

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

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

For the quarterly period ended March 31, 2002

OR

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

For the transition period from _____ to _____

Commission File Number 1-3523

Western Resources, Inc.

(Exact name of registrant as specified in its charter)

Kansas

48-0290150

(State or other jurisdiction of incorporation or organization)

(I.R.S. Employer Identification Number)

818 South Kansas Avenue
Topeka, Kansas 66612
(785) 575-6300

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

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 No
--- ---

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

Common Stock, par value \$5.00 per share

71,729,989 Shares

(Class)

(Outstanding at May 8, 2002)

TABLE OF CONTENTS

	Page

PART I. Financial Information	
Item 1. Financial Statements	
Consolidated Balance Sheets.....	4
Consolidated Statements of Income (Loss).....	5
Consolidated Statements of Comprehensive Income (Loss).....	6
Consolidated Statements of Cash Flows.....	7
Notes to Consolidated Financial Statements.....	8
Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations	18
Item 3. Quantitative and Qualitative Disclosures About Market Risk .	32
PART II. Other Information	
Item 1. Legal Proceedings.....	33
Item 2. Changes in Securities and Use of Proceeds.....	34
Item 3. Defaults Upon Senior Securities.....	34
Item 4. Submission of Matters to a Vote of Security Holders.....	34
Item 5. Other Information.....	34
Item 6. Exhibits and Reports on Form 8-K.....	34
Signature.....	35

FORWARD-LOOKING STATEMENTS

Certain matters discussed in this Form 10-Q are "forward-looking statements." The Private Securities Litigation Reform Act of 1995 has established that these statements qualify for safe harbors from liability. Forward-looking statements may include words like we "believe," "anticipate," "expect," or words of similar meaning. Forward-looking statements describe our future plans, objectives, expectations or goals. Such statements address future events and conditions concerning:

- . capital expenditures,
- . earnings,
- . liquidity and capital resources,
- . litigation,
- . possible corporate restructurings, mergers, acquisitions and dispositions,
- . compliance with debt and other restrictive covenants,
- . interest and dividends,
- . Protection One, Inc.'s financial condition and its impact on our consolidated results,
- . impairment charges recorded during the first quarter of 2002,
- . environmental matters,
- . nuclear operations,
- . ability to enter new markets successfully and capitalize on growth opportunities in non-regulated businesses,
- . events in foreign markets in which investments have been made and
- . the overall economy of our service area.

What happens in each case could vary materially from what we expect because of such things as:

- . electric utility deregulation,
- . ongoing municipal, state and federal activities, such as the Wichita municipalization effort,
- . future economic conditions,
- . changes in accounting requirements and other accounting matters,
- . changing weather,
- . rate and other regulatory matters, including the impact of (i) the Kansas Corporation Commission's order to reduce our rates issued on July 25, 2001, (ii) the Kansas Corporation Commission's order issued July 20, 2001 and related proceedings, with respect to the proposed separation of Western Resources, Inc.'s electric utility businesses from Westar Industries, Inc., and (iii) the Kansas Corporation Commission's recent comments and orders relating to our Federal Energy Regulatory Commission financing authority,
- . the impact on our service territory of the September 11, 2001 terrorist attacks,
- . the impact of Enron Corp.'s bankruptcy on the market for trading wholesale electricity,
- . political, legislative and regulatory developments,
- . amendments or revisions to our current business and financial plans,
- . the consummation of the acquisition of the electric operations of Western Resources, Inc. by Public Service Company of New Mexico and related litigation,
- . regulatory, legislative and judicial actions,
- . regulated and competitive markets and
- . other circumstances affecting anticipated operations, sales and costs.

These lists are not all-inclusive because it is not possible to predict all possible factors.

See "Item 1. Business - Risk Factors" in our Annual Report on Form 10-K for the year ended December 31, 2001, for additional information on matters that could impact our expectations. Any forward-looking statement speaks only as of the date such statement was made, and we do not undertake any obligation to update any forward-looking statement to reflect events or circumstances after the date on which such statement was made.

WESTERN RESOURCES, INC.
CONSOLIDATED BALANCE SHEETS
(Dollars in Thousands)

	March 31, 2002	December 31, 2001
	(Unaudited)	-----
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents.....	\$ 93,620	\$ 96,691
Restricted cash.....	19,627	14,795
Accounts receivable, net.....	102,209	112,864
Inventories and supplies, net.....	147,610	145,099
Energy trading contracts.....	110,507	71,421
Deferred tax assets.....	8,305	27,817
Prepaid expenses and other.....	28,844	41,331
	-----	-----
Total Current Assets.....	510,722	510,018
	-----	-----
PROPERTY, PLANT AND EQUIPMENT, NET.....	4,021,097	4,042,852
	-----	-----
OTHER ASSETS:		
Restricted cash.....	35,072	38,515
Investment in ONEOK.....	603,551	598,929
Customer accounts, net.....	485,230	830,708
Goodwill, net.....	305,415	884,786
Regulatory assets.....	354,511	358,025
Energy trading contracts.....	19,929	15,247
Other.....	254,725	233,985
	-----	-----
Total Other Assets.....	2,058,433	2,960,195
	-----	-----
TOTAL ASSETS.....	\$6,590,252	\$7,513,065
	=====	=====
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Current maturities of long-term debt.....	\$661,482	\$ 160,576
Short-term debt.....	397,700	222,300
Accounts payable.....	123,830	125,285
Accrued liabilities.....	175,931	181,671
Accrued income taxes.....	23,852	39,770
Deferred security revenues.....	47,201	48,461
Energy trading contracts.....	94,416	67,859
Other.....	56,558	57,459
	-----	-----
Total Current Liabilities.....	1,580,970	903,381
	-----	-----
LONG-TERM LIABILITIES:		
Long-term debt, net.....	2,301,186	2,978,382
Western Resources obligated mandatorily redeemable preferred securities of subsidiary trusts holding solely company subordinated debentures.....	219,668	220,000
Deferred income taxes and investment tax credits.....	750,389	924,178
Minority interests.....	82,395	166,850
Deferred gain from sale-leaseback.....	171,509	174,466
Energy trading contracts.....	13,470	16,500
Other.....	282,214	285,247
	-----	-----
Total Long-Term Liabilities.....	3,820,831	4,765,623
	-----	-----
COMMITMENTS AND CONTINGENCIES		
SHAREHOLDERS' EQUITY:		
Cumulative preferred stock, par value \$100 per share; authorized 600,000 shares; issued 248,576 shares; outstanding 219,385 shares and 239,364 shares, respectively.....	21,939	23,936
Common stock, par value \$5 per share; authorized 150,000,000 shares; issued 86,923,632 shares and 86,205,417 shares, respectively.....	434,618	431,027
Paid-in capital.....	1,203,329	1,196,763
Unearned compensation.....	(20,865)	(21,920)
Loans to officers.....	(2,095)	(1,973)
Retained earnings.....	(67,092)	606,502
Treasury stock, at cost, 15,494,755 and 15,097,987 shares, respectively...	(371,535)	(364,901)
Accumulated other comprehensive loss, net.....	(9,848)	(25,373)
	-----	-----
Total Shareholders' Equity.....	1,188,451	1,844,061
	-----	-----
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY.....	\$6,590,252	\$7,513,065
	=====	=====

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

WESTERN RESOURCES, INC.

CONSOLIDATED STATEMENTS OF INCOME (LOSS)
(Dollars in Thousands, Except Per Share Amounts)
(Unaudited)

	Three Months Ended March 31,	
	2002	2001
SALES:		
Energy.....	\$ 412,281	\$ 446,018
Monitored Services.....	89,960	114,723
Total Sales.....	502,241	560,741
COST OF SALES:		
Energy.....	183,738	228,780
Monitored Services.....	29,685	40,824
Total Cost of Sales.....	213,423	269,604
GROSS PROFIT.....	288,818	291,137
OPERATING EXPENSES:		
Operating and maintenance.....	93,389	92,683
Depreciation and amortization.....	74,917	102,486
Selling, general and administrative.....	99,123	78,874
Loss on impairment of customer accounts.....	334,064	--
Total Operating Expenses.....	601,493	274,043
INCOME (LOSS) FROM OPERATIONS.....	(312,675)	17,094
OTHER INCOME (EXPENSE):		
Investment earnings.....	32,708	13,265
Minority interests.....	83,323	1,271
Other.....	(4,599)	(3,155)
Total Other Income	111,432	11,381
EARNINGS (LOSSES) BEFORE INTEREST AND TAXES.....	(201,243)	28,475
INTEREST EXPENSE:		
Interest expense on long-term debt.....	50,458	55,745
Interest expense on short-term debt and other.....	11,425	10,956
Total Interest Expense.....	61,883	66,701
LOSSES BEFORE INCOME TAXES.....	(263,126)	(38,226)
Income tax benefit.....	(125,899)	(19,039)
NET LOSS BEFORE EXTRAORDINARY GAIN AND ACCOUNTING CHANGE.....	(137,227)	(19,187)
Extraordinary gain, net of tax of \$3,725 and \$2,662, respectively.....	6,463	4,943
Cumulative effect of accounting change, net of tax of \$57,381 and \$12,347, respectively.....	(521,644)	18,694
NET INCOME (LOSS).....	(652,408)	4,450
PREFERRED STOCK:		
Gain on reacquired preferred stock.....	465	--
Preferred dividends.....	(249)	(282)
Total change in preferred stock.....	216	(282)
EARNINGS (LOSSES) AVAILABLE FOR COMMON STOCK.....	\$ (652,192)	\$ 4,168
Average common shares outstanding.....	71,368,922	70,359,298
BASIC AND DILUTED EARNINGS PER AVERAGE COMMON SHARE OUTSTANDING:		
Basic and diluted earnings (losses) available before extraordinary gain and accounting change.....	\$ (1.92)	\$ (0.28)
Extraordinary gain, net of tax.....	0.09	0.07
Accounting change, net of tax.....	(7.31)	0.27
Basic and diluted earnings (losses) available after extraordinary gain and accounting change.....	\$ (9.14)	\$ 0.06
DIVIDENDS DECLARED PER COMMON SHARE.....	\$ 0.30	\$ 0.30

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

WESTERN RESOURCES, INC.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
(Dollars in Thousands)
(Unaudited)

	Three Months Ended March 31,	
	2002	2001
NET INCOME (LOSS).....	\$(652,408)	\$ 4,450
OTHER COMPREHENSIVE INCOME (LOSS), NET OF TAX:		
Unrealized holding losses on marketable securities		
arising during the period.....	\$ --	\$ (243)
Adjustment for losses included in net income.....	--	1,861
	-----	-----
Unrealized holding gains on cash flow hedges		
arising during the period.....	22,205	--
Adjustment for losses included in net income.....	964	--
	-----	-----
Foreign currency translation adjustment.....	445	(2,745)
Income tax expense.....	(8,089)	(693)
	-----	-----
Total other comprehensive gain (loss), net of tax...	15,525	(1,820)
	-----	-----
COMPREHENSIVE INCOME (LOSS).....	\$(636,883)	\$ 2,630
	=====	=====

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

WESTERN RESOURCES, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS
(Dollars in Thousands)
(Unaudited)

Three Months Ended March 31,

	2002	2001
CASH FLOWS FROM (USED IN) OPERATING ACTIVITIES:		
Net income (loss).....	\$(652,408)	\$ 4,450
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Extraordinary gain.....	(6,463)	(4,943)
Cumulative effect of accounting change.....	521,644	(18,694)
Depreciation and amortization.....	74,917	102,486
Amortization of deferred gain from sale-leaseback.....	(2,957)	(2,957)
Net changes in energy trading assets and liabilities.....	(244)	(5,379)
Equity in earnings from investments.....	(4,529)	(4,157)
Loss on impairment of customer accounts.....	334,064	--
Minority interests.....	(83,323)	1,271
Accretion of discount note interest.....	(120)	(352)
Net deferred taxes.....	(109,016)	(904)
Changes in working capital items, net of acquisitions and dispositions:		
Restricted cash.....	(4,833)	1,228
Accounts receivable, net.....	(261)	60,825
Inventories and supplies, net.....	(2,511)	(6,034)
Prepaid expenses and other.....	11,619	7,685
Accounts payable.....	(1,455)	(36,553)
Accrued liabilities.....	(5,740)	(18,601)
Accrued income taxes.....	(15,918)	(20,869)
Deferred security revenues.....	(1,260)	4,087
Changes in other assets and liabilities.....	(33,858)	(3,741)
	-----	-----
Cash flows from operating activities.....	17,348	58,848
	-----	-----
CASH FLOWS FROM (USED IN) INVESTING ACTIVITIES:		
Additions to property, plant and equipment, net.....	(32,004)	(63,130)
Customer account acquisitions.....	(8,477)	(8,906)
Proceeds from other investments.....	28,283	2,008
	-----	-----
Cash flows used in investing activities.....	(12,198)	(70,028)
	-----	-----
CASH FLOWS FROM (USED IN) FINANCING ACTIVITIES:		
Short-term debt, net.....	175,400	42,530
Proceeds of long-term debt.....	8,420	8,632
Retirements of long-term debt.....	(171,630)	(19,067)
Retirement of Western Resources obligated mandatorily redeemable preferred securities of subsidiary trusts holding solely company subordinated debentures.....	(257)	--
Issuance of officer loans.....	(100)	--
Issuance of common stock, net.....	4,849	9,902
Cash dividends paid.....	(21,530)	(25,401)
Preferred stock redemption.....	(1,253)	--
Acquisition of treasury stock.....	(2,120)	--
	-----	-----
Cash flows from (used in) financing activities.....	(8,221)	16,596
	-----	-----
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS.....	(3,071)	5,416
CASH AND CASH EQUIVALENTS:		
Beginning of period.....	96,691	8,762
	-----	-----
End of period.....	\$ 93,620	\$ 14,178
	=====	=====
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
CASH PAID FOR:		
Interest on financing activities, net of amount capitalized.....	\$ 89,015	\$ 92,782
Income taxes.....	\$ --	\$ 4,000

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

WESTERN RESOURCES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2002
(Unaudited)

1. DESCRIPTION OF BUSINESS

Western Resources, Inc. is a publicly traded consumer services company incorporated in 1924 in the State of Kansas. Unless the context otherwise indicates, all references on this Form 10-Q to "the company," "Western Resources," "we," "us," "our" or similar words are to Western Resources, Inc., and its consolidated subsidiaries. We provide electric generation, transmission and distribution services to approximately 644,000 customers in Kansas and monitored security services to more than 1.2 million customers in North America and Europe. ONEOK, Inc. (ONEOK), in which we have an approximate 45% ownership interest, provides natural gas transmission and distribution services to approximately 1.4 million customers in Oklahoma and Kansas.

We and Kansas Gas and Electric Company (KGE), a wholly owned subsidiary, provide rate-regulated electric service using the name Westar Energy. KGE owns 47% of Wolf Creek Nuclear Operating Corporation (WCNOC), the operating company for Wolf Creek Generating Station (Wolf Creek).

Westar Industries, Inc. (Westar Industries), our wholly owned subsidiary, owns our interests in Protection One, Inc. (Protection One), Protection One Europe, ONEOK and other non-utility businesses. Protection One, a publicly traded, approximately 88%-owned subsidiary, and Protection One Europe provide monitored security services. Protection One Europe refers collectively to Protection One International, Inc., a wholly owned subsidiary of Westar Industries, and its subsidiaries, including a French subsidiary in which it owns approximately a 99.8% interest.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation

We prepare our consolidated financial statements in accordance with accounting principles generally accepted in the United States (GAAP) for interim financial information and in accordance with the instructions to Form 10-Q. Accordingly, certain information and footnote disclosures normally included in financial statements presented in accordance with GAAP have been condensed or omitted. The accompanying consolidated financial statements and notes should be read in conjunction with the consolidated financial statements and the notes included in our Annual Report on Form 10-K for the year ended December 31, 2001.

Use of Management's Estimates

The preparation of consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of our consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. In management's opinion, all adjustments, consisting only of normal recurring adjustments considered necessary for a fair presentation of the financial statements, have been included. The results of operations for the three months ended March 31, 2002, are not necessarily indicative of the results to be expected for the full year.

Cumulative Effects of Accounting Changes

Effective January 1, 2002, we adopted Statement of Financial Accounting Standards (SFAS) No. 142, "Accounting for Goodwill and Other Intangible Assets." See Note 3 below for the cumulative effect of this adoption.

Effective January 1, 2001, we adopted SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities," as amended by SFAS Nos. 137 and 138 (collectively, SFAS No. 133). We use derivative instruments (primarily swaps, options and futures) to manage interest rate exposure and the commodity price risk inherent in fossil fuel purchases and electricity sales. Under SFAS No. 133, all derivative instruments, including our energy trading contracts, are recorded on our consolidated balance sheet as either an asset or liability measured at fair value. Changes in a derivative's fair value must be recognized currently in earnings unless specific hedge accounting criteria are met. Cash flows from derivative instruments are presented in net cash flows from operating activities.

Derivative instruments used to manage commodity price risk inherent in fuel purchases and electricity sales are classified as energy trading contracts on our consolidated balance sheet. Energy trading contracts representing unrealized gain positions are reported as assets; energy trading contracts representing unrealized loss positions are reported as liabilities.

Prior to January 1, 2001, gains and losses on our derivatives used for managing commodity price risk were deferred until settlement. These derivatives were not designated as hedges under SFAS No. 133. Accordingly, on January 1, 2001, we recognized an unrealized gain of \$18.7 million, net of \$12.3 million of tax. This gain is presented on our consolidated statement of income in our Annual Report on Form 10-K for the year ended December 31, 2001 as a cumulative effect of a change in accounting principle.

After January 1, 2001, changes in fair value of all derivative instruments used for managing commodity price risk that are not designated as hedges are recognized in revenue as discussed in Note 2 of the "Notes to Consolidated Financial Statements" in our Annual Report on Form 10-K for the year ended December 31, 2001. Accounting for derivatives under SFAS No. 133 will increase volatility of our future earnings.

Reclassifications

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

3. IMPAIRMENT CHARGE PURSUANT TO NEW ACCOUNTING RULES

Effective January 1, 2002, we adopted the new accounting standards SFAS No. 142, "Accounting for Goodwill and Other Intangible Assets," and SFAS No. 144, "Accounting for the Impairment and Disposal of Long-Lived Assets." SFAS No. 142 establishes new standards for accounting for goodwill. SFAS No. 142 continues to require the recognition of goodwill as an asset, but discontinues amortization of goodwill. In addition, annual impairment tests must be performed using a fair-value based approach as opposed to an undiscounted cash flow approach required under prior standards.

SFAS No. 144 establishes a new approach to determining whether our customer account asset is impaired. The approach no longer permits us to evaluate our customer account asset for impairment based on the net undiscounted cash flow stream obtained over the remaining life of the goodwill associated with the customer accounts being evaluated. Rather, the cash flow stream to be used under SFAS No. 144 is limited to the future estimated undiscounted cash flows from existing customer accounts. Additionally, the new rule no longer permits us to include estimated cash flows from forecasted customer additions. If the undiscounted cash flow stream from existing customer accounts is less than the combined book value of customer accounts and goodwill, an impairment charge is required.

The new rule substantially reduces the net undiscounted cash flows used for impairment evaluation purposes as compared to the previous accounting rules. The undiscounted cash flow stream has been reduced from the 16-year remaining life of the goodwill to the remaining life of customer accounts for impairment evaluation purposes and does not include estimated cash flows from forecasted customer additions.

To implement the new standards, an independent appraisal firm was engaged to help management estimate the fair values of goodwill and customer accounts. Based on this analysis completed during the first quarter of 2002,

we recorded a non-cash charge of approximately \$656.8 million, net of tax, of which \$466.3 million is related to goodwill and \$190.5 million is related to customer accounts. The charge is detailed as follows:

	Impairment of Goodwill	Impairment of Customer Accounts	Total
	-----	-----	-----
	(In Thousands)		
Protection One.....	\$498,921	\$334,064	\$ 832,985
Protection One Europe.....	80,104	--	80,104
	-----	-----	-----
Total pre-tax impairment.....	\$579,025	\$334,064	913,089
	=====	=====	
Income tax benefit.....			(173,650)
Minority interest ownership.....			(82,615)

Total charge, net of tax.....			\$ 656,824
			=====

The impairment charge for goodwill is reflected in our consolidated statement of income as a cumulative effect of a change in accounting principle. The impairment charge for customer accounts is reflected in our consolidated statement of income as an operating expense. These impairment charges reduce the recorded value of these assets to their estimated fair values at January 1, 2002.

We are no longer permitted to amortize goodwill to income because of the adoption of the new goodwill standard. The following table shows our results for the three months ended March 31, 2001, calculated using the new accounting standard for goodwill, compared to our results for the same period of 2002.

	Three Months Ended March 31,	
	-----	-----
	2002	2001
	-----	-----
	(In Thousands, Except Per Share Amounts)	
Reported earnings (losses) available for common stock.....	\$(652,192)	\$ 4,168
Add back: Goodwill amortization.....	--	14,418
	-----	-----
Adjusted earnings (losses) available for common stock.....	\$(652,192)	\$18,586
	=====	=====
Basic and diluted earnings per share:		
Reported earnings (losses) available for common stock.....	\$ (9.14)	\$ 0.06
Add back: Goodwill amortization.....	--	0.20
	-----	-----
Adjusted earnings (losses) available for common stock.....	\$ (9.14)	\$ 0.26
	=====	=====

We recorded approximately \$22.7 million of customer account amortization expense during the three months ended March 31, 2002 and \$38.7 million during the same period of 2001. Customer account amortization expense is reduced primarily as a result of the impairment charge that reduced our customer account balance.

We will be required to perform impairment tests for long-lived assets prospectively for our monitored services segment as long as it continues to incur recurring losses or for other matters that may negatively impact its businesses. Goodwill will be required to be tested each year for impairment. Declines in market values of our monitored services businesses or the value of customer accounts that may be incurred prospectively may require additional impairment charges in the future, which could be material.

4. CHANGE IN ESTIMATE OF CUSTOMER LIFE

During the first quarter of 2002, Protection One evaluated the estimated life and amortization rates for customer accounts, given the results of a lifing study performed by a third party appraisal firm in the first quarter of 2002. The lifing study showed a deterioration in the average remaining life of customer accounts. Protection One's management determined it was appropriate, given the results of the lifing study, to adjust the rate of amortization on customer accounts for its North America and Multifamily customer pools. In the first quarter of 2002, Protection One changed its amortization rate for its North America pool to a 10-year 135% declining balance method from a 10-year 130% declining balance method. For the Multifamily pool, Protection One reduced its estimated customer life from 10 to 9 years and will continue to amortize on a straight-line basis. We account for these amortization changes prospectively as a change in estimate. These changes in estimates increased amortization expense for the three months ended March 31, 2002 on a pre-tax basis by approximately \$0.3 million. The change in estimate had no impact on reported earnings per share.

5. RATE MATTERS AND REGULATION

KCC Rate Proceedings

On November 27, 2000, we and KGE filed applications with the Kansas Corporation Commission (KCC) for an increase in retail rates. On July 25, 2001, the KCC ordered an annual reduction in our combined electric rates of \$22.7 million, consisting of a \$41.2 million reduction in KGE's rates and an \$18.5 million increase in our rates.

On August 9, 2001, we and KGE filed petitions with the KCC requesting reconsideration of the July 25, 2001 order. The petitions specifically asked for reconsideration of changes in depreciation, reductions in rate base related to deferred income taxes associated with the KGE acquisition premium and a deferred gain on the sale and leaseback of our LaCygne 2 generating unit, wholesale revenue imputation and several other issues. On September 5, 2001, the KCC issued an order in response to our motions for reconsideration that increased our rates by an additional \$7.0 million. The \$41.2 million rate reduction in KGE's rates remained unchanged. This resulted in the total company rate decrease of \$15.7 million. On November 9, 2001, we filed an appeal of the KCC decisions with the Kansas Court of Appeals in an action captioned "Western Resources, Inc. and Kansas Gas and Electric Company vs. The State Corporation Commission of the State of Kansas." On March 8, 2002, the Court of Appeals upheld the KCC orders. On April 8, 2002, we filed a petition for review of the decision of the Court of Appeals with the Kansas Supreme Court, which has discretion to decide whether to hear this matter. We petitioned the court to review the KCC's rulings related to deferred income taxes associated with the KGE acquisition premium and a deferred gain on the sale and leaseback of our LaCygne 2 generating unit. We can give no assurance that the Kansas Supreme Court will accept our petition for review and there is no time limit for action by the Kansas Supreme Court.

KCC Investigation and Order

See Note 6 for a discussion of the order issued by the KCC on July 20, 2001 in the KCC's docket investigating the proposed separation of our electric utility businesses from our non-utility businesses and other aspects of our unregulated businesses.

FERC Proceeding

Our wholly owned subsidiary, Westar Generating, Inc. (Westar Generating), owns our interest in the State Line generating facility. We purchase Westar Generating's share of the power generated by State Line. The Federal Energy Regulatory Commission (FERC) has jurisdiction over the establishment of the rate at which we buy power from Westar Generating. We have reached a settlement in principle with the FERC staff and the KCC, the only active parties in this proceeding. We expect to file a Stipulation and Agreement in the near future.

6. SPLIT-OFF OF WESTAR INDUSTRIES

KCC Proceedings and Orders

The merger with Public Service Company of New Mexico (PNM) contemplated the completion of a rights offering for shares of Westar Industries prior to closing. On May 8, 2001, the KCC opened an investigation of the proposed separation of our electric utility businesses from our non-utility businesses, including the rights offering, and other aspects of our unregulated businesses. The order opening the investigation indicated that the investigation would focus on whether the separation and other transactions involving our unregulated businesses are consistent with our obligation to provide efficient and sufficient electric service at just and reasonable rates to our electric utility customers. The KCC staff was directed to investigate, among other matters, the basis for and the effect of the Asset Allocation and Separation Agreement we entered into with Westar Industries in connection with the proposed separation and the intercompany payable owed by us to Westar Industries, the separation of Westar Industries, the effect of the business difficulties faced by our unregulated businesses and whether they should continue to be affiliated with our electric utility business, and our present and prospective capital structures. On May 22, 2001, the KCC issued an order nullifying the Asset Allocation and Separation Agreement, prohibiting Westar Industries and us from taking any action to complete the rights offering for common stock of Westar Industries, which was to be a first step in the separation, and scheduling a hearing to consider whether to make the order permanent.

On July 20, 2001, the KCC issued an order that, among other things: (1) confirmed its May 22, 2001 order prohibiting us and Westar Industries from taking any action to complete the proposed rights offering and nullifying the Asset Allocation and Separation Agreement; (2) directed us and Westar Industries not to take any action or enter into any agreement not related to normal utility operations that would directly or indirectly increase the share of debt in our capital structure applicable to our electric utility operations, which has the effect of prohibiting us from borrowing to make a loan or capital contribution to Westar Industries; and (3) directed us to present a financial plan consistent with parameters established by the KCC's order to restore financial health, achieve a balanced capital structure and protect ratepayers from the risks of our non-utility businesses. In its order, the KCC also acknowledged that we are currently operating efficiently and at reasonable cost and stated that it was not disapproving the PNM transaction or a split-off of Westar Industries. We appealed the orders issued by the KCC to the District Court of Shawnee County, Kansas. On February 5, 2002, the District Court issued a decision finding that the KCC orders were not final orders and that the District Court lacked jurisdiction to consider the appeal. Accordingly, the matter was remanded to the KCC for review of the financial plan.

On February 11, 2002, the KCC issued an order primarily related to procedural matters for the review of the financial plan, as discussed below. In addition, the order required that we and the KCC staff make filings addressing whether the filing of applications by us and KGE at FERC, seeking renewal of existing borrowing authority, violated the July 20, 2001 KCC order directing that we not increase the share of debt in our capital structure applicable to our electric utility operations. The KCC staff subsequently filed comments asserting that the refinancing of existing indebtedness with new indebtedness secured by utility assets would in certain circumstances violate the July 20, 2001 KCC order. The KCC filed a motion to intervene in the proceeding at FERC asserting the same position.

On March 26, 2002, the KCC issued an order in which it acknowledged that our FERC filings technically did not violate the July 20, 2001 KCC order. However, the KCC expressed concern that our refinancing plans as described in the FERC filings could, when implemented, increase the share of debt in the capital structure applicable to our electric utility operations. By agreement with the KCC staff and other intervenors, the FERC applications have been amended so that the requested authority is limited to short-term (12 months or less) borrowing authority and, as a result, the KCC's and certain other parties' interventions were withdrawn. We intend to file applications for authority for medium-term financing with the FERC and are unable to predict the extent to which the FERC will incorporate the KCC staff position in orders renewing that borrowing authority, or any resulting impact on our ability to refinance indebtedness maturing in the next several years. However, an inability to refinance existing indebtedness on a secured basis would likely increase our borrowing costs, and any other limitations on our ability to refinance existing debt would adversely affect our results of operations.

The Financial Plan

The July 20, 2001 KCC order directed us to present a financial plan to the KCC. We presented a financial plan to the KCC on November 6, 2001, which we amended on January 29, 2002. Our financial plan is set forth in full in our Annual Report on Form 10-K for the year ended December 31, 2001 under "Item 1. Business - Significant Business Developments - The Financial Plan." The principal objective of the financial plan is to reduce our total debt as calculated by the KCC to approximately \$1.8 billion, a reduction of approximately \$1.2 billion. The financial plan contemplates that we will proceed with a rights and warrants offering of Westar Industries common stock to our shareholders and that, in the event that the PNM merger and related split-off do not close, we will use our best efforts to sell our share of Westar Industries common stock, or shares of our common stock, upon the occurrence of certain events. The KCC has scheduled a hearing to begin on July 1, 2002 to review the financial plan. We are unable to predict whether the KCC will approve the financial plan or what other action with respect to the financial plan the KCC may take.

7. INCOME TAXES

We have recorded income tax benefits for the interim periods using the effective tax rate method. Under this method, we compute the tax related to year-to-date income, except for significant, unusual or extraordinary items, at an estimated annual effective tax rate. We individually compute and recognize, when the transaction occurs, income tax expense related to significant, unusual or extraordinary items. Our effective income tax benefit for the three months ended March 31, 2002 was 48% compared to 50% for the same period of 2001.

The difference between our effective tax rate and the statutory rate is primarily attributable to the impairment charge recorded in the first quarter of 2002 and the tax benefit of excluding from taxable income, in accordance with IRS rules, 70% of the dividends received from ONEOK, the income from corporate-owned life insurance and certain expenses for depreciation, amortization and state income taxes. For further information regarding the impairment charge, see Note 3, "Impairment Charge Pursuant to New Accounting Rules."

8. WORK FORCE REDUCTIONS

In the first quarter of 2002, we and Protection One reduced our work forces by approximately 600 employees through a voluntary separation program and facility consolidations. We and Protection One recorded a severance charge of approximately \$21.9 million, net of tax, in the first quarter of 2002. We may replace some of these employees.

9. ICE STORM

In late January 2002, a severe ice storm swept through our utility service area causing extensive damage and loss of power to numerous customers. Through March 31, 2002, we incurred total costs of \$16.1 million for restoration costs, a portion of which was capitalized. We have deferred and recorded in other assets on our March 31, 2002 consolidated balance sheet operating costs of approximately \$13.1 million. We have received an accounting authority order from the KCC that allows us to accumulate and defer for future recovery all operating costs related to storm restoration. We currently estimate total restoration costs at approximately \$18 million, rather than our previously reported estimate of \$25 million.

10. EXTRAORDINARY GAIN ON SECURITIES

Protection One and our debt securities were repurchased in the open market and extraordinary gains were recognized on the retirement of these debt securities. The extraordinary gain recognized was \$6.5 million, net of tax of \$3.7 million, during the three months ended March 31, 2002, and \$4.9 million, net of tax of \$2.7 million, for the same period of 2001.

In April 2002, the Financial Accounting Standards Board (FASB) issued SFAS No. 145, "Rescission of FASB Statements No. 4, 44, and 64, Amendment of FASB Statement No. 13, and Technical Corrections." This standard limits the income statement classification of gains and losses from extinguishment of debt as extraordinary to those transactions meeting the criteria of Accounting Principles Board (APB) Opinion No. 30, "Reporting the Results of Operations - Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions." SFAS No. 145 prohibits treating gains and losses associated with extinguishments resulting from a company's risk management strategy as extraordinary. This standard is effective for fiscal years beginning after May 15, 2002 with early adoption encouraged. Gains or losses in prior periods that were classified as extraordinary that do not meet the APB Opinion No. 30 criteria will be required to be reclassified. We do not anticipate this pronouncement to have an impact on our earnings or financial condition.

11. LEGAL PROCEEDINGS

We, Westar Industries, Protection One, its subsidiary Protection One Alarm Monitoring, Inc. (Protection One Alarm Monitoring) and certain present and former officers and directors of Protection One are defendants in a purported class action litigation pending in the United States District Court for the Central District of California, "Alec Garbini, et al. v. Protection One, Inc., et al.," No. CV 99-3755 DT (RCx). Pursuant to an Order dated August 2, 1999, four pending purported class actions were consolidated into a single action. On February 27, 2001, plaintiffs filed a Third Consolidated Amended Class Action Complaint (Third Amended Complaint). Plaintiffs purported to bring the action on behalf of a class consisting of all purchasers of publicly traded securities of Protection One, including common stock and bonds, during the period of February 10, 1998 through February 2, 2001. The Third Amended Complaint asserted claims under Section 11 of the Securities Act of 1933 and Section 10(b) of the Securities Exchange Act of 1934 against Protection One, Protection One Alarm Monitoring, and certain present and former officers and directors of Protection One based on allegations that various statements concerning Protection One's financial results and operations for 1997, 1998, 1999 and the first three quarters of 2000 were false and misleading and not in compliance with generally accepted accounting principles. Plaintiffs alleged, among other things, that former employees of Protection One have reported that Protection One lacked adequate internal accounting controls and that certain accounting information was unsupported or manipulated by management in order to avoid disclosure of accurate information. The Third Amended Complaint further asserted claims against us and Westar Industries as controlling persons under Sections 11 and 15 of the Securities Act of 1933 and Sections 10(b) and 20(a) of the Securities Exchange Act of 1934. A claim was also asserted under Section 11 of the Securities Act of 1933 against Protection One's auditor, Arthur Andersen LLP. The Third Amended Complaint sought an unspecified amount of compensatory damages and an award of fees and expenses, including attorneys' fees. On June 4, 2001, the District Court (the Court) dismissed plaintiffs' claims under Sections 10(b) and 20(a) of the Securities Exchange Act. The Court granted plaintiffs leave to replead such claims. The Court also dismissed all claims brought on behalf of bondholders with prejudice. The Court also dismissed plaintiffs' claims against Arthur Andersen LLP and the plaintiffs have appealed that dismissal. On February 22, 2002, plaintiffs filed a Fourth Consolidated Amended Class Action Complaint. The new complaint realleges claims on behalf of purchasers of common stock under Sections 11 and 15 of the Securities Act of 1933 and Sections 10(b) and 20(a) of the Securities Exchange Act of 1934. The new complaint does not assert any claims against Protection One Alarm Monitoring. On April 5, 2002, we, Protection One and the other defendants filed a motion to dismiss the Fourth Consolidated Amended Class Action Complaint. The motion is scheduled to be heard by the Court on June 10, 2002. Protection One and we cannot predict the impact of this litigation, which could be material.

On October 12, 2001, PNM filed a lawsuit against us in the Supreme Court of the State of New York. The lawsuit seeks, among other things, declaratory judgment that PNM is not obligated to proceed with the proposed merger based in part upon the KCC orders discussed above and other KCC orders reducing rates for our electric utility business. PNM believes the orders constitute a material adverse effect and make the condition that the split-off of Westar Industries occur prior to closing incapable of satisfaction. PNM also seeks unspecified monetary damages for breach of representation.

On November 19, 2001, we filed a lawsuit against PNM in the Supreme Court of the State of New York. The lawsuit seeks substantial damages for PNM's breach of the merger agreement providing for PNM's purchase of our electric utility operations and for PNM's breach of its duty of good faith and fair dealing. In addition, we filed a

motion to dismiss or stay the declaratory judgment action previously filed by PNM seeking a declaratory judgment that PNM has no further obligations under the merger agreement.

PNM responded to our motion by seeking to dismiss or stay our action in favor of its own. On May 2, 2002, the Court granted PNM's motion to dismiss our lawsuit, without prejudice to our assertion of all claims alleged therein as counterclaims in the earlier-filed PNM case, and correspondingly denied our motion to dismiss the earlier-filed PNM lawsuit. On May 10, 2002, PNM served us with an amended complaint in which it added to its prior claims requests for declarations that PNM did not breach the terms of the merger agreement and also alleged additional breaches of representations and warranties on our part.

We and our subsidiaries are involved in various other legal, environmental and regulatory proceedings. We believe that adequate provision has been made and accordingly believe that the ultimate disposition of such matters will not have a material adverse effect upon our overall financial position or results of operations. See also Notes 5 and 6 for discussion of FERC proceedings and KCC regulatory proceedings.

12. RELATED PARTY TRANSACTIONS

Below we describe significant transactions between us and Westar Industries and other subsidiaries and related parties. We have disclosed significant transactions even if these have been eliminated in the preparation of our consolidated results and financial position since our proposed financial plan, as discussed in Note 6, calls for a split-off of Westar Industries from us to occur in the future. We cannot predict whether the KCC will approve the plan and, if so, whether we will be successful in executing the plan.

Transactions with Westar Industries

On February 28, 2001, Westar Industries converted \$350.0 million of the then outstanding balance of a payable due from us into approximately 14.4 million shares of our common stock, representing 16.9% of our outstanding common stock after conversion. During the first quarter of 2002, we paid the remaining payable balance owed to Westar Industries of approximately \$68 million. The proceeds were used by Westar Industries to purchase our outstanding debt in the open market, which we have accounted for as debt extinguishments. At March 31, 2002, Westar Industries owned \$109.8 million of our debt securities. Amounts outstanding and interest earned by Westar Industries have been eliminated in our consolidated financial statements. At March 31, 2002, Westar Industries and Protection One owned 15,494,755 shares, or 17.8%, of our outstanding common stock. These shares are reflected as treasury stock in our consolidated balance sheets and are not included in our earnings per share calculation.

Transactions Between Westar Industries and Subsidiaries

Protection One Credit Facility

Westar Industries is the lender under Protection One's senior credit facility. On March 25, 2002, Westar Industries and Protection One entered into an amendment to the facility that increased the amount of the facility to \$180 million. As of March 31, 2002, approximately \$143.5 million was drawn under the facility. Amounts outstanding, accrued interest and facility fees have been eliminated in our consolidated financial statements. The facility currently expires on January 3, 2003.

Purchases of Securities

During the three months ended March 31, 2002, Westar Industries purchased \$38.5 million face value of Protection One bonds on the open market. We recognized an extraordinary gain from the purchase of Protection One bonds of \$4.5 million, net of tax of \$2.4 million.

During the three months ended March 31, 2002, both Westar Industries and Protection One purchased \$91.1 million face value of our bonds on the open market. We recognized an extraordinary gain from the purchase of our bonds of \$2.0 million, net of tax of \$1.3 million.

During April 2002, we recognized a gain of \$4.1 million, net of \$2.3 million tax, on the repurchase of Protection One and our bonds.

During the three months ended March 31, 2002, Protection One purchased approximately \$1.2 million of our preferred stock in open market purchases. These purchases have been accounted for as retirements. We recognized a gain on reacquired preferred stock of approximately \$0.5 million, net of tax of \$0.3 million, for the three months ended March 31, 2002 related to these retirements. From April 1, 2002 through April 30, 2002, Protection One acquired in open market purchases approximately \$0.1 million of our preferred securities.

Services Agreements

We provide administrative services to Protection One pursuant to services agreements, including accounting, tax, audit, human resources, legal, facilities and technology services. Charges of approximately \$1.5 million for the three months ended March 31, 2002 and \$2.4 million for the same period of 2001 were incurred by Protection One. We had a net intercompany balance due from Protection One primarily for these services of \$0.9 million at March 31, 2002.

Protection One has entered into an agreement pursuant to which it will pay to Westar Industries, beginning with the quarter ended March 31, 2002, a fee for financial advisory services payable quarterly, equal to 0.125% of its consolidated total assets at the end of each quarter. The agreement also provides access to aviation services at Protection One's option. This agreement was approved by the independent members of Protection One's board of directors. Protection One incurred approximately \$1.3 million of expenses in the first quarter of 2002 for the financial advisory fee, which has been eliminated in our consolidated financial statements.

Transactions with Protection One

During the fourth quarter of 2001, KGE entered into an option agreement to sell an office building located in downtown Wichita, Kansas, to Protection One for approximately \$0.5 million. The sales price was determined by management based on three independent appraisers' findings.

Loans to Officers

During 2001, we extended loans to our officers for the purpose of purchasing shares of our common stock on the open market. The loans are unsecured and contain a variable interest rate that is equal to our short-term borrowing rate. Interest is payable quarterly. The loans mature and become due on December 4, 2004. The balance outstanding at March 31, 2002 was approximately \$2.1 million and is classified as a reduction to shareholders' equity in the accompanying consolidated balance sheet. During the first quarter of 2002, we recorded approximately \$22,000 in interest income on these notes. The maximum amount of loans authorized is \$7.9 million.

13. SEGMENTS OF BUSINESS

Our business is segmented based on differences in products and services, production processes and management responsibility.

Previously, we had identified five reportable segments: Fossil Generation, Nuclear Generation, Customer Operations, Monitored Services and Other. We now have three reportable segments: Electric Utility, Monitored Services and Other. Electric Utility consists of our integrated electric utility operations doing business as Westar Energy. Monitored Services, including the net effect of minority interests, is comprised of our security alarm monitoring business in North America and Europe. Other includes a 45% interest in ONEOK, investments in international power generation facilities and other investments in the aggregate not material to our business or results of operations.

The accounting policies of the segments are substantially the same as those described in our Annual Report on Form 10-K for the year ended December 31, 2001 in Note 2, "Summary of Significant Accounting Policies." Segment performance is based on earnings (losses) before interest and taxes (EBIT). Prior year segment information has been reclassified, as necessary, to conform with the current year's presentation.

Three Months Ended March 31, 2002:

	Electric Utility	Monitored Services	Other (a) (b)	Total
	(In Thousands)			
Sales.....	\$412,281	\$ 89,708	\$ 252	\$ 502,241
EBIT.....	21,299	(251,778)	29,236	(201,243)
Interest expense.....				61,883
Losses before income taxes.....				(263,126)

Three Months Ended March 31, 2001:

	Electric Utility (c)	Monitored Services	Other (a) (d)	Total
	(In Thousands)			
Sales.....	\$446,018	\$ 114,370	\$ 353	\$560,741
EBIT.....	42,814	(27,481)	13,142	28,475
Interest expense.....				66,701
Losses before income taxes.....				(38,226)

- (a) Sales are from a wholly owned subsidiary of Westar Industries providing paging services, which was sold during the first quarter of 2002.
- (b) EBIT includes investment earnings of \$32.1 million consisting of a one-time payment of approximately \$14.2 million related to a partial recovery of an investment and approximately \$13.8 million of ONEOK investment earnings.
- (c) EBIT does not include the unrealized gain on derivatives reported as a cumulative effect of a change in accounting principle. If the effect had been included, EBIT would have been \$73.9 million.
- (d) EBIT includes investment earnings of \$11.7 million.

14. SUBSEQUENT EVENT

On May 10, 2002, we completed offerings for \$365 million of our first mortgage bonds and \$400 million of our unsecured senior notes, both of which will be due on May 1, 2007. The first mortgage bonds bear interest at the annual rate of 7 7/8% and the unsecured senior notes bear interest at the annual rate of 9 3/4%. Interest on the first mortgage bonds and unsecured senior notes is payable semi-annually on May 1 and November 1 of each year, beginning on November 1, 2002. The net proceeds from these offerings were used to repay outstanding indebtedness of \$547 million under our existing secured bank term loan, provide for the repayment of \$100 million of our 7.25% first mortgage bonds due August 15, 2002 together with accrued interest, reduce the outstanding balance on our existing secured revolving credit facility and pay fees and expenses of the transactions.

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

INTRODUCTION

The following Management's Discussion and Analysis of Financial Condition and Results of Operations updates the information provided in our Annual Report on Form 10-K for the year ended December 31, 2001, and should be read in conjunction with that report. In this section, we discuss the general financial condition, significant changes and operating results for us and our subsidiaries. We explain:

- . What factors impact our business
- . What our earnings and costs were for the three months ended March 31, 2002 and 2001
- . Why these earnings and costs differ from period to period
- . How our earnings and costs affect our overall financial condition
- . Any other items that particularly affect our financial condition or earnings.

SUMMARY OF SIGNIFICANT ITEMS

Impairment Charge Pursuant to New Accounting Rules

Effective January 1, 2002, we adopted the new accounting standards Statement of Financial Accounting Standards (SFAS) No. 142, "Accounting for Goodwill and Other Intangible Assets," and SFAS No. 144, "Accounting for the Impairment and Disposal of Long-Lived Assets." SFAS No. 142 establishes new standards for accounting for goodwill. SFAS No. 142 continues to require the recognition of goodwill as an asset, but discontinues amortization of goodwill. In addition, annual impairment tests must be performed using a fair-value based approach as opposed to an undiscounted cash flow approach required under prior standards.

SFAS No. 144 establishes a new approach to determining whether our customer account asset is impaired. The approach no longer permits us to evaluate our customer account asset for impairment based on the net undiscounted cash flow stream obtained over the remaining life of the goodwill associated with the customer accounts being evaluated. Rather, the cash flow stream to be used under SFAS No. 144 is limited to the future estimated undiscounted cash flows from existing customer accounts. Additionally, the new rule no longer permits us to include estimated cash flows from forecasted customer additions. If the undiscounted cash flow stream from existing customer accounts is less than the combined book value of customer accounts and goodwill, an impairment charge is required.

The new rule substantially reduces the net undiscounted cash flows used for impairment evaluation purposes as compared to the previous accounting rules. The undiscounted cash flow stream has been reduced from the 16-year remaining life of the goodwill to the remaining life of customer accounts for impairment evaluation purposes and does not include estimated cash flows from forecasted customer additions.

To implement the new standards, an independent appraisal firm was engaged to help management estimate the fair values of goodwill and customer accounts. Based on this analysis completed during the first quarter of 2002, we recorded a non-cash charge of approximately \$656.8 million, net of tax, of which \$466.3 million is related to goodwill and \$190.5 million is related to customer accounts. The charge is detailed as follows:

	Impairment of Goodwill	Impairment of Customer Accounts	Total
	-----	-----	-----
	(In Thousands)		
Protection One	\$498,921	\$334,064	\$ 832,985
Protection One Europe	80,104	--	80,104
	-----	-----	-----
Total pre-tax impairment	\$579,025	\$334,064	913,089
	=====	=====	
Income tax benefit			(173,650)
Minority interest ownership			(82,615)

Total charge, net of tax			\$ 656,824
			=====

The impairment charge for goodwill is reflected in our consolidated statement of income as a cumulative effect of a change in accounting principle. The impairment charge for customer accounts is reflected in our consolidated statement of income as an operating expense. These impairment charges reduce the recorded value of these assets to their estimated fair values at January 1, 2002.

We are no longer permitted to amortize goodwill to income because of the adoption of the new goodwill standard. The following table shows our results for the three months ended March 31, 2001, calculated using the new accounting standard for goodwill, compared to the same period of 2002.

	Three Months Ended March 31,	
	-----	-----
	2002	2001
	-----	-----
	(In Thousands, Except Per Share Amounts)	
Reported earnings (losses) available for common stock	\$(652,192)	\$ 4,168
Add back: Goodwill amortization	--	14,418
	-----	-----
Adjusted earnings (losses) available for common stock	\$(652,192)	\$18,586
	=====	=====
Basic and diluted earnings per share:		
Reported earnings (losses) available for common stock	\$ (9.14)	\$ 0.06
Add back: Goodwill amortization	--	0.20
	-----	-----
Adjusted earnings (losses) available for common stock	\$ (9.14)	\$ 0.26
	=====	=====

We recorded approximately \$22.7 million of customer account amortization expense during the three months ended March 31, 2002 and \$38.7 million during the same period of 2001. Customer account amortization expense is reduced primarily as a result of the impairment charge that reduced our customer account balance.

We will be required to perform impairment tests for long-lived assets prospectively for our monitored services segment as long as it continues to incur recurring losses or for other matters that may negatively impact its businesses. Goodwill will be required to be tested each year for impairment. Declines in market values of our monitored services businesses or the value of customer accounts that may be incurred prospectively may require additional impairment charges in the future, which could be material.

Change in Estimate of Customer Life

During the first quarter of 2002, Protection One, Inc. (Protection One) evaluated the estimated life and amortization rates for customer accounts, given the results of a lifing study performed by a third party appraisal firm in the first quarter of 2002. The lifing study showed a deterioration in the average remaining life of customer accounts. Protection One's management determined it was appropriate, given the results of the lifing study, to adjust

the rate of amortization on customer accounts for its North America and Multifamily customer pools. In the first quarter of 2002, Protection One changed its amortization rate for its North America pool to a 10-year 135% declining balance method from a 10-year 130% declining balance method. For the Multifamily pool, Protection One reduced its estimated customer life from 10 to 9 years and will continue to amortize on a straight-line basis. We account for these amortization changes prospectively as a change in estimate. These changes in estimates increased amortization expense for the three months ended March 31, 2002 on a pre-tax basis by approximately \$0.3 million. The change in estimate had no impact on reported earnings per share.

KCC Rate Proceedings

On November 27, 2000, we and Kansas Gas and Electric Company (KGE) filed applications with the Kansas Corporation Commission (KCC) for an increase in retail rates. On July 25, 2001, the KCC ordered an annual reduction in our combined electric rates of \$22.7 million, consisting of a \$41.2 million reduction in KGE's rates and an \$18.5 million increase in our rates.

On August 9, 2001, we and KGE filed petitions with the KCC requesting reconsideration of the July 25, 2001 order. The petitions specifically asked for reconsideration of changes in depreciation, reductions in rate base related to deferred income taxes associated with the KGE acquisition premium and a deferred gain on the sale and leaseback of our LaCygne 2 generating unit, wholesale revenue imputation and several other issues. On September 5, 2001, the KCC issued an order in response to our motions for reconsideration that increased our rates by an additional \$7.0 million. The \$41.2 million rate reduction in KGE's rates remained unchanged. This resulted in the total company rate decrease of \$15.7 million. On November 9, 2001, we filed an appeal of the KCC decisions with the Kansas Court of Appeals in an action captioned "Western Resources, Inc. and Kansas Gas and Electric Company vs. The State Corporation Commission of the State of Kansas." On March 8, 2002, the Court of Appeals upheld the KCC orders. On April 8, 2002, we filed a petition for review of the decision of the Court of Appeals with the Kansas Supreme Court, which has discretion to decide whether to hear this matter. We petitioned the court to review the KCC's rulings related to deferred income taxes associated with the KGE acquisition premium and a deferred gain on the sale and leaseback of our LaCygne 2 generating unit. We can give no assurance that the Kansas Supreme Court will accept our petition for review and there is no time limit for action by the Kansas Supreme Court.

KCC Proceedings and Orders

The merger with Public Service Company of New Mexico (PNM) contemplated the completion of a rights offering for shares of Westar Industries, Inc. (Westar Industries), prior to closing. On May 8, 2001, the KCC opened an investigation of the proposed separation of our electric utility businesses from our non-utility businesses, including the rights offering, and other aspects of our unregulated businesses. The order opening the investigation indicated that the investigation would focus on whether the separation and other transactions involving our unregulated businesses are consistent with our obligation to provide efficient and sufficient electric service at just and reasonable rates to our electric utility customers. The KCC staff was directed to investigate, among other matters, the basis for and the effect of the Asset Allocation and Separation Agreement we entered into with Westar Industries in connection with the proposed separation and the intercompany payable owed by us to Westar Industries, the separation of Westar Industries, the effect of the business difficulties faced by our unregulated businesses and whether they should continue to be affiliated with our electric utility business, and our present and prospective capital structures. On May 22, 2001, the KCC issued an order nullifying the Asset Allocation and Separation Agreement, prohibiting Westar Industries and us from taking any action to complete the rights offering for common stock of Westar Industries, which was to be a first step in the separation, and scheduling a hearing to consider whether to make the order permanent.

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consistent with parameters established by the KCC's order to restore financial health, achieve a balanced capital structure and protect ratepayers from the risks of our non-utility businesses. In its order, the KCC also acknowledged that we are currently operating efficiently and at reasonable cost and stated that it was not disapproving the PNM transaction or a split-off of Westar Industries. We appealed the orders issued by the KCC to the District Court of Shawnee County, Kansas. On February 5, 2002, the District Court issued a decision finding that the KCC orders were not final orders and that the District Court lacked jurisdiction to consider the appeal. Accordingly, the matter was remanded to the KCC for review of the financial plan.

On February 11, 2002, the KCC issued an order primarily related to procedural matters for the review of the financial plan, as discussed below. In addition, the order required that we and the KCC staff make filings addressing whether the filing of applications by us and KGE at the Federal Energy Regulatory Commission (FERC), seeking renewal of existing borrowing authority, violated the July 20, 2001 KCC order directing that we not increase the share of debt in our capital structure applicable to our electric utility operations. The KCC staff subsequently filed comments asserting that the refinancing of existing indebtedness with new indebtedness secured by utility assets would in certain circumstances violate the July 20, 2001 KCC order. The KCC filed a motion to intervene in the proceeding at FERC asserting the same position.

On March 26, 2002, the KCC issued an order in which it acknowledged that our FERC filings technically did not violate the July 20, 2001 KCC order. However, the KCC expressed concern that our refinancing plans as described in the FERC filings could, when implemented, increase the share of debt in the capital structure applicable to our electric utility operations. By agreement with the KCC staff and other intervenors, the FERC applications have been amended so that the requested authority is limited to short-term (12 months or less) borrowing authority and, as a result, the KCC's and certain other parties' interventions were withdrawn. We intend to file applications for authority for medium-term financing with the FERC and are unable to predict the extent to which the FERC will incorporate the KCC staff position in orders renewing that borrowing authority, or any resulting impact on our ability to refinance indebtedness maturing in the next several years. However, an inability to refinance existing indebtedness on a secured basis would likely increase our borrowing costs, and any other limitations on our ability to refinance existing debt would adversely affect our results of operations.

The Financial Plan

The July 20, 2001 KCC order directed us to present a financial plan to the KCC. For details of the financial plan and a hearing regarding the financial plan, see Note 6 of the "Notes to Consolidated Financial Statements" included herein and "Item 1. Business - Significant Business Developments - The Financial Plan" in our Annual Report on Form 10-K for the year ended December 31, 2001.

Extraordinary Gain on Securities

Protection One and our debt securities were repurchased in the open market and extraordinary gains were recognized on the retirement of these debt securities. The extraordinary gain recognized was \$6.5 million, net of tax of \$3.7 million, during the three months ended March 31, 2002, and \$4.9 million, net of tax of \$2.7 million, for the same period of 2001.

In April 2002, the Financial Accounting Standards Board (FASB) issued SFAS No. 145, "Rescission of FASB Statements No. 4, 44, and 64, Amendment of FASB Statement No. 13, and Technical Corrections." This standard limits the income statement classification of gains and losses from extinguishment of debt as extraordinary to those transactions meeting the criteria of Accounting Principles Board (APB) Opinion No. 30, "Reporting the Results of Operations - Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions." SFAS No. 145 prohibits treating gains and losses associated with extinguishments resulting from a company's risk management strategy as extraordinary. This standard is effective for fiscal years beginning after May 15, 2002 with early adoption encouraged. Gains or losses in prior periods that were classified as extraordinary that do not meet the APB Opinion No. 30 criteria will be required to be reclassified. We do not anticipate this pronouncement to have an impact on our earnings or financial condition.

Work Force Reductions

In the first quarter of 2002, we and Protection One reduced our work forces by approximately 600 employees through a voluntary separation program and facility consolidations. We and Protection One recorded a severance charge of approximately \$21.9 million, net of tax, in the first quarter of 2002. We may replace some of these employees.

Ice Storm

In late January 2002, a severe ice storm swept through our utility service area causing extensive damage and loss of power to numerous customers. Through March 31, 2002, we incurred total costs of \$16.1 million for restoration costs, a portion of which was capitalized. We have deferred and recorded in other assets on our March 31, 2002 consolidated balance sheet operating costs of approximately \$13.1 million. We have received an accounting authority order from the KCC that allows us to accumulate and defer for future recovery all operating costs related to storm restoration. We currently estimate total restoration costs at approximately \$18 million, rather than our previously reported estimate of \$25 million.

Debt Financings

On May 10, 2002, we completed offerings for \$365 million of our first mortgage bonds and \$400 million of our unsecured senior notes, both of which will be due on May 1, 2007. The first mortgage bonds bear interest at the annual rate of 7 7/8% and the unsecured senior notes bear interest at the annual rate of 9 3/4%. Interest on the first mortgage bonds and unsecured senior notes is payable semi-annually on May 1 and November 1 of each year, beginning on November 1, 2002. The net proceeds from these offerings were used to repay outstanding indebtedness of \$547 million under our existing secured bank term loan, provide for the repayment of \$100 million of our 7.25% first mortgage bonds due August 15, 2002 together with accrued interest, reduce the outstanding balance on our existing secured revolving credit facility and pay fees and expenses of the transactions.

Potential Changes in ONEOK Ownership

Westar Industries is reviewing alternatives for changing its investment in ONEOK. Among other things, Westar Industries may offer to ONEOK the option to purchase all or a portion of its interest in ONEOK and, in the event ONEOK fails to purchase Westar Industries' interest, pursue its right to seek a third-party buyer within a 16-month period thereafter. Westar Industries also may pursue any other means available to it under the shareholder agreement governing ownership of its investment in ONEOK for changing its investment in ONEOK. We are unable to predict whether any transaction will be pursued or any potential impact.

OPERATING RESULTS

The following discussion explains significant changes in operating results for the three months ended March 31, 2002 and 2001.

Western Resources Consolidated

Sales decreased \$58.5 million, or 10%. Lower retail and wholesale demand due to warm weather, lower industrial demand due to current economic conditions and decreased power marketing sales due to lower prices contributed approximately \$33.7 million to the decrease. A decrease in Monitored Services sales caused by the decline in its customer base, which was due in part to attrition and dispositions in 2001 of certain monitored services operations, contributed approximately \$24.8 million to the decrease. See "- Business Segments" below for additional information.

Cost of sales decreased \$56.2 million, or 21%. The decrease in the cost of sales was primarily due to decreased power marketing expense. Decreased power marketing expense was partially offset by increases in the mark to market on derivatives, purchased power expense and fuel expense. Protection One's efforts to reduce costs through consolidation of services and other cost cutting measures also contributed to the decline in cost of sales. Gross profit decreased \$2.3 million, from \$291.1 million in the first quarter of 2001 to \$288.8 million in the same

period of 2002, due to the above mentioned factors. Gross profit as a percentage of sales increased from 52% during the 2001 period to 58% during the 2002 period.

Basic losses per share were \$9.14 for the first quarter of 2002, compared to basic earnings per share of \$0.06 for the first quarter of 2001. This decrease is primarily attributable to the impairment charge recorded in the first quarter of 2002, the decline in gross profit discussed above and the first quarter 2002 charge related to a work force reduction.

Business Segments

Our business is segmented based on differences in products and services, production processes and management responsibility.

Previously, we had identified five reportable segments: Fossil Generation, Nuclear Generation, Customer Operations, Monitored Services and Other. We now have three reportable segments: Electric Utility, Monitored Services, and Other. Electric Utility consists of our integrated electric utility operations, including the generation and purchase of power, the transmission and distribution of power to our retail customers in Kansas and to wholesale customers, and our power marketing activities, which attempt to minimize commodity price risk associated with fuel purchases and purchased power requirements. Monitored Services, including the net effect of minority interests, is comprised of our security alarm monitoring business in North America and Europe. Other includes a 45% interest in ONEOK, investments in international power generation facilities and other investments in the aggregate not material to our business or results of operations.

The accounting policies of the segments are substantially the same as those described in our Annual Report on Form 10-K for the year ended December 31, 2001 in Note 2, "Summary of Significant Accounting Policies" in the "Notes to Consolidated Financial Statements." Prior year segment information has been reclassified, as necessary, to conform with the current year's presentation.

We manage our business segments' performance based on earnings (losses) before interest and taxes (EBIT). EBIT does not represent cash flow from operations as defined by generally accepted accounting principles, should not be construed as an alternative to operating income and is indicative neither of operating performance nor cash flows available to fund our cash needs. Items excluded from EBIT are significant components in understanding and assessing our financial performance. Interest expense, income taxes, extraordinary gains, cumulative effects of accounting changes and preferred stock are items that are excluded from the calculation of EBIT. We believe presentation of EBIT enhances an understanding of financial condition, results of operations and cash flows because EBIT is used by us to satisfy our debt service obligations, capital expenditures and other operational needs, as well as to provide funds for growth. Our computation of EBIT may not be comparable to other similarly titled measures of other companies.

Electric Utility

Our electric sales for the three months ended March 31, 2002 and 2001 are as follows:

	Three Months Ended March 31,		
	2002	2001	% Change
	(In Thousands)		
Residential	\$ 88,614	\$ 90,919	(2.5)
Commercial	81,194	82,610	(1.7)
Industrial	56,211	59,056	(4.8)
Other	25,008	13,019	92.1
Total retail	\$251,027	\$245,604	2.2
Wholesale and Interchange	62,897	64,642	(2.7)
Power Marketing	70,469	122,588	(42.5)
System Marketing	27,888	13,184	111.5
Total	\$412,281	\$446,018	(7.6)
	=====	=====	

The following table reflects changes in electric sales volumes, as measured by megawatt hours (MWh), for the three months ended March 31, 2002 and 2001. No sales volumes are included for power marketing and system marketing sales because these sales are not based on electricity we generate.

	Three Months Ended March 31,		
	2002	2001	% Change
	(Thousands of MWh)		
Residential	1,314	1,330	(1.2)
Commercial	1,453	1,478	(1.7)
Industrial	1,277	1,355	(5.8)
Other	27	27	--
Total retail	4,071	4,190	(2.8)
Wholesale and Interchange	2,530	2,018	25.4
Total	6,601	6,208	6.3

Energy sales decreased \$33.7 million, or 8%. Residential sales decreased due to weather conditions and rate reductions ordered by the KCC. In our service territory, the heating season of 2002 was warmer than the heating season of 2001, which caused customers to use less energy to heat their homes during the winter. Commercial sales decreased primarily due to our rate reductions. Industrial sales decreased primarily due to economic conditions affecting our large industrial customers. Wholesale and interchange sales changed primarily due to weather and market conditions. Power marketing sales decreased because of lower prices. Increases in other revenues and system marketing sales partially offset these decreases. The increase in other revenues is attributable to the new Southwest Power Pool (SPP) network tariff. The new tariff requires us to pay to the SPP all expenses associated with transporting our power from our generating stations. The SPP then pays us for distributing power to our retail customers and these payments are reflected in other revenues. Prior to the implementation of the new tariff, we had offsetting revenues and expenses, because an internal allocation was used. The increase in system marketing sales was primarily due to increased marketing efforts.

Cost of sales is comprised of fuel used for generation, mark to market on derivatives, purchased power and power marketing expense. Cost of sales decreased \$45.0 million, or 20%, primarily due to a \$56.6 million decrease in power marketing expense as a result of the decrease in power marketing sales. Partially offsetting the decrease were increases of approximately \$6.2 million due to marking to market derivatives, approximately \$3.4 million in fuel expense and approximately \$2.0 million in purchased power expense. Gross profit increased \$11.3 million, or 5%, due to the above mentioned factors. This is partly due to how we were required to record a gain on certain derivatives acquired in 2001 to mitigate the risk of changing prices on our natural gas fuel requirements. Prior to the adoption of SFAS No. 133 on January 1, 2001, gains and losses on these derivatives were deferred until settlement and reflected in gross profit at that time. However, upon adoption of SFAS No. 133, we were required to report a \$31.0 million gain on these contracts as of that date as a cumulative effect of a change in accounting principle. This gain was reported on our consolidated statements of income for the three months ended March 31, 2001 on a net-of-tax basis below income tax expense in accordance with accounting standards. All gains and losses after January 1, 2001 on our derivatives that are not designated as hedges are reflected in gross profit. Had we included the gain in cost of sales in 2001, our \$11.3 million increase in gross profit would have been a decrease in gross profit of \$19.7 million because the decline in sales would have been significantly greater than the decline in cost of sales.

A portion of the increase in fuel and purchased power expenses was attributable to the refueling and maintenance outage at Wolf Creek as other more expensive sources of power were used to replace the loss of power from Wolf Creek. Wolf Creek has a scheduled refueling and maintenance outage approximately every 18 months. Wolf Creek was shut down for 36 days for its 12th scheduled refueling and maintenance outage, which began on March 23, 2002 and ended on April 27, 2002. Wolf Creek operated the entire year of 2001 without any refueling outages.

During the three months ended March 31, 2002, operating expenses increased \$32.1 million primarily as a result of employee severance costs related to the work force reduction.

Due to the above factors, income from operations decreased \$20.8 million, which was the primary reason EBIT declined \$21.5 million, from \$42.8 million for the three months ended March 31, 2001 to \$21.3 million for the same period of 2002.

Monitored Services

Protection One and Protection One Europe comprise our monitored services business segment. The results discussed below reflect Monitored Services on a stand-alone basis. These results take into consideration Protection One's minority interest of approximately 12% at March 31, 2002 and 15% at March 31, 2001. Details concerning EBIT attributable to our monitored services segment are as follows:

	Three Months Ended March 31,	
	2002	2001
	(In Thousands)	
Sales	\$ 89,708	\$114,370
Loss before interest and taxes	(251,778)	(27,481)

Sales decreased \$24.7 million primarily due to a decline in the monitored services segment's average customer base, which was due in part to attrition and dispositions in 2001 of certain monitored services operations. The monitored services segment experienced a net decline of 16,562 customers in the first quarter of 2002. Protection One's customer acquisition strategies have not been able to generate accounts in a sufficient volume at an acceptable cost to replace accounts lost through attrition. See "- Other Information - Monitored Services - Attrition" below for discussion regarding attrition. Protection One expects this trend will continue until the efforts it is making to acquire new accounts and reduce attrition become more successful than they have been to date. Until it is able to reverse this trend, net losses of customer accounts will materially and adversely affect its business, financial condition and results of operations. Protection One is currently focusing on reducing attrition, the development of cost effective marketing programs and the generation of positive cash flow.

Cost of sales generally relate to the cost of providing monitoring service and include the costs of monitoring, billing, customer service and field operations. Cost of sales decreased \$11.1 million primarily due to Protection One's reduced customer base, efforts to reduce costs through consolidation of services and other cost cutting measures and due to dispositions in 2001 of certain monitored services operations. As a result of sales declining at a higher rate than cost of sales, gross profit decreased \$13.5 million.

During the three months ended March 31, 2002, operating expenses increased \$292.4 million primarily due to a \$334.1 million loss on impairment of customer accounts, which was partially offset by decreases in operating and maintenance, depreciation and amortization, and selling, general and administrative expenses. The decrease in depreciation and amortization expense of \$30.8 million is primarily due to decreases in goodwill and customer account amortization. With the adoption of SFAS No. 142 on January 1, 2002, goodwill is no longer amortized.

As a result of the decline in gross profit and the increases in operating and other expenses, loss before interest and taxes increased \$224.3 million. Also as a result of the impairment, Monitored Services' total assets decreased approximately \$942.7 million, from \$1.9 billion for the year ended December 31, 2001 to \$944.5 million for the three months ended March 31, 2002.

Other

Other includes a 45% interest in ONEOK, investments in international power generation facilities and other investments in the aggregate not material to our business or results of operations. Details concerning EBIT attributable to this segment are as follows:

Three Months Ended March 31,

	2002	2001
	-----	-----
	(In Thousands)	
Sales	\$ 252	\$ 353
EBIT	29,236	13,142

Sales shown above are from a wholly owned subsidiary of Westar Industries providing paging services, which was sold during the first quarter of 2002. The timing of the disposition is the primary reason sales declined approximately \$0.1 million. EBIT increased \$16.1 million primarily as a result of increased investment earnings, which increased \$20.4 million, from \$11.7 million in 2001 to \$32.1 million in 2002, primarily as a result of a one-time payment of approximately \$14.2 million related to a partial recovery of an investment.

WESTERN RESOURCES CONSOLIDATED

The following discussion addresses changes in other items affecting net income but not affecting EBIT for the three months ended March 31, 2002 compared to the same period of 2001.

Interest Expense

Interest expense represents the interest we paid on outstanding debt. Interest expense decreased \$4.8 million due to lower interest rates and lower outstanding debt at Protection One.

Income Taxes

We have recorded income tax benefits for the interim periods using the effective tax rate method. Under this method, we compute the tax related to year-to-date income, except for significant, unusual or extraordinary items, at an estimated annual effective tax rate. We individually compute and recognize, when the transaction occurs, income tax expense related to significant, unusual or extraordinary items. Our effective income tax benefit for the three months ended March 31, 2002 was 48% compared to 50% for the same period of 2001.

The difference between our effective tax rate and the statutory rate is primarily attributable to the impairment charge recorded in the first quarter of 2002 and the tax benefit of excluding from taxable income, in accordance with IRS rules, 70% of the dividends received from ONEOK, the income from corporate-owned life insurance and certain expenses for depreciation, amortization and state income taxes. For further information regarding the impairment charge, see Note 3, "Impairment Charge Pursuant to New Accounting Rules."

LIQUIDITY AND CAPITAL RESOURCES

We had \$93.6 million in cash and cash equivalents at March 31, 2002. We consider cash equivalents to be highly liquid investments with a maturity of three months or less when purchased. We also had \$19.6 million of restricted cash classified as a current asset at March 31, 2002. The current asset portion of our restricted cash consists primarily of cash held in escrow as required by certain letters of credit. In addition, we had \$35.1 million of restricted cash classified as a long-term asset, which consists primarily of \$34.1 million of cash held in escrow as required by the terms of a pre-paid capacity and transmission agreement and \$1.0 million of cash used to collateralize letters of credit.

At March 31, 2002, current maturities of long-term debt were approximately \$661.5 million and short-term debt outstanding was \$397.7 million. Current maturities of long-term debt increased primarily due to our term loan, which had a maturity date of March 17, 2003.

On June 28, 2000, we entered into a \$600 million, multi-year term loan that replaced two revolving credit facilities that matured on June 30, 2000. The term loan is secured by our and KGE's first mortgage bonds and has a maturity date of March 17, 2003. The term loan agreement contains requirements for maintaining certain consolidated leverage ratios, interest coverage ratios and consolidated debt to capital ratios. At December 31, 2001, we were in compliance with all of these requirements. In January 2002, we repaid \$44 million of the term loan with the proceeds of our sale of investments in low income housing tax credit partnerships. The outstanding balance of the term loan after this prepayment was \$547 million. In March 2002, we entered into an amendment to the term loan that adds to the calculation of consolidated earnings before interest, taxes, depreciation and amortization, the severance costs incurred in the fourth quarter of 2001 and the first quarter of 2002 related to our work force reductions and maintains the current maximum consolidated leverage ratio of 5.75 to 1.0 through the maturity date of the term loan in March 2003. The outstanding balance of the term loan was repaid with a portion of the proceeds of our offerings of notes and first mortgage bonds on May 10, 2002.

We also have an arrangement with certain banks to provide a revolving credit facility on a committed basis totaling \$400 million. The facility is secured by KGE's first mortgage bonds and matures on March 17, 2003. In conjunction with the May 10, 2002 financings, we amended our revolving credit facility to reduce the total commitment under the facility to \$400 million from \$500 million and to release our first mortgage bonds as collateral. Borrowings on this facility were \$397.7 million as of March 31, 2002. We used proceeds of \$97 million from the May 10, 2002 financings to reduce the outstanding balance of the revolving credit facility. The outstanding balance of our revolving credit facility was \$282.5 million as of May 10, 2002. Under the terms of the agreement, we are required, among other restrictions, to maintain a total debt to total capitalization ratio of not greater than 65% at all times. We are in compliance with this covenant. At March 31, 2002, the capitalization ratio was 61.6%. Under the terms of the facility, the impairment charge recorded in the first quarter of 2002 does not affect compliance with this covenant.

Credit Ratings

Standard & Poor's (S&P), Fitch Investors Service (Fitch) and Moody's Investors Service (Moody's) are independent credit-rating agencies that rate our debt securities. These ratings indicate the agencies' assessment of our ability to pay interest and principal on these securities. On April 2, 2002, Moody's downgraded its ratings on Protection One's outstanding securities with the outlook remaining negative. On April 18, 2002, Fitch lowered our senior unsecured debt ratings and reaffirmed that all our securities remain on Rating Watch Evolving. On April 25, 2002, S&P confirmed our ratings with a negative outlook. On April 29, 2002, Moody's confirmed our ratings with a negative outlook.

As of April 30, 2002, ratings with these agencies are as follows:

	Western Resources Mortgage Bond Rating	Western Resources Unsecured Debt	KGE Mortgage Bond Rating	Protection One Senior Unsecured Debt	Protection One Senior Subordinated Unsecured Debt
	-----	-----	-----	-----	-----
S&P.....	BBB-	BB-	BB+	B	CCC+
Fitch.....	BB+	BB-	BB+	B	CCC+
Moody's.....	Ba1	Ba2	Ba1	Caa1	Caa3

In general, declines in our credit ratings make debt financing more costly and more difficult to obtain on terms which are economically favorable to us.

Cash Flows from (used in) Operating Activities

Cash provided by operating activities decreased \$41.5 million to \$17.3 million for the three months ended March 31, 2002, from \$58.8 million for the same period of 2001. This decrease is mostly attributable to the severance and storm restoration costs incurred in the first quarter.

Cash Flows from (used in) Investing Activities

We spent \$32.0 million during the three months ended March 31, 2002 in comparison to \$63.1 million during the same period of 2001 on net additions to utility property, plant and equipment. During the first quarter of 2001, we spent \$10.6 million on construction of our share of the State Line generating facility and \$14.6 million on construction of our Gordon Evans combustion turbines. These major projects were completed during 2001. Investment in customer accounts amounted to \$8.5 million in the first quarter of 2002 and \$8.9 million in the same period of 2001.

Proceeds from other investments in the first quarter of 2002 amounted to \$28.3 million primarily attributable to a one-time payment of approximately \$14.2 million related to a partial recovery of an investment and \$7.3 million received on the disposition of our portfolio of affordable housing tax credit limited partnerships.

Cash Flows from (used in) Financing Activities

We used net cash flows in financing activities of \$8.2 million during the three months ended March 31, 2002 compared to net cash flows from financing activities of \$16.6 million in the same period of 2001. In 2002, an increase in short-term debt was the principal source of cash flows from financing activities. Cash from financing activities was used to fund our required investment in operations, the retirement of long-term debt, and the payment of dividends on our common stock. Also in 2002, we used cash to redeem a portion of our preferred stock.

Capital Structure

During the first quarter of 2002, we recorded an impairment of our goodwill and customer accounts as more fully described above in "- Summary of Significant Items - Impairment Charge Pursuant to New Accounting Rules," which affected our capital structure. Our capital structure at March 31, 2002 and December 31, 2001 was as follows:

	March 31, 2002	December 31, 2001
	-----	-----
Shareholders' equity	31%	36%
Preferred stock	1	1
Western Resources obligated mandatorily redeemable preferred securities of subsidiary trust holding solely company subordinated debentures	6	4
Long-term debt, net	62	59
	---	---
Total	100%	100%
	===	===

Debt and Equity Repurchase Plans

Westar Industries and Protection One may, from time to time, purchase Protection One's debt and equity securities in the open market or through negotiated transactions. We, Westar Industries and Protection One may also purchase our debt and equity. The timing and terms of purchases and the amount of debt or equity actually purchased will be determined based on market conditions and other factors.

OTHER INFORMATION

Electric Utility

FERC Proceeding

Our wholly owned subsidiary, Westar Generating, Inc. (Westar Generating), owns our interest in the State Line generating facility. We purchase Westar Generating's share of the power generated by State Line. FERC has jurisdiction over the establishment of the rate at which we buy power from Westar Generating. We have reached a settlement in principle with the FERC staff and the KCC, the only active parties in this proceeding. We expect to file a Stipulation and Agreement in the near future.

Employees

A new agreement has been negotiated with the International Brotherhood of Electrical Workers that will be in effect through June 30, 2003. The new contract provides for wage increases of 2.5% to all classifications of employees covered by the agreement effective July 1, 2002. The contract covers approximately 1,100 employees as of April 30, 2002.

Monitored Services

Attrition

Customer attrition has a direct impact on the results of our monitored security operations since it affects its revenues, amortization expense and cash flow. See "- Operating Results - Monitored Services" and our Annual Report on Form 10-K for the year ended December 31, 2001 for additional information regarding customer attrition.

Customer attrition for the three months ended March 31, 2002 and 2001 is summarized below.

	Customer Account Attrition			
	March 31, 2002		March 31, 2001	
	Annualized First Quarter	Trailing Twelve Month	Annualized First Quarter	Trailing Twelve Month
Protection One.....	11.4%	14.4%	13.9%	14.7%
Protection One Europe (a)....	10.8%	8.6%	8.9%	9.3%

(a) United Kingdom operations were disposed of in June 2001.

Related Party Transactions

Below we describe significant transactions between us and Westar Industries and other subsidiaries and related parties. We have disclosed significant transactions even if these have been eliminated in the preparation of our consolidated results and financial position since our proposed financial plan, as discussed in Note 6 in the "Notes to Consolidated Financial Statements," calls for a split-off of Westar Industries from us to occur in the future. We cannot predict whether the KCC will approve the plan and, if so, whether we will be successful in executing the plan.

Transactions with Westar Industries

On February 28, 2001, Westar Industries converted \$350.0 million of the then outstanding balance of a payable due from us into approximately 14.4 million shares of our common stock, representing 16.9% of our outstanding common stock after conversion. During the first quarter of 2002, we paid the remaining

balance owed to Westar Industries of approximately \$68 million. The proceeds were used by Westar Industries to purchase our outstanding debt in the open market, which we have accounted for as debt extinguishments. At March 31, 2002, Westar Industries owned \$109.8 million of our debt securities. Amounts outstanding and interest earned by Westar Industries have been eliminated in our consolidated financial statements. At March 31, 2002, Westar Industries and Protection One owned 15,494,755 shares, or 17.8%, of our outstanding common stock. These shares are reflected as treasury stock in our consolidated balance sheets and are not included in our earnings per share calculation.

Transactions Between Westar Industries and Subsidiaries

Protection One Credit Facility

Westar Industries is the lender under Protection One's senior credit facility. On March 25, 2002, Westar Industries and Protection One entered into an amendment to the facility that increased the amount of the facility to \$180 million. As of March 31, 2002, approximately \$143.5 million was drawn under the facility. Amounts outstanding, accrued interest and facility fees have been eliminated in our consolidated financial statements. The facility currently expires on January 3, 2003.

Purchases of Securities

During the three months ended March 31, 2002, Westar Industries purchased \$38.5 million face value of Protection One bonds on the open market. We recognized an extraordinary gain from the purchase of Protection One bonds of \$4.5 million, net of tax of \$2.4 million.

During the three months ended March 31, 2002, both Westar Industries and Protection One purchased \$91.1 million face value of our bonds on the open market. We recognized an extraordinary gain from the purchase of our bonds of \$2.0 million, net of tax of \$1.3 million.

During April 2002, we recognized a gain of \$4.1 million, net of \$2.3 million tax, on the repurchase of Protection One and our bonds.

During the three months ended March 31, 2002, Protection One purchased approximately \$1.2 million of our preferred stock in open market purchases. These purchases have been accounted for as retirements. We recognized a gain on reacquired preferred stock of approximately \$0.5 million, net of tax of \$0.3 million, for the three months ended March 31, 2002 related to these retirements. From April 1, 2002 through April 30, 2002, Protection One acquired in open market purchases approximately \$0.1 million of our preferred securities.

Services Agreements

We provide administrative services to Protection One pursuant to services agreements, including accounting, tax, audit, human resources, legal, facilities and technology services. Charges of approximately \$1.5 million for the three months ended March 31, 2002 and \$2.4 million for the same period of 2001 were incurred by Protection One. We had a net intercompany balance due from Protection One primarily for these services of \$0.9 million at March 31, 2002.

Protection One has entered into an agreement pursuant to which it will pay to Westar Industries, beginning with the quarter ended March 31, 2002, a fee for financial advisory services payable quarterly, equal to 0.125% of its consolidated total assets at the end of each quarter. The agreement also provides access to aviation services at Protection One's option. This agreement was approved by the independent members of Protection One's board of directors. Protection One incurred approximately \$1.3 million of expenses in the first quarter of 2002 for the financial advisory fee, which has been eliminated in our consolidated financial statements.

Transactions with Protection One

During the fourth quarter of 2001, KGE entered into an option agreement to sell an office building located in downtown Wichita, Kansas, to Protection One for approximately \$0.5 million. The sales price was determined by management based on three independent appraisers' findings.

Loans to Officers

During 2001, we extended loans to our officers for the purpose of purchasing shares of our common stock on the open market. The loans are unsecured and contain a variable interest rate that is equal to our short-term borrowing rate. Interest is payable quarterly. The loans mature and become due on December 4, 2004. The balance outstanding at March 31, 2002 was approximately \$2.1 million and is classified as a reduction to shareholders' equity in the accompanying consolidated balance sheet. During the first quarter of 2002, we recorded approximately \$22,000 in interest income on these notes. The maximum amount of loans authorized is \$7.9 million.

Market Risk Disclosure

We are exposed to market risk, including market changes, changes in commodity prices, equity instrument investment prices and interest rates. Since December 31, 2001, we have not experienced any significant changes in our exposure to market risk except for the impact of changes in our interest rate exposure on variable rate debt and current maturities of fixed rate debt. For additional information on our market risk, see our Annual Report on Form 10-K for the year ended December 31, 2001.

During the first quarter of 2002, \$547 million was reclassified from long-term debt to current maturities. If there were a 100 basis point change in each debt series' benchmark rate used to set the rate for such series, the impact to net income at March 31, 2002 would have been approximately \$6.7 million after tax on an annual basis. However, it is anticipated that this exposure will decrease for the second quarter as a result of replacing existing debt with the proceeds from sales of our notes and first mortgage bonds on May 10, 2002. See "- Summary of Significant Items - Debt Financings" above for additional information about the financing agreement.

Hedging Activity

The following table summarizes the effects our natural gas hedges and our interest rate swap had on our financial position and results of operations for the three months ended March 31, 2002:

	Natural Gas Hedges (a)	Interest Rate Swap	Total Cash Flow Hedges
	-----	-----	-----
	(Dollars in Thousands)		
Fair value of derivative instruments:			
Current	\$ (5,191)	\$ --	\$ (5,191)
Long-term	(6,011)	516	(5,495)
	-----	-----	-----
Total	\$ (11,202)	\$ 516	\$ (10,686)
	=====	=====	=====
Amounts in accumulated other comprehensive income ...	\$ 19,032	\$ 3,173	\$ 22,205
Hedge ineffectiveness	964	--	964
Estimated income tax expense (benefit)	(8,089)	--	(8,089)
	-----	-----	-----
Net Comprehensive Gain	\$ 11,907	\$ 3,173	\$ 15,080
	=====	=====	=====
Anticipated reclassifications to earnings in future periods (b)	\$ (5,191)	\$ --	\$ (5,191)
Duration of hedge designation as of March 31, 2002...	28 months	19 months	--

- - - - -
- (a) Natural gas hedge assets and liabilities are classified in the balance sheet as energy trading contracts. Due to the volatility of gas commodity prices, it is probable that gas prices will increase and decrease over the remaining 28 months that these relationships are in place.
- (b) The actual amounts that will be reclassified to earnings could vary materially from this estimated amount due to changes in market conditions.

Fair Value of Energy Trading Contracts

The tables below show the difference between the market value and the notional values of energy trading contracts outstanding for the three months ended March 31, 2002, their sources and maturity periods:

	Fair Value of Contracts ----- (In Thousands)
Net fair value of contracts outstanding at the beginning of the period.....	\$ 2,309
Contracts realized or otherwise settled during the period.....	8,154
Fair value of new contracts entered into during the period.....	12,087

Fair value of contracts outstanding at the end of the period.....	\$22,550 =====

Source of Fair Value	Fair Value of Contracts at End of Period -----				
	Total Fair Value -----	Maturity Less Than 1 Year -----	Maturity 1-3 Years -----	Maturity 4-5 Years -----	Maturity in Excess of 5 Years -----
	(In Thousands)				
Prices actively quoted (futures)...	\$ 1,685	\$(1,149)	\$ 2,834	\$ --	\$ --
Prices provided by other external sources (swaps and forwards)...	19,052	15,448	1,083	2,521	--
Prices based on models and other valuation models (options and other)	1,813	(835)	2,648	--	--
	-----	-----	-----	-----	-----
Total fair value of contracts outstanding	\$22,550 =====	\$13,464 =====	\$ 6,565 =====	\$2,521 =====	\$ -- =====

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

Part II. Other Information

ITEM 1. LEGAL PROCEEDINGS

We, Westar Industries, Protection One, its subsidiary Protection One Alarm Monitoring, Inc. (Protection One Alarm Monitoring) and certain present and former officers and directors of Protection One are defendants in a purported class action litigation pending in the United States District Court for the Central District of California, "Alec Garbini, et al. v. Protection One, Inc., et al.," No. CV 99-3755 DT (RCx). Pursuant to an Order dated August 2, 1999, four pending purported class actions were consolidated into a single action. On February 27, 2001, plaintiffs filed a Third Consolidated Amended Class Action Complaint (Third Amended Complaint). Plaintiffs purported to bring the action on behalf of a class consisting of all purchasers of publicly traded securities of Protection One, including common stock and bonds, during the period of February 10, 1998 through February 2, 2001. The Third Amended Complaint asserted claims under Section 11 of the Securities Act of 1933 and Section 10(b) of the Securities Exchange Act of 1934 against Protection One, Protection One Alarm Monitoring, and certain present and former officers and directors of Protection One based on allegations that various statements concerning Protection One's financial results and operations for 1997, 1998, 1999 and the first three quarters of 2000 were false and misleading and not in compliance with generally accepted accounting principles. Plaintiffs alleged, among other things, that former employees of Protection One have reported that Protection One lacked adequate internal accounting controls and that certain accounting information was unsupported or manipulated by management in order to avoid disclosure of accurate information. The Third Amended Complaint further asserted claims against us and Westar Industries as controlling persons under Sections 11 and 15 of the Securities Act of 1933 and Sections 10(b) and 20(a) of the Securities Exchange Act of 1934. A claim was also asserted under Section 11 of the Securities Act of 1933 against Protection One's auditor, Arthur Andersen LLP. The Third Amended Complaint sought an unspecified amount of compensatory damages and an award of fees and expenses, including attorneys' fees. On June 4, 2001, the District Court dismissed plaintiffs' claims under Sections 10(b) and 20(a) of the Securities Exchange Act. The Court granted plaintiffs leave to replead such claims. The Court also dismissed all claims brought on behalf of bondholders with prejudice. The Court also dismissed plaintiffs' claims against Arthur Andersen LLP and the plaintiffs have appealed that dismissal. On February 22, 2002, plaintiffs filed a Fourth Consolidated Amended Class Action Complaint. The new complaint realleges claims on behalf of purchasers of common stock under Sections 11 and 15 of the Securities Act of 1933 and Sections 10(b) and 20(a) of the Securities Exchange Act of 1934. The new complaint does not assert any claims against Protection One Alarm Monitoring. On April 5, 2002, we, Protection One and the other defendants filed a motion to dismiss the Fourth Consolidated Amended Class Action Complaint. The motion is scheduled to be heard by the Court on June 10, 2002. Protection One and we cannot predict the impact of this litigation, which could be material.

On October 12, 2001, PNM filed a lawsuit against us in the Supreme Court of the State of New York. The lawsuit seeks, among other things, declaratory judgment that PNM is not obligated to proceed with the proposed merger based in part upon the KCC orders discussed below and other KCC orders reducing rates for our electric utility business. PNM believes the orders constitute a material adverse effect and make the condition that the split-off of Westar Industries occur prior to closing incapable of satisfaction. PNM also seeks unspecified monetary damages for breach of representation.

On November 19, 2001, we filed a lawsuit against PNM in the Supreme Court of the State of New York. The lawsuit seeks substantial damages for PNM's breach of the merger agreement providing for PNM's purchase of our electric utility operations and for PNM's breach of its duty of good faith and fair dealing. In addition, we filed a motion to dismiss or stay the declaratory judgment action previously filed by PNM seeking a declaratory judgment that PNM has no further obligations under the merger agreement.

PNM responded to our motion by seeking to dismiss or stay our action in favor of its own. On May 2, 2002, the Court granted PNM's motion to dismiss our lawsuit, without prejudice to our assertion of all claims alleged therein as counterclaims in the earlier-filed PNM case, and correspondingly denied our motion to dismiss the earlier-filed PNM lawsuit. On May 10, 2002, PNM served us with an amended complaint in which it added to its prior claims requests for declarations that PNM did not breach the terms of the merger agreement and also alleged additional breaches of representations and warranties on our part.

We and our subsidiaries are involved in various other legal, environmental and regulatory proceedings. We believe that adequate provision has been made and accordingly believe that the ultimate disposition of such matters will not have a material adverse effect upon our overall financial position or results of operations. See also Notes 5 and 6 of the "Notes to Consolidated Financial Statements," included herein by reference, for discussion of FERC proceedings and KCC regulatory proceedings.

ITEM 2. CHANGES IN SECURITIES AND USE OF PROCEEDS

None

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None

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

None

ITEM 5. OTHER INFORMATION

None

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits:

4.1 - Thirty-Fifth Supplemental Indenture dated May 10, 2002 between Western Resources, Inc. and BNY Midwest Trust Company, as Trustee.

4.2 - Securities Resolution No. 2 dated as of May 10, 2002 under Indenture dated as of August 1, 1998 between Western Resources, Inc. and Deutsche Bank Trust Company Americas.

(b) Reports on Form 8-K filed during the three months ended March 31, 2002:

Form 8-K filed January 9, 2002 - Announcing that PNM notified us by letter that PNM's board of directors took action to terminate the Agreement and Plan of Restructuring and Merger dated November 8, 2000 among PNM, us and certain other parties. By letter dated January 9, 2002 we objected to PNM's action and stated our position that PNM has no basis to terminate the Agreement.

Form 8-K filed February 27, 2002 - Announcing financial results for fiscal year ended December 31, 2001, and the amount of a charge to be recorded in the first quarter of 2002 as a result of the adoption of new accounting standards related to accounting for goodwill and intangible assets.

SIGNATURE

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

WESTERN RESOURCES, INC.

Date: May 15, 2002

By: /s/ Paul R. Geist

Paul R. Geist,
Senior Vice President,
Chief Financial Officer and Treasurer

=====

WESTERN RESOURCES, INC.

TO

BNY MIDWEST TRUST COMPANY
as Trustee

(as Successor to
HARRIS TRUST AND SAVINGS BANK)

THIRTY-FIFTH SUPPLEMENTAL INDENTURE

Dated as of May 10, 2002

First Mortgage Bonds, 7 7/8% Series Due 2007

=====

TABLE OF CONTENTS/a/

	Page -----
Parties.....	1
Recitals.....	1
Granting Clause.....	4
Habendum.....	6
Exceptions and Reservations.....	6
Grant in Trust.....	6
General Covenant.....	6

ARTICLE I

DESCRIPTION OF BONDS OF THE
2007 SERIES

SECTION 1. General Description of Bonds of the 2007 Series.....	6
SECTION 2. Denominations of Bonds of the 2007 Series and privilege of exchange.....	7
SECTION 3. Form of Bonds of the 2007 Series.....	7
SECTION 4. Execution and Form of Temporary Bonds of the 2007 Series.....	14

ARTICLE II

ISSUE OF BONDS OF THE 2007 SERIES

SECTION 1. Limitations as to Principal Amount.....	14
SECTION 2. Execution and Delivery of Bonds of the 2007 Series.....	14

/a/ Note: The Table of Contents is not part of this Supplemental Indenture and should not be considered as such. It is included only for purposes of convenience.

ARTICLE III

REDEMPTION AND REPURCHASE UPON CHANGE OF CONTROL

SECTION 1.	Optional Redemption.....	14
SECTION 2.	Repurchase at the Option of Holders Upon a Change of Control.....	15

ARTICLE IV

ADDITIONAL COVENANTS

SECTION 1.	Title to mortgaged property.....	17
SECTION 2.	To retire certain portions of Bonds upon release of all or substantially all of the electric properties.....	18

ARTICLE V

AMENDMENTS TO RATIO OF BONDS ISSUABLE TO PROPERTY ADDITIONS
AND OF CERTAIN OTHER RATIOS. AMENDMENT TO NET EARNINGS
TEST. USE OF FACSIMILE SIGNATURES. AMENDMENT OF ARTICLE
XV. RESERVATION OF RIGHT TO AMEND ARTICLE VII

SECTION 1.	So long as Bonds of the 2007 Series remain outstanding: Bonds issuable on basis only of 60% of net bondable value of property additions not subject to an unfunded prior lien.....	18
	Amendment of definition of net bondable value of property additions not subject to an unfunded prior lien.....	19
	Monies deposited with Trustee under Section 5(a) of Article III of the Original Indenture may not be withdrawn in an amount in excess of 60% of net bondable value of property additions not subject to an unfunded prior lien, notwithstanding provisions of Section 3(a) of Article VIII of the Original Indenture.....	19
	Amendment of definition of net bondable value of property additions subject to an unfunded prior lien.....	19
	Amendment of covenants in Sections 14 and 16 of Article IV and Section 1 of Article XII of the Original Indenture with respect to acquisition of property subject to an unfunded prior lien.....	19

	Page

Definitions: minimum charge for depreciation; net earnings available for interest, depreciation and property retirement; net earnings of another corporation available for interest, depreciation and property retirement...	20
Amendment of Articles III, IV and XII of the Original Indenture.....	21
SECTION 2. Facsimile Signatures.....	21
SECTION 3. Reservation of Right to Amend Article VII.....	21
SECTION 4. Reservation of Right to Delete certain requirements and conditions.....	24
ARTICLE VI	
MISCELLANEOUS PROVISIONS	
SECTION 1. Acceptance of Trust.....	25
SECTION 2. Responsibility and Duty of Trustee.....	25
SECTION 3. Parties to include successors and assigns.....	25
SECTION 4. Benefits restricted to parties and to holders of Bonds and coupons.....	25
SECTION 5. Execution in counterparts.....	25
SECTION 6. Titles of Articles not part of the Thirty-Fifth Supplemental Indenture.....	25
TESTIMONIUM	S-1
SIGNATURES AND SEALS.....	S-1
ACKNOWLEDGMENTS.....	S-2
APPENDIX A	
DESCRIPTION OF PROPERTIES	

THIRTY-FIFTH SUPPLEMENTAL INDENTURE, dated as of the 10th day of May, Two Thousand and Two, made by and between Western Resources, Inc., formerly The Kansas Power and Light Company, a corporation organized and existing under the laws of the State of Kansas (hereinafter called the "Company"), party of the first part, and BNY Midwest Trust Company, an Illinois trust company whose mailing address is 2 North LaSalle Street, Suite 1020, Chicago, IL 60602 (hereinafter called the "Trustee"), as Trustee (as successor to Harris Trust and Savings Bank), under the Mortgage and Deed of Trust dated July 1, 1939, hereinafter mentioned, party of the second part;

WHEREAS, the Company has heretofore executed and delivered to the Trustee its Mortgage and Deed of Trust dated July 1, 1939 (hereinafter referred to as the "Original Indenture"), to provide for and to secure the issue of First Mortgage Bonds of the Company, issuable in series, and to declare the terms and conditions upon which the Bonds (as defined in the Original Indenture) are to be issued thereunder; and

WHEREAS, the Company has heretofore executed and delivered to the Trustee Thirty-Four Supplemental Indentures supplemental to said Original Indenture, of which Thirty-Two provided for the issuance thereunder of series of the Company's First Mortgage Bonds, and there is set forth below information with respect to such Supplemental Indentures as have provided for the issuance of Bonds, and the principal amount of Bonds which remain outstanding as of May 10, 2002.

Supplemental Indenture	Date	Series of First Mortgage Bonds Provided For	Principal Amount Issued	Principal Amount Outstanding
Supplemental Indenture	July 1, 1939	3-1/2% Series Due 1969	\$26,500,000	None
Second Supplemental Indenture	April 1, 1949	2-7/8% Series Due 1979	10,000,000	None
Fourth Supplemental Indenture	October 1, 1949	2-3/4% Series Due 1979	6,500,000	None
Fifth Supplemental Indenture	December 1, 1949	2-3/4% Series Due 1984	32,500,000	None
Seventh Supplemental Indenture	December 1, 1951	3-1/4% Series Due 1981	5,250,000	None
Eighth Supplemental Indenture	May 1, 1952	3-1/4% Series Due 1982	4,750,000	None
Ninth Supplemental Indenture	October 1, 1954	3-1/8% Series Due 1984	8,000,000	None
Tenth Supplemental Indenture	September 1, 1961	4-3/4% Series Due 1991	13,000,000	None
Eleventh Supplemental Indenture	April 1, 1969	7-5/8% Series Due 1999	19,000,000	None
Twelfth Supplemental Indenture	September 1, 1970	8-3/4% Series Due 2000	20,000,000	None

Supplemental Indenture	Date	Series of First Mortgage Bonds Provided For	Principal Amount Issued	Principal Amount Outstanding
Thirteenth Supplemental Indenture	February 1, 1975	8-5/8% Series Due 2005	35,000,000	None
Fourteenth Supplemental Indenture	May 1, 1976	8-5/8% Series Due 2006	45,000,000	None
Fifteenth Supplemental Indenture	April 1, 1977	5.90% Pollution Control Series Due 2007	32,000,000	None
Sixteenth Supplemental Indenture	June 1, 1977	8-1/8% Series Due 2007	30,000,000	None
Seventeenth Supplemental Indenture	February 1, 1978	8-3/4% Series Due 2008	35,000,000	None
Eighteenth Supplemental Indenture	January 1, 1979	6-3/4% Pollution Control Series Due 2009	45,000,000	None
Nineteenth Supplemental Indenture	May 1, 1980	8-1/4% Pollution Control Series Due 1983	45,000,000	None
Twentieth Supplemental Indenture	November 1, 1981	16.95% Series Due 1988	25,000,000	None
Twenty-First Supplemental Indenture	April 1, 1982	15% Series Due 1992	60,000,000	None
Twenty-Second Supplemental Indenture	February 1, 1983	9-5/8% Pollution Control Series Due 2013	58,500,000	None
Twenty-Third Supplemental Indenture	July 1, 1986	8-1/4% Series Due 1996	60,000,000	None
Twenty-Fourth Supplemental Indenture	March 1, 1987	8-5/8% Series Due 2017	50,000,000	None
Twenty-Fifth Supplemental Indenture	October 15, 1988	9.35% Series Due 1998	75,000,000	None
Twenty-Sixth Supplemental Indenture	February 15, 1990	8-7/8% Series Due 2000	75,000,000	None
Twenty-Seventh Supplemental Indenture	March 12, 1992	7.46% Demand Series	370,000,000	None
Twenty-Eighth Supplemental Indenture	July 1, 1992	7-1/4% Series Due 1999	125,000,000	None
		8-1/2% Series Due 2022	125,000,000	125,000,000
Twenty-Ninth Supplemental Indenture	August 20, 1992	7-1/4% Series Due 2002	100,000,000	None

Supplemental Indenture	Date	Series of First Mortgage Bonds Provided For	Principal Amount Issued	Principal Amount Outstanding
Thirtieth Supplemental Indenture	February 1, 1993	6% Pollution Control Revenue Refunding Series Due 2033	58,500,000	58,340,000
Thirty-First Supplemental Indenture	April 15, 1993	7.65% Series Due 2023	100,000,000	100,000,000
Thirty-Second Supplemental Indenture	April 15, 1994	7-1/2% Series Pollution Control Revenue Refunding Series Due 2032	75,500,000	75,500,000
Thirty-Third Supplemental Indenture	August 11, 1997	6-7/8% Convertible Series Due 2004 7-1/8% Convertible Series Due 2009	370,000,000 150,000,000	None None
Thirty-Fourth Supplemental Indenture	June 28, 2000	9-1/2% Series Due 2003	397,800,000	None

; and

WHEREAS, the Company is entitled at this time to have authenticated and delivered additional bonds in substitution for refundable Bonds, upon compliance with the provisions of Article III of the Original Indenture, as amended; and

WHEREAS, the Company desires by this Thirty-Fifth Supplemental Indenture (hereinafter referred to as this "Supplemental Indenture") to supplement the Original Indenture and to provide for the creation of a new series of bonds under the Original Indenture to be designated "First Mortgage Bonds, 7-7/8% Series Due 2007"; and the Original Indenture provides that certain terms and provisions, as determined by the Board of Directors of the Company, of the Bonds of any particular series may be expressed in and provided by the execution of an appropriate supplemental indenture; and

WHEREAS, the Company in the exercise of the powers and authority conferred upon and reserved to it under the provisions of the Original Indenture and indentures supplemental thereto, and pursuant to appropriate resolutions of its Board of Directors, has duly resolved and determined to make, execute and deliver to the Trustee a supplemental indenture in the form hereof for the purposes herein provided; and

WHEREAS, all conditions and requirements necessary to make this Supplemental Indenture a valid, binding and legal instrument have been done, performed and fulfilled, and the execution and delivery hereof have been in all respects duly authorized;

NOW, THEREFORE, THIS INDENTURE WITNESSETH: That, in consideration of the premises and of the mutual covenants herein contained and of the sum of One Dollar duly paid by the Trustee to the Company at or before the time of the execution of these presents, and of other valuable considerations, the receipt whereof is hereby acknowledged, and in order further to secure the payment of the principal of and interest and premium, if any, on all Bonds at any time issued and outstanding under the Original Indenture as amended by all indentures supplemental thereto (hereinafter sometimes collectively called the "Indenture") according to their tenor, purport and effect, and to declare certain terms and conditions upon and subject to which Bonds are to be issued and secured, the Company has executed and delivered this Supplemental Indenture, and by these presents grants, bargains, sells, warrants, aliens, releases, conveys, assigns, transfers, mortgages, pledges, sets over and ratifies and confirms unto BNY Midwest Trust Company, as Trustee, and to its successors in trust under the Indenture forever, all and singular the following described properties (in addition to all other properties heretofore specifically subjected to the lien of the Indenture and not heretofore released from the lien thereof), that is to say:

FIRST.

All and singular the rents, real estate, chattels real, easements, servitudes, and leaseholds of the Company, or which, subject to the provisions of Article XII of the Original Indenture, the Company may hereafter acquire, including, among other things, the property described in Appendix A hereto under the caption "First", which description is hereby incorporated herein by reference and made a part hereof as if fully set forth herein, together with all improvements of any type located thereon.

Also all power houses, plants, buildings and other structures, dams, dam sites, substations, heating plants, gas works, holders and tanks, compressor stations, gasoline extraction plants, together with all and singular the electric heating, gas and mechanical appliances appurtenant thereto of every nature whatsoever, now owned by the Company or which it may hereafter acquire, including all and singular the machinery, engines, boilers, furnaces, generators, dynamos, turbines and motors, and all and every character of mechanical appliance for generating or producing electricity, steam, water, gas and other agencies for light, heat, cold or power or any other purpose whatsoever.

SECOND.

Also all transmission and distribution systems used for the transmission and distribution of electricity, steam, water, gas and other agencies for light, heat, cold or power, or any other purpose whatever, whether underground or overhead or on the surface or otherwise of the Company, or which, subject to the provisions of Article XII of the Original Indenture, the Company may hereafter acquire, including all poles, posts, wires, cables, conduits, mains, pipes, tubes, drains, furnaces, switchboards, transformers, insulators, meters, lamps, fuses, junction boxes, water pumping stations,

regulator stations, town border metering stations and other electric, steam, water and gas fixtures and apparatus.

THIRD.

Also all franchises and all permits, ordinances, easements, privileges and immunities and licenses, all rights to construct, maintain and operate overhead, surface and underground systems for the distribution and transmission of electricity, gas, water or steam for the supply to itself or others of light, heat, cold or power or any other purpose whatsoever, all rights-of-way, all waters, water rights and flowage rights and all grants and consents, now owned by the Company or, subject to the provisions of Article XII of the Original Indenture, which it may hereafter acquire.

Also all inventions, patent rights and licenses of every kind now owned by the Company or, subject to the provisions of Article XII of the Original Indenture, which it may hereafter acquire.

FOURTH.

Also, subject to the provisions of Article XII of the Original Indenture, all other property, real, personal and mixed (except as therein or herein expressly excepted) of every nature and kind and wheresoever situated now or hereafter possessed by or belonging to the Company, or to which it is now, or may at any time hereafter be, in any manner entitled at law or in equity.

FIFTH.

Also any and all property of any kind or description which may from time to time after the date of the Original Indenture by delivery or by writing of any kind be conveyed, mortgaged, pledged, assigned or transferred to the Trustee by the Company or by any person, copartnership or corporation, with the consent of the Company or otherwise, and accepted by the Trustee, to be held as part of the mortgaged property; and the Trustee is hereby authorized to accept and receive any such property and any such conveyance, mortgage, pledge, assignment and transfer, as and for additional security hereunder, and to hold and apply any and all such property subject to and in accordance with the terms and provisions upon which such conveyance, mortgage, pledge, assignment or transfer shall be made.

SIXTH.

Together with all and singular, the tenements, hereditaments and appurtenances belonging or in any wise appertaining to the aforesaid property or any part thereof, with the reversion and reversions, remainder and remainders, tolls, rents, revenues, issues, income, products and profits thereof, and all the estate, right, title, interest and claim whatsoever, at law and in equity, which the Company now has or may hereafter acquire in and to the aforesaid property and franchises and every part and parcel thereof.

EXPRESSLY EXCEPTING AND EXCLUDING, HOWEVER, all properties of the character excepted from the lien of the Original Indenture.

TO HAVE AND TO HOLD all said properties, real, personal and mixed, mortgaged, pledged and conveyed by the Company as aforesaid, or intended so to be, unto the Trustee and its successors and assigns forever;

SUBJECT, HOWEVER, to the exceptions and reservations hereinabove referred to, to existing leases other than leases which by their terms are subordinate to the lien of the Indenture, to existing liens upon rights-of-way for transmission or distribution line purposes, as defined in Article I of the Original Indenture; and any extensions thereof, and subject to existing easements for streets, alleys, highways, rights-of-way and railroad purposes over, upon and across certain of the property herein before described and subject also to all the terms, conditions, agreements, covenants, exceptions and reservations expressed or provided in the deeds or other instruments respectively under and by virtue of which the Company acquired the properties hereinabove described and to undetermined liens and charges, if any, incidental to construction or other existing permitted liens as defined in Article I of the Original Indenture;

IN TRUST, NEVERTHELESS, upon the terms and trusts in the Original Indenture, and the indentures supplemental thereto, including this Supplemental Indenture, set forth, for the equal and proportionate benefit and security of all present and future holders of the Bonds and coupons issued and to be issued thereunder, or any of them, without preference of any of said Bonds and coupons of any particular series over the Bonds and coupons of any other series by reason of priority in the time of issue, sale or negotiation thereof, or by reason of the purpose of issue or otherwise howsoever, except as otherwise provided in Section 2 of Article IV of the Original Indenture.

AND IT IS HEREBY COVENANTED, DECLARED AND AGREED, by and between the parties hereto for the benefit of those who shall hold the Bonds and coupons, or any of them, to the be issued under the Indenture as follows:

ARTICLE I

DESCRIPTION OF BONDS OF THE 2007 SERIES

SECTION 1. The 2007 series of Bonds to be executed, authenticated and delivered under and secured by the Original Indenture shall be designated as "First Mortgage Bonds, 7 7/8% Series Due 2007" of the Company (herein called "Bonds of the 2007 Series"). The Bonds of the 2007 Series shall be executed, authenticated and delivered in accordance with the provisions of, and shall in all respects be subject to, all of the terms, conditions and covenants of the Indenture and subject to all the terms, conditions and covenants of this Supplemental Indenture.

Bonds of the 2007 Series shall mature May 1, 2007 and shall bear interest at the rate of seven and seven-eighths percent (7 7/8%) per annum payable semi-annually on the first day of May and November in each year, commencing November 1, 2002. Every Bond of the 2007 Series shall be

dated the date of authentication except that, notwithstanding the provisions of Section 6 of Article II of the Original Indenture, if any Bond of the 2007 Series shall be authenticated at any time subsequent to the record date (as hereinafter in this Section defined) for any interest payment date but prior to the day following such interest payment date, it shall be dated as of the day following such interest payment date, provided, however, if at the time of authentication of any Bond of the 2007 Series interest shall be in default on any Bonds of the 2007 Series, such Bond shall be dated as of the day following the interest payment date to which interest has previously been paid in full or made available for payment in full on outstanding Bonds of the 2007 Series, as the case may be, or, if no interest has been paid or made available for payment, as of the date of initial authentication and delivery of such Bond. Every Bond of the 2007 Series shall bear interest from the May 1, or November 1, next preceding the date thereof, unless such Bond shall be dated prior to November 1, 2002, in which case it shall bear interest from May 10, 2002.

The person in whose name any Bond of the 2007 Series is registered at the close of business on any record date with regard to any interest payment date shall be entitled to receive the interest payable thereon on such interest payment date notwithstanding the cancellation of such Bond upon the transfer or exchange thereof subsequent to such record date and prior to the day following such interest payment date, unless the Company shall default in the payment of the interest due on such interest payment date, in which case such defaulted interest shall be paid to the person in whose name such Bond is registered on the date of payment of such defaulted interest. The term "record date" as used in this Section with regard to any semiannual interest payment date shall mean the close of business on the tenth day next preceding such interest payment date, or if such tenth day is not a business day, the business day next preceding such tenth day. The Bonds of the 2007 Series shall be payable as to principal, premium, if any, and interest, in any coin or currency of the United States of America which at the time of payment is legal tender for public and private debts, at the agency of the Company in the City of Chicago, Illinois, or at the option of the holder thereof at the agency of the Company in the Borough of Manhattan, The City of New York, provided that at the option of the Company interest may be paid by check mailed to the holder at such holder's registered address.

SECTION 2. The Bonds of the 2007 Series shall be registered bonds without coupons of the denominations of \$1,000 and of any multiples of \$1,000, numbered consecutively from R 1 upwards. Bonds of the 2007 Series may each be interchanged for other bonds within the same Series in authorized denominations and in the same aggregate principal amounts, without charge, except for any tax or governmental charge imposed in connection with such interchange.

SECTION 3. The Bonds of the 2007 Series, and the Trustee's Certificate with respect thereto, shall be substantially in the following forms, respectively:

[FORM OF BOND OF THE 2007 SERIES]

CUSIP

WESTERN RESOURCES, INC.

(Incorporated under the laws of the State of Kansas)

FIRST MORTGAGE BOND, 7 7/8% SERIES DUE 2007

DUE May 10, 2007

No. ----- \$ -----

WESTERN RESOURCES, INC., a corporation organized and existing under the laws of the State of Kansas (hereinafter called the "Company", which term shall include any successor corporation as defined in the Indenture hereinafter referred to), for value received, hereby promises to pay to _____ or

registered assigns, on the 1st day of May, 2007, the sum of -----

Dollars in any coin or currency of the United States of America which at the time of payment is legal tender for public and private debts, and to pay interest thereon in like coin or currency from the first day of May or November next preceding the date of this Bond (the "Bonds") next preceding the date thereof, unless no interest has been paid on this Bond, in which case from May 10, 2002, at the rate of seven and seven-eighths percent (7 7/8%) per annum, payable semiannually, on the first days of May and November in each year, commencing November 1, 2002, until maturity, or, if this Bond shall be duly called for redemption or submitted for repurchase, until the redemption date or repurchase date, as the case may be, or, if the Company shall default in the payment of the principal or premium hereof, until the Company's obligation with respect to the payment of such principal or premium shall be discharged as provided in the Indenture hereinafter mentioned. The interest payable on any interest payment date as aforesaid will be paid to the person in whose name this Bond is registered on any at the close of business on the tenth day next preceding such interest payment date, or if such tenth day is not a business day, the business day next preceding such tenth day (the "record date"), unless the Company shall default in the payment of the interest due on such interest payment date, in which case such defaulted interest shall be paid to the person in whose name this Bond is registered on the date of payment of such defaulted interest. Principal of, premium, if any, and interest on, this Bond are payable at the agency of the Company in the City of Chicago, Illinois in immediately available funds, or at the option of the holder thereof at the agency of the Company in the Borough of Manhattan, The City of New York, provided that at the option of the Company interest may be paid by check mailed to the holder at such holder's registered address.

The person in whose name this Bond is registered is entitled to the benefits of a Registration Rights Agreement, dated as of May 10, 2002, among the Company and the Initial Purchasers named therein (the "Registration Agreement"). Capitalized terms used in this paragraph but not defined herein have the meanings assigned to them in the Registration Agreement. In the event that (i)

neither the Exchange Offer Registration Statement nor the Shelf Registration Statement has been filed with the Commission on or prior to the 180th day following the date of the original issuance of the Bond, (ii) the Exchange Offer Registration Statement has not been declared effective on or prior to the 270th day following the date of the original issuance of the Bond, (iii) neither the Registered Exchange Offer has been consummated nor the Shelf Registration Statement has been declared effective on or prior to the 315th day following the date of the original issuance of the Bond, or (iv) after either the Exchange Offer Registration Statement or the Shelf Registration Statement has been declared effective, such Registration Statement thereafter ceases to be effective or usable (subject to certain exceptions) in connection with resales of the Bond in accordance with and during the periods specified in Registration Agreement (each such event referred to in clauses (i) through (iv) above being referred to herein as "Registration Default"), interest (the "Special Interest") shall accrue (in addition to stated interest on the Bonds from and including the date on which the first such Registration Default shall occur to but excluding the date on which all Registration Defaults have been cured, at a rate per annum equal to 0.50% of the principal amount of the Bonds. Special Interest, if any, will be payable in cash on each interest payment date to the persons in whose name this Bond is registered on the applicable record date as provided above.

This Bond is one of a duly authorized issue of Bonds of the Company (herein called the "Bonds"), in unlimited aggregate principal amount, of the series hereinafter specified, all issued and to be issued under and equally secured by a Mortgage and Deed of Trust, dated July 1, 1939, executed by the Company to BNY Midwest Trust Company (herein called the "Trustee"), as Trustee (as successor to Harris Trust and Savings Bank), as amended by the indentures supplemental thereto including the thirty-fifth indenture supplemental thereto dated as of May 10, 2002 (herein called the "Supplemental Indenture"), between the Company and the Trustee (said Mortgage and Deed of Trust, as so amended, being herein called the "Indenture"), to which Indenture and all indentures supplemental thereto reference is hereby made for a description of the properties mortgaged and pledged, the nature and extent of the security, the rights of the bearers or registered owners of the Bonds and of the Trustee in respect thereto, and the terms and conditions upon which the Bonds are, and are to be, secured. The Bonds may be issued in series, for various principal sums, may mature at different times, may bear interest at different rates and may otherwise vary as in the Indenture provided. This Bond is one of a series designated as the "First Mortgage Bonds, 7 7/8% Series Due 2007" (herein called "Bonds of the 2007 Series") of the Company, issued under and secured by the Indenture executed by the Company to the Trustee.

To the extent permitted by, and as provided in the Indenture, modifications or alterations of the Indenture or of any indenture supplemental thereto, and of the rights and obligations of the Company and of the holders of the Bonds and coupons, may be made with the consent of the Company by an affirmative vote of not less than 60% in principal amount of the Bonds entitled to vote then outstanding, at a meeting of Bondholders called and held as provided in the Indenture, and by an affirmative vote of not less than 60% in principal amount of the Bonds of any series entitled to vote then outstanding and affected by such modification or alteration, in case one or more but less than all of the series of Bonds then outstanding under the Indenture are so affected. No modification or alteration shall be made which will affect the terms of payment of the principal of or premium, if any, or interest on, this Bond, which are unconditional. The Company has reserved the right to make certain amendments to the Indenture, without any consent or other action by holders of the Bonds of

this series (i) to the extent necessary from time to time to qualify the Indenture under the Trust Indenture Act of 1939, (ii) to delete the requirement that the Company meet a net earnings test as a condition to authenticating additional Bonds or merging into another company and (iii) to make certain other amendments which make the provisions for the release of mortgaged property less restrictive, all as more fully provided in the Indenture and in the Supplemental Indenture. In addition, once all Bonds issued prior to January 1, 1997 are no longer outstanding, the Company will be permitted to issue additional Bonds in an amount equal to 70% of the value of net bondable property additions not subject to an unfunded prior lien, as provided in the Original Indenture.

This Bond is subject to redemption at any time and from time to time prior to maturity at the option of the Company at a price determined as provided in the Supplemental Indenture. Such redemption in every case shall be effected upon notice given by: (1) first class mail, postage prepaid, at least thirty days and not more than sixty days prior to the redemption date, to the registered owners of such Bonds at their addresses as the same shall appear on the transfer register of the Company; and (2) stating, among other things, the redemption price and date, in each case, subject to the conditions of and as more fully set forth in the Indenture.

Upon the occurrence of a Change of Control (as defined in the Supplemental Indenture), each holder of this Bond shall have the right to require the Company to repurchase all or any part of such holder's Bonds at a purchase price equal to 101% of the principal, plus accrued and unpaid interest, if any, to the purchase date as provided in the Supplemental Indenture. Within 30 days following any Change of Control, the Company shall cause a notice of the Change of Control Offer to be delivered in accordance with the procedures set forth in the Supplemental Indenture.

In case an event of default, as defined in the Indenture, shall occur, the principal of all of the Bonds at any such time outstanding under the Indenture may be declared or may become due and payable, upon the conditions and in the manner and with the effect provided in the Indenture. The Indenture provides that such declaration may in certain events be waived by the holders of a majority in principal amount of the Bonds outstanding.

This Bond is transferable by the registered owner hereof, in person or by duly authorized attorney, on the books of the Company to be kept for that purpose at the agency of the Company in the City of Chicago, Illinois, and at the agency of the Company in the Borough of Manhattan, The City of New York, upon surrender and cancellation of this Bond and on presentation of a duly executed written instrument of transfer, and thereupon a new registered Bond or Bonds of the same series, of the same aggregate principal amount and in authorized denominations will be issued to the transferee or transferees in exchange herefor; and this Bond, with or without others of like form and series, may in like manner be exchanged for one or more new registered Bonds of the same series of other authorized denominations but of the same aggregate principal amount; all upon payment of the charges and subject to the terms and conditions set forth in the Indenture.

No recourse shall be had for the payment of the principal of or premium, if any, or interest on this Bond, or for any claim based hereon or on the Indenture or any indenture supplemental thereto, against any incorporator, or against any stockholder, director or officer, past, present or future, of the Company, or of any predecessor or successor corporation, as such, either directly or

through the Company or any such predecessor or successor corporation, whether by virtue of any constitution, statute or rule of law, or by the enforcement of any assessment or penalty or otherwise, all such liability, whether at common law, in equity, by any constitution, statute or otherwise, of incorporators, stockholders, directors or officers being released by every owner hereof by the acceptance of this Bond and as part of the consideration for the issue hereof, and being likewise released by the terms of the Indenture.

No director, officer, employee or stockholder of the Company will have any liability for any obligations of the Company under the Bonds or Indenture or for any claim based on, in respect of, or by reason of, such obligations or their creation. Each holder by accepting a Bond waives and releases all such liability. The waiver and release are part of the consideration for issuance of the Bonds. The waiver may not be effective to waive liabilities under the federal securities laws. It is the view of the Securities and Exchange Commission that this type of waiver is against public policy.

This Bond shall not be entitled to any benefit under the Indenture or any indenture supplemental thereto, or become valid or obligatory for any purpose, until BNY Midwest Trust Company, the Trustee (as successor to Harris Trust and Savings Bank) under the Indenture, or a successor trustee thereto under the Indenture, shall have signed the form of certificate endorsed hereon.

IN WITNESS WHEREOF, WESTERN RESOURCES, INC. has caused this Bond to be signed in its name by its Chairman of the Board, President and Chief Executive Officer or a Vice President, manually or by facsimile, and its corporate seal (or a facsimile thereof) to be hereto affixed and attested by its Secretary or an Assistant Secretary, manually or by facsimile.

Dated:

WESTERN RESOURCES, INC.

By _____

Attest:

[FORM OF PRIVATE PLACEMENT LEGEND FOR BOND OF THE 2007 SERIES]

[THIS SECURITY HAS NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), OR THE SECURITIES LAWS OF ANY STATE OR OTHER JURISDICTION. NEITHER THIS SECURITY NOR ANY INTEREST OR PARTICIPATION HEREIN MAY BE REOFFERED, SOLD, ASSIGNED, TRANSFERRED, PLEDGED, ENCUMBERED OR OTHERWISE DISPOSED OF IN THE ABSENCE OF SUCH REGISTRATION OR UNLESS SUCH TRANSACTION IS EXEMPT FROM, OR NOT SUBJECT TO, SUCH REGISTRATION.

THE HOLDER OF THIS SECURITY BY ITS ACCEPTANCE HEREOF AGREES TO OFFER, SELL OR OTHERWISE TRANSFER SUCH SECURITY, BEFORE THE DATE (THE "RESALE RESTRICTION TERMINATION DATE") WHICH IS TWO YEARS AFTER THE LATER OF THE ORIGINAL ISSUE DATE HEREOF AND THE LAST DATE ON WHICH THE COMPANY OR ANY AFFILIATE OF THE COMPANY WAS THE OWNER OF THIS SECURITY (OR ANY PREDECESSOR OF SUCH SECURITY), ONLY (A) TO THE COMPANY, (B) UNDER A REGISTRATION STATEMENT THAT HAS BEEN DECLARED EFFECTIVE UNDER THE SECURITIES ACT, (C) FOR SO LONG AS THE BONDS OF THE 2007 SERIES ARE ELIGIBLE FOR RESALE UNDER RULE 144A UNDER THE SECURITIES ACT ("RULE 144A"), TO A PERSON IT REASONABLY BELIEVES IS A "QUALIFIED INSTITUTIONAL BUYER" AS DEFINED IN RULE 144A THAT PURCHASES FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF A QUALIFIED INSTITUTIONAL BUYER TO WHOM NOTICE IS GIVEN THAT THE TRANSFER IS BEING MADE IN RELIANCE ON RULE 144A, (D) UNDER OFFERS AND SALES THAT OCCUR OUTSIDE THE UNITED STATES WITHIN THE MEANING OF REGULATION S UNDER THE SECURITIES ACT, OR (E) UNDER ANY OTHER AVAILABLE EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT, SUBJECT TO THE COMPANY'S AND THE TRUSTEE'S RIGHT BEFORE ANY SUCH OFFER, SALE OR TRANSFER UNDER CLAUSES (D) OR (E) TO REQUIRE THE DELIVERY OF AN OPINION OF COUNSEL, CERTIFICATION AND/OR OTHER INFORMATION SATISFACTORY TO IT. THIS LEGEND WILL BE REMOVED UPON THE REQUEST OF THE HOLDER AFTER THE RESALE RESTRICTION TERMINATION DATE.]/a/

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/a/ The above restrictions will not apply to any Bond of the 2007 Series on or after the "Resale Restriction Termination Date" applicable to such Bond, or with respect to any Bond which have been sold or otherwise transferred pursuant to Rule 144A or a registration statement which has been declared effective under the Securities Act. "Resale Restriction Termination Date" shall mean the date on which the holding period under Rule 144(k) under the Securities Act expires with respect to such Bond. Any Bond issued on or after the Resale Restriction Termination Date need not contain this legend.

[FORM OF LEGEND FOR GLOBAL SECURITY]

THIS SECURITY IS A GLOBAL SECURITY WITHIN THE MEANING OF THE INDENTURE HEREINAFTER REFERRED TO AND IS REGISTERED IN THE NAME OF A DEPOSITARY OR A NOMINEE THEREOF, THIS SECURITY MAY NOT BE EXCHANGED IN WHOLE OR IN PART FOR A SECURITY REGISTERED, AND NO TRANSFER OF THIS SECURITY IN WHOLE OR IN PART MAY BE REGISTERED IN THE NAME OF ANY PERSON OTHER THAN SUCH DEPOSITARY OR A NOMINEE THEREOF, EXCEPT IN THE LIMITED CIRCUMSTANCES DESCRIBED IN THE INDENTURE.

UNLESS THIS SECURITY IS PRESENTED BY AN AUTHORIZED REPRESENTATIVE OF THE DEPOSITARY TRUST COMPANY (55 WATER STREET, NEW YORK, NEW YORK) TO THE ISSUER OR ITS AGENT FOR REGISTRATION OF TRANSFER, EXCHANGE OR PAYMENT AND ANY SECURITY ISSUED IS REGISTERED IN THE NAME OF CEDE & CO. OR SUCH OTHER NAME AS REQUESTED BY AN AUTHORIZED REPRESENTATIVE OF THE DEPOSITARY TRUST COMPANY AND ANY PAYMENT HEREON IS MADE TO CEDE & CO., ANY TRANSFER, PLEDGE OR OTHER USE HEREOF FOR VALUE OR OTHERWISE BY A PERSON IS WRONGFUL SINCE THE REGISTERED OWNER HEREOF, CEDE & CO., HAS AN INTEREST HEREIN.

[FORM OF TRUSTEE'S CERTIFICATE]

This Bond is one of the Bonds, of the series designated herein, described in the within-mentioned Mortgage and Deed of Trust of July 1, 1939 and Supplemental Indenture dated as of May 10, 2002.

BNY MIDWEST TRUST COMPANY
As Trustee

By

SECTION 4. Until Bonds of the 2007 Series in definitive form are ready for delivery, the Company may execute, and upon its request in writing the Trustee shall authenticate and deliver, in lieu thereof, Bonds of the 2007 Series in temporary form, as provided in Section 9 of Article II of the Original Indenture.

ARTICLE II

ISSUE OF BONDS OF THE 2007 SERIES

SECTION 1. The total principal amount of Bonds of the 2007 Series which may be authenticated and delivered hereunder is not limited except as the Original Indenture and this Supplemental Indenture limit the principal amount of Bonds which may be issued thereunder.

SECTION 2. Bonds of the 2007 Series for the aggregate principal amount of \$365,000,000 may forthwith be executed by the Company and delivered to the Trustee and shall be authenticated by the Trustee and delivered (either before or after the filing or recording hereof) to or upon the order of the Company, upon receipt by the Trustee of the resolutions, certificates, instruments and opinions required by Article III and Article XVIII of the Indenture.

ARTICLE III

REDEMPTION AND REPURCHASE UPON CHANGE OF CONTROL

SECTION 1. Optional Redemption.

(1) Optional Redemption. At any time, and from time to time, the Company may redeem all or any portion of the Bonds of the 2007 Series, after giving the required notice under the Indenture, at a redemption price equal to the greater of:

(a) 100% of the principal amount of the Bonds of the 2007 Series to be redeemed, or

(b) the sum of the present values of the remaining scheduled payments of principal and interest thereon discounted to the date of redemption on a semi-annual basis (assuming a 360-day year consisting of twelve 30-day months) at the Treasury Rate plus 50 basis points,

plus, in either case, accrued and unpaid interest, if any, to the redemption date (subject to the right of holders of record on the relevant record date to receive interest due on the relevant interest payment date).

"Treasury Rate" means, as of any redemption date, the yield to maturity as of such redemption date of United States Treasury securities with a constant maturity (as compiled and published in the most recent Federal Reserve Statistical Release H.15 (519) that has become publicly available at least two business days prior to the redemption date (or, if such statistical release is no longer published, any publicly available source of similar market data)) most nearly equal to the period from the redemption date to May 1, 2007; provided, however, that if the period from the redemption date to May 1, 2007 is less than one year, the weekly average yield on actively traded United States Treasury securities adjusted to a constant maturity of one year shall be used.

(2) Notice of Redemption. Subject to the provisions of Article V of the Original Indenture, the Company shall cause notice of redemption to be given by (1) first class mail, postage prepaid, at least thirty days and not more than sixty days prior to the date of redemption, to the registered owners of such Bonds of the 2007 Series at their addresses as the same shall appear on the transfer register of the Company; and (2) stating, among other things, the redemption price and date. No such redemption may be conditional once notice of redemption is given.

SECTION 2. Repurchase at the Option of Holders Upon a Change of Control.

(1) Repurchase at the Option of Holders Upon a Change of Control. Upon the occurrence of a Change of Control (as defined below), each holder of Bonds of the 2007 Series shall have the right to require the Company to repurchase all or any part of such holder's Bonds of the 2007 Series pursuant to the offer described below (the "Change of Control") at a purchase price (the "Change of Control Purchase Price") equal to 101% of the principal amount thereof, plus accrued and unpaid interest, if any, to the purchase date. Capitalized terms used in the definition of "Change of Control" used but not defined herein have the meanings assigned to them in the Securities Resolution dated as of May 10, 2002 relating to the issuance of the Company's \$400,000,000 Senior Notes 9 3/4% Due 2007, a copy of which has been filed with the Trustee and is available upon request.

"Change of Control" means the occurrence of any of the following events:

(a) if any "person" or "group" (as such terms are used in Sections 13(d) and 14(d) of the Exchange Act or any successor provisions to either of the foregoing), other than Wester Industries, Inc., including any group acting for the purpose of acquiring, holding, voting or disposing of securities within the meaning of Rule 13d-5(b)(1) under the Exchange Act, becomes the "beneficial owner" (as defined in Rule 13d-3 under the Exchange Act, except that a person will be deemed to have "beneficial ownership" of all shares that any such

person has the right to acquire, whether such right is exercisable immediately or only after the passage of time), directly or indirectly, of 35% or more of the total voting power of the Voting Stock of the Company (for purposes of this clause (a), such person or group shall be deemed to beneficially own any Voting Stock of a corporation held by any other corporation (the "parent corporation") so long as such person or group beneficially owns, directly or indirectly, in the aggregate a majority of the total voting power of the Voting Stock of such parent corporation); or

(b) the sale, transfer, assignment, lease, conveyance or other disposition, directly or indirectly, of all or substantially all the assets of the Company and any Restricted Subsidiary, considered as a whole (other than a disposition of such assets as an entirety or virtually as an entirety to a Wholly Owned Restricted Subsidiary), shall have occurred, or the Company merges, consolidates or amalgamates with or into any other Person or any other Person merges, consolidates or amalgamates with or into the Company, in any such event pursuant to a transaction in which the outstanding Voting Stock of the Company is reclassified into or exchanged for cash, securities or other Property, other than any such transaction where:

(1) the outstanding Voting Stock of the Company is reclassified into or exchanged for other Voting Stock of the Company or for Voting Stock of the surviving corporation, and

(2) the holders of the Voting Stock of the Company immediately prior to such transaction own, directly or indirectly, not less than a majority of the Voting Stock of the Company or the surviving corporation immediately after such transaction and in substantially the same proportion as before the transaction; or

(c) during any period of two consecutive years, individuals who at the beginning of such period constituted the Board of Directors of the Company (together with any new directors whose election or appointment by such Board of Directors or whose nomination for election by the shareholders of the Company was approved by a vote of not less than three-fourths of the directors then still in office who were either directors at the beginning of such period or whose election or nomination for election was previously so approved) cease for any reason to constitute a majority of the Board of Directors of the Company then in office; or

(d) the shareholders of the Company shall have approved any plan of liquidation or dissolution of the Company.

Notwithstanding the above, the proposed merger of the Company with Public Service Company of New Mexico shall not be deemed a Change of Control.

(2) Notice of Repurchase. Within 30 days following any Change of Control, the Company shall:

(a) cause a notice of the Change of Control Offer to be sent at least once to the Dow Jones News Service or similar business news service in the United States; and

(b) send, by first-class mail, with a copy to the Trustee, to each holder of Bonds of the 2007 Series, at such holder's address appearing in the security register, a notice stating:

(1) that a Change of Control has occurred and a Change of Control Offer is being made pursuant to Article III, Section 2 of this Supplemental Indenture, and that all Bonds of the 2007 Series timely tendered will be accepted for payment;

(2) the Change of Control Purchase Price and the purchase date, which shall, subject to any contrary requirements of applicable law, be a business day no earlier than 30 days nor later than 60 days from the date such notice is mailed;

(3) the circumstances and relevant facts regarding the Change of Control; and

(4) the procedures that holders of Bonds of the 2007 Series must follow in order to tender their Bonds of the 2007 Series (or portions thereof) for payment, and the procedures that holders of Bonds of the 2007 Series must follow in order to withdraw an election to tender Bonds of the 2007 Series (or portions thereof) for payment.

(3) Compliance with Law. The Company will comply, to the extent applicable, with the requirements of Section 14(e) of the Securities Exchange Act of 1934 and any other securities laws or regulations in connection with the repurchase of Bonds of the 2007 Series pursuant to a Change of Control Offer. To the extent that the provisions of any securities laws or regulations conflict with the provisions of the covenant set forth in Article III, Section 2 of this Supplemental Indenture, the Company will comply with the applicable securities laws and regulations and will not be deemed to have breached its obligations under the covenant set forth therein by virtue of such compliance.

ARTICLE IV

ADDITIONAL COVENANTS

The Company hereby covenants, warrants and agrees:

SECTION 1. That the Company is lawfully seized and possessed of all of the mortgaged property described in the granting clauses of this Supplemental Indenture; that it has good, right and lawful authority to mortgage the same as provided in this Supplemental Indenture; and that such mortgaged property is, at the actual date of the initial issue of the Bonds of the 2007 Series, free and clear of any deed of trust, mortgage, lien, charge or encumbrance thereon or affecting the title thereto prior to the Indenture, except as set forth in the granting clauses of the Original Indenture, the

Twenty-Eighth Supplemental Indenture, the Thirtieth Supplemental Indenture, the Thirty-First Supplemental Indenture, the Thirty-Second Supplemental Indenture or this Supplemental Indenture.

SECTION 2. So long as any Bonds of any series originally issued prior to January 1, 1997 are outstanding, in the event all or substantially all of the electric properties shall have been released as an entirety from the lien of the Original Indenture, the Company will, at any time or from time to time within six months after the date of such release, retire Bonds outstanding under the Original Indenture in an aggregate principal amount equal to the fair value of the electric properties so released pursuant to Section 3 of Article VII of the Original Indenture, as stated in the engineer's certificate required by Section 3(b) of said Article VII, and the proceeds of the electric properties so released pursuant to Section 5 of said Article VII. Such retirement of Bonds shall be effected in either one or both of the following methods:

(a) By the withdrawal pursuant to Section 2 of Article VIII of the Original Indenture of any moneys deposited with the Trustee pursuant to Sections 3(d), 4(d) and 5 of Article VII of the Original Indenture upon such release; or

(b) By causing the Trustee to purchase or redeem bonds, pursuant to Section 8 of Article VIII of the Original Indenture, out of any moneys deposited with the Trustee pursuant to Sections 3(d), 4(d) and 5 of Article VII of the Original Indenture upon such release.

The Bonds to be so retired pursuant to this Section 3 shall include a principal amount of Bonds of each Series then outstanding in the same ratio to the aggregate principal amount of all Bonds so retired as the aggregate principal amount of all Bonds of each Series outstanding immediately prior to such release bears to the total principal amount of all Bonds then outstanding.

ARTICLE V

AMENDMENTS TO RATIO OF BONDS ISSUABLE TO PROPERTY ADDITIONS AND OF CERTAIN OTHER RATIOS. AMENDMENT TO NET EARNINGS TEST. USE OF FACSIMILE SIGNATURES. AMENDMENT OF ARTICLE XV. RESERVATION OF RIGHT TO AMEND ARTICLE VII

SECTION 1. So long as any of the Bonds of any series originally issued prior to January 1, 1997 shall remain outstanding:

(a) Notwithstanding the provisions of Section 4 of Article III of the Original Indenture, no Bonds shall be authenticated and delivered pursuant to the provisions of Article III of the Original Indenture and issued upon the basis of net bondable value of property additions for an aggregate principal amount in excess of sixty percent (60%) of the net bondable value of property additions not subject to an unfunded prior lien.

For the purposes of Subsections (e) and (f) of the definition of "net bondable value of property additions not subject to an unfunded prior lien," contained in Article I of the Original Indenture, and Subdivisions 8 and 9 of clause (a) of Section 4 of Article III of the Original

Indenture, in all computations made with respect to a period subsequent to April 1, 1949, the deductions therein referred to shall in each case be ten-sixths (10/6ths) of the respective amounts mentioned, in lieu of ten-sevenths (10/7ths).

(b) Notwithstanding the provisions of Section 3(a) of Article VIII of the Original Indenture, no moneys received by the Trustee pursuant to Section 5(a) of Article III of the Original Indenture shall be paid over by the Trustee in an amount in excess of sixty percent (60%) of the net bondable value of property additions not subject to an unfunded prior lien, and for the purposes of Section 3 of Article VII of the Original Indenture, the amount of cash required to be deposited by the Company pursuant to Subsection (d) of said Section 3 of Article VII shall not be reduced in an amount in excess of sixty percent (60%) of the net bondable value of property additions not subject to an unfunded prior lien.

(c) For the purposes of clauses (c) and (d) of the definition of "net bondable value of property additions subject to an unfunded prior lien," contained in Article I of the Original Indenture, and Subsection 7 of clause (a) of Section 4 of Article III of the Original Indenture, in all computations made with respect to a period subsequent to April 1, 1949, the deductions therein referred to shall in each case be ten-sixths (10/6ths) of the respective amounts mentioned, in lieu of ten-sevenths (10/7ths).

(d) Subsection (a) of Section 14, clauses (1) and (2) of Subsection (a) of Section 16 of Article IV and clause (1) of Subsection (b) of Section 1 of Article XII of the Original Indenture shall be deemed amended by substituting the words "sixty percent (60%)" for "seventy percent (70%)" where they appear in said provisions of the Original Indenture.

(e) The definition of the term "net earnings available for interest, depreciation and property retirement," as contained in Article I of the Original Indenture, shall be deemed to mean the net earnings of the Company ascertained as follows:

1. The total operating revenues of the Company and the net non-operating revenues of the properties of the Company shall be ascertained.
2. From the total, determined as provided in Subsection (a), there shall be deducted all operating expenses, including all salaries, rentals, insurance, license and franchise fees, expenditures for repairs and maintenance, taxes (other than income, excess profits and other taxes measured by or dependent on net taxable income), depreciation as shown on the books of the Company or an amount equal to the minimum provision for depreciation as hereinafter defined, whichever is greater, but excluding all property retirement appropriations, all interest and sinking fund charges, amortization of stock and debt discount and expense or premium and further excluding any charges to income or otherwise for the amortization of plant or property accounts or of amounts transferred therefrom.
3. The balance remaining after the deduction of the total amount computed pursuant to Subsection (b) from the total amount computed

pursuant to Subsection (a) shall constitute the "net earnings of the Company available for interest," provided that not more than fifteen percent (15%) of the net earnings of the Company available for interest may consist of the aggregate of (i) net non-operating income, (ii) net earnings from mortgaged property other than property of the character of property additions and (iii) net earnings from property not subject to the lien of this Indenture.

4. No income received or accrued by the Company from securities and no profits or losses of capital assets shall be included in making the computations aforesaid.

5. In case the Company shall have acquired any acquired plant or systems or shall have been consolidated or merged with any other corporation, within or after the particular period for which the calculation of net earnings of the Company available for interest, depreciation and property retirement is made, then, in computing the net earnings of the Company available for interest, depreciation and property retirement, there may be included, to the extent they may not have been otherwise included, the net earnings or net losses of such acquired plant or system or of such other corporation, as the case may be, for the whole of such period. The net earnings or net losses of such property additions, or of such other corporation for the period preceding such acquisition or such consolidation or merger, shall be ascertained and computed as provided in the foregoing subsections of this definition as if such acquired plant or system had been owned by the Company during the whole of such period, or as if such other corporation had been consolidated or merged with the Company prior to the first day of such period.

6. In case the Company shall have obtained the release of any property pursuant to Section 3 of Article VII of the Original Indenture, of a fair value in excess of Five Hundred Thousand Dollars (\$500,000), as shown by the engineer's certificate required by said Section 3, or shall have obtained the release of any property pursuant to Section 5 of Article VII of the Original Indenture, the proceeds of which shall have exceeded Five Hundred Thousand Dollars (\$500,000), within or after the particular period for which the calculation of net earnings of the Company available for interest, depreciation and property retirement is made, then, in computing the net earnings of the Company available for interest, depreciation and property retirement, the net earnings or net losses of such property for the whole of such period shall be excluded to the extent practicable on the basis of actual earnings and expenses of such property or on the basis of such estimates of the earnings and expenses of such property as the signers of an officers' certificate filed with the Trustee pursuant to Section 3(b) of Article III or Section 16 of Article IV of the Original Indenture shall deem proper.

The term "minimum charge for depreciation" as used herein shall mean an amount equal to (a) fifteen percent (15%) of the total operating revenues of the Company after deducting therefrom an amount equal to the aggregate cost to the Company of electric energy, gas and water purchased for resale to others and rentals paid for, or other payments made for the use of, property owned by others and leased to or operated by the Company,

the maintenance of which and depreciation on which are borne by the owners, less (b) an amount equal to the expenditures for maintenance and repairs to the plants and property of the Company and included or reflected in its operating expense accounts.

The terms "net earnings available for interest, depreciation and property retirement" and "net earnings of another corporation available for interest, depreciation and property retirement" as contained in Article I of the Original Indenture, when used with respect to any property or with respect to another corporation, shall mean the net earnings of such property or the net earnings of such other corporation, as the case may be, computed in the manner provided in Subsections (a), (b), (c) and (d) hereof.

(f) Notwithstanding the provisions of clauses (1) and (2) of subsection (b) of Article III, and Subsection (b) of Section 14 of Article IV, and Subsection (b) of Section 16 of Article IV and clause (2) of Subsection (b) of Section 1 of Article XII of the Original Indenture, the computation of net earnings required therein shall be made as provided in Subsection (e) of this Section 1, and the net earnings tests required in said mentioned provisions of Articles III, IV and XII of the Original Indenture shall be based on two times the annual interest charges described in such provisions, instead of two and one-half times such charges, but shall not otherwise affect such provisions or relieve from the requirements therein pertaining to ten percent (10%) of the principal amount of Bonds therein described.

SECTION 2. All of the Bonds of the 2007 Series and of any series initially issued after the initial issuance of Bonds of the 2007 Series shall, from time to time, be executed on behalf of the Company by its Chairman of the Board, Chief Executive Officer, President or one of its Vice Presidents whose signature, notwithstanding the provisions of Section 12 of Article II of the Original Indenture, may be by facsimile, and its corporate seal (which may be in facsimile) shall be thereunto affixed and attested by its Secretary or one of its Assistant Secretaries whose signature, notwithstanding the provisions of the aforesaid Section 12, may be by facsimile.

In case any of the officers who have signed or sealed any of the Bonds of the 2007 Series or of any series initially issued after the initial issuance of Bonds of the 2007 Series manually or by facsimile shall cease to be such officers of the Company before such Bonds so signed and sealed shall have been actually authenticated by the Trustee or delivered by the Company, such Bonds nevertheless may be authenticated, issued and delivered with the same force and effect as though the person or persons who so signed or sealed such Bonds had not ceased to be such officer or officers of the Company; and also any such Bonds may be signed or sealed by manual or facsimile signature on behalf of the Company by such persons as at the actual date of the execution of any of such Bonds shall be the proper officers of the Company, although at the nominal date of any such Bond any such person shall not have been such officer of the Company.

SECTION 3. The Company reserves the right subject to appropriate corporate action, but without the consent or other action of holders of bonds of any series created after January 1, 1997, to make such amendments to the Original Indenture, as supplemented, as shall be necessary in order to amend Article VII thereof by adding thereto a Section 8 and a Section 9 to read as follows:

"SECTION 8. Notwithstanding any other provision of this Indenture, unless an event of default shall have happened and be continuing, or shall happen as a result of the making or granting of an application to release mortgaged property permitted by this Section 8, the Trustee shall release from the lien of this Indenture any mortgaged property if the fair value to the Company of all of the property constituting the trust estate (excluding the mortgaged property to be released but including any mortgaged property to be acquired by the Company with the proceeds of, or otherwise in connection with, such release) equals or exceeds an amount equal to 10/7ths of the aggregate principal amount of outstanding Bonds and prior lien bonds outstanding at the time of such release, upon receipt by the Trustee of:

"(a) an officers' certificate dated the date of such release, requesting such release, describing in reasonable detail the mortgaged property to be released and stating the reason for such release;

"(b) an engineer's certificate, dated the date of such release, stating (i) that the signer of such engineer's certificate has examined such officers' certificate in connection with such release, (ii) the fair value to the Company, in the opinion of the signer of such engineer's certificate, of (A) all of the property constituting the trust estate, and (B) the mortgaged property to be released, in each case as of a date not more than 90 days prior to the date of such release, and (iii) that in the opinion of such signer, such release will not impair the security under this Indenture in contravention of the provisions hereof;

"(c) in case any bondable property is being acquired by the Company with the proceeds of, or otherwise in connection with, such release, an engineer's certificate, dated the date of such release, as to the fair value to the Company, as of the date not more than 90 days prior to the date of such release, of the bondable property being so acquired (and if within six months prior to the date of acquisition by the Company of the bondable property being so acquired, such bondable property has been used or operated by a person or persons other than the Company in a business similar to that in which it has been or is to be used or operated by the Company, and the fair value to the Company of such bondable property, as set forth in such certificate, is not less than \$25,000 and not less than 1% of the aggregate principal amount of Bonds at the time outstanding, such certificate shall be an independent appraiser's certificate);

"(d) an officer's certificate, dated the date of such release, stating the aggregate principal amount of outstanding Bonds and prior lien bonds outstanding at the time of such release, and stating that the fair value to the Company of all of the property constituting the trust estate (excluding the mortgaged property to be released but including any bondable property to be acquired by the Company with the proceeds of, or otherwise in connection

with, such release) stated on the independent appraiser's certificate filed pursuant to Section 8(c) equals or exceeds an amount equal to 10/7ths of such aggregate principal amount;

"(e) an officers' certificate, dated the date of such release, stating that, the Company is not, and by the making or granting of the application will not be, in default in the performance of any of the terms and covenants of this Indenture;

"(f) an opinion of counsel, dated the date of such release, as to compliance with conditions precedent.

"SECTION 9. If the Company is unable to obtain, in accordance with any other Section of this Article VII, the release from the lien of this Indenture of any property constituting part of the trust estate, unless an event of default shall have happened and be continuing, or shall happen as a result of the making or granting of an application to release mortgaged property permitted by this Section 9, the Trustee shall release from the lien of this Indenture any mortgaged property if the fair value to the Company thereof, as shown by the engineer's certificate filed pursuant to Section 9(b), is less than 1/2 of 1% of the aggregate principal amount of outstanding Bonds and prior lien bonds outstanding at the time of such release, provided that the aggregate fair value to the Company of all mortgaged property released pursuant to this Section 9, as shown by all engineer's certificates filed pursuant to Section 9(b) in any period of 12 consecutive calendar months which includes the date of such engineer's certificate, shall not exceed 1% of the aggregate principal amount of the outstanding Bonds and prior lien bonds outstanding at the time of such release, upon receipt by the Trustee of:

"(a) an officers' certificate, dated the date of such release, requesting such release, describing in reasonable detail the mortgaged property to be released and stating the reason for such release;

"(b) an engineer's certificate, dated the date of such release, stating (A) that the signer of such engineer's certificate has examined such officers' certificate in connection with such release, (B) the fair value to the Company, in the opinion of the signer of such engineer's certificate, of such mortgaged property to be released as of a date not more than 90 days prior to the date of such release, and (C) that in the opinion of such signer such release will not impair the security under this Indenture in contravention of the provisions hereof;

"(c) an officers' certificate, dated the date of such release, stating the aggregate principal amount of outstanding Bonds and prior lien bonds outstanding at the time of such release, that 1/2 of 1% of such aggregate principal amount does not exceed the fair value to the Company of the mortgaged

property for which such release is applied for as shown by the engineer's certificate referred to in Section 9(b), and that 1% of such aggregate principal amount does not exceed the aggregate fair value to the Company of all mortgaged property released from the lien of this Indenture pursuant to this Section 9 as shown by all engineer's certificates filed pursuant to Section 9(b) in such period of 12 consecutive calendar months;

"(d) an officers' certificate, dated the date of such release, stating that, the Company is not, and by the making or granting of the application will not be, in default in the performance of any of the terms and covenants of this Indenture; and

"(e) an opinion of counsel, dated the date of such release, as to compliance with conditions precedent."

The Company also reserves the right subject to appropriate corporate action, but without the consent or other action of holders of Bonds of any series created after January 1, 1997 to amend, modify or delete any other provision of the Original Indenture, as supplemented, as may be necessary in order to effectuate the intents and purposes contemplated by the foregoing Sections 8 and 9.

SECTION 4. The Company reserves the right subject to appropriate corporate action, but without the consent or other action of holders of Bonds of any series created after January 1, 1997 to:

(a) delete as a condition to the authentication of additional Bonds pursuant to Sections 4, 5 or 6 of Article III of the Original Indenture the requirement to file or deposit with the Trustee the officers' certificate described in Section 3(b) of Article III of the Original Indenture;

(b) delete as a condition to the consolidation or merger of the Company into, or sale by the Company of its property as an entirety or substantially as an entirety to another corporation the requirement set forth in Section 1(b)(2) of Article XII of the Original Indenture;

(c) delete as a condition to the release of property pursuant to Section 3 of Article VII of the Original Indenture, the requirement to obtain an independent engineer's certificate under the circumstances set forth in Section 3(c) of Article VII; and

(d) amend, modify or delete any other provision of the Original Indenture, as supplemented, as may be necessary in order to effectuate the intents and purposes contemplated by this Section 4.

ARTICLE VI

MISCELLANEOUS PROVISIONS

SECTION 1. The Trustee accepts the trusts herein declared, provided, created or supplemented and agrees to perform the same upon the terms and conditions herein and in the Original Indenture, as amended, set forth and upon the following terms and conditions.

SECTION 2. The Trustee shall not be responsible in any manner whatsoever for or in respect of the validity or sufficiency of this Supplemental Indenture or for or in respect of the recitals contained herein, all of which recitals are made by the Company solely. In general each and every term and condition contained in Article XIII of the Original Indenture, as amended by the Second Supplemental Indenture, shall apply to and form part of this Supplemental Indenture with the same force and effect as if the same were herein set forth in full with such omissions, variations and insertions, if any, as may be appropriate to make the same conform to the provisions of this Supplemental Indenture.

SECTION 3. Whenever in this Supplemental Indenture either of the parties hereto is named or referred to, such reference shall, subject to the provisions of Articles XII and XIII of the Original Indenture, be deemed to include the successors and assigns of such party, and all the covenants and agreements in this Supplemental Indenture contained by or on behalf of the Company, or by or on behalf of the Trustee, shall, subject as aforesaid, bind and inure to the respective benefits of the respective successors and assigns of such parties, whether so expressed or not.

SECTION 4. Nothing in this Supplemental Indenture, expressed or implied, is intended or shall be construed, to confer upon, or to give to, any person, firm or corporation, other than the parties hereto and the holders of the Bonds and coupons outstanding under the Indenture, any right, remedy or claim under or by reason of this Supplemental Indenture or any covenant, condition, stipulation, promise or agreement hereof, and all the covenants, conditions, stipulations, promises and agreements in this Supplemental Indenture contained by and on behalf of the Company shall be for the sole and exclusive benefit of the parties hereto, and of the holders of the Bonds and of the coupons outstanding under the Indenture.

SECTION 5. This Supplemental Indenture may be executed in several counterparts, and all such counterparts executed and delivered, each as an original, shall constitute but one and the same instrument.

SECTION 6. The Titles of the several Articles of this Supplemental Indenture shall not be deemed to be any part thereof.

IN WITNESS WHEREOF, WESTERN RESOURCES, INC., party hereto of the first part, has caused its corporate name to be hereunto affixed, and this instrument to be signed and sealed by its Chairman of the Board, President, Chief Executive Officer or a Vice President, and its corporate seal to be attested by its Secretary or an Assistant Secretary for and in its behalf, and BNY MIDWEST TRUST COMPANY, party hereto of the second part, has caused its corporate name to be hereunto affixed, and this instrument to be signed and sealed by its duly authorized officer and its corporate seal to be attested by its duly authorized officer, all as of the day and year first above written.

(CORPORATE SEAL)

WESTERN RESOURCES, INC.

By: /s/ Paul R. Geist

Paul R. Geist

ATTEST:

By: /s/ Larry D. Irick

Larry D. Irick

Executed, sealed and delivered by
WESTERN RESOURCES, INC.
in the presence of:

By: /s/ Nancy A. Fienhage

Nancy A. Fienhage

By: /s/ Kathy J. Beach

Kathy J. Beach

BNY MIDWEST TRUST COMPANY
As Trustee

By: /s/ J. Bartolini

J. Bartolini

ATTEST:

By: /s/ D. G. Donovan

D. G. Donovan

Executed, sealed and delivered by
BNY MIDWEST TRUST COMPANY
in the presence of:

By: /s/ M. Callahan

Mary Callahan

By: /s/ C. Potter

Carolyn Potter

STATE OF KANSAS)
 : ss.:
COUNTY OF SHAWNEE)

BE IT REMEMBERED, that on this 10th day of May, 2002, before me, the undersigned, a Notary Public within and for the County and State aforesaid, personally came Paul R. Geist and Larry D. Irick, of Western Resources, Inc., a corporation duly organized, incorporated and existing under the laws of the State of Kansas, who are personally known to me to be such officers, and who are personally known to me to be the same persons who executed as such officers the within instrument of writing, and such persons duly acknowledged the execution of the same to be the act and deed of said corporation.

IN WITNESS WHEREOF, I have hereunto subscribed my name and affixed my official seal on the day and year last above written.

 /s/ Patti Beasley

 Patti Beasley
 Notary Public
 My Commission Expires
 11-18-04

STATE OF ILLINOIS)
 : ss.:
COUNTY OF COOK)

BE IT REMEMBERED, that on this 26 day of April, before me, the undersigned, a Notary Public within and for the County and State aforesaid, personally came J. Bartolini and D. G. Donovan, of BNY Midwest Trust Company, an Illinois trust company, who are personally known to me to be such officers, and who are personally known to me to be the same persons who executed as such officers the within instrument of writing, and such persons duly acknowledged the execution of the same to be the act and deed of said corporation.

/s/ Linda Ellen Garcia

Linda E. Garcia
Notary Public
My Commission Expires
9-23-02

STATE OF KANSAS)
 : ss.:
COUNTY OF SHAWNEE)

BE IT REMEMBERED, that on this 10th day of May, 2002, before me, the undersigned, a Notary Public within and for the County and State aforesaid, personally came Paul R. Geist and Larry D. Irick, of Western Resources, Inc., a corporation duly organized, incorporated and existing under the laws of the State of Kansas, who are personally known to me to be such officers, being by me respectively duly sworn, did each say that the said Paul R. Geist is Senior Vice President, Chief Financial Officer and Treasurer and that the said Larry D. Irick is Vice President and Corporate Secretary of said corporation, that the consideration of and for the foregoing instrument was actual and adequate, that the same was made and given in good faith, for the uses and purposes therein set forth and without any intent to hinder, delay, or defraud creditors or purchasers.

IN WITNESS WHEREOF, I have hereunto subscribed my name and affixed my official seal on the day and year last above written.

 /s/ Patti Beasley

 Patti Beasley
 Notary Public
 My Commission Expires
 11-18-04

APPENDIX A

to

THIRTY-FIFTH SUPPLEMENTAL INDENTURE

Dated as of May 10, 2002

Western Resources, Inc.

to

BNY Midwest Trust Company

(as successor to
Harris Trust and Savings Bank)

DESCRIPTION OF PROPERTIES
LOCATED IN THE STATE OF KANSAS

FIRST

PARCELS OF REAL ESTATE

DICKINSON COUNTY

Beginning at point 560 feet south of the Northeast corner of the Southwest Quarter Section 21, Township 13 South, Range 2 east of the 6th P.M., thence West 371 feet more or less, to the center of Spruce Street in Chicago Addition, thence South 211 feet on the center line of Spruce Street to the North line of Augustine Avenue in Chicago Addition to the City of Abilene, according to the recorded plat prior to vacation, thence west 331 feet to the East line of Cedar Street; thence North 386 feet; thence East 702 feet, thence South 175 feet to the point of beginning;

Also to be known as Lot One (1), Nemechek Addition, Abilene, Dickinson County, Kansas.

A parcel of land located in the Southwest Quarter of Section Two (2), Township 16 South, Range 3 East of the 6th Principal Meridian, Dickinson county, Kansas, more particularly described as follows:

Commencing at the Southwest corner of said Southwest Quarter; thence on an assumed bearing of North 89 degrees 46 feet 21 inches East along the South line of said Southwest Quarter a distance of 1219.55 feet; thence North 00 degrees 7 feet 17 inches West a distance of 1774.70 feet to the PONT OF BEGINNING of the parcel to be described; thence continuing North 00 degrees 7 feet 17 inches West a distance of 100.00 feet; thence North 89 degrees 39 feet 48 inches East a distance of 264.00

feet; thence South 00 degrees 7 feet 17 inches East a distance of 100.00 feet; thence South 89 degrees 39 feet 48 inches West a distance of 264.00 feet to the point of beginning, Containing 0.61 acres, more or less.

JOHNSON COUNTY

The South 50 feet of Lot 3, Monticello Business Park, a subdivision in Shawnee, Johnson County, Kansas, according to the recorded plat thereof.

Lot 2, Monticello Business Park, Second Plat, a subdivision in the City of Shawnee, Johnson County, Kansas.

LABETTE COUNTY

Lot 2, Block 2 Flynn Industrial Park and a portion of Lot 3, Block 2, Flynn Industrial Park, said portion being more particularly described as follows: Beginning at the Northwest Corner of Lot 3, Block 2, Flynn Industrial Park; thence S 90 degrees E along the North Line of Lot 3 a distance of 515.57 feet to the Northeast Corner of said Lot 2; thence S 23 degrees, 30 minutes W along the East line of said Lot 3 a distance of 428.40 feet to a deflection point in said East line; thence N 88 degrees 01 minutes 26 seconds W a distance of 358.07 feet to the W line of said Lot 3; thence N 1 degrees 58 minutes 34 seconds E along said West Line a distance of 380.79 feet to the point of beginning. A total acreage of 8.94 acres, more or less,

LEAVENWORTH COUNTY

A tract of land in the Southwest Quarter of Section 36, Township 10 South, Range 22 East of the 6th P.M. in Leavenworth County, Kansas, Being More Particularly Described as Follows: Commencing at the Southwest corner of said Quarter section; Thence North along the west line of said Quarter Section on an assumed bearing of North 100 degrees 00 feet 00 inches East. A distance of 1828.83 feet deed, (182.7.38 feet measured) to the true point of beginning of land being described; Thence continuing North 00 degrees 00 feet inches East, along said West line, a distance of 570.00 feet; Thence South 89 degrees 48 feet 56 inches East 720.00 feet; Thence South 00 degrees 00 feet 00 inches West parallel to said West line, a distance of 570.00 feet; Thence North 89 degrees 46 feet 56 inches West 720.00 feet to the place of beginning; in Leavenworth County, Kansas.

MORRIS COUNTY

TR BEG 200' N OF SW COR NW 1/4, TH N500', E550', S500', W550' TO POB

RENO COUNTY

A tract of land in the Southwest Quarter of Section 7, Township 23 South, Range 6 West described as follows: BEGINNING at the Southeast corner of said quarter Section; thence North along the East line of said Quarter Section 380 feet; thence West parallel to South line of said Quarter Section 460 feet; thence south 380 feet to a point on said South line 460 feet West of the place of beginning;

thence East 460 feet along said South line to the place of beginning. The above contains 3.68 acres, more or less, exclusive of the existing highway.

SHAWNEE COUNTY

A tract of land located in the Northeast Quarter (NE1/4) of Section 20, Township 12 South, Range 16 East of the 6th P.M., more particularly described as follows: Beginning on the South line of said Northeast Quarter, at a point located 260 feet West of the Southeast Corner of said Northeast Quarter; thence continuing West along said South line, a distance of 210 feet; thence North parallel with the East line of said Northeast Quarter, a distance of 197 feet; thence East parallel with said South line, a distance of 470 feet; thence South along said East line, a distance of 32 feet; thence West parallel with said South line, a distance of 260 feet; thence South parallel with said East line, a distance of 165 feet to the Point of Beginning.

\$400,000,000 SENIOR NOTES, 9 3/4% SERIES DUE 2007

SECURITIES RESOLUTION NO. 2
OF
WESTERN RESOURCES, INC.

The actions described below are taken by the duly authorized officers of WESTERN RESOURCES, INC. (the "Company"), pursuant to delegation, in accordance with resolutions adopted by the Board of Directors of the Company on April 17, 2002, and Section 2.01 of the Indenture dated as of August 1, 1998 (the "Indenture") between the Company and Deutsche Bank Trust Company Americas, formerly known as Bankers Trust Company (the "Trustee"). Capitalized terms used herein and not defined have the same meaning given such terms in the Indenture.

RESOLVED, that a new series of Securities in the aggregate principal amount of \$400,000,000 is authorized as follows:

1. The title of the series is Senior Notes, 9 3/4% Series Due 2007 (the "Securities").
2. The form of the Securities shall be substantially in the form of Exhibit 1 hereto.
3. The Securities shall have the terms set forth in Exhibit 1.

This Securities Resolution is adopted as of May 10, 2002.

/s/ Paul R. Geist

Paul R. Geist
Senior Vice President and
Chief Financial Officer

/s/ Larry D. Irick

Larry D. Irick
Vice President, Corporate Secretary

[FACE OF SECURITY]

THIS SECURITY HAS NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), OR THE SECURITIES LAWS OF ANY STATE OR OTHER JURISDICTION. NEITHER THIS SECURITY NOR ANY INTEREST OR PARTICIPATION HEREIN MAY BE REOFFERED, SOLD, ASSIGNED, TRANSFERRED, PLEDGED, ENCUMBERED OR OTHERWISE DISPOSED OF IN THE ABSENCE OF SUCH REGISTRATION OR UNLESS SUCH TRANSACTION IS EXEMPT FROM, OR NOT SUBJECT TO, SUCH REGISTRATION.

THE HOLDER OF THIS SECURITY BY ITS ACCEPTANCE HEREOF AGREES TO OFFER, SELL OR OTHERWISE TRANSFER SUCH SECURITY, BEFORE THE DATE (THE "RESALE RESTRICTION TERMINATION DATE") WHICH IS TWO YEARS AFTER THE LATER OF THE ORIGINAL ISSUE DATE HEREOF AND THE LAST DATE ON WHICH THE COMPANY OR ANY AFFILIATE OF THE COMPANY WAS THE OWNER OF THIS SECURITY (OR ANY PREDECESSOR OF SUCH SECURITY), ONLY (A) TO THE COMPANY, (B) UNDER A REGISTRATION STATEMENT THAT HAS BEEN DECLARED EFFECTIVE UNDER THE SECURITIES ACT, (C) FOR SO LONG AS THE SECURITIES ARE ELIGIBLE FOR RESALE UNDER RULE 144A UNDER THE SECURITIES ACT ("RULE 144A"), TO A PERSON IT REASONABLY BELIEVES IS A "QUALIFIED INSTITUTIONAL BUYER" AS DEFINED IN RULE 144A THAT PURCHASES FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF A QUALIFIED INSTITUTIONAL BUYER TO WHOM NOTICE IS GIVEN THAT THE TRANSFER IS BEING MADE IN RELIANCE ON RULE 144A, (D) UNDER OFFERS AND SALES THAT OCCUR OUTSIDE THE UNITED STATES WITHIN THE MEANING OF REGULATIONS UNDER THE SECURITIES ACT OR (E) UNDER ANY OTHER AVAILABLE EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT, SUBJECT TO THE COMPANY'S AND THE TRUSTEE'S RIGHT BEFORE ANY SUCH OFFER, SALE OR TRANSFER UNDER CLAUSES (D) OR (E) TO REQUIRE THE DELIVERY OF AN OPINION OF COUNSEL, CERTIFICATION AND/OR OTHER INFORMATION SATISFACTORY TO IT. THIS LEGEND WILL BE REMOVED UPON THE REQUEST OF THE HOLDER AFTER THE RESALE RESTRICTION TERMINATION DATE./1/

THIS SECURITY IS A GLOBAL SECURITY WITHIN THE MEANING OF THE INDENTURE HEREINAFTER REFERRED TO AND IS REGISTERED IN THE NAME OF A DEPOSITARY OR A NOMINEE THEREOF. THIS SECURITY MAY NOT BE EXCHANGED IN WHOLE OR IN PART FOR A SECURITY REGISTERED, AND NO TRANSFER OF THIS SECURITY IN WHOLE OR IN PART MAY BE REGISTERED IN

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/1/ The above restrictions will not apply to any security on or after the "Resale Restriction Termination Date" applicable to such security, or with respect to any security which have been sold or otherwise transferred pursuant to Rule 144A or a registration statement which has been declared effective under the Securities Act. "Resale Restriction Termination Date" shall mean the date on which the holding period under Rule 144(k) under the Securities Act expires with respect to such security. Any security issued on or after the Resale Restriction Termination Date need not contain this legend.

THE NAME OF ANY PERSON OTHER THAN SUCH DEPOSITARY OR A NOMINEE THEREOF, EXCEPT IN THE LIMITED CIRCUMSTANCES DESCRIBED IN THE INDENTURE.

UNLESS THIS SECURITY IS PRESENTED BY AN AUTHORIZED REPRESENTATIVE OF THE DEPOSITARY TRUST COMPANY (55 WATER STREET, NEW YORK, NEW YORK) TO THE ISSUER OR ITS AGENT FOR REGISTRATION OF TRANSFER, EXCHANGE OR PAYMENT AND ANY SECURITY ISSUED IS REGISTERED IN THE NAME OF CEDE & CO. OR SUCH OTHER NAME AS REQUESTED BY AN AUTHORIZED REPRESENTATIVE OF THE DEPOSITARY TRUST COMPANY AND ANY PAYMENT HEREON IS MADE TO CEDE & CO., ANY TRANSFER, PLEDGE OR OTHER USE HEREOF FOR VALUE OR OTHERWISE BY A PERSON IS WRONGFUL SINCE THE REGISTERED OWNER HEREOF, CEDE & CO., HAS AN INTEREST HEREIN.

No. 1

\$399,330,000
CUSIP No. 959425 AU3

WESTERN RESOURCES, INC.
\$400,000,000 Senior Notes, 9 3/4% Series Due 2007

Western Resources, Inc. promises to pay to CEDE & CO. or registered assigns the principal sum of \$399,330,000 on May 1, 2007.

Interest Payment Dates: May 1 and November 1 commencing November 1, 2002

Record Dates: April 15 and October 15

Dated: May 10, 2002

Deutsche Bank Trust Company Americas,
Transfer Agent

WESTERN RESOURCES, INC.

By: /s/ Paul R. Geist

Paul R. Geist
Senior Vice President and Chief
Financial Officer

By: /s/ Larry D. Irick

Larry D. Irick
Vice President, Corporate Secretary

Authenticated: Deutsche Bank Trust Company Americas,
Registrar

By:/s/ Susan Johnson

Authorized Signature

WESTERN RESOURCES, INC.
\$400,000,000 Senior Notes, 9 3/4% Series Due 2007

1. Interest.

Western Resources, Inc. ("Company"), a corporation organized and existing under the laws of the State of Kansas, promises to pay interest on the principal amount of the Securities (as defined in Section 5) at the rate per annum described below. The Company will pay interest semi-annually on May 1 and November 1 of each year, commencing November 1, 2002. Interest on the Securities will accrue from the most recent date to which interest has been paid or, if no interest has been paid, from May 10, 2002. Interest will be computed on the basis of a 360-day year consisting of twelve 30-day months.

The Securities will bear interest at the rate of 9 3/4% per annum from the date of issuance to May 1, 2007 unless redeemed pursuant to Sections 9 and 10 below.

2. Registration Rights.

Securityholders are entitled to the benefits of a Registration Rights Agreement, dated as of May 10, 2002, among the Company and the Initial Purchasers named therein (the "Registration Agreement"). Capitalized terms used in this Section 2 but not defined herein have the meanings assigned to them in the Registration Agreement.

In the event that (i) neither the Exchange Offer Registration Statement nor the Shelf Registration Statement has been filed with the Commission on or prior to the 180th day following the date of the original issuance of the Securities, (ii) the Exchange Offer Registration Statement has not been declared effective on or prior to the 270th day following the date of the original issuance of the Securities, (iii) neither the Registered Exchange Offer has been consummated nor the Shelf Registration Statement has been declared effective on or prior to the 315th day following the date of the original issuance of the Securities, or (iv) after the Exchange Offer Registration Statement or the Shelf Registration Statement has been declared effective, such Registration Statement thereafter ceases to be effective or usable in connection with resales of the Security at any time that the Company is obligated to maintain the effectiveness thereof pursuant to the Registration Agreement (each such event referred to in clauses (i) through (iv) above being referred to herein as "Registration Default"), Special interest shall accrue (in addition to stated interest on the Securities from and including the date on which the first such Registration Default shall occur to but excluding the date on which all Registration Defaults have been cured, at a rate per annum equal to 0.50% of the principal amount of the Securities). Special interest, if any, will be payable in cash on each interest payment date to the person in whose name this Security is registered on the applicable record date. The term "interest" shall include special interest, if any, as well as the stated interest.

3. Method of Payment.

The Company will pay interest on the Securities to the persons who are registered Holders of Securities at the close of business on the record date for (the "record date") each interest payment date, except as otherwise provided in the Indenture (as defined in Section 5). The Company will pay principal and interest in money of the United States that at the time of payment is legal tender for the payment of public and private debts. The Company may pay principal and interest by check payable in such money and it may mail an interest check to a Holder's registered address.

4. Agents.

Initially, Deutsche Bank Trust Company Americas, 60 Wall Street, New York, NY 10005, Attention: Corporate Trust and Agency Services/Corporate Debt Administration, will act as Trustee, Paying Agent, Transfer Agent and Registrar. The Company may change any Paying Agent, Transfer Agent or Registrar without notice or provide for more than one such agent. The Company or any Affiliate may act in any such capacity. Subject to certain conditions, the Company may change the Trustee.

5. Indenture.

The Company issued the securities of this series ("Securities") under an Indenture dated as of August 1, 1998 (the "Indenture") between the Company and Deutsche Bank Trust Company Americas, formerly known as Bankers Trust Company (the "Trustee"). The terms of the Securities include those stated in the Indenture and in the Securities Resolution creating the Securities and those made part of the Indenture by the Trust Indenture Act of 1939 (15 U.S. Code ss.ss. 77aaa-77bbb) (the "Trust Indenture Act"). All capitalized terms used herein but not defined shall have the meanings ascribed to such terms in the Indenture. Securityholders are referred to the Indenture, the Securities Resolution and the Trust Indenture Act for a statement of such terms.

6. Denominations, Transfer, Exchange.

The Securities are in registered form without coupons in denominations of \$1,000 and whole multiples of \$1,000. The transfer of Securities may be registered and Securities may be exchanged as provided in the Indenture. The Transfer Agent may require a Holder, among other things, to furnish appropriate endorsements and transfer documents and to pay any taxes and fees required by law or the Indenture.

7. Persons Deemed Owners.

The registered Securityholder may be treated as its owner for all purposes.

8. Amendments and Waivers.

Subject to certain exceptions, the Indenture may be amended with the consent of the registered holders of a majority in aggregate principal amount of the Securities then outstanding (including consents obtained in connection with a tender offer or exchange

offer for the Securities) and any past default or compliance with any provisions may also be waived (except a default in the payment of principal, premium or interest and certain covenants and provisions of the Indenture which cannot be amended without the consent of each holder of an outstanding Security) with the consent of the registered holders of at least a majority in aggregate principal amount of the Securities then outstanding. However, without the consent of each holder of an outstanding Security, no amendment may, among other things,

- (1) reduce the amount of Securities whose holders must consent to an amendment or waiver,
- (2) reduce the rate of or extend the time for payment of interest on any Security,
- (3) reduce the principal of or premium, if any, or extend the Stated Maturity of any Security,
- (4) make any Security payable in money other than U.S. dollars,
- (5) impair the right of any Securityholders to receive payment of principal of premium, if any, and interest on such Holder's Securities on or after the due dates therefor or to institute suit for the enforcement of any payment on or with respect to such Holder's Securities,
- (6) subordinate the Securities to any other obligation of the Company,
- (7) reduce the Change of Control Purchase Price or, at any time after a Change of Control has occurred, change the time at which the Change of Control Offer relating thereto must be made or at which the Securities must be repurchased pursuant to such Change of Control Offer, and
- (8) at any time after the Company is obligated to make a Prepayment Offer with the Excess Proceeds from Asset Sales, change the time at which such Prepayment Offer must be made or at which the Securities must be repurchased pursuant thereto.

Without the consent of any Securityholder, the Company and the Trustee may amend the Indenture to:

- (1) cure any ambiguity, omission, defect or inconsistency in any manner that is not adverse in any material respect to any Securityholder,
- (2) provide for the assumption by a successor corporation of the obligations of the Company under the Indenture,
- (3) provide for uncertificated Securities in addition to or in place of certificated Securities,

(4) secure the Securities, to add to the covenants of the Company for the benefit of the Securityholders or to surrender any right or power conferred upon the Company,

(5) make any change that does not adversely affect the rights of any Securityholders,

(6) make any change to the subordination provisions of the Indenture that would not limit or terminate the benefits available to any holder of Senior Debt under such provisions or to comply with any requirement of the Securities and Exchange Commission in connection with the qualification of the Indenture under the Trust Indenture Act, and

(7) provide for the issuance of additional Securities in accordance with the Indenture.

No amendment may be made to the subordination provisions of the Indenture that adversely affects the rights of any holder of Senior Debt then outstanding unless the holders of such Senior Debt (or their representative) consent to such change. The consent of the Securityholders is not necessary to approve the particular form of any proposed amendment. It is sufficient if such consent approves the substance of the proposed amendment. After an amendment becomes effective, the Company is required to mail to each Securityholder at such holder's address appearing in the security register a notice briefly describing such amendment. However, the failure to give such notice to all Securityholders, or any defect therein, will not impair or affect the validity of the amendment.

9. Optional Redemption.

At any time and from time to time, the Company may redeem all or any portion of the Securities, after giving the required notice under the Indenture at a redemption price equal to the greater of:

(a) 100% of the principal amount of the Securities to be redeemed, or

(b) the sum of the present values of the remaining scheduled payments of principal and interest thereon discounted to the date of redemption on a semi-annual basis (assuming a 360-day year consisting of twelve 30-day months) at the Treasury Rate plus 75 basis points,

plus, in either case, accrued and unpaid interest, if any, to the redemption date (subject to the right of holders of record on the relevant record date to receive interest due on the relevant interest payment date).

At any time and from time to time prior to May 1, 2004, the Company may redeem up to a maximum of 35% of the original aggregate principal amount of the Securities with the

proceeds of one or more Public Equity Offerings at a redemption price equal to 109.75% of the principal amount thereof, plus accrued and unpaid interest, if any, to the redemption date (subject to the right of holders of record on the relevant record date to receive interest due on the relevant interest payment date); provided, however, that after giving effect to any such redemption, at least 65% of the original aggregate principal amount of the Securities remains outstanding. Any such redemption shall be made within 75 days of such Public Equity Offering upon not less than 30 nor more than 60 days' prior notice.

Subject to the provisions of Article 3 of the Indenture, the Company shall cause notice of redemption to be given by (1) first-class mail, postage prepaid, at least thirty days and not more than sixty days prior to the date of redemption, to the registered owners of such Securities at their addresses as the same shall appear on the transfer register of the Company; and (2) stating, among other things, the redemption price and date. No such redemptions may be conditional once notice of redemption is given.

10. Repurchase at the Option of Holders Upon a Change of Control.

Upon the occurrence of a Change of Control, each Securityholder shall have the right to require the Company to repurchase all or any part of such Holder's Securities pursuant to the offer described below (the "Change of Control Offer") at a purchase price (the "Change of Control Purchase Price") equal to 101% of the principal amount thereof, plus accrued and unpaid interest, if any, to the purchase date.

Within 30 days following any Change of Control, the Company shall:

(a) cause a notice of the Change of Control Offer to be sent at least once to the Dow Jones News Service or similar business news service in the United States; and

(b) send, by first-class mail, with a copy to the Trustee, to each Securityholder, at such Holder's address appearing in the security register, a notice stating:

(1) that a Change of Control has occurred and a Change of Control Offer is being made pursuant to the Indenture and that all Securities timely tendered will be accepted for payment;

(2) the Change of Control Purchase Price and the purchase date, which shall be, subject to any contrary requirements of applicable law, a business day no earlier than 30 days nor later than 60 days from the date such notice is mailed;

(3) the circumstances and relevant facts regarding the Change of Control; and

(4) the procedures that Securityholders must follow in order to tender their Securities (or portions thereof) for payment, and the procedures that

Securityholders must follow in order to withdraw an election to tender Securities (or portions thereof) for payment.

The Company will comply, to the extent applicable, with the requirements of Section 14(e) of the Exchange Act and any other securities laws or regulations in connection with the repurchase of the Securities pursuant to a Change of Control Offer. To the extent that the provisions of any securities laws or regulations conflict with the provisions of the covenant set forth in this Section 10, the Company will comply with the applicable securities laws and regulations and will not be deemed to have breached its obligations under the this Section 10 by virtue of such compliance.

The Company's obligation to make an offer to repurchase the Securities as a result of a Change of Control may be waived or modified at any time prior to the occurrence of such Change of Control with the written consent of the holders of a majority in principal amount of the Securities.

11. Restrictive Covenants.

(A) Covenant Suspension. Set forth below are summaries of certain covenants applicable to the Securities. During any period of time that the Securities have Investment Grade Ratings from the Required Rating Agencies, the Company and any Restricted Subsidiary will not be subject to the following covenants in the Indenture:

- . subsection (B), Limitation on Debt,
- . subsection (C), Limitation on Restricted Payments,
- . subsection (E), Limitation on Asset Sales,
- . subsection (F), Limitation on Restrictions on Distributions from any Restricted Subsidiary,
- . subsection (G), Limitation on Transactions with Affiliates,
- . clause (x) of the fourth paragraph (and such clause (x) as referred to in the second paragraph) of subsection (I), Designation of Restricted and Unrestricted Subsidiaries,
- . subsection (J), Limitation on Company's Business,
- . Section 10, Repurchase at the Option of Holders Upon a Change of Control, and
- . clauses (e) and (f) of the first paragraph of Section 12, Merger, Consolidation and Sale of Property.

(collectively, the "Suspended Covenants"). In the event that the Company and any Restricted Subsidiary are not subject to the Suspended Covenants for any period of time as a result of the preceding sentence and, subsequently, a Rating Agency withdraws its

rating or downgrades the rating assigned to the Securities so that the Securities no longer have Investment Grade Ratings from the Required Rating Agencies or a Default or Event of Default occurs and is continuing, then the Company and any Restricted Subsidiary will thereafter again be subject to the Suspended Covenants and compliance with the Suspended Covenants with respect to Restricted Payments made after the time of such withdrawal, downgrade, Default or Event of Default will be calculated in accordance with the terms of the covenant set forth below under subsection (c), Limitation on Restricted Payments, as though such covenant had been in effect during the entire period of time from the Issue Date.

(B) Limitation on Debt. The Company shall not, and shall not permit any Restricted Subsidiary to, Incur, directly or indirectly, any Debt unless, after giving effect to the application of the proceeds thereof, no Default or Event of Default would occur as a consequence of such Incurrence or be continuing following such Incurrence and either:

- (1) if such Debt is Debt of the Company or any Restricted Subsidiary, after giving effect to the Incurrence of such Debt and the application of the proceeds thereof, the Consolidated Interest Coverage Ratio would be greater than 2.00 to 1.00, or
- (2) such Debt is Permitted Debt.

The term "Permitted Debt" is defined to include the following:

- (a) Debt of the Company evidenced by the Securities and the bonds (including bonds pledged to secure Debt under clause (b) below);
- (b) Debt of the Company under the Credit Facilities, provided that the aggregate principal amount of all such Debt under the Credit Facilities at any one time outstanding shall not exceed \$1.3 billion, which amount shall be permanently reduced by the amount of Net Available Cash used to Repay Debt under the Credit Facilities, and not subsequently reinvested in Additional Assets or used to purchase Securities or Repay other Debt, pursuant to subsection (E), Limitation on Asset Sales;
- (c) Capital Expenditure Debt, provided that:
 - (i) the aggregate principal amount of such Debt does not exceed the Fair Market Value (on the date of the Incurrence thereof) of the Property acquired, constructed or leased, and
 - (ii) the aggregate principal amount of all Debt Incurred pursuant to this clause (c) during any calendar year does not exceed \$150 million;
- (d) Debt of the Company owing to and held by any Wholly Owned Restricted Subsidiary and Debt of a Restricted Subsidiary owing to and held by the Company or any Wholly Owned Restricted Subsidiary; provided, however, that

any subsequent issue or transfer of Capital Stock or other event that results in any such Wholly Owned Restricted Subsidiary ceasing to be a Wholly Owned Restricted Subsidiary or any subsequent transfer of any such Debt (except to the Company or a Wholly Owned Restricted Subsidiary) shall be deemed, in each case, to constitute the Incurrence of such Debt by the issuer thereof;

(e) Debt under Interest Rate Agreements entered into by the Company or any Restricted Subsidiary for the purpose of limiting interest rate risk in the ordinary course of the financial management of the Company or such Restricted Subsidiary and not for speculative purposes, provided that the obligations under such Agreements are directly related to payment obligations on Debt otherwise permitted by the terms of this covenant;

(f) Debt under Currency Exchange Protection Agreements entered into by the Company or any Restricted Subsidiary for the purpose of limiting currency exchange rate risks directly related to transactions entered into by the Company or such Restricted Subsidiary in the ordinary course of business and not for speculative purposes;

(g) Debt under Commodity Price Protection Agreements entered into by the Company or any Restricted Subsidiary in the ordinary course of the financial management of the Company or such Restricted Subsidiary and not for speculative purposes;

(h) Debt in connection with one or more standby letters of credit, performance bonds and/or collateral margin accounts issued or opened by the Company or any Restricted Subsidiary (but not including any Guarantees) in the ordinary course of business or pursuant to self-insurance obligations and not in connection with the borrowing of money or the obtaining of advances or credit;

(i) Debt outstanding on the Issue Date not otherwise set forth in clauses (a) through (h) above;

(j) Debt of the Company and the Restricted Subsidiaries in an aggregate principal amount outstanding at any one time not to exceed \$100 million; and

(k) Permitted Refinancing Debt Incurred in respect of Debt Incurred pursuant to clauses (a), (c) and (i) of clause (2) of this covenant.

Notwithstanding anything to the contrary contained in this covenant,

(a) accrual of interest, accretion or amortization of original issue discount and the payment of interest or dividends in the form of additional Debt will be deemed not to be an incurrence of Debt for purposes of this covenant; and

(b) for purposes of determining compliance with this covenant, in the event that an item of Debt (including Acquired Debt) meets the criteria of more than one of the categories of Permitted Debt set forth in clauses (a) through (k) of clause (2) of this covenant or is entitled to be incurred pursuant to clause (1) of the first paragraph of this covenant, the Company will, in its sole discretion, classify (or later reclassify in whole or in part, in its sole discretion) such item of Debt in any manner that complies with this covenant.

(C) Limitation on Restricted Payments. The Company shall not make, and shall not permit any Restricted Subsidiary to make, directly or indirectly, any Restricted Payment if at the time of, and after giving effect to, such proposed Restricted Payment,

(a) a Default or Event of Default shall have occurred and be continuing,

(b) the Company could not Incur at least \$1.00 of additional Debt pursuant to clause (1) of the first paragraph of subsection (B), Limitation on Debt or

(c) the aggregate amount of such Restricted Payment and all other Restricted Payments declared or made since the Issue Date (the amount of any Restricted Payment, if made other than in cash, to be based upon Fair Market Value) would exceed an amount equal to the sum of:

(1) 50% of the aggregate amount of Consolidated Net Income accrued during the period (treated as one accounting period) from the beginning of the first fiscal quarter during which the Issue Date occurs to the end of the most recent fiscal quarter for which financial statements are available prior to the date of such Restricted Payment (or if the aggregate amount of Consolidated Net Income for such period shall be a deficit, minus 100% of such deficit), plus

(2) Capital Stock Sale Proceeds, plus

(3) the sum of:

(A) the aggregate net cash proceeds received by the Company or any Restricted Subsidiary from the issuance or sale after the Issue Date of convertible or exchangeable Debt that has been converted into or exchanged for Capital Stock (other than Disqualified Stock) of the Company, and

(B) the aggregate amount by which Debt (other than Subordinated Obligations) of the Company or any Restricted Subsidiary is reduced on the Company's consolidated balance sheet on or after the Issue Date upon the conversion or exchange of any Debt issued or sold on or prior to the Issue Date that is convertible or

exchangeable for Capital Stock (other than Disqualified Stock) of the Company,

excluding, in the case of clause (A) or (B):

(x) any such Debt issued or sold to the Company or any Restricted Subsidiary of the Company, and

(y) the aggregate amount of any cash or other Property distributed by the Company or such Restricted Subsidiary upon any such conversion or exchange,

plus

(4) an amount equal to the sum of:

(A) the net reduction in Investments in any Person other than the Company or a Restricted Subsidiary resulting from dividends, repayments of loans or advances or other transfers of Property, in each case to the Company or any Restricted Subsidiary from such Person, and

(B) the portion (proportionate to the Company's equity interest in such Unrestricted Subsidiary) of the Fair Market Value of the net assets of an Unrestricted Subsidiary at the time such Unrestricted Subsidiary is designated a Restricted Subsidiary; provided, however, that the foregoing sum shall not exceed, in the case of any Person, the amount of Investments previously made (and treated as a Restricted Payment) by the Company or any Restricted Subsidiary in such Person.

Notwithstanding the foregoing limitation, the Company may:

(a) pay dividends on its Capital Stock within 75 days of the declaration thereof if, on said declaration date, such dividends could have been paid in compliance with the Indenture and this subsection (C); provided, however, that at the time of such payment of such dividend, no other Default or Event of Default shall have occurred and be continuing (or result therefrom); provided further, however, that such dividends shall be included in the calculation of the amount of Restricted Payments;

(b) purchase, repurchase, redeem, legally defease, acquire or retire for value Capital Stock of the Company or Subordinated Obligations in exchange for, or out of the proceeds of the substantially concurrent sale of, Capital Stock of the Company (other than Disqualified Stock and other than Capital Stock issued or sold to a Subsidiary of the Company); provided, however, that

(1) such purchase, repurchase, redemption, legal defeasance, acquisition or retirement shall be excluded in the calculation of the amount of Restricted Payments, and

(2) the Capital Stock Sale Proceeds from such exchange or sale shall be excluded from the calculation pursuant to clause (c)(2) above; and

(c) purchase, repurchase, redeem, legally defease, acquire or retire for value any Subordinated Obligations in exchange for, or out of the proceeds of the substantially concurrent sale of, Permitted Refinancing Debt; provided, however, that such purchase, repurchase, redemption, legal defeasance, acquisition or retirement shall be excluded in the calculation of the amount of Restricted Payments;

(d) repurchase shares of, or options to purchase shares of, common stock of the Company or any of its Subsidiaries from current or former officers, directors or employees of the Company or any of its Subsidiaries (or permitted transferees of such current or former officers, directors or employees), pursuant to the terms of agreements (including employment agreements) or plans (or amendments thereto) approved by the Board of Directors under which such individuals purchase or sell, or are granted the option to purchase or sell, shares of such common stock; provided, however, that at the time of such repurchase, no other Default or Event of Default shall have occurred and be continuing (or result therefrom); provided further, however, that such repurchases shall be excluded in the calculation of the amount of Restricted Payments;

(e) make a Restricted Payment, if at the time the Company or any Restricted Subsidiary first Incurred a commitment for such Restricted Payment, such Restricted Payment could have been made; provided, however, that all commitments Incurred and outstanding shall be treated as if such commitments were Restricted Payments expended by the Company or such Restricted Subsidiary at the time the commitments were Incurred, except that commitments Incurred and outstanding that are treated as the Restricted Payment expended by the Company or such Restricted Subsidiary and that are terminated shall no longer be treated as a Restricted Payment expended by the Company or such Restricted Subsidiary upon the termination of such commitment;

(f) pay scheduled dividends on Preferred Stock of the Company or any Restricted Subsidiary or on Disqualified Stock of the Company issued pursuant to and in compliance with subsection (B), Limitation on Debt, provided; however, that any such dividends shall be included in the calculation of the amount of Restricted Payments;

(g) pay scheduled cash dividends on the Company's common stock and Restricted Share Units at an annual rate not in excess of \$1.20 per share,

provided, however, that any such cash dividends shall be included in the calculation of the amount of Restricted Payments;

(h) make distributions of part or all of the businesses of Protection One, Inc. or Protection One Europe to holders of the Company's Capital Stock;

(i) repurchase the Cumulative Preferred Stock outstanding as of the Issue Date; and

(j) make Restricted Payments not otherwise permitted hereunder in an aggregate amount not in excess of \$50 million.

(D) Limitation on Liens. So long as any of the Securities are outstanding, the Company shall not, and shall not permit any Restricted Subsidiary to, directly or indirectly, incur or suffer to exist, any Lien (other than Permitted Liens) upon or with respect to any of its Property of any character, including without limitation any shares of Capital Stock of any Restricted Subsidiary, without making effective provision whereby the Securities shall (so long as any such other creditor shall be so secured) be equally and ratably secured (along with any other creditor similarly entitled to be secured) by a direct Lien on all property subject to such Lien (for the avoidance of doubt, the foregoing restriction shall not apply to Permitted Liens securing Debt of the Company).

(E) Limitation on Asset Sales. The Company shall not, and shall not permit any Restricted Subsidiary to, directly or indirectly, consummate any Asset Sale unless:

(a) the Company or such Restricted Subsidiary receives consideration at the time of such Asset Sale at least equal to the Fair Market Value of the Property subject to such Asset Sale;

(b) at least 75% of the consideration paid to the Company or such Restricted Subsidiary in connection with such Asset Sale is in the form of cash or Cash Equivalents or the assumption by the purchaser of liabilities of the Company or such Restricted Subsidiary (other than liabilities that are by their terms subordinated to the Securities) as a result of which the Company and such Restricted Subsidiary are no longer obligated with respect to such liabilities, provided, however, that the foregoing shall not prohibit the Company or such Restricted Subsidiary from transferring assets in consideration of receipt of Additional Assets and other cash or Cash Equivalents; and

(c) the Company delivers an Officers' Certificate to the Trustee certifying that such Asset Sale complies with the foregoing clauses (a) and (b).

The Net Available Cash (or any portion thereof) from Asset Sales may be applied by the Company or any Restricted Subsidiary, to the extent the Company or any Restricted Subsidiary elects (or is required by the terms of any Debt):

(a) to Repay Senior Debt of the Company or Debt of any Restricted Subsidiary (excluding, in any such case, any Debt owed to the Company or an Unregulated Affiliate of the Company); or

(b) to reinvest in Additional Assets (including by means of an Investment in Additional Assets by such Restricted Subsidiary with Net Available Cash received by the Company or another Restricted Subsidiary).

Any Net Available Cash from an Asset Sale not applied in accordance with the preceding paragraph within one year from the date of the receipt of such Net Available Cash or that is not segregated from the general funds of the Company for investment in identified Additional Assets in respect of a project that shall have been commenced, and for which binding contractual commitments have been entered into, prior to the end of such one-year period and that shall not have been completed or abandoned shall constitute "Excess Proceeds."

When the aggregate amount of Excess Proceeds exceeds \$25 million (taking into account income earned on such Excess Proceeds, if any), the Company will be required to make an offer to purchase (the "Prepayment Offer") the Securities, which offer shall be in the amount of the Allocable Excess Proceeds, on a pro rata basis according to the principal amount of the Securities, at a purchase price equal to 100% of the principal amount thereof, plus accrued and unpaid interest, if any, to the purchase date, in accordance with the procedures (including prorating in the event of oversubscription) set forth in the Indenture. To the extent that any portion of the amount of Net Available Cash remains after compliance with the preceding sentence and provided that all Securityholders have been given the opportunity to tender their Securities for purchase in accordance with the Indenture, the Company or any Restricted Subsidiary may use such remaining amount for any purpose permitted by the Indenture and the amount of Excess Proceeds will be reset to zero.

The term "Allocable Excess Proceeds" will mean the product of:

(a) the Excess Proceeds, and

(b) a fraction,

(1) the numerator of which is the aggregate principal amount of the Securities outstanding on the date of the Prepayment Offer, and

(2) the denominator of which is the sum of the aggregate principal amount of the Securities outstanding on the date of the Prepayment Offer and the aggregate principal amount of other Debt of the Company outstanding on the date of the Prepayment Offer that is pari passu in right of payment with the Securities and subject to terms and conditions in respect of Asset Sales similar in all material respects to the covenant set

forth herein and requiring the Company to make an offer to purchase such Debt at substantially the same time as the Prepayment Offer.

Within five business days after the Company is obligated to make a Prepayment Offer as set forth in the second preceding paragraph, the Company shall send a written notice, by first-class mail, to the Securityholders, accompanied by such information as the Company in good faith believes will enable such holders to make an informed decision with respect to such Prepayment Offer. Such notice shall state, among other things, the purchase price and the purchase date, which shall be, subject to any contrary requirements of applicable law, a business day no earlier than 30 days nor later than 60 days from the date such notice is mailed.

The Company will comply, to the extent applicable, with the requirements of Section 14(e) of the Exchange Act and any other securities laws or regulations in connection with the repurchase of Securities pursuant to the covenant set forth herein. To the extent that the provisions of any securities laws or regulations conflict with provisions of the covenant set forth herein, the Company will comply with the applicable securities laws and regulations and will not be deemed to have breached its obligations under the covenant set forth herein by virtue thereof.

(F) Limitation on Restrictions on Distributions from any Restricted Subsidiary. The Company shall not, and shall not permit any Restricted Subsidiary to, directly or indirectly, create or otherwise cause or suffer to exist any consensual restriction on the right of such Restricted Subsidiary to:

(a) pay dividends, in cash or otherwise, or make any other distributions on or in respect of its Capital Stock, or pay any Debt or other obligation owed, to the Company or any other Restricted Subsidiary;

(b) make any loans or advances to the Company or any other Restricted Subsidiary; or

(c) transfer any of its Property to the Company or any other Restricted Subsidiary.

The foregoing limitations shall not apply:

(1) to restrictions:

(A) in effect on the Issue Date,

(B) relating to Debt of any Restricted Subsidiary and existing at the time it became a Restricted Subsidiary, or

(C) that result from the Refinancing of Debt Incurred pursuant to an agreement referred to in clause (1)(A) or (B) above or in clause

(2)(A) or (B) below, provided that such restriction is no less favorable to the Securityholders than those under the agreement evidencing the Debt so Refinanced, and

(2) with respect to clause (c) only, to restrictions:

(A) relating to Debt (that is permitted to be Incurred and secured without also securing the Securities) pursuant to subsection (B), Limitation on Debt and subsection (D), Limitation on Liens, that limit the right of the debtor to dispose of the Property securing such Debt,

(B) encumbering Property at the time such Property was acquired by the Company or any Restricted Subsidiary, so long as such restriction relates solely to the Property so acquired,

(C) resulting from customary provisions restricting subletting or assignment of leases or customary provisions in other agreements that restrict assignment of such agreements or rights thereunder, or

(D) customary restrictions contained in asset sale agreements limiting the transfer of such Property pending the closing of such sale.

(G) Limitation on Transactions with Affiliates. The Company shall not, and shall not permit any Restricted Subsidiary to, directly or indirectly, conduct any business or enter into or suffer to exist any transaction or series of transactions (including the purchase, sale, transfer, assignment, lease, conveyance or exchange of any Property or the rendering of any service) with, or for the benefit of, any Affiliate of the Company (an "Affiliate Transaction"), unless:

(a) the terms of such Affiliate Transaction are:

(1) set forth in writing, and

(2) in the best interest of the Company or such Restricted Subsidiary, as the case may be, and

(3) no less favorable to the Company or such Restricted Subsidiary, as the case may be, than those that could be obtained in a comparable arm's-length transaction with a Person that is not an Affiliate of the Company;

(b) if such Affiliate Transaction involves aggregate payments or value in excess of \$10 million, the Board of Directors approves such Affiliate Transaction and, in its good faith judgment, believes that such Affiliate Transaction complies with

clauses (a)(2) and (a)(3) of this paragraph as evidenced by a Board resolution promptly delivered to the Trustee;

(c) if such Affiliate Transaction involves aggregate payments or value in excess of \$50 million, the Company obtains a written opinion from an Independent Financial Advisor to the effect that the consideration to be paid or received in connection with such Affiliate Transaction is fair, from a financial point of view, to the Company and such Restricted Subsidiary; or

(d) if such Affiliate Transaction involves or arises out of contracts or agreements (1) in existence on the Issue Date and any amendments, modifications or extensions thereof not materially disadvantageous to the Company, or (2) ordered or required by the KCC.

(H) Limitation on Sale and Leaseback Transactions. The Company shall not, and shall not permit any Restricted Subsidiary to, enter into any Sale and Leaseback Transaction with respect to any Property unless:

(a) the Company or such Restricted Subsidiary would be entitled to:

(1) Incur Debt in an amount equal to the Attributable Debt with respect to such Sale and Leaseback Transaction pursuant to subsection (B), Limitation on Debt, and

(2) create a Lien on such Property securing such Attributable Debt without also securing the Securities pursuant to subsection (D), Limitation on Liens, and

(b) such Sale and Leaseback Transaction is effected in compliance with subsection (E), Limitation on Asset Sales.

(I) Designation of Restricted and Unrestricted Subsidiaries. Subject to the relevant provisions of subsection (J), Limitation on Company's Business, the Board of Directors may designate any Restricted Subsidiary (including any newly acquired or newly formed Subsidiary of the Company), other than KGE, to be an Unrestricted Subsidiary if such Subsidiary to be so designated does not own any Capital Stock or Debt of, or own or hold any Lien on any Property of, the Company or any other Restricted Subsidiary; provided that: (A) any Guarantee by the Company or any Restricted Subsidiary of any Debt of the Subsidiary being so designated shall be deemed an "Incurrence" of such Debt and an "Investment" by the Company or such Restricted Subsidiary at the time of such designation; (B) either the Subsidiary to be so designated has total assets of \$1,000 or less or if such Subsidiary has assets of greater than \$1,000, such designation would be permitted under subsection (C), Limitation on Restricted Payments; and (C) if applicable, the Incurrence of Indebtedness and the Investment referred to in clause (A) of this covenant would be permitted under subsection (B), Limitation on Debt and subsection (C), Limitation on Restricted Payments.

Unless so designated as an Unrestricted Subsidiary, any Person that becomes a Subsidiary of the Company will be classified as a Restricted Subsidiary; provided, however, that such Subsidiary shall not be designated a Restricted Subsidiary and shall be automatically classified as an Unrestricted Subsidiary if either of the requirements set forth in clauses (x) and (y) of the second immediately following paragraph will not be satisfied after giving pro forma effect to such classification or if such Person is a Subsidiary of an Unrestricted Subsidiary.

In addition, neither the Company nor any Restricted Subsidiary shall be directly or indirectly liable for any Debt incurred after the Issue Date that provides that the holder thereof may (with the passage of time or notice or both) declare a default thereon or cause the payment thereof to be accelerated or payable prior to its Stated Maturity upon the occurrence of a default with respect to any Debt, Lien or other obligation of any Unrestricted Subsidiary (including any right to take enforcement action against such Unrestricted Subsidiary).

The Board of Directors may designate any Unrestricted Subsidiary to be a Restricted Subsidiary if, immediately after giving pro forma effect to such designation,

(x) the Company could Incur at least \$1.00 of additional Debt pursuant to clause (1) of the first paragraph of subsection (B), Limitation on Debt, and

(y) no Default or Event of Default shall have occurred and be continuing or would result therefrom.

Any such designation or redesignation by the Board of Directors will be evidenced to the Trustee by filing with the Trustee a Board Resolution giving effect to such designation or redesignation and an Officers' Certificate that:

(a) certifies that such designation or redesignation complies with the foregoing provisions, and

(b) gives the effective date of such designation or redesignation,

such filing with the Trustee to occur within 45 days after the end of the fiscal quarter of the Company in which such designation or redesignation is made (or, in the case of a designation or redesignation made during the last fiscal quarter of the Company's fiscal year, within 90 days after the end of such fiscal year).

(J) Limitation on Company's Business. The Company shall not, directly or indirectly through Restricted Subsidiaries, engage primarily in any business other than the Regulated Utility Business. For the avoidance of doubt, the Company may not transfer any material portion of the assets used by the Company in its Regulated Utility Business to any Affiliate and may not do so to any Subsidiary unless (i) such Subsidiary is designated as a Restricted Subsidiary and (ii) such Subsidiary unconditionally

Guarantees the Company's obligations under the Securities; provided, however, this covenant shall not limit the businesses engaged in by the Unrestricted Subsidiaries or their Subsidiaries or successors.

12. Merger, Consolidation and Sale of Property.

The Company shall not merge, consolidate or amalgamate with or into any other Person (other than a merger of any Restricted Subsidiary into the Company) or sell, transfer, assign, lease, convey or otherwise dispose of all or substantially all its Property, excluding the Unrestricted Subsidiaries, in any one transaction or series of transactions unless:

(a) the Company shall be the surviving Person (the "Surviving Person") or the Surviving Person (if other than the Company) formed by such merger, consolidation or amalgamation or to which such sale, transfer, assignment, lease, conveyance or disposition is made shall be a corporation organized and existing under the laws of the United States of America, any State thereof or the District of Columbia and which is engaged primarily, directly or indirectly through Subsidiaries, in the Regulated Utility Business;

(b) the Surviving Person (if other than the Company) expressly assumes, by supplemental indenture in form satisfactory to the Trustee, executed and delivered to the Trustee by such Surviving Person, the due and punctual payment of the principal of, and premium, if any, and interest on, all the Securities, according to their tenor, and the due and punctual performance and observance of all the covenants and conditions of the Indenture to be performed by the Company;

(c) in the case of a sale, transfer, assignment, lease, conveyance or other disposition of all or substantially all the Property of the Company, excluding the Unrestricted Subsidiaries, such Property shall have been transferred as an entirety or virtually as an entirety to one Person;

(d) immediately before and after giving effect to such transaction or series of transactions on a pro forma basis (and treating, for purposes of this clause (d) and clauses (e) and (f) below, any Debt that becomes, or is anticipated to become, an obligation of the Surviving Person or a Restricted Subsidiary as a result of such transaction or series of transactions as having been Incurred by the Surviving Person or the Restricted Subsidiary at the time of such transaction or series of transactions), no Default or Event of Default shall have occurred and be continuing;

(e) immediately after giving effect to such transaction or series of transactions on a pro forma basis, the Company or the Surviving Person, as the case may be, would be able to Incur at least \$1.00 of additional Debt under clause (1) of the first paragraph of subsection (B), Limitation on Debt;

(f) immediately after giving effect to such transaction or series of transactions on a pro forma basis, the Surviving Person shall have a Consolidated Net Worth in an amount which is not less than the Consolidated Net Worth of the Company immediately prior to such transaction or series of transactions; and

(g) the Company shall deliver, or cause to be delivered, to the Trustee, in form and substance reasonably satisfactory to the Trustee, an Officers' Certificate and an Opinion of Counsel, each stating that such transaction and the supplemental indenture, if any, in respect thereto comply with this covenant and that all conditions precedent herein set forth relating to such transaction have been satisfied.

The Surviving Person shall succeed to, and be substituted for, and may exercise every right and power of the Company under the Indenture, but the predecessor Company in the case of:

(a) a sale, transfer, assignment, conveyance or other disposition (unless such sale, transfer, assignment, conveyance or other disposition is of all the assets of the Company as an entirety or virtually as an entirety), or

(b) a lease,

shall not be released from any of the obligations or covenants under the Indenture, including with respect to the payment of the Securities.

13. Successors.

When a successor assumes all the obligations of the Company under the Securities and the Indenture, the Company shall be released from those obligations. Section 5.01 of the Indenture shall apply to the Securities.

14. Global Securities.

The Company may at any time and in its sole discretion determine that the Securities shall no longer be represented by a Global Security. In such event the Company will execute, and the Trustee, upon receipt of a company order for the authentication and delivery of definitive Securities, will authenticate and deliver Securities in definitive form in an aggregate principal amount equal to the principal amount of this Global Security representing such Securities in exchange for this Global Security.

The Depository Trust Company, ("DTC") may surrender this Global Security for such Securities in exchange in whole or in part for Securities in definitive form on such terms as are acceptable to the Company and DTC. Thereupon, the Company shall execute, and the Trustee shall authenticate and deliver, without service charge:

(i) to each Person specified by DTC a new Security or Securities, of any authorized denomination as requested by such Person in aggregate principal amount equal to and in exchange for such Person's beneficial interest in this Global Security; and

(ii) to DTC a new Global Security in a denomination equal to the difference, if any, between the principal amount of the surrendered Global Security and the aggregate principal amount of Securities in definitive form delivered to Holders thereof.

In any exchange provided for in this Section, the Company will execute and the Trustee will authenticate and deliver Securities in definitive registered form in authorized denominations.

Upon the exchange of a Global Security for Securities in definitive form, such Global Security shall be cancelled by the Trustee. Securities in definitive form issued in exchange for a Global Security pursuant to this Section shall be registered in such names and in such authorized denominations as DTC for such Global Security, pursuant to instructions from its direct or indirect participants or otherwise, shall instruct the Trustee. The Trustee shall deliver such Securities to the persons in whose names such Securities are so registered.

If at any time DTC is unwilling or unable to continue as Depositary for the Securities, the Company shall appoint a successor Depositary with respect to the Securities. If a successor Depositary for the Securities is not appointed by the Company by the earlier of (i) 90 days from the date the Company receives notice to the effect that DTC is unwilling or unable to act, or the Company determines that DTC is unable to act or (ii) the effectiveness of DTC's resignation or failure to fulfill its duties as Depositary, the Company will execute, and the Trustee, upon receipt of a Company order for the authentication and delivery of definitive Securities, will authenticate and deliver Securities in definitive form in an aggregate principal amount equal to the principal amount of this Global Security representing such Securities in exchange for this Global Security.

15. Defeasance.

The Company at any time may terminate all its obligations under the Securities and the Indenture ("legal defeasance"), except for certain obligations, including those respecting the defeasance trust and obligations to register the transfer or exchange of the Securities, to replace mutilated, destroyed, lost or stolen Securities and to maintain a registrar and paying agent in respect of the Securities.

The Company at any time may terminate:

- (1) its obligations under the covenants set forth under Section 10, Repurchase at the Option of Holders Upon a Change of Control, and Section 11, Restrictive Covenants,

(2) the operation of the cross acceleration provisions, the judgment default provisions, and the bankruptcy provisions set forth under Section 16, Events of Default, and

(3) the limitations contained in clauses (e) and (f) under the first paragraph of Section 12, Merger, Consolidation and Sale of Property ("covenant defeasance").

The Company may exercise its legal defeasance option notwithstanding its prior exercise of its covenant defeasance option.

If the Company exercises its legal defeasance option, payment of the Securities may not be accelerated because of an Event of Default with respect thereto. If the Company exercises its covenant defeasance option, payment of the Securities may not be accelerated because of an Event of Default specified in clause (4) (with respect to the covenants set forth under Section 11, Restrictive Covenants), (5), (6), or (7) under Section 16, Events of Default, or because of the failure of the Company to comply with clauses (e) and (f) under the first paragraph of Section 12, Merger, Consolidation and Sale of Property.

The legal defeasance option or the covenant defeasance option may be exercised only if:

(a) the Company irrevocably deposits in trust with the Trustee money or U.S. Government Obligations for the payment of principal of, premium, if any, and interest on the Securities to repurchase, redemption or maturity, as the case may be;

(b) the Company delivers to the Trustee a certificate from a nationally recognized firm of independent certified public accountants expressing their opinion that the payments of principal and interest when due and without reinvestment on the deposited U.S. Government Obligations plus any deposited money without investment will provide cash at such times and in such amounts as will be sufficient to pay principal, premium, if any, and interest when due on all the Securities to repurchase, redemption or maturity, as the case may be;

(c) 91 days pass after the deposit is made and during the 91-day period no Default set forth in clause (7) under Section 16, Events of Default occurs with respect to the Company or any other Person making such deposit which is continuing at the end of the period;

(d) no Default or Event of Default has occurred and is continuing on the date of such deposit and after giving effect thereto;

(e) such deposit does not constitute a default under any other agreement or instrument binding on the Company;

(f) in the case of the legal defeasance option, the Company delivers to the Trustee an Opinion of Counsel stating that:

(1) the Company has received from the Internal Revenue Service, or "IRS," a ruling, or

(2) since the date of the Indenture there has been a change in the applicable Federal income tax law, to the effect, in either case, that, and based thereon such Opinion of Counsel shall confirm that, the Securityholders will not recognize income, gain or loss for Federal income tax purposes as a result of such defeasance and will be subject to Federal income tax on the same amounts, in the same manner and at the same time as would have been the case if such legal defeasance had not occurred; and

(g) in the case of the covenant defeasance option, the Company delivers to the Trustee an Opinion of Counsel to the effect that the Securityholders will not recognize income, gain or loss for Federal income tax purposes as a result of such covenant defeasance and will be subject to Federal income tax on the same amounts, in the same manner and at the same times as would have been the case if such legal defeasance had not occurred.

16. Events of Default.

Events of Default in respect of the Securities include:

(1) failure to make the payment of any interest on the Securities when the same becomes due and payable, and such failure continues for a period of 30 days;

(2) failure to make the payment of any principal of, or premium, if any, on, any of the Securities when the same becomes due and payable at its Stated Maturity, upon acceleration, redemption, optional redemption, required repurchase or otherwise;

(3) failure to comply with Section 12, Merger, Consolidation and Sale of Property;

(4) failure to comply with any other covenant or agreement in the Securities or in the Indenture (other than a failure that is the subject of the foregoing clause (1), (2) or (3)) and such failure continues for 90 days after written notice is given to the Company as provided below;

(5) a default under any Debt by the Company or any Restricted Subsidiary that results in acceleration of the maturity of such Debt, or failure to pay any such Debt at maturity, in an aggregate amount greater than \$25 million (or its foreign currency equivalent at the time), which acceleration has not been rescinded or

annulled within 10 days after the period for annulment in the agreement governing such Debt (the "cross acceleration provisions");

(6) any judgment or judgments for the payment of money in an aggregate amount in excess of \$25 million (or its foreign currency equivalent at the time) that shall be rendered against the Company or any Restricted Subsidiary and that shall not be waived, satisfied or discharged for any period of 60 consecutive days during which a stay of enforcement shall not be in effect (the "judgment default provisions"); and

(7) certain events involving bankruptcy, insolvency or reorganization of the Company or any Restricted Subsidiary (the "bankruptcy provisions");

A Default under clause (4) is not an Event of Default until the Trustee or the holders of not less than 25% in aggregate principal amount of the Securities then outstanding notify the Company of the Default and the Company does not cure such Default within the time specified after receipt of such notice. Such notice must specify the Default, demand that it be remedied and state that such notice is a "Notice of Default."

The Company shall provide an Officers' Certificate to the Trustee promptly upon the Company obtaining knowledge of any Default or Event of Default that has occurred, and, if applicable, describe such Default or Event of Default, the status thereof and what action the Company is taking or proposes to take with respect thereto.

If an Event of Default with respect to the Securities (other than an Event of Default resulting from certain events involving bankruptcy, insolvency or reorganization with respect to the Company) shall have occurred and be continuing, the Trustee or the registered holders of not less than 25% in aggregate principal amount of the Securities then outstanding may declare to be immediately due and payable the principal amount of all the Securities then outstanding, plus accrued but unpaid interest to the date of acceleration. In case an Event of Default resulting from certain events of bankruptcy, insolvency or reorganization with respect to the Company shall occur, such amount with respect to all the Securities shall be due and payable immediately without any declaration or other act on the part of the Trustee or the Securityholders. After any such acceleration, but before a judgment or decree based on acceleration is obtained by the Trustee, the registered holders of a majority in aggregate principal amount of the Securities then outstanding may, under certain circumstances, rescind and annul such acceleration if all Events of Default, other than the nonpayment of accelerated principal, premium or interest, have been cured or waived as provided in the Indenture.

Subject to the provisions of the Indenture relating to the duties of the Trustee, in case an Event of Default shall occur and be continuing, the Trustee shall be under no obligation to exercise any of its rights or powers under the Indenture at the request or direction of any of the Securityholders, unless such Holders shall have offered to the Trustee indemnity satisfactory to it. Subject to such provisions for the indemnification of the Trustee, the holders of a majority in aggregate principal amount of the Securities then

outstanding shall have the right to direct the time, method and place of conducting any proceeding for any remedy available to the Trustee or exercising any trust or power conferred on the Trustee with respect to the Securities.

No Securityholder shall have any right to institute any proceeding with respect to the Indenture, or for the appointment of a receiver or trustee, or for any remedy thereunder, unless:

(a) such Holder has previously given to the Trustee written notice of a continuing Event of Default,

(b) the registered Holders of at least 25% in aggregate principal amount of the Securities then outstanding have made written request and offered reasonable indemnity to the Trustee to institute such proceeding as trustee, and

(c) the Trustee shall not have received from the registered holders of a majority in aggregate principal amount of the Securities then outstanding a direction inconsistent with such request and shall have failed to institute such proceeding within 60 days.

However, such limitations do not apply to a suit instituted by a holder of any Security for enforcement of payment of the principal of, and premium, if any, or interest on, such Security on or after the respective due dates expressed in such Security.

17. Trustee Dealings with Company.

Deutsche Bank Trust Company Americas, the Trustee under the Indenture, in its individual or any other capacity, may make loans to, accept deposits from, and perform services for the Company or its Affiliates, and may otherwise deal with the Company or its Affiliates, as if it were not Trustee.

18. No Recourse Against Others.

A director, officer, employee or stockholder, as such, of the Company shall not have any liability for any obligations of the Company under the Securities or the Indenture or for any claim based on, in respect of or by reason of such obligations or their creation. Each Securityholder by accepting a Security waives and releases all such liability. The waiver and release are part of the consideration for the issue of the Securities.

19. Authentication.

This Security shall not be valid until authenticated by a manual signature of the Registrar.

20. Certain Definitions.

Set forth below is a summary of certain of the defined terms used in the Indenture. Reference is made to the Indenture for the full definition of all such terms as well as any

other capitalized terms used herein for which no definition is provided. Unless the context otherwise requires, an accounting term not otherwise defined has the meaning assigned to it in accordance with GAAP.

"Additional Assets" means:

(a) any Property (other than cash, Cash Equivalents and securities) to be owned by the Company or any Restricted Subsidiary and used in a Regulated Utility Business; or

(b) Capital Stock of a Person that becomes a Restricted Subsidiary as a result of the acquisition of such Capital Stock by the Company or another Restricted Subsidiary from any Person other than the Company or an Affiliate of the Company, provided, that such Person which becomes a Restricted Subsidiary is not engaged primarily in any business other than the Regulated Utility Business.

"Affiliate" of any specified Person means:

(a) any other Person directly or indirectly controlling or controlled by or under direct or indirect common control with such specified Person, or

(b) any other Person who is a director or officer of:

- (1) such specified Person,
- (2) any Subsidiary of such specified Person, or
- (3) any Person described in clause (a) above.

For the purposes of this definition, "control" when used with respect to any Person means the power to direct the management and policies of such Person, directly or indirectly, whether through the ownership of voting securities, by contract or otherwise; and the terms "controlling" and "controlled" have meanings correlative to the foregoing. For purposes of Section 11(E), Limitation on Asset Sales, and Section 11(G), Limitation on Transactions with Affiliates, and the definition of "Additional Assets" only, "Affiliate" shall also mean any beneficial owner of shares representing 10% or more of the total voting power of the Voting Stock (on a fully diluted basis) of the Company or of rights or warrants to purchase such Voting Stock (whether or not currently exercisable) and any Person who would be an Affiliate of any such beneficial owner pursuant to the first sentence hereof.

"Asset Sale" means any sale, lease (other than operating leases entered into in the ordinary course of business), transfer, issuance or other disposition (or series of related sales, leases, transfers, issuances or dispositions) by the Company or any Restricted Subsidiary, including any disposition by means of a merger, consolidation or similar transaction (each referred to for the purposes of this definition as a "disposition"), of

(a) any shares of Capital Stock of a Restricted Subsidiary, or

(b) any other assets of the Company or any Restricted Subsidiary outside of the ordinary course of business of the Company or such Restricted Subsidiary,

other than:

(1) any disposition by a Restricted Subsidiary to the Company or by the Company or a Restricted Subsidiary to another Restricted Subsidiary,

(2) any disposition that constitutes a Permitted Investment or Restricted Payment permitted by Section 11(C), Limitation on Restricted Payments,

(3) any disposition effected in compliance with the first paragraph of Section 12, Merger, Consolidation and Sale of Property,

(4) any sales of accounts receivable, and

(5) any disposition or series of related dispositions the proceeds of which do not exceed \$20 million.

"Attributable Debt" in respect of a Sale and Leaseback Transaction means, at any date of determination,

(a) if such Sale and Leaseback Transaction is a Capital Lease Obligation, the amount of Debt represented thereby according to the definition of "Capital Lease Obligation," and

(b) in all other instances the present value (discounted at the interest rate borne by the Securities, compounded annually) of the total obligations of the lessee for rental payments during the remaining term of the lease included in such Sale and Leaseback Transaction (including any period for which such lease has been extended).

"Average Life" means, as of any date of determination, with respect to any Debt or Preferred Stock, the quotient obtained by dividing: (a) the sum of the product of the number of years (rounded to the nearest one-twelfth of one year) from the date of determination to the dates of each successive scheduled principal payment of such Debt or redemption or similar payment with respect to such Preferred Stock multiplied by the amount of such payment by (b) the sum of all such payments.

"Board of Directors" means the board of directors of the Company.

"bonds" means any series of the bonds, including the Bonds.

"Capital Expenditure Debt" means Debt Incurred by any Person to finance a capital expenditure so long as such capital expenditure is or should be included as an addition to "Property, Plant and Equipment, Net" in accordance with GAAP; provided, that the

proceeds of such Debt are expressly dedicated to, or segregated for, the payment of such capital expenditure or to repay short-term Debt incurred to pay part or all of such capital expenditure.

"Capital Lease Obligations" means any obligation under a lease that is required to be capitalized for financial reporting purposes in accordance with GAAP; and the amount of Debt represented by such obligation shall be the capitalized amount of such obligation determined in accordance with GAAP; and the Stated Maturity thereof shall be the date of the last payment of rent or any other amount due under such lease prior to the first date upon which such lease may be terminated by the lessee without payment of a penalty. For purposes of Section 11(D), Limitation on Liens, a Capital Lease Obligation shall be deemed secured by a Lien on the Property being leased.

"Capital Stock" means, with respect to any Person, any shares or other equivalents (however designated) of any class of corporate stock or partnership interests or any other participations, rights, warrants, options or other interests in the nature of an equity interest in such Person, including Preferred Stock, but excluding any debt security convertible or exchangeable into such equity interest.

"Capital Stock Sale Proceeds" means the aggregate cash proceeds received by the Company from the issuance or sale (other than to a Subsidiary of the Company) by the Company of its Capital Stock (other than Disqualified Stock) after the Issue Date, net of attorneys' fees, accountants' fees, underwriters' or placement agents' fees, discounts or commissions and brokerage, consultant and other fees actually incurred in connection with such issuance or sale and net of taxes paid or payable as a result thereof.

"Cash Equivalents" means any of the following:

(a) Investments in U.S. Government Obligations maturing within 365 days of the date of acquisition thereof;

(b) Investments in time deposit accounts, certificates of deposit and money market deposits maturing within 90 days of the date of acquisition thereof issued by a bank or trust company organized under the laws of the United States of America or any State thereof having capital, surplus and undivided profits aggregating in excess of \$500 million and whose long-term debt is rated "A," "A-3" or "A-" or higher according to Fitch Ratings, Moody's or S&P (or such similar equivalent rating by at least one "nationally recognized statistical rating organization" (as defined in Rule 436 under the Securities Act));

(c) repurchase obligations with a term of not more than 30 days for underlying securities of the types set forth in clause (a) entered into with:

(1) a bank meeting the qualifications set forth in clause (b) above, or

(2) any primary government securities dealer reporting to the Market Reports Division of the Federal Reserve Bank of New York;

(d) Investments in commercial paper, maturing not more than 90 days after the date of acquisition, issued by a corporation (other than an Affiliate of the Company) organized and in existence under the laws of the United States of America with a rating at the time as of which any Investment therein is made of "F1" (or higher) according to Fitch Ratings, "P-1" (or higher) according to Moody's or "A-1" (or higher) according to S&P (or such similar equivalent rating by at least one "nationally recognized statistical rating organization" (as defined in Rule 436 under the Securities Act)); and

(e) direct obligations (or certificates representing an ownership interest in such obligations) of any State of the United States of America (including any agency or instrumentality thereof) for the payment of which the full faith and credit of such State is pledged and which are not callable or redeemable at the issuer's option, provided that:

(1) the long-term debt of such State is rated "A," "A-3" or "A-" or higher according to Fitch Ratings, Moody's or S&P (or such similar equivalent rating by at least one "nationally recognized statistical rating organization" (as defined in Rule 436 under the Securities Act)), and

(2) such obligations mature within 180 days of the date of acquisition thereof.

"Change of Control" means the occurrence of any of the following events:

(a) if any "person" or "group" (as such terms are used in Sections 13(d) and 14(d) of the Exchange Act or any successor provisions to either of the foregoing), other than Westar Industries, Inc., including any group acting for the purpose of acquiring, holding, voting or disposing of securities within the meaning of Rule 13d-5(b)(1) under the Exchange Act, becomes the "beneficial owner" (as defined in Rule 13d-3 under the Exchange Act, except that a person will be deemed to have "beneficial ownership" of all shares that any such person has the right to acquire, whether such right is exercisable immediately or only after the passage of time), directly or indirectly, of 35% or more of the total voting power of the Voting Stock of the Company (for purposes of this clause (a), such person or group shall be deemed to beneficially own any Voting Stock of a corporation held by any other corporation (the "parent corporation") so long as such person or group beneficially owns, directly or indirectly, in the aggregate a majority of the total voting power of the Voting Stock of such parent corporation); or

(b) the sale, transfer, assignment, lease, conveyance or other disposition, directly or indirectly, of all or substantially all the assets of the Company and any Restricted Subsidiary, considered as a whole (other than a disposition of such assets as an entirety or virtually as an entirety to a Wholly Owned Restricted Subsidiary), shall have occurred, or the Company merges, consolidates or amalgamates with or into any other Person or any other Person merges, consolidates or amalgamates with or into the Company, in any such event pursuant to a transaction in which the outstanding Voting Stock of the Company is

reclassified into or exchanged for cash, securities or other Property, other than any such transaction where:

(1) the outstanding Voting Stock of the Company is reclassified into or exchanged for other Voting Stock of the Company or for Voting Stock of the surviving corporation, and

(2) the holders of the Voting Stock of the Company immediately prior to such transaction own, directly or indirectly, not less than a majority of the Voting Stock of the Company or the surviving corporation immediately after such transaction and in substantially the same proportion as before the transaction; or

(c) during any period of two consecutive years, individuals who at the beginning of such period constituted the Board of Directors (together with any new directors whose election or appointment by such Board or whose nomination for election by the shareholders of the Company was approved by a vote of not less than three-fourths of the directors then still in office who were either directors at the beginning of such period or whose election or nomination for election was previously so approved) cease for any reason to constitute a majority of the Board of Directors then in office; or

(d) the shareholders of the Company shall have approved any plan of liquidation or dissolution of the Company.

Notwithstanding the above, the proposed merger of the Company with Public Service Company of New Mexico shall not be deemed a Change of Control.

"Code" means the Internal Revenue Code of 1986, as amended.

"Commodity Price Protection Agreement" means, in respect of a Person, any forward contract, commodity swap agreement, commodity option agreement or other similar agreement or arrangement designed to protect such Person against fluctuations in commodity prices.

"Consolidated Current Liabilities" means, as of any date of determination, the aggregate amount of liabilities of the Company and any Restricted Subsidiary which may properly be classified as current liabilities (including taxes accrued as estimated), after eliminating:

(a) all intercompany items between the Company and any Restricted Subsidiary or between two or more Restricted Subsidiaries, and

(b) all current maturities of long-term Debt.

"Consolidated Interest Coverage Ratio" means, as of any date of determination, the ratio of:

(a) the aggregate amount of EBITDA for the most recent four consecutive fiscal quarters for which financial statements are available prior to such determination date to

(b) Consolidated Interest Expense for such four fiscal quarters;

provided, however, that:

(1) if

(A) since the beginning of such period the Company or any Restricted Subsidiary has Incurred any Debt that remains outstanding or Repaid any Debt, or

(B) the transaction giving rise to the need to calculate the Consolidated Interest Coverage Ratio is an Incurrence or Repayment of Debt,

Consolidated Interest Expense for such period shall be calculated after giving effect on a pro forma basis to such Incurrence or Repayment as if such Debt was Incurred or Repaid on the first day of such period, provided that, in the event of any such Repayment of Debt, EBITDA for such period shall be calculated as if the Company or any Restricted Subsidiary had not earned any interest income actually earned during such period in respect of the funds used to Repay such Debt, and

(2) if

(A) since the beginning of such period the Company or any Restricted Subsidiary shall have made any Asset Sale or an Investment (by merger or otherwise) in any Restricted Subsidiary (or any Person which becomes a Restricted Subsidiary) or an acquisition of Property which constitutes all or substantially all of an operating unit of a business,

(B) the transaction giving rise to the need to calculate the Consolidated Interest Coverage Ratio is such an Asset Sale, Investment or acquisition, or

(C) since the beginning of such period any Person (that subsequently became a Restricted Subsidiary or was merged with or into the Company or any Restricted Subsidiary since the beginning of such period) shall have made such an Asset Sale, Investment or acquisition,

then EBITDA for such period shall be calculated after giving pro forma effect to such Asset Sale, Investment or acquisition as if such Asset Sale, Investment or acquisition had occurred on the first day of such period.

If any Debt bears a floating rate of interest and is being given pro forma effect, the interest expense on such Debt shall be calculated as if the base interest rate in effect for such floating rate of interest on the date of determination had been the applicable base interest rate for the entire period (taking into account any Interest Rate Agreement

applicable to such Debt if such Interest Rate Agreement has a remaining term in excess of 12 months). In the event the Capital Stock of any Restricted Subsidiary is sold during the period, the Company shall be deemed, for purposes of clause (1) above, to have Repaid during such period the Debt of such Restricted Subsidiary to the extent the Company and its continuing Restricted Subsidiary are no longer liable for such Debt after such sale.

"Consolidated Interest Expense" means, for any period, the total interest expense of the Company and any Restricted Subsidiary, plus, to the extent not included in such total interest expense, and to the extent Incurred by the Company or any Restricted Subsidiary,

- (a) interest expense attributable to Capital Lease Obligations,
- (b) amortization of debt discount and debt issuance cost, including commitment fees,
- (c) non-cash interest expense,
- (d) capitalized interest,
- (e) commissions, discounts and other fees and charges owed with respect to letters of credit and bankers' acceptance financing,
- (f) net costs associated with Hedging Obligations (including amortization of fees),
- (g) Disqualified Stock Dividends and Preferred Stock Dividends (not including the dividends due in respect of the Preferred Stock of the Company or any Restricted Subsidiary outstanding as of the Issue Date),
- (h) interest Incurred in connection with Investments in discontinued operations,
- (i) interest accruing on any Debt of any other Person to the extent such Debt is Guaranteed by the Company or any Restricted Subsidiary, and
- (j) the cash contributions to any employee stock ownership plan or similar trust to the extent such contributions are used by such plan or trust to pay interest or fees to any Person (other than the Company) in connection with Debt Incurred by such plan or trust.

"Consolidated Net Income" means, for any period, the net income (loss) of the Company and any Restricted Subsidiary; provided, however, that there shall not be included in such Consolidated Net Income:

- (a) any net income (loss) of any Person (other than the Company) if such Person is not a Restricted Subsidiary, except that, the Company's and any Restricted Subsidiary's interest in the net income of any such Person for such period shall be included in the Consolidated Net Income up to the aggregate amount of cash distributed by such Person

during such period to the Company or any Restricted Subsidiary as a dividend or other distribution,

(b) any extraordinary gain or loss,

(c) the cumulative effect of a change in accounting principles, and

(d) any non-cash compensation expense realized for grants of performance shares, stock options or other rights to officers, directors and employees of the Company or any Restricted Subsidiary, provided that such shares, options or other rights can be redeemed at the option of the holder only for Capital Stock of the Company (other than Disqualified Stock).

Notwithstanding the foregoing, for purposes of Section 11(C), Limitation on Restricted Payments, only, there shall be excluded from Consolidated Net Income any dividends, repayments of loans or advances or other transfers of Property from Unrestricted Subsidiaries to the Company or any Restricted Subsidiary to the extent such dividends, repayments or transfers increase the amount of Restricted Payments permitted under such covenant pursuant to clause (c)(4) of such covenant.

"Consolidated Net Tangible Assets" means, as of any date of determination, the sum of the amounts that would appear on a consolidated balance sheet of the Company and its consolidated Restricted Subsidiaries as the total assets (less accumulated depreciation and amortization, allowances for doubtful receivables, other applicable reserves and other properly deductible items) of the Company and its Restricted Subsidiaries, after giving effect to purchase accounting and after deducting therefrom Consolidated Current Liabilities and, to the extent otherwise included, the amounts of (without duplication): the excess of cost over Fair Market Value of assets or businesses acquired; any revaluation or other write-up in book value of assets subsequent to the last day of the fiscal quarter of the Company immediately preceding the Issue Date as a result of a change in the method of valuation in accordance with GAAP; unamortized debt discount and expenses and other unamortized deferred charges, goodwill, patents, trademarks, service marks, trade names, copyrights, licenses, organization or developmental expenses and other intangible items; minority interests in consolidated Subsidiaries held by Persons other than the Company or any Restricted Subsidiary; treasury stock; cash or securities set aside and held in a sinking or other analogous fund established for the purpose of redemption or other retirement of Capital Stock to the extent such obligation is not reflected in Consolidated Current Liabilities; and investments in and assets of Unrestricted Subsidiaries.

"Consolidated Net Worth" means the total of the amounts shown on the consolidated balance sheet of the Company and any Restricted Subsidiary as of the end of the most recent fiscal quarter of the Company ending prior to the taking of any action for the purpose of which the determination is being made, as:

(a) the par or stated value of all outstanding Capital Stock of the Company, plus

(b) paid-in capital or capital surplus relating to such Capital Stock, plus

(c) any retained earnings or earned surplus, less:

(1) any accumulated deficit, and

(2) any amounts attributable to Disqualified Stock.

"Credit Facilities" means, with respect to the Company or any Restricted Subsidiary, one or more debt or commercial paper facilities with banks or other institutional lenders providing for revolving credit loans, term loans, receivables or inventory financing (including through the sale of receivables or inventory to such lenders or to special purpose, bankruptcy remote entities formed to borrow from such lenders against such receivables or inventory) or trade letters of credit--including, for the avoidance of doubt and not by way of limitation, the Western Resources, Inc. Credit Agreement dated as of June 28, 2000, the Western Resources, Inc. Five-Year Competitive Advance and Revolving Credit Facility Agreement dated as of March 17, 1998, the WR Receivables Corporation Purchase and Sale Agreement dated as of July 28, 2000 and the WR Receivables Corporation Receivables Purchase Agreement dated as of July 28, 2000--in each case together with any extensions, revisions, refinancings or replacements thereof by a lender or syndicate of lenders.

"Currency Exchange Protection Agreement" means, in respect of a Person, any foreign exchange contract, currency swap agreement, currency option or other similar agreement or arrangement designed to protect such Person against fluctuations in currency exchange rates.

"Debt" means, with respect to any Person on any date of determination (without duplication):

(a) the principal of and premium (if any) in respect of:

(1) debt of such Person for money borrowed, and

(2) debt evidenced by Securities, debentures, secured notes (including the bonds) or other similar instruments for the payment of which such Person is responsible or liable;

(b) all Capital Lease Obligations of such Person;

(c) all obligations of such Person issued or assumed as the deferred purchase price of Property, all conditional sale obligations of such Person and all obligations of such Person under any title retention agreement (but excluding trade accounts payable arising in the ordinary course of business);

(d) all obligations of such Person for the reimbursement of any obligor on any letter of credit, bankers' acceptance or similar credit transaction (other than obligations with respect to letters of credit securing obligations, other than obligations set forth in (a) through (c), above, entered into in the ordinary course of business of such Person to the extent such letters of credit are not drawn upon or, if and to the extent drawn upon, such drawing is reimbursed no later than the third Business Day following receipt by such Person of a demand for reimbursement following payment on the letter of credit);

(e) the amount of all obligations of such Person with respect to the Repayment of any Disqualified Stock or, with respect to any Subsidiary of such Person, any Preferred Stock (but excluding, in each case, any accrued dividends);

(f) all obligations of the type referred to in clauses (a) through (e) of other Persons and all dividends of other Persons for the payment of which, in either case, such Person is responsible or liable, directly or indirectly, as obligor, guarantor or otherwise, including by means of any Guarantee;

(g) all obligations of the type referred to in clauses (a) through (f) of other Persons secured by any Lien on any Property of such Person (whether or not such obligation is assumed by such Person), the amount of such obligation being deemed to be the lesser of the value of such Property or the amount of the obligation so secured;

(h) to the extent not otherwise included in this definition, Hedging Obligations of such Person; and

(i) the Mandatorily Redeemable Preferred Securities and any Guarantees related thereto.

The amount of Debt of any Person at any date shall be the outstanding balance at such date of all unconditional obligations as set forth above and the maximum liability, upon the occurrence of the contingency giving rise to the obligation, of any contingent obligation at such date. The amount of Debt represented by a Hedging Obligation shall be equal to:

(1) zero if such Hedging Obligation has been Incurred pursuant to clause (e), (f) or (g) of the second paragraph of Section 11(B), Limitation on Debt, or

(2) the notional amount of such Hedging Obligation if not Incurred pursuant to such clauses.

"Default" means any event which is, or after notice or passage of time or both would be, an Event of Default.

"Disqualified Stock" means any Capital Stock of the Company or any Restricted Subsidiary that by its terms (or by the terms of any security into which it is convertible or for which it is exchangeable, in either case at the option of the holder thereof) or otherwise:

(a) matures or is mandatorily redeemable pursuant to a sinking fund obligation or otherwise,

(b) is or may become redeemable or repurchaseable at the option of the holder thereof, in whole or in part, or

(c) is convertible or exchangeable at the option of the holder thereof for Debt or Disqualified Stock,

on or prior to, in the case of clause (a), (b) or (c), the first anniversary of the Stated Maturity of the Securities.

"Disqualified Stock Dividends" means all dividends with respect to Disqualified Stock of the Company held by Persons other than any Restricted Subsidiary. The amount of any such dividend shall be equal to the quotient of such dividend divided by the difference between one and the maximum statutory Federal income tax rate (expressed as a decimal number between 1 and 0) then applicable to the Company.

"EBITDA" means, for any period, an amount equal to, for the Company and its consolidated Restricted Subsidiaries:

(a) the sum of Consolidated Net Income for such period, plus the following to the extent that they reduce Consolidated Net Income for such period:

- (1) the provision for taxes based on income or profits or utilized in computing net loss,
- (2) Consolidated Interest Expense,
- (3) depreciation,
- (4) amortization of intangibles,
- (5) any other non-cash items (other than any such non-cash item to the extent that it represents an accrual of or reserve for cash expenditures in any future period), minus

(b) all non-cash items increasing Consolidated Net Income for such period (other than any such non-cash item to the extent that it will result in the receipt of cash payments in any future period), plus

(c) for the fiscal quarters of the Company ending on December 31, 2001 and March 31, 2002, (1) up to \$36 million in respect of one-time cash workforce costs to the extent incurred by the Company and (2) up to \$25 million in respect of a one-time cash charge to the extent such charge is taken by the Company with respect to costs incurred in connection with repairs necessitated by a January 2002 ice storm.

Notwithstanding the foregoing clause (a), the provision for taxes and the depreciation, amortization and non-cash items of any Restricted Subsidiary shall be added to Consolidated Net Income to compute EBITDA only to the extent (and in the same proportion) that the net income of such Restricted Subsidiary was included in calculating Consolidated Net Income and only if a corresponding amount would be permitted at the date of determination to be dividended to the Company by such Restricted Subsidiary without prior approval (that has not been obtained), pursuant to the terms of its charter and all agreements, instruments, judgments, decrees, orders, statutes, rules and governmental regulations applicable to such Restricted Subsidiary or its shareholders.

"Event of Default" has the meaning set forth under Section 16, Events of Default.

"Exchange Act" means the Securities Exchange Act of 1934.

"Fair Market Value" means, with respect to any Property, the price that could be negotiated in an arm's-length free market transaction, for cash, between a willing seller and a willing buyer, neither of whom is under undue pressure or compulsion to complete the transaction. Fair Market Value shall be determined, except as otherwise provided,

(a) if such Property has a Fair Market Value equal to or less than \$10 million, by any Officer of the Company, or

(b) if such Property has a Fair Market Value in excess of \$10 million, by a majority of the Board of Directors and evidenced by a Board resolution, dated within 30 days of the relevant transaction, delivered to the Trustee.

"Fitch Ratings" means Fitch, Inc.

"GAAP" means United States generally accepted accounting principles as in effect on the Issue Date, including those set forth:

(a) in the opinions and pronouncements of the Accounting Principles Board of the American Institute of Certified Public Accountants,

(b) in the statements and pronouncements of the Financial Accounting Standards Board,

(c) in such other statements by such other entity as may be approved by a significant segment of the accounting profession, and

(d) the rules and regulations of the SEC governing the inclusion of financial statements (including pro forma financial statements) in periodic reports required to be filed pursuant to Section 13 of the Exchange Act, including opinions and pronouncements in staff accounting bulletins and similar written statements from the accounting staff of the SEC.

"Guarantee" means any obligation, contingent or otherwise, of any Person directly or indirectly guaranteeing any Debt of any other Person and any obligation, direct or indirect, contingent or otherwise, of such Person:

(a) to purchase or pay (or advance or supply funds for the purchase or payment of) such Debt of such other Person (whether arising by virtue of partnership arrangements, or by agreements to keep-well, to purchase assets, goods, securities or services, to take-or-pay or to maintain financial statement conditions or otherwise), or

(b) entered into for the purpose of assuring in any other manner the obligee against loss in respect thereof (in whole or in part);

provided, however, that the term "Guarantee" shall not include:

(1) endorsements for collection or deposit in the ordinary course of business, or

(2) a contractual commitment by one Person to invest in another Person for so long as such Investment is reasonably expected to constitute a Permitted Investment under clause (b) of the definition of "Permitted Investment."

The term "Guarantee" used as a verb has a corresponding meaning. The term "Guarantor" shall mean any Person Guaranteeing any obligation.

"Hedging Obligation" of any Person means any obligation of such Person pursuant to any Interest Rate Agreement, Currency Exchange Protection Agreement or any other similar agreement or arrangement, but not including a Commodity Price Protection Agreement.

"Incur" means, with respect to any Debt or other obligation of any Person, to create, issue, incur (by merger, conversion, exchange or otherwise), extend, assume, Guarantee or become liable in respect of such Debt or other obligation or the recording, as required pursuant to GAAP or otherwise, of any such Debt or obligation on the balance sheet of such Person (and "Incurrence" and "Incurred" shall have meanings correlative to the foregoing); provided, however, that a change in GAAP that results in an obligation of such Person that exists at such time, and is not theretofore classified as Debt, becoming Debt shall not be deemed an Incurrence of such Debt; provided further, however, that any Debt or other obligations of a Person existing at the time such Person becomes a Restricted Subsidiary (whether by merger, consolidation, acquisition or otherwise) shall be deemed to be Incurred by such Restricted Subsidiary at the time it becomes a Restricted Subsidiary; and provided further, however, that solely for purposes of determining compliance with Section 11(B), Limitation on Debt, amortization of debt discount shall not be deemed to be the Incurrence of Debt, provided that in the case of Debt sold at a discount, the amount of such Debt Incurred shall at all times be the aggregate principal amount at Stated Maturity.

"Independent Financial Advisor" means an investment banking firm of national standing or any third-party appraiser of national standing, provided that such firm or appraiser is not an Affiliate of the Company.

"Interest Rate Agreement" means, for any Person, any interest rate swap agreement, interest rate cap agreement, interest rate collar agreement or other similar agreement designed to protect against fluctuations in interest rates.

"Investment" by any Person means any direct or indirect loan (other than advances to customers in the ordinary course of business that are recorded as accounts receivable on the balance sheet of such Person), advance or other extension of credit or capital contribution (by means of transfers of cash or other Property to others or payments for Property or services for the account or use of others, or otherwise) to, or Incurrence of a Guarantee of any obligation of, or purchase or acquisition of Capital Stock, secured notes, notes, debentures or other securities or evidence of Debt issued by, any other Person. For purposes of Section 11(C), Limitation on Restricted Payments and the definition of "Restricted Payment," "Investment" shall include the portion (proportionate to the Company's equity interest in such Subsidiary) of the Fair Market Value of the net assets of any Unrestricted Subsidiary of the Company. In determining the amount of any Investment made by transfer of any Property other than cash, such Property shall be valued at its Fair Market Value at the time of such Investment.

"Investment Grade Rating" means a rating equal to or higher than BBB- (or the equivalent) by Fitch Ratings, Baa3 (or the equivalent) by Moody's or BBB- (or the equivalent) by S&P.

"Investment Grade Status" shall be deemed to have been reached on the date that the Securities have an Investment Grade Rating from the Required Rating Agencies.

"Issue Date" means the date on which the Securities are initially issued.

"KCC" means the Kansas Corporation Commission.

"KGE" means Kansas Gas and Electric Company.

"Lien" means, with respect to any Property of any Person, any mortgage or deed of trust, pledge, hypothecation, assignment, deposit arrangement, security interest, lien, charge, easement (other than any easement not materially impairing usefulness or marketability), encumbrance, preference, priority or other security agreement or preferential arrangement of any kind or nature whatsoever on or with respect to such Property (including any Capital Lease Obligation, conditional sale or other title retention agreement having substantially the same economic effect as any of the foregoing or any Sale and Leaseback Transaction).

"Mandatorily Redeemable Preferred Securities" means the 7 7/8% Cumulative Quarterly Income Preferred Securities, Series A (QUIPS) (related debentures due 2025), the 8 1/2%

Cumulative Quarterly Income Preferred Securities, Series B (QUIPS) (related debentures due 2036) and similar securities issued from time to time, the proceeds of which are received by the Company and which are treated for accounting and rating agency purposes in a substantively similar manner.

"Moody's" means Moody's Investors Service, Inc. or any successor to the rating agency business thereof.

"Mortgage" means the Mortgage and Deed of Trust, dated July 1, 1939, between the Company and BNY Midwest Trust Company, as trustee, by successor to Harris Trust and Savings Bank, as amended or to be amended.

"Net Available Cash" from any Asset Sale means cash payments received therefrom (including any cash payments received by way of deferred payment of principal pursuant to a Security or installment receivable or otherwise, but only as and when received, but excluding any other consideration received in the form of assumption by the acquiring Person of Debt or other obligations relating to the Property that is the subject of such Asset Sale or received in any other non-cash form), in each case net of:

(a) all legal, title and recording tax expenses, commissions and other fees and expenses incurred (including, without limitation, fees and expenses of counsel, accountants and investment bankers), and all taxes required to be accrued as a liability under GAAP, as a consequence of such Asset Sale,

(b) all payments made on any Debt that is secured by any Property subject to such Asset Sale, in accordance with the terms of any Lien upon or other security agreement of any kind with respect to such Property, or which must by its terms, or in order to obtain a necessary consent to such Asset Sale, or by applicable law, be repaid out of the proceeds from such Asset Sale,

(c) all distributions and other payments required to be made to minority interest holders in Subsidiaries or joint ventures as a result of such Asset Sale, and

(d) the deduction of appropriate amounts provided by the seller as a reserve, in accordance with GAAP, against any liabilities associated with the Property disposed in such Asset Sale and retained by the Company or any Restricted Subsidiary after such Asset Sale.

"Officer" means the Chief Executive Officer, the President, the Chief Financial Officer, any Executive Vice President, Senior Vice President or Vice President of the Company.

"Officers' Certificate" means a certificate signed by two Officers of the Company, at least one of whom shall be the principal executive officer or principal financial officer of the Company, and delivered to the Trustee.

"Opinion of Counsel" means a written opinion from legal counsel who is acceptable to the Trustee. The counsel may be an employee of or counsel to the Company or the Trustee.

"Permitted Investment" means any Investment by the Company or any Restricted Subsidiary in:

(a) any Restricted Subsidiary or any Person that will, upon the making of such Investment, become a Restricted Subsidiary;

(b) any Person if as a result of such Investment such Person is merged or consolidated with or into, or transfers or conveys all or substantially all its Property to, the Company or any Restricted Subsidiary;

(c) Cash Equivalents;

(d) receivables owing to the Company or any Restricted Subsidiary, if created or acquired in the ordinary course of business and payable or dischargeable in accordance with customary trade terms; provided, however, that such trade terms may include such concessionary trade terms as the Company or any Restricted Subsidiary deem reasonable under the circumstances;

(e) payroll, travel and similar advances to cover matters that are expected at the time of such advances ultimately to be treated as expenses for accounting purposes and that are made in the ordinary course of business;

(f) loans and advances (other than loans and advances outstanding on the Issue Date) to employees made in the ordinary course of business consistent with past practices of the Company or any Restricted Subsidiary, as the case may be, provided that such loans and advances do not exceed \$15 million at any one time outstanding;

(g) stock, obligations or other securities received in settlement of debts created in the ordinary course of business and owing to the Company or any Restricted Subsidiary or in satisfaction of judgments;

(h) any Person to the extent such Investment represents the non-cash portion of the consideration received in connection with an Asset Sale consummated in compliance with Section 11(E), Limitation on Asset Sales; and

(i) other Investments made for Fair Market Value that do not exceed \$25 million outstanding at any one time in the aggregate.

"Permitted Liens" means:

(a) Liens to secure Debt permitted to be Incurred under clause (b) of the second paragraph of Section 11(B), Limitation on Debt;

(b) securities issued under the Company's Mortgage, securities issued under KGE's original Mortgage and Deed of Trust dated April 1, 1940, as amended and to be amended (together with the Mortgage, the "Mortgages and Deeds of Trust"), or Liens permitted by the terms of the Mortgages and Deeds of Trust;

(c) Liens to secure Debt permitted to be Incurred under clause (c) of the second paragraph of Section 11(B), Limitation on Debt, provided that any such Lien may not extend to any Property of the Company or any Restricted Subsidiary, other than the Property acquired, constructed or leased with the proceeds of such Debt and any improvements or accessions to such Property;

(d) Liens for taxes, assessments or governmental charges or levies on the Property of the Company or any Restricted Subsidiary 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 promptly instituted and diligently concluded, provided that any reserve or other appropriate provision that shall be required in conformity with GAAP shall have been made therefor;

(e) Liens imposed by law, such as carriers', warehousemen's and mechanics' Liens and other similar Liens, on the Property of the Company or any Restricted Subsidiary arising in the ordinary course of business and securing payment of obligations that are not more than 90 days past due or are being contested in good faith and by appropriate proceedings;

(f) Liens on the Property of the Company or any Restricted Subsidiary incurred in the ordinary course of business to secure performance of obligations with respect to statutory or regulatory requirements, performance or return-of-money bonds, surety bonds or other obligations of a like nature and Incurred in a manner consistent with industry practice, in each case which are not Incurred in connection with the borrowing of money, the obtaining of advances or credit or the payment of the deferred purchase price of Property and which do not in the aggregate impair in any material respect the use of such Property in the operation of the business of the Company and any Restricted Subsidiary taken as a whole;

(g) Liens on Property at the time the Company or any Restricted Subsidiary acquired such Property, including any acquisition by means of a merger or consolidation with or into the Company or any Restricted Subsidiary; provided, however, that any such Lien may not extend to any other Property of the Company or any Restricted Subsidiary; provided further, however, that such Liens shall not have been Incurred in anticipation of or in connection with the transaction or series of transactions pursuant to which such Property was acquired by the Company or any Restricted Subsidiary;

(h) Liens on the Property of a Person at the time such Person becomes a Restricted Subsidiary; provided, however, that any such Lien may not extend to any other Property of the Company or any other Restricted Subsidiary that is not a direct Subsidiary of such

Person; provided further, however, that any such Lien was not Incurred in anticipation of or in connection with the transaction or series of transactions pursuant to which such Person became a Restricted Subsidiary;

(i) purchase money Liens upon or in Property acquired and held by the Company in the ordinary course of business to secure the purchase price of such Property or to secure indebtedness incurred solely for the purpose of financing the acquisition of any such Property to be subject to such Liens, or Liens existing on any such Property at the time of acquisition, or extensions, renewals or replacements of any of the foregoing for the same or a lesser amount, provided that no such Lien shall extend to or cover any Property other than the Property being acquired and no such extension, renewal or replacement shall extend to or cover Property not theretofore subject to the Lien being extended, renewed or replaced;

(j) pledges or deposits by the Company or any Restricted Subsidiary under workmen's compensation laws, unemployment insurance laws or similar legislation, or good faith deposits in connection with bids, tenders, contracts (other than for the payment of Debt) or leases to which the Company or any Restricted Subsidiary is party, or deposits to secure public or statutory obligations of the Company, or deposits for the payment of rent, in each case incurred in the ordinary course of business;

(k) 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;

(l) Liens existing on the Issue Date not otherwise set forth in clauses (a) through (k) above;

(m) Liens not otherwise set forth in clauses (a) through (l) above on the Property of any Restricted Subsidiary to secure any Debt permitted to be Incurred by any Restricted Subsidiary pursuant to Section 11(B), Limitation on Debt;

(n) Liens on the Property of the Company or any Restricted Subsidiary to secure any Refinancing, in whole or in part, of any Debt secured by Liens referred to in clause (c), (g), (h), (i), (j) or (l) above; provided, however, that any such Lien shall be limited to all or part of the same Property that secured the original Lien (together with improvements and accessions to such Property) and the aggregate principal amount of Debt that is secured by such Lien shall not be increased to an amount greater than the sum of:

(1) the outstanding principal amount, or, if greater, the committed amount, of the Debt secured by Liens being refinanced and fees and expenses incurred in connection therewith, at the time the original Lien became a Permitted Lien under the Indenture, and

(2) an amount necessary to pay any fees and expenses, including premiums and defeasance costs, incurred by the Company or any Restricted Subsidiary in connection with such Refinancing; and

(o) Liens not otherwise permitted by clauses (a) through (n) above encumbering Property having an aggregate Fair Market Value not in excess of 5% of Consolidated Net Tangible Assets, as determined based on the consolidated balance sheet of the Company as of the end of the most recent fiscal quarter for which financial statements are available.

"Permitted Refinancing Debt" means any Debt that Refinances any other Debt, including any successive Refinancings, so long as:

(a) such Debt is in an aggregate principal amount (or if Incurred with original issue discount, an aggregate issue price) not in excess of the sum of:

(1) the aggregate principal amount (or if incurred with original issue discount, the aggregate accreted value) then outstanding, plus interest thereon, of the Debt being Refinanced; and

(2) an amount necessary to pay any fees and expenses, including premiums and defeasance costs, related to such Refinancing;

(b) (1) the Average Life of such Debt is equal to or greater than the Average Life of the Debt being Refinanced and the Stated Maturity of such Debt is no earlier than the Stated Maturity of the Debt being Refinanced; or

(2) the first mandatory maturity date for any such new Debt is subsequent to May 1, 2007; and

(c) the new Debt shall not be senior in right of payment to the Debt that is being Refinanced;

provided, however, that Permitted Refinancing Debt shall not include Debt of the Company or any Restricted Subsidiary that Refinances Debt of an Unrestricted Subsidiary.

"Person" means any individual, corporation, company (including any limited liability company), association, partnership, joint venture, trust, unincorporated organization, government or any agency or political subdivision thereof or any other entity.

"Preferred Stock" means any Capital Stock of a Person, however designated, which entitles the holder thereof to a preference with respect to the payment of dividends, or as to the distribution of assets upon any voluntary or involuntary liquidation or dissolution of such Person, over shares of any other class of Capital Stock issued by such Person.

"Preferred Stock Dividends" means all dividends with respect to Preferred Stock of Restricted Subsidiaries held by Persons other than the Company or a Restricted Subsidiary. The amount of any such dividend shall be equal to the quotient of such dividend divided by the difference between one and the maximum statutory Federal income rate (expressed as a decimal number between 1 and 0) then applicable to the issuer of such Preferred Stock.

"pro forma" means, with respect to any calculation made or required to be made pursuant to the terms hereof, a calculation performed in accordance with Article 11 of Regulation S-X promulgated under the Securities Act, as interpreted in good faith by the Board of Directors after consultation with the independent certified public accountants of the Company, or otherwise a calculation made in good faith by the Board of Directors after consultation with the independent certified public accountants of the Company, as the case may be.

"Property" means, with respect to any Person, any interest of such Person in any kind of property or asset, whether real, personal or mixed, or tangible or intangible, including Capital Stock in, and other securities of, any other Person. For purposes of any calculation required pursuant to the Indenture, the value of any Property shall be its Fair Market Value.

"Public Equity Offering" means an underwritten public offering of common stock of the Company.

provided, however, that such Debt is Incurred within 180 days after the acquisition, construction or lease of such Property by the Company or such Restricted Subsidiary.

"Rating Agencies" means Fitch Ratings, Moody's and S&P.

"Refinance" means, in respect of any Debt, to refinance, extend, renew, refund or Repay, or to issue other Debt in exchange or replacement for, such Debt. "Refinanced" and "Refinancing" shall have correlative meanings.

"Regulated Utility Business" means any business that is related, ancillary or complementary to the businesses of the Company and any Restricted Subsidiary on the Issue Date, as well as any other business primarily related to the provision of utility services subject to the regulations, in any aspect of such business, of any Federal, State, municipal or other governmental authority in the United States or elsewhere.

"Repay" means, in respect of any Debt, to repay, prepay, repurchase, redeem, legally defease or otherwise retire such Debt. "Repayment" and "Repaid" shall have correlative meanings. For purposes of Section 11(E), Limitation on Asset Sales and the definition of "Consolidated Interest Coverage Ratio", Debt in the form of revolving loans shall be considered to have been Repaid only to the extent the related loan commitment, if any, shall have been permanently reduced in connection therewith.

"Required Rating Agencies" means any two of the Rating Agencies.

"Restricted Payment" means:

(a) any dividend or distribution (whether made in cash, securities or other Property) declared or paid on or with respect to any shares of Capital Stock of the Company or any Restricted Subsidiary (including any payment in connection with any merger or consolidation with or into the Company or any Restricted Subsidiary), except for any dividend or distribution that is made solely to the Company or any Restricted Subsidiary or any dividend or distribution payable solely in shares of Capital Stock (other than Disqualified Stock) of the Company;

(b) the purchase, repurchase, redemption, acquisition or retirement for value of any Capital Stock of the Company or any Restricted Subsidiary (other than from the Company or any Restricted Subsidiary) or any securities exchangeable for or convertible into any such Capital Stock, including the exercise of any option to exchange any Capital Stock (other than for or into Capital Stock of the Company or any Restricted Subsidiary that is not Disqualified Stock);

(c) the purchase, repurchase, redemption, acquisition or retirement for value, prior to the date for any scheduled maturity, sinking fund or amortization or other installment payment, of any Subordinated Obligation (other than (x) the purchase, repurchase or other acquisition or retirement for value of any Subordinated Obligation purchased in anticipation of satisfying a scheduled maturity, sinking fund or amortization or other installment obligation, in each case due within two years of the date of purchase, redemption, acquisition or retirement and (y) the retirement of Subordinated Obligations issued in connection with the Mandatorily Redeemable Preferred Securities); or

(d) any Investment (other than Permitted Investments) in any Person.

"Restricted Share Unit" means the restricted share units issued pursuant to the Company's 1996 Long Term Incentive and Share Award Plan, which allows for the Company's executive officers and other employees to receive awards of restricted share units related to the common stock of the Company and its Subsidiaries and to receive dividend equivalents with respect to such restricted share units.

"Restricted Subsidiary" means any Subsidiary of the Company other than an Unrestricted Subsidiary.

"S&P" means Standard & Poor's Ratings Service or any successor to the rating agency business thereof.

"Sale and Leaseback Transaction" means any direct or indirect arrangement relating to Property now owned or hereafter acquired whereby the Company or any Restricted Subsidiary transfers such Property to another Person and the Company or any Restricted Subsidiary leases it from such Person.

"Securities Act" means the Securities Act of 1933, as amended.

"Senior Debt" means:

(a) all obligations consisting of the principal, premium, if any, and accrued and unpaid interest (including interest accruing on or after the filing of any petition in bankruptcy or for reorganization relating to the Company to the extent post-filing interest is allowed in such proceeding) in respect of:

- (1) Debt of the Company for borrowed money, and
- (2) Debt of the Company evidenced by notes, debentures, bonds or other similar instruments permitted under the Mortgage or the Indenture for the payment of which the Company is responsible or liable;

(b) all Capital Lease Obligations of the Company;

(c) all obligations of the Company

(1) for the reimbursement of any obligor on any letter of credit, bankers' acceptance or similar credit transaction,

(2) under Hedging Obligations, or

(3) issued or assumed as the deferred purchase price of Property and all conditional sale obligations of the Company and all obligations under any title retention agreement permitted under the Indenture; and

(d) all obligations of other Persons of the type referred to in clauses (a), (b) and (c) for the payment of which the Company is responsible or liable as Guarantor;

provided, however, that Senior Debt shall not include:

(A) Subordinated Obligations;

(B) any Debt Incurred in violation of the provisions of the Indenture;

(C) accounts payable or any other obligations of the Company to trade creditors created or assumed by the Company in the ordinary course of business in connection with the obtaining of materials or services (including Guarantees thereof or instruments evidencing such liabilities);

(D) any liability for taxes owed or owing by the Company;

(E) any obligation of the Company to any Subsidiary; or

(F) any obligations with respect to any Capital Stock of the Company.

"Stated Maturity" means, with respect to any security, the date specified in such security as the fixed date on which the payment of principal of such security is due and payable, including pursuant to any mandatory redemption provision (but excluding any provision providing for the repurchase of such security at the option of the holder thereof upon the happening of any contingency beyond the control of the issuer unless such contingency has occurred).

"Subordinated Obligation" means any Debt of the Company (whether outstanding on the Issue Date or thereafter Incurred) that is subordinate or junior in right of payment to the Securities or pursuant to a written agreement to that effect.

"Subsidiary" means, in respect of any Person, any corporation, company (including any limited liability company), association, partnership, joint venture or other business entity of which a majority of the total voting power of the Voting Stock is at the time owned or controlled, directly or indirectly, by:

- (a) such Person,
- (b) such Person and one or more Subsidiaries of such Person, or
- (c) one or more Subsidiaries of such Person.

"Treasury Rate" means, as of any redemption date, the yield to maturity as of such redemption date of United States Treasury securities with a constant maturity (as compiled and published in the most recent Federal Reserve Statistical Release H.15 (519) that has become publicly available at least two business days prior to the redemption date (or, if such statistical release is no longer published, any publicly available source of similar market data)) most nearly equal to the period from the redemption date to May 1, 2007; provided, however, that if the period from the redemption date to May 1, 2007 is less than one year, the weekly average yield on actively traded United States Treasury securities adjusted to a constant maturity of one year shall be used.

"Unregulated Affiliate" means any Affiliate that is primarily engaged in a business not involving the provision of utility services.

"Unrestricted Subsidiary" means:

- (a) Westar Industries;
- (b) any Subsidiary of the Company that is designated after the Issue Date as an Unrestricted Subsidiary as permitted or required pursuant to the covenant set forth under Section 11(I), Designation of Restricted and Unrestricted Subsidiaries and is not thereafter redesignated as a Restricted Subsidiary as permitted pursuant thereto;

(c) any Subsidiary of an Unrestricted Subsidiary; and

(d) any successor corporation to any Unrestricted Subsidiary identified in clauses (a) through (c) of this definition.

"U.S. Government Obligations" means direct obligations (or certificates representing an ownership interest in such obligations) of the United States of America (including any agency or instrumentality thereof) for the payment of which the full faith and credit of the United States of America is pledged and which are not callable or redeemable at the issuer's option.

"Voting Stock" of any Person means all classes of Capital Stock or other interests (including partnership interests) of such Person then outstanding and normally entitled (without regard to the occurrence of any contingency) to vote in the election of directors, managers or trustees thereof.

"Wholly Owned Restricted Subsidiary" means, at any time, a Restricted Subsidiary all the Voting Stock of which (except directors' qualifying shares) is at such time owned, directly or indirectly, by the Company and its other Wholly Owned Subsidiaries.

21. Abbreviations.

Customary abbreviations may be used in the name of a Securityholder or an assignee, such as: TEN COM (=tenants in common), TEN ENT (=tenants by the entirety), JT TEN (=joint tenants with right of survivorship and not as tenants in common), CUST (=custodian), and U/G/M/A (=Uniform Gifts to Minors Act).

The Company will furnish to any Securityholder upon written request and without charge a copy of the Indenture and the Securities Resolution, which contains the text of this Security in larger type. Requests may be made to: Western Resources, Inc., 818 Kansas Avenue, Topeka, Kansas, Attention: Corporate Secretary.

ASSIGNMENT FORM

To assign this Security, fill in the form below:

I or we assign and transfer this Security to

(Insert assignee's soc. sec. or tax I.D. no.)

(Print or type assignee's name, address and zip code)

and irrevocably appoint _____ agent to transfer this
Security on the books of the Company. The agent may substitute another to act
for him.

Date: _____ Your Signature: _____

(Sign exactly as your name appears on the other side of this Security)

CERTIFICATE TO BE DELIVERED UPON EXCHANGE OR
REGISTRATION OF TRANSFER RESTRICTED SECURITIES

This certificate relates to \$ _____ principal amount of \$400,000,000 Senior
Notes, 9 3/4% Series Due 2007 held in (check applicable space) _____ book-entry
or _____ definitive form by the undersigned.

The undersigned has requested the Trustee by written order to exchange or
register the transfer of a Security or Securities.

In connection with any transfer of any of the Securities evidenced by this
certificate occurring prior to the expiration of the period referred to in Rule
144(k) under the Securities Act, the undersigned confirms that such Securities
are being transferred in accordance with its terms:

CHECK ONE BOX BELOW

1. --- to the Company; or
2. --- to the Securities Registrar for the registration in the name

of the Holder, without transfer; or

3. --- inside the United States to a "qualified institutional buyer"
(as defined in Rule 144A under the Securities Act of 1933) that purchases for
its own account or for the account of a qualified institutional buyer to whom
notice is given that such transfer is being made in reliance on Rule 144A, in
each case pursuant to and in compliance with Rule 144A under the Securities Act
of 1933; or

4. --- outside the United States in an offshore transaction within
the meaning of Regulation S under the Securities Act of 1933 in compliance with
Rule 904 under the Securities Act of 1933 and such Security shall be held
immediately after the transfer through Euroclear and Clearstream until the
expiration of the Restricted Period (as defined in the Indenture); or

5. --- pursuant to another available exemption from registration
provided by Rule 144 under the Securities Act of 1933.

Unless one of the boxes is checked, the Trustee will refuse to register
any of the Securities evidenced by this certificate in the name of any
Person other than the registered holder thereof; provided, however,
that if box (4) or (5) is checked, the Company and the Trustee may
require, prior to registering any such transfer of the Securities, such
legal opinions, certifications and other information as the Company and
the Trustee have reasonably requested to confirm that such transfer is
being made pursuant to an exemption from or in a transaction not
subject to, the registration requirements of the Securities Act of
1933.

Your Signature

Signature Guarantee:

Date: -----

Signature must be guaranteed by a participant in a recognized signature guaranty medallion program or other signature guarantor acceptable to the Trustee

Signature of Signature Guarantor

TO BE COMPLETED BY PURCHASER IF (3) ABOVE IS CHECKED

The undersigned represents and warrants that it is purchasing this Security for its own account or an account with respect to which it exercises sole investment discretion and that it and any such account is a "qualified institutional buyer" within the meaning of Rule 144A under the Securities Act of 1933, and is aware that the sale to it is being made in reliance on Rule 144A and acknowledges that it has received such information regarding the Company as the undersigned has requested pursuant to Rule 144A or has determined not to request such information and that it is aware that the transferor is relying upon the undersigned's foregoing representations in order to claim the exemption from registration provided Rule 144A.

Dated: -----

NOTICE: To be executed by an executive officer