party shall be liable or bound to any other Party in any manner by any promises, conditions, representations, warranties, covenants, agreements and understandings, except as specifically set forth herein or therein.

SECTION 11.03. WAIVER. Except as otherwise permitted in this Agreement, the terms or conditions of this Agreement may not be waived unless set forth in a writing signed by the Party entitled to the benefits thereof. No waiver of any of the provisions of this Agreement shall be deemed or shall constitute a waiver of such provision at any time in the future or a waiver of any other provision hereof. The rights and remedies of the Parties are cumulative and not alternative.

Except as otherwise provided in this Agreement, neither the failure nor any delay by any Party in exercising any right, power or privilege under this Agreement, or the documents referred to in this Agreement or therein will operate as a waiver of such right, power or privilege, and no single or partial exercise of any such right, power or privilege will preclude any other or further exercise of such right, power or privilege or the exercise of any other right, power or privilege.

SECTION 11.04. GOVERNING LAW. This Agreement shall be governed by and construed in accordance with the laws of the State of Missouri, without regard to conflict of laws principles.

SECTION 11.05. SEVERABILITY. If any term or provision of this Agreement or the application thereof to either party or set of circumstances shall, in any jurisdiction and to any extent, be finally held invalid or unenforceable, such term or provision shall only be ineffective as to such jurisdiction, and only to the extent of such invalidity or unenforceability, without invalidating or rendering unenforceable any other terms or provisions of this Agreement or under any other circumstances, and the parties shall negotiate in good faith a substitute provision which comes as close as possible to the invalidated or unenforceable term or provision, and which puts each party in a position as nearly comparable as possible to the position it would have been in but for the finding of invalidity or unenforceability, while remaining valid and enforceable.

SECTION 11.06. COUNTERPARTS. This Agreement may be executed in one or more counterparts each of which when so executed and delivered shall for all purposes be deemed to be an original but all of which, when taken together, shall constitute one and the same Agreement.

SECTION 11.07. HEADINGS. The table of contents, captions and headings used in this Agreement are inserted for convenience only and shall not be deemed to constitute part of this Agreement or to affect the construction or interpretation hereof.

SECTION 11.08. NO THIRD-PARTY BENEFICIARIES. Nothing in this Agreement, express or implied, shall create or confer upon any Person (including but not limited to any employees), other than the Parties or their respective successors and permitted assigns, any legal or equitable rights, remedies, obligations, liabilities or claims under or with respect to this Agreement, except as expressly provided herein.

SECTION 11.09. INTERPRETATION.

(a) Unless specifically stated otherwise, references to Articles, Sections, Exhibits and Schedules refer to Articles, Sections, Exhibits and Schedules in this Agreement. References to "includes" and "including" mean "includes without limitation" and "including without limitation." Whenever the context may require, any pronoun shall include the corresponding masculine feminine and neuter forms. Unless the context shall otherwise require or provide, any reference to any agreement or other instrument or statute or regulation is to such agreement, instrument statute or regulation as amended and supplemented from time to time (and, in the case of a statute or regulation, to any successor provision).

(b) Each Party is a sophisticated legal entity that was advised by experienced counsel and, to the extent it deemed necessary, other advisors in connection with this Agreement. Accordingly, each Party hereby acknowledges that no Party has relied or will rely in respect of this Agreement or the transactions contemplated hereby upon any document or written or oral information previously furnished to or discovered by it or its representatives, other than this Agreement or the documents and instruments delivered on the date of this Agreement.

(c) No provision of this Agreement shall be interpreted in favor of, or against, any of the Parties by reason of the extent to which any such Party or its counsel participated in the drafting thereof or by reason of the extent to which any such provision is inconsistent with any prior draft hereof or thereof.

SECTION 11.10. INCLUSION OF INFORMATION IN SCHEDULES. The inclusion of any information in any Schedule (i) shall not be deemed an admission that any such information is material for purposes of the representation and warranty to which it relates or any other representation and warranty or for any other purpose related to this Agreement or the transactions contemplated hereby, including for purposes of any covenants, closing conditions or any other remedies the Parties may have, and (ii) shall not be used or interpreted in any manner to create a standard of materiality for any such purpose.

SECTION 11.11. AMENDMENT. No amendment, modification or alteration of the terms or provisions of this Agreement, including any Schedules and Exhibits hereto or thereto, shall be binding unless the same shall be in writing and duly executed by the Party against whom such amendment, modification or alteration is sought to be enforced.

SECTION 11.12. EFFECTIVENESS OF AGREEMENT. This Agreement shall become effective as of the date of this Agreement.

SECTION 11.13. FORCE MAJEURE. The Lender shall have no obligation to make any further Advances under, or otherwise be obligated to perform, carry out or observe any of the terms, conditions or covenants set forth in, this Agreement at any time subsequent to the occurrence of an Event of Force Majeure (as hereinafter defined). The term "Event of Force Majeure" as used in this Agreement shall mean and include any of the following which occurs after the date of this Agreement or, in the case of any of the following which exist as of the date of this Agreement, a material acceleration or worsening thereof: (i) any general suspension or material limitation of trading in, or any limitation on prices for, securities on any United States national securities exchange, the NASDAQ Stock Market or in the over-the-counter market; (ii) the declaration of a banking moratorium or any suspension of payments in respect of banks in the United States or a moratorium or suspension in foreign exchange trading declared by major international banks or any governmental authority; (iii) the commencement or escalation of a war, armed hostilities, national emergency, international or national crisis or calamity, acts of a public enemy, riot, sabotage, insurrection, blockade or embargo, in any such case directly or indirectly involving the United States; (iv) any limitation (whether or not mandatory) by any Governmental Authority on, or any other event which could, in the sole judgment of the Lender, affect the extension of credit by banks or other lending institutions in the United States; (v) any change in the general political, market, economic or financial conditions in the United States or abroad that could, in the sole judgment of the Lender, have a material adverse effect on the

business, condition (financial or otherwise), results of operations, prospects, operations or assets of the Borrower and its subsidiaries, taken as a whole, or otherwise could, in the sole judgment of the Lender, materially impair in any way the contemplated future conduct of the business of the Borrower or any of its subsidiaries, or materially impair the contemplated benefits to the Lender of this Agreement (any such effect is referred to hereinafter as a "Borrower Material Adverse Effect"), (vi) the enactment, publication, decree, or other promulgation of any statute, rule, regulation, or order of any Governmental Authority which, in the sole judgment of the Lender, could have a Borrower Material Adverse Effect, (vii) the taking of any action by Governmental Authority in respect of monetary or (including, without limitation, a devaluation of currency) which could, in the sole judgment of the Lender, have a material adverse effect on the securities markets in the United States, (viii) fire, storm, flood, earthquake, explosion, or other acts of nature, God or public enemy that could, in the sole judgment of the Lender, have a Borrower Material Adverse Effect, (ix) labor strikes, disputes, lockouts or other labor troubles causing cessation, slowdown or interruptions of work that could, in the sole judgment of the Lender, have a Borrower Material Adverse Effect, or (x) shortages or delays in obtaining adequate labor, raw materials, equipment or transportation, interruption of utility services or accidents that could, in the sole judgment of the Lender, have a Borrower Material Adverse Effect.

SECTION 11.14. EXPENSES; INDEMNIFICATION. The Borrower shall reimburse the Lender for any costs, internal charges and out-of-pocket expenses (including attorneys' fees and time charges of attorneys for the Lender, which attorneys may be employees of the Lender) paid or incurred by the Lender in connection with the preparation, negotiation, execution, delivery, review, amendment, modification, and administration of the Loan Documents. The Borrower also agrees to reimburse the Lender for any costs, internal charges and out-of-pocket expenses (including attorneys' fees and time charges of attorneys for the Lender, which attorneys may be employees of the Lender) paid or incurred by the Lender in connection with the collection and enforcement of the Loan Documents. The Borrower further agrees to indemnify the Lender, its directors, officers and employees against all losses, claims, damages, penalties, judgments, liabilities and expenses (including, without limitation, all expenses of litigation or preparation therefor whether or not the Lender is a party thereto) which any of them may pay or incur arising out of or relating to this Agreement, the other Loan Documents, the transactions contemplated hereby or the direct or indirect application or proposed application of the proceeds of any Advance hereunder except to the extent such obligations arise from the gross negligence or willful misconduct of the Lender. The obligations of the Borrower under this Section shall survive the termination of this Agreement.

SECTION 11.15. EXCLUSIVE JURISDICTION AND CONSENT TO SERVICE OF PROCESS. THE PARTIES AGREE THAT ANY ACTION ARISING OUT OF OR RELATING TO THIS AGREEMENT, THE NOTES, THE LOAN DOCUMENTS OR THE TRANSACTIONS CONTEMPLATED HEREBY SHALL BE INSTITUTED IN A FEDERAL COURT SITTING IN MISSOURI OR STATE COURT SITTING IN MISSOURI, WHICH SHALL BE THE EXCLUSIVE VENUE OF ANY SUCH ACTION. EACH PARTY WAIVES ANY OBJECTION WHICH SUCH PARTY MAY NOW OR HEREAFTER HAVE TO THE LAYING OF VENUE OF ANY SUCH ACTION, AND IRREVOCABLY CONSENTS AND SUBMITS TO THE JURISDICTION OF ANY SUCH COURT (AND THE APPROPRIATE APPELLATE COURTS) IN ANY SUCH ACTION. ANY AND ALL SERVICE OF PROCESS

AND ANY OTHER NOTICE IN ANY SUCH ACTION SHALL BE EFFECTIVE AGAINST SUCH PARTY WHEN TRANSMITTED IN ACCORDANCE WITH SECTION 11.01. NOTHING CONTAINED HEREIN SHALL BE DEEMED TO AFFECT THE RIGHT OF ANY PARTY TO SERVE PROCESS IN ANY MANNER PERMITTED BY LAW.

SECTION 11.16. WAIVER OF JURY TRIAL. THE PARTIES HERETO MUTUALLY, EXPRESSLY, IRREVOCABLY AND UNCONDITIONALLY WAIVE TRIAL BY JURY FOR ANY PROCEEDINGS ARISING OUT OF, UNDER OR IN CONNECTION WITH THIS AGREEMENT, OR ANY OTHER DOCUMENT ENTERED INTO BY BORROWER AND LENDER IN CONNECTION WITH THIS TRANSACTION, OR ANY CONDUCT RELATING TO THIS AGREEMENT OR THE LOANS MADE HEREUNDER OR THE DEBTOR-CREDITOR RELATIONSHIP ESTABLISHED HEREBY, INCLUDING WITH REGARD TO ANY COUNTERCLAIMS, CAUSES OF ACTION, AND DEFENSES WHETHER BASED IN CONTRACT OR TORT OR OTHERWISE. THIS WAIVER IS GRANTED IN THE INTEREST OF AVOIDING DELAYS AND EXPENSES ASSOCIATED WITH JURY TRIALS. THE PARTIES HERETO ACKNOWLEDGE THAT THEY HAVE BEEN INDUCED TO ENTER INTO THIS AGREEMENT IN PART BY THE PROVISIONS OF THIS PARAGRAPH.

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NOTICE TO DEBTOR

NO ORAL AGREEMENTS; ENTIRE AGREEMENT. ORAL AGREEMENTS OR COMMITMENTS TO LOAN MONEY, EXTEND CREDIT OR TO FORBEAR FROM ENFORCING REPAYMENT OF A DEBT, INCLUDING PROMISES TO EXTEND OR RENEW SUCH DEBT, ARE NOT ENFORCEABLE. TO PROTECT YOU, THE BORROWER, AND US, THE LENDER, FROM MISUNDERSTANDING OR DISAPPOINTMENT, ANY AGREEMENTS WE REACH COVERING SUCH MATTERS ARE CONTAINED IN THIS WRITING, WHICH IS THE COMPLETE AND EXCLUSIVE STATEMENT OF THE AGREEMENT BETWEEN US, EXCEPT AS WE MAY LATER AGREE IN WRITING TO MODIFY IT.

The Lender: /s/ MRS
 Initials

The Borrower: /s/ GWD
 Initials

IN WITNESS WHEREOF, The Borrower and the Lender have executed this Agreement as of the date first above written.

DIGITAL TELEPORT, INC

By: /s/ Gary W. Douglass
Print Name: Gary W. Douglass
Title: SVP & CFO

KLT TELECOM INC.

By: /s/ Mark R. Schroeder
Print Name: Mark R. Schroeder
Title: President

SIGNATURE PAGE FOR CREDIT AGREEMENT